SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2014 AND 2013

State of South Carolina

Office of the State Auditor

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October 1, 2014

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

This report on the audit of the financial statements of the South Carolina Education Lottery Commission for the fiscal year ended June 30, 2014, 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,

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

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SOUTH CAROLINA EDUCATION LOTTERY COMMISSION

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Education Lottery Commission (the "Commission"), a discretely presented component unit of the State of South Carolina, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Carolina Education Lottery Commission as of June 30, 2014 and 2013, 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.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The supplementary schedule of business-type activities for the statewide comprehensive annual 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 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 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, 2014 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, 2014

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, 2014. 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, liabilities, net position, revenues, expenses, changes in net position and cash flows.

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

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

Currently, the Commission sponsors three Terminal Games: *Pick 3, Pick 4 and Palmetto Cash 5.* During FY 2014, the Commission discontinued one Terminal Game, *Carolina Cash 6™.* In addition, the Commission participates in two national Terminal Games: *Powerball® and Mega Millions®*.

Financial Highlights

Cash Transfers attributable to FY 2014 operations were $323.4 compared to $300.6 in FY 2013, an increase of $22.8. Net Income increased $25.3 in FY 2014 to $330.8 compared to Net Income in FY 2013 of $305.5. The increase in Net Income was almost entirely related to an increase in "Net Game Margin" of $25.3. Net Game Margin is defined as game revenue minus prize expense minus commissions and incentives (i.e., the purely variable components of Net Income). "Game Margin" is defined as game revenue minus prize expense.

[1] All proceeds of the Commission must be transferred to the State Treasurer for the ELA with the following exceptions: 1) the cost of capital assets, net of depreciation and amortization, and 2) the Restricted Fidelity Fund, derived from the licensing fees of new retailers, which may be retained by the Commission up to $500,000 and used to cover losses the Commission may experience due to nonfeasance, misfeasance, or malfeasance of a lottery retailer. Therefore, the net position of the Commission will never exceed $500,000 related to the Restricted Fidelity Fund plus the net cost of capital assets.

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

Summary Financial Information

Operating Data

	2014	2013	2012
Revenues			
Instant games	$ 875.5	$ 806.0	$ 758.4
Terminal games	388.9	393.2	377.1
Total games	1,264.4	1,199.2	1,135.5
Other revenues	3.7	3.7	3.8
Total revenues	1,268.1	1,202.9	1,139.3
Prize expense			
Instant games	630.0	578.9	541.4
Terminal games	181.0	196.6	180.0
Total games	811.0	775.5	721.4
Game margin	457.1	427.4	417.9
Commissions and incentives	89.2	84.8	80.2
Other game related costs	16.5	16.1	16.2
Operating expenses	20.6	21.0	21.5
Change in net position ("Net Income") before transfers and due to ELA	330.8	305.5	300.0
Remitted to and due to ELA	330.7	305.2	300.1
Change in net position	$ 0.1	$ 0.3	$ (0.1)
Other Information:			
Instant game margin	28.0%	28.2%	28.6%
Terminal game margin	53.5%	50.0%	52.3%
Total game margin	35.9%	35.3%	36.5%
Net instant game margin	21.0%	21.1%	21.5%
Net terminal game margin	46.4%	42.9%	45.2%
Net game margin	28.8%	28.3%	29.4%

Net Position Data

	2014	2013	2012
Current assets	$ 63.3	$ 59.5	$ 54.3
Non-current assets:			
Capital assets - net	0.8	0.8	0.5
Other non-current assets	5.7	5.9	6.0
Total non-current assets	6.5	6.7	6.5
Total assets	69.8	66.2	60.8
Current liabilities	68.3	64.8	59.7
Long-term liabilities	0.2	0.2	0.2
Total liabilities	68.5	65.0	59.9
Net position			
Net investment in capital assets	0.8	0.8	0.5
Restricted fidelity fund	0.5	0.4	0.4
Total net position	$ 1.3	$ 1.2	$ 0.9
Capital assets	$ 4.9	$ 4.7	$ 4.2
Less: accumulated depreciation and amortization	4.1	3.9	3.7
Net investment in capital assets	$ 0.8	$ 0.8	$ 0.5

Fiscal Year 2014 Compared to Fiscal Year 2013

Game Revenue and Margins

Total game revenues were $1,264.4 in FY 2014 and $1,199.2 in FY 2013, for an increase of $65.2. Total prize expense was $811.0 in FY 2014 and $775.5 in FY 2013, for an increase of $35.5. Accordingly, on the game revenue increase of $65.2, Game Margin increased $29.7. Net Game Margin (includes commissions and incentives) increased $25.3. As noted above, the increased Net Game Margin is the primary component of the increase in Net Income for the fiscal year.

There are two key reasons why the total Game Margin and total Net Game Margin increased. First, even though Terminal Game revenues decreased from $393.2 in FY 2013 to $388.9 in FY 2014, the Terminal Game Margin % increased from 50.0% in FY 2013 to 53.5% in FY 2014. The increase in the Terminal Game Margin % positively affected the Terminal Game Margin by $13.6; however, the decrease in Terminal Game revenues negatively affected the overall increase in Terminal Game Margin of $11.3 by $2.3.

Fluctuations in Terminal Game prize payout % and therefore, Game Margin %, will occur from period to period because the Terminal Games are based on statistical probability which will always be subject to statistical variation in any one given period. Accordingly, Management does not believe the improved Terminal Game Margin % in FY 2014 is indicative of a continuing trend.

Jackpot "runs" (large increases in the amounts available for prizes) in Powerball® (PB) and Mega Millions® (MM) significantly affect total Terminal Game revenues. Even though it is not possible to measure the exact amount revenues are affected by jackpot runs, Management believes that it can reasonably estimate the amounts.

Total FY 2014 PB and MM revenues were $93.6 and $51.6, respectively. In FY 2013, PB and MM revenues were $117.6 and $32.7, respectively. Accordingly, PB revenues decreased $24.0 and MM revenues increased $18.9 million in FY 2014 compared to FY 2013.

Management believes that base or normal revenues (i.e. revenues absent jackpot runs) were relatively consistent between FY 2014 and FY 2013. Base revenues for PB are estimated at $73.9 and $80.4 and base MM revenues are estimated at $30.9 and $30.3 in FY 2014 and FY 2013, respectively. Therefore, Management estimates that jackpot runs added $19.7 and $37.2 to PB revenues in FY 2014 and FY 2013, respectively. Management estimates that jackpot runs added $20.7 to MM revenues in FY 2014, but added only $2.4 in FY 2013.

Secondly, total Game Margin and total Net Game Margin increased due to the increased sales of Instant Tickets. In FY 2014, total Instant Game revenues were $875.5, an increase of $69.5, or 8.6%, compared to FY 2013. The increase was overwhelmingly attributable to the continued growth of $10 Instant Game revenues, which increased by $74.1 in FY 2014. The net effect of the increase in Instant Game revenues was that the Instant Game Margin increased $18.4. The Instant Game Margin % was consistent between FY 2014 and FY 2013.

The primary components of the overall $69.5 increase in Instant Game revenues are as follows:

- $1 Tickets increased $.5, or 1.1%;
- $2 Tickets increased $.6, or .8%;
- $3 Tickets decreased $1.9, or 6.2%;
- $5 Tickets decreased $3.8, or 2.2%; and,
- $10 Tickets increased $74.1, or 15.5%.

Other Revenue and Game Costs

Other revenue, which consists primarily of license and communication fees, was $3.7 in FY 2014 and $3.7 in FY 2013. Game costs were $16.5 in FY 2014 compared to $16.1 in FY 2013. Both of these items were relatively consistent from FY 2013 to FY 2014, as would be expected.

Operating Expenses

Operating expenses consist of advertising and administrative expenses (compensation, occupancy, etc.). In total, operating expenses decreased by $0.4 in FY 2014 compared to FY 2013. Operating expenses were $20.6 and $21.0 in FY 2014 and FY 2013, respectively. Most operating expense components were consistent between the periods except for legal expense and miscellaneous expense. Legal expenses increased by $.2 due to various legal matters resolved in FY 2014 that were not present in FY 2013. The increase in legal expense was offset by a $.3 decrease in miscellaneous expense which was related to a one-time charge in FY 2013 which did not reoccur in FY 2014.

Assets, Liabilities and Cash Flows (See Notes 3 through 9 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 due to the ELA.

The operations of the Commission are funded exclusively by cash flows generated from its primary business operations. The Commission has no outstanding debt. In FY 2014 and FY 2013, the Commission generated $326.4 and $304.9 from operating activities. Amounts used or provided by capital-related financing and investing activities were insignificant in FY 2014 and FY 2013.

At June 30, 2014, the Commission's current assets totaled $63.3 compared to $59.5 at the end of the preceding year. In both years, cash and accounts receivable from retailers composed most of the Commission's current assets. At the end of June 2014 and 2013, combined cash and accounts receivable were $60.5 and $56.9, respectively. Most of the cash held by the Commission, $18.7 and $18.7 at June 30, 2014 and 2013, respectively, was remitted to the State Treasurer the following month.

The only other substantive non-capital asset held by the Commission at June 30, 2014 and 2013 were amounts held on the Commission's behalf by the Multi-State Lottery Association (MUSL). Such amounts, $5.7 and $5.9, at June 30, 2014 and 2013, respectively, are maintained by MUSL to pay the Commission's share to PB and MM prizewinners.

At June 30, 2014, the Commission's current liabilities totaled $68.3 compared to $64.8 at the end of the preceding year. In both years, amounts due to the ELA and accrued prize expense composed most of the Commission's current liabilities. At the end of June 2014 and 2013, amounts due to the ELA and accrued prize expense were $64.1 and $59.4, respectively.

At June 30, 2014, the Commission's net position totaled $1.3 compared to $1.2 at the end of the preceding year. At June 30, 2014, the Fidelity Bond Fund was $.5 compared to $.4 at June 30, 2013. At June 30, 2014 and 2013, property, equipment and other capital assets were $0.8.

Additional discussion on capital assets can be found in Note 4 to the financial statements.

Fiscal Year 2013 Compared to Fiscal Year 2012

Financial Highlights

Cash Transfers attributable to FY 2013 operations were $300.6 compared to $297.7 in FY 2012, an increase of $2.9. Net Income increased $5.5 in FY 2013 to $305.5 compared to Net Income in FY 2012 of $300.0. The increase in Net Income was almost entirely related to an increase in Net Game Margin of $5.0.

Total game revenues were $1,199.2 in FY 2013 and $1,135.5 in FY 2012 for an increase of $63.7. Total prize expense was $775.5 in FY 2013 and $721.4 in FY 2012 for an increase of $54.1. Accordingly, Game Margin increased $9.6 and, as noted above, Net Game Margin increased $5.0.

Instant Game revenues increased $47.6 and Terminal Game revenues increased $16.1. Terminal Game revenues increased primarily as a result of increased Pick 3 and Pick 4 sales. In the aggregate, these games composed $12.9, or 80.1% of the total increase in Terminal Game revenues. The increase in Instant Game revenues was primarily related to the increase in the sales of $10 tickets of $49.3.

The relationship of commissions and incentives and other game-related costs to revenues was consistent in FY 2013 and FY 2012. Operating expenses were $21.0 and $21.5 in FY 2013 and FY 2012, respectively. The overall decrease of $0.5 was primarily a result of reduced advertising expense.

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, 2014	June 30, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 18,158,945	$ 18,346,931
Cash - restricted fidelity fund	493,049	446,097
Retailer accounts receivable, net of allowance for doubtful accounts of $1,372,745 and $1,375,569 for 2014 and 2013, respectively	41,818,626	38,233,208
Inventory	2,218,972	1,946,927
Prepaid expenses and other current assets	637,198	571,157
Total current assets	63,326,790	59,544,320
NONCURRENT ASSETS		
Capital assets, net	814,867	805,514
Deposits with Multi-State Lottery Association	5,660,409	5,853,481
Total noncurrent assets	6,475,276	6,658,995
Total assets	**$ 69,802,066**	**$ 66,203,315**
LIABILITIES		
CURRENT LIABILITIES		
Due to Education Lottery Account	$ 38,091,785	$ 33,960,376
Prizes payable	25,957,860	25,378,084
Prizes payable - Multi-State Lottery Association	688,642	1,514,226
Accounts payable	1,388,271	1,557,007
Accrued liabilities	1,095,694	1,375,655
Current portion of accrued compensated absences	492,497	505,716
Unearned revenue	566,494	492,393
Total current liabilities	68,281,243	64,783,457
NONCURRENT LIABILITIES		
Accrued compensated absences	212,907	168,247
Total liabilities	**$ 68,494,150**	**$ 64,951,704**
NET POSITION		
Net investment in capital assets	$ 814,867	$ 805,514
Restricted fidelity funds	493,049	446,097
Total net position	**$ 1,307,916**	**$ 1,251,611**

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, 2014	2013
OPERATING REVENUES		
Sales Revenues		
Instant games	$ 875,535,083	$ 805,974,229
Terminal games	388,904,509	393,233,059
Net sales revenues	1,264,439,591	1,199,207,288
Other Operating Revenues		
Retailer permit fees	526,140	554,715
Retailer on-line communication fees	2,991,390	2,980,515
Other	169,083	149,518
Total other operating revenues	3,686,613	3,684,748
Total revenues	1,268,126,204	1,202,892,036
DIRECT COSTS		
Commissions and incentives to retailers	89,234,224	84,796,934
Prize expense		
Instant games	630,024,643	578,878,874
Terminal games	181,030,725	196,573,953
Total prize expense	811,055,368	775,452,827
Instant and terminal game costs	16,499,874	16,126,397
Total direct costs	916,789,465	876,376,158
Gross profit	351,336,739	326,515,878
OPERATING EXPENSES		
Advertising and promotion	7,444,136	7,442,430
Security checks	273,400	261,515
Salaries, wages and benefits	9,371,885	9,455,978
Contracted and professional services	605,691	456,749
Depreciation and amortization	183,228	212,682
Rent	826,536	844,520
Office supplies	43,192	57,249
Other general and administrative	1,831,595	2,243,311
Total operating expenses	20,579,663	20,974,434
Operating income	330,757,076	305,541,444
NON-OPERATING INCOME		
Interest income	971	629
Gain on disposition of other assets	1,461	435
Total non-operating income	2,432	1,064
Change in net position before amount remitted to and due to Education Lottery Account	330,759,508	305,542,508
REMITTED TO AND DUE TO EDUCATION LOTTERY ACCOUNT	330,703,203	305,211,230
Change in net position	56,305	331,278
NET POSITION,		
BEGINNING OF YEAR	1,251,611	920,333
END OF YEAR	**$ 1,307,916**	**$ 1,251,611**

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, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retailers	$ 1,264,614,887	$ 1,199,185,201
Cash payments to prize winners	(811,301,176)	(773,184,345)
Cash payments for goods and services	(117,384,601)	(111,626,458)
Cash payments to employees for services	(9,501,273)	(9,483,359)
Net cash provided by operating activities	326,427,837	304,891,039
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from Multi-State Lottery Association	193,072	161,815
Payments to Education Lottery Account	(326,571,794)	(303,324,383)
Net cash used for noncapital financing activities	(326,378,722)	(303,162,568)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposition of other assets	1,461	435
Purchase of capital assets	(192,581)	(555,815)
Net cash used for capital and related financing activities	(191,120)	(555,380)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	971	629
Net cash provided by investing activities	971	629
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(141,034)	1,173,720
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	18,793,028	17,619,308
END OF YEAR	**$ 18,651,994**	**$ 18,793,028**
OPERATING ACTIVITIES		
Operating income	$ 330,757,076	$ 305,541,444
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	183,228	212,682
Changes in assets and liabilities		
Retailer accounts receivable	(3,585,418)	(3,810,099)
Inventory	(272,045)	(426,396)
Prepaid expenses and other current assets	(66,041)	146,698
Accounts payable and accrued liabilities	(417,256)	854,964
Prizes payable	(245,808)	2,268,482
Deferred revenue	74,101	103,264
Net cash provided by operating activities	**$ 326,427,837**	**$ 304,891,039**

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

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – REPORTING ENTITY

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Commission are as follows:

Method of Accounting

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

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

Basis of Accounting

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

Use of Estimates

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

Operating Revenues

Operating revenue is defined as revenue earned from all operations related to the selling of tickets for instant and terminal games less contra-revenue. Contra-revenue represents the amounts that are uncollectible from retailer accounts receivable.

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 activation of ticket packs for sale by the retailers. 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 each year.

Net Position

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

Change in Net Position

Change in net position equals net proceeds, as defined by the Act, and consists of all revenues derived from the sale of lottery game tickets and all other monies derived from the lottery games, less operating expenses and prizes.

Operating Expenses

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

Cash and Cash Equivalents

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

Retailer Accounts Receivable

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

Capital Assets

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

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

Prepaid Items

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

Restricted Fidelity Fund

In accordance with the Act, retailers contribute a fee to a fidelity fund upon acceptance as a lottery retailer. The fund is used to cover losses the Commission may incur due to misfeasance, nonfeasance, or malfeasance of retailers. At the end of each fiscal year, any amount in the fund in excess of $500,000 is treated as net proceeds from the Commission and is payable to the ELA. As of June 30, 2014 and 2013, the balance in the restricted fidelity fund was $493,049 and $446,097, respectively. Transfers of $0 and $47,719 were made during the years ended June 30, 2014 and 2013, respectively, for retailer losses. The fidelity fund is held in a separate account and appears on the Statement of Net Position as "Restricted fidelity funds."

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 outlined in Note 3.

Compensated Absences

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

Deposit with Multi-State Lottery Association (MUSL)

The Commission is required to maintain funds in reserve with MUSL. This reserve serves as a contingent source for prize payouts should MUSL games not generate sufficient funds to pay amounts due to prizewinners. MUSL is not a financial institution. Balances related to these deposits as of June 30, 2014 and 2013 were $5,660,409 and $5,853,481, 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, 2014 and 2013 were $688,642 and $1,514,226, respectively.

Advertising

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

New Accounting Pronouncements

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. This Statement defined deferred outflows of resources and deferred inflows of resources as a consumption and acquisition of net assets by the entity that is applicable to a future reporting period, respectively. This Statement also defined net position as the residual of all other elements presented in a statement of financial position. This Statement amends the reporting requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definition of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011, with early adoption permitted. The Commission elected to adopt this accounting standard for the fiscal year ended June 30, 2013.

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

As of June 30, 2014 and 2013, the Commission did not have any deferred outflows of resources or deferred inflows of resources.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through October 1, 2014, 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, 2014 and 2013, the amounts of the Commission's deposits were as follows:

	2014		2013	
	Carrying amounts	Bank balances	Carrying amounts	Bank balances
Demand deposits	$ 18,651,994	$ 19,224,936	$ 18,793,028	$ 19,258,519

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, 2014 and 2013, all of the Commission's bank balances of $19,224,936 and $19,258,519, 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, 2014 and 2013.

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 2014:

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

The following is a summary of changes in capital assets and accumulated depreciation and amortization during fiscal year 2013:

	Balance as of June 30, 2012	Additions	Deletions	Balance as of June 30, 2013
Cost				
Equipment	$ 2,821,081	$ -	$ -	$ 2,821,081
Vehicles	47,826	-	-	47,826
Leasehold improvements	1,315,694	-	-	1,315,694
Intellectual property	-	555,815	-	555,815
	4,184,601	555,815	-	4,740,416
Accumulated depreciation/amortization				
Equipment	(2,406,201)	(134,599)	-	(2,540,800)
Vehicles	(47,826)	-	-	(47,826)
Leasehold improvements	(1,268,193)	(33,363)	-	(1,301,556)
Intellectual property	-	(44,720)	-	(44,720)
	(3,722,220)	(212,682)	-	(3,934,902)
Total capital assets, net	**$ 462,381**	**$ 343,133**	**$ -**	**$ 805,514**

NOTE 5 – ACCRUED LIABILITIES

	2014	2013
Accrued expenses as of June 30 consist of the following:		
Accrued payroll and related expenses	$ 721,394	$ 882,223
Accrued other expenses	374,300	493,432
Total accrued expenses	$ 1,095,694	$ 1,375,655

NOTE 6 – LONG-TERM CONTRACTS AND COMMITMENTS

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

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

Fiscal Year	Contract Payments to Intralot
2015	6,777,900
2016	6,777,900
2017	6,777,900
2018	6,777,900
2019	2,315,782

The monthly terminal gaming fee payments to Intralot totaled $6,777,900 for the years ended June 30, 2014 and 2013.

Scientific Games International (SGI) has provided services for the instant games contract since inception. During fiscal year 2013, the contract was rebid and SGI was again awarded the contract to provide instant tickets, including services of marketing support, warehousing, and distribution, among other items associated with providing instant tickets. Payments to SGI are contingent upon actual services provided. Total payments to SGI relating to instant ticket services were $8,356,177 and $8,188,054 for the years ended June 30, 2014 and 2013, 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 2014:

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

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

The following is a summary of changes in accrued compensated absences during fiscal year 2013:

	Balance as of June 30, 2012	Additions	Deductions	Balance as of June 30, 2013
Accrued compensated absences	**$ 673,963**	**$ 466,867**	**$ 466,867**	**$ 673,963**

Compensated absences due in the next fiscal year are estimated at $505,716, which is based on an average of the prior years' annual leave deductions.

NOTE 8 – OPERATING LEASES

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

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

Year	Leases
2015	$ 539,151
2016	543,639
2017	536,929
2018	548,216
2019	559,503
2020 - 2024	2,966,816

Rental expenses under all operating leases, including those on month-to-month terms, totaled $826,536 and $844,520 for the years ended June 30, 2014, and 2013, respectively. This amount includes $72,689 and $85,635, respectively, in vehicle rental paid to the State Fleet Management.

NOTE 9 – DUE TO ELA

In accordance with the Act, all net proceeds of the Commission are to be remitted to the ELA within the State Treasury. In accordance with the Act, net proceeds consist of all revenue derived from the sale of lottery game tickets and all other monies derived from the lottery games less operating expenses and prizes. The following payables resulted from net proceeds remitted and due to the ELA at June 30:

	2014	2013
Amount payable to the ELA, beginning of year	$ 33,960,376	$ 32,073,529
Change in net position subject to remittance	330,759,508	305,542,508
	364,719,884	337,616,037
Change in capital assets, net	(9,353)	(343,133)
Net amount paid from fidelity fund	(46,952)	11,855
Amount paid during the year	(326,571,794)	(303,324,383)
Amount payable to the ELA, end of year	**$38,091,785**	**$33,960,376**

NOTE 10 – EMPLOYEE RETIREMENT SYSTEMS

The majority of employees of the Commission are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the South Carolina Public Employee Benefit Authority (PEBA). Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, and incidental death benefits to eligible employees and retired members.

The Retirement Benefits Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR), which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, PO Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Retirement Benefits Division and the five pension plans are included in the State of South Carolina's CAFR.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the SCRS after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the member's age plus the years of service add up to a total of at least 90). The benefit formula for full service retirement annuity effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits.

An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to $6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

NOTE 10 – EMPLOYEE RETIREMENT SYSTEMS, Continued

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

Effective July 1, 2013, employees participating in the SCRS were required to contribute 7.50% of all earnable compensation. The employer contribution rate for SCRS was 15.52%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, 0.15% for the incidental death benefit program and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Commission's actual retirement and incidental death benefit program contributions to the SCRS for the years ended June 30, 2014, 2013, and 2012 were:

Fiscal Year	Retirement		Incidental Death	
Ended	Rate	Contribution	Rate	Contribution
2014	10.450%	$677,758	0.15%	$ 9,729
2013	10.450%	$688,941	0.15%	$ 9,889
2012	9.385%	$643,378	0.15%	$10,283

The South Carolina Police Officers Retirement System (PORS) is a cost sharing multiple employer defined benefit public employee retirement plan. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides for lifetime monthly annuity benefits as well as disability, survivor benefits and incidental death benefits to eligible employees and retirees. In addition, participating employers in the PORS may elect to contribute to the accidental death program which provides annuity benefits to beneficiaries of police officers and firefighters killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits for the PORS is 2.14 percent of an employee's AFC multiplied by the number of years of credited service. For Class II members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

NOTE 10 – EMPLOYEE RETIREMENT SYSTEMS, Continued

Effective July 1, 2013, employees participating in the PORS were required to contribute 7.84% of all earnable compensation. The employer contribution rate for PORS was 17.76%. Included in the total PORS employer contribution rate is a base retirement contribution of 12.44%, 0.20% for the incidental death benefit program, 0.20% for the accidental death program, and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Commission's actual retirement, incidental death benefit program and accidental death program contributions to the PORS for the years ended June 30, 2014, 2013, and 2012 were:

Fiscal Year	Retirement		Incidental Death		Accidental Death	
Ended	Rate	Contribution	Rate	Contribution	Rate	Contribution
2014	12.440%	$4,876	0.20%	$78	0.20%	$78
2013	11.900%	$4,379	0.20%	$74	0.20%	$74
2012	11.363%	$4,051	0.20%	$71	0.20%	$71

As an alternative to membership in the SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program (ORP), a defined contribution retirement plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for the State ORP plan other than for the employer's payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.92% from the employer in fiscal year 2014. Of the 10.60% employer contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% retirement contribution and 0.15% incidental death benefit program contribution amounts are remitted to SCRS.

For fiscal year 2014, total contributions requirements to the ORP were approximately $26,234 (excluding the surcharge) from the Commission as employer and approximately $23,424 from its employees as plan members.

The amounts paid by the Commission for pension, incidental death benefit program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

While the surcharge to fund retiree health and dental insurance benefits is collected by the Retirement Benefits Division of PEBA, it is remitted to the Insurance Benefits Division of PEBA, which is responsible for administration of retiree health and dental insurance benefits and establishment of the applicable retiree insurance surcharge rate.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Commission's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by PEBA and as appropriated in the South Carolina Appropriations Act and from other applicable revenue sources. Accordingly, the Commission recognizes no contingent liability for unfunded costs associated with participation in the plans.

NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

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

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the Insurance Benefits Division and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the Insurance Benefits Division, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.92% of annual covered payroll for 2014 and 4.55% of annual covered payroll for 2013. The Insurance Benefits Division sets the employer contribution rate based on a pay-as-you-go basis. The Commission paid approximately $344,075 and $321,716 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2014 and 2013, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to Insurance Benefits Division was $3.22 for the fiscal years ended June 30, 2014 and 2013. The Commission recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately $4,015 and $4,437 for the years ended June 30, 2014 and 2013, respectively.

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

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

NOTE 12 – CONTINGENCIES

The Commission is subject to litigation in the ordinary course of its business. In the opinion of management and legal counsel, the outcome of such litigation will not have a material impact on the financial position or cash flows of the Commission as of and for the year ended June 30, 2014.

NOTE 13 – TRANSACTIONS WITH STATE ENTITIES AND RELATED PARTIES

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

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

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

For the year ended June 30, 2013, the Commission had certain transactions with the State and various other agencies as follows:

Related Party	Amount	Nature of Transaction
South Carolina Department of Revenue	$ 6,208,082	Transfers of state income tax withholdings for prizes, use taxes, prize debt setoffs, and retailer credit checks
South Carolina Law Enforcement Division	395,121	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	303,324,383	Remittances of net proceeds and unclaimed prizes
South Carolina State Treasurer	3,447	Unclaimed property return
South Carolina Budget & Control Board	102,017	Vehicles, telephone, printing, and miscellaneous services
South Carolina Public Employee Benefit Authority	951,991	Employee insurance
South Carolina Department of Social Services	20,265	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	342,562	Security services
South Carolina Retirement Systems	1,518,265	Employee contributions / employer match
South Carolina Department of Employment & Workforce	5,216	Unemployment insurance
Other	6,663	State Codes, recycling pickup fees, and notary public licenses
Total	**$ 312,878,012**	

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

	For the years ended June 30, 2014	2013
Charges for services	$ 1,268,126,204	$ 1,202,892,036
Non-operating income	2,432	1,064
Less expenses	937,369,128	897,350,592
Net program revenue	330,759,508	305,542,508
Remittances out to state agencies/funds	(330,703,203)	(305,211,230)
Change in net position	56,305	331,278
Net position - beginning	1,251,611	920,333
Net position - ending	**$ 1,307,916**	**$ 1,251,611**

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Carolina Education Lottery Commission (the "Commission"), a discretely presented component unit of the State of South Carolina, as of and for the years ended June 30, 2014 and 2013, 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, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Elliott Davis, LLC

Columbia, South Carolina
October 1, 2014

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

1. **Summary of Auditor's Results**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

2. **Financial Statement Findings** None