ANNUAL REPORT

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2020 AND 2019

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

September 23, 2020

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 years ended June 30, 2020 and 2019, 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, CPA
State Auditor

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803-253-4160 803-343-0723 OSA.SC.GOV

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, 2020 and 2019, 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, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 - 8 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 37 – 40, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2020 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
September 23, 2020

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, 2020. 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* and one 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 2020 operations were $492.8 compared to $487.6 in FY 2019, an increase of $5.2, or 1.1%. Net Income increased $2.0 in FY 2020 to $490.6 compared to Net Income in FY 2019 of $488.6. The overall increase in Net Income was primarily the result of an increase in "Net Game Margin" of $4.6. Net Game Margin is defined as game revenue minus prize expense minus commissions and incentives (i.e., the purely variable components of Net Income). "Game Margin" is defined as game revenue minus prize expense.

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

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

Summary Financial Information

Operating Data

	2020	2019	2018
Revenues			
Instant games	$ 1,582.2	$ 1,450.4	$ 1,260.6
Terminal games	524.2	530.5	489.6
	2,106.4	1,980.9	1,750.2
Other revenues	3.7	3.7	3.7
Total revenues	2,110.1	1,984.6	1,753.9
Prize expense			
Instant games	1,155.8	1,058.6	911.3
Terminal games	268.4	253.5	238.5
Total prize expense	1,424.2	1,312.1	1,149.8
Margin	685.9	672.5	604.1
Commissions and incentives	148.2	139.6	123.5
Other game-related costs	22.4	21.3	18.7
Operating expenses	24.7	23.2	24.0
Change in net position ("Net income") before cash transfers to ELA	490.6	488.6	437.9
Cash transfers to ELA	(477.9)	(488.1)	(431.0)
Change in net position	12.7	0.5	6.9
Net Position - beginning of year, as originally reported	15.3	14.8	20.0
Implementation effect of GASB Statement No. 75	-	-	(12.1)
Net Position - beginning of year, as restated	15.3	14.8	7.9
Net Position - end of year	$ 28.0	$ 15.3	$ 14.8
Other information			
Instant game margin	26.9%	27.0%	27.7%
Terminal game margin	48.8%	52.2%	51.3%
Total game margin	32.4%	33.8%	34.3%
Net instant game margin	19.9%	20.0%	20.7%
Net terminal game margin	41.8%	45.2%	44.2%
Net game margin	25.4%	26.7%	27.2%

Net Position Data

	2020	2019	2018
Current assets	$ 98.8	$ 80.3	$ 76.0
Non-current assets			
Capital assets, net	0.5	0.4	0.5
Other non-current assets	6.4	6.5	5.4
Total non-current assets	6.9	6.9	5.9
Total assets	105.7	87.2	81.9
Deferred outflows of resources	3.6	2.7	2.7
Current liabilities	50.3	45.4	40.6
Long-term liabilities	29.4	27.7	27.6
Total liabilities	79.7	73.1	68.2
Deferred inflows of resources	1.6	1.5	1.6
Net position			
Net investment in capital assets	0.5	0.4	0.5
Restricted fidelity fund	0.5	0.5	0.5
Restricted for ELA	27.0	14.4	13.8
Total net position	$ 28.0	$ 15.3	$ 14.8
Capital assets	$ 5.6	$ 5.8	$ 5.2
Less: accumulated depreciation and amortization	5.1	5.4	4.7
Investment in capital assets	$ 0.5	$ 0.4	$ 0.5

Fiscal Year 2020 Compared to Fiscal Year 2019

Game Revenue and Margins

Total game revenues were $2,106.4 in FY 2020 and $1,980.9 in FY 2019, for an increase of $125.5, or 6.3%. Total prize expense was $1,424.2 in FY 2020 and $1,312.1 in FY 2019, for an increase of $112.1, or 8.5%. Accordingly, on the game revenue increase of $125.5, Game Margin increased $13.3. Net Game Margin (includes commissions and incentives) increased $4.6. 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 game revenues due to product mix and, to some extent, statistical variation. As more fully discussed below, Instant Ticket revenues increased $131.8 and Terminal Game revenues decreased $6.3. Instant Game prize expense increased by $97.2 and Terminal Game prize expense increased by $14.9. Prize expense on Instant Games is relatively higher as a percentage of Instant Game revenues compared to Terminal Games. In FY 2020, Instant Game prize expense was 73.0% of Instant Game revenues compared to 51.2% for Terminal Games.

In FY 2020, total Instant Game revenues were $1,582.2, an increase of $131.8, or 9.1%, compared to FY 2019. The increase was primarily attributable to the continued growth of $10 Instant Game revenues, which increased by $110.3, or 10.4% in FY 2020. In addition, $3 and $5 Instant Game revenues increased by $8.7, or 19.7% and $9.4, or 4.2%, respectively. The net effect of the increase in Instant Game revenues was that the Instant Game Margin increased $34.6, or 8.8%. The Instant Game Margin % decreased 0.1% between FY 2020 and FY 2019.

The primary components of the overall $131.8 increase in Instant Game revenues are as follows:

- $1 Tickets increased $3.4, or 9.4%;
- $2 Tickets decreased $.03, or 0.04%;
- $3 Tickets increased $8.7, or 19.7%;
- $5 Tickets increased $9.4, or 4.2%; and,
- $10 Tickets increased $110.3, or 10.4%.

Terminal Game revenues were $524.2, a decrease of $6.3, or 1.2%. This decrease can be attributed to significant decreases Powerball and Mega Millions revenues compared to FY 2019. FY 2020 did not have any significant Jackpot Runs as compared to the previous year. Powerball revenues decreased $29.7, or 32% and Mega Millions revenues decreased $34.7, or 43.3%. This resulted in a net margin decrease of $33.8, or 37.5%. These decreases were offset by increased revenues from Pick 3 and Pick 4, as described below.

Pick 3 and Pick 4 performed very well for the year. Pick 3 revenue was up $37.7, or 17.3% and Pick 4 revenue was up $19.2, or 18.5%. The Game Margin % on Pick 3 and Pick 4 decreased from 51.8% to 49.0%, and 55.2% to 47.5%, respectively, in FY 2020. In aggregate, the Game Margin % was about 3.5% lower than the statistical model (negative result of statistical variation). However, the increase in the volume did contribute $12.2, or 10.9% and $1.1, or 1.9%, of additional Game Margin.

Palmetto Cash 5 remained consistent with last year. Revenues increased $1.2, or 4.9% and Prize Expense increased $3.4, or 28.2% (due to statistical variation). As a result, Game Margin decreased $2.2, or 19.0%. Generally, Lucky for Life performed consistently from FY 2019 to FY 2020.

The overall Terminal Game Margin % was 48.8% in FY 2020 compared to 52.2% in FY 2019, a decrease of 3.4%. 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.

Covid-19 Pandemic and Federal Stimulus

The revenue and other comparisons of FY 2020 financial results to FY 2019 as described under the above caption, Game Revenues and Margins, include the financial results for the three month period ended June 30, 2020 ("Q4"). Management believes that the federal stimulus, which included direct payments to individuals, in response to the adverse economic impact of the Covid-19 Pandemic had a significant and positive impact on its financial results in Q4.

In Q4, the Commission experienced significantly higher rates of revenue increases compared to the first nine months of FY 2020. Management believes that the rates of revenue increases were primarily due to the federal stimulus. During Q4, Instant Game revenues increased $83.7, or 21.75% compared to an increase of $48.1, or 4.5% in the first nine months of FY 2020. Likewise, Terminal Game revenues, excluding Powerball and Mega Millions, increased $27.4, or 28.55% compared to an increase of $30.7, or 11.73% in the first nine months of FY 2020. Management does not believe that including Powerball and Mega Millions in its analysis of the possible effect of the federal stimulus is meaningful because those games are significantly affected by the presence or absence of Jackpot Runs.

Whereas it is impossible to measure the exact effect of the federal stimulus on the Commission's Q4 results, management believes that the effect was significant and that absent the federal stimulus, the rate of increase in revenues experienced in Q4 will likely decrease and if overall economic conditions deteriorate as a result of the Covid-19 Pandemic a decrease in future revenues is possible.

Other Revenue and Game Costs

Other revenues, which consist primarily of license and telephone fees, were $3.7 in FY 2020 and $3.7 in FY 2019. Other direct game costs were $22.4 in FY 2020 compared to $21.3 in FY 2019. The increase of $1.1 was primarily attributable to expenses associated with Instant Ticket game licensing and printing ($1.6) offset by a decrease in shipping costs ($.5).

Operating Expenses

Operating expenses consist of advertising and administrative expenses (compensation, occupancy, etc.). In total, operating expenses increased by $1.5 in FY 2020 compared to FY 2019. Operating expenses were $24.7 and $23.2 in FY 2020 and FY 2019, respectively. Advertising increased by a modest $0.4. Salaries and benefits increased $1.3 due to several factors including some salary increases associated with a recent compensation study, higher pension costs, and higher expenses associated with compensated absences.

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 2020 and FY 2019, the Commission generated $482.7 and $490.3 from operating activities. Amounts used or provided by capital-related financing and investing activities were insignificant in FY 2020 and FY 2019.

At June 30, 2020, the Commission's current assets totaled $98.8 compared to $80.3 at the end of the preceding year. In both years, cash and accounts receivable from retailers composed most of the Commission's current assets. As of June 30, 2020 and 2019, combined cash and accounts receivable were $93.2 and $73.5, respectively. Most of the cash held by the Commission, $29.8 and $25.2 at June 30, 2020 and 2019, respectively, was remitted to the State Treasurer the following month.

The only other substantive non-capital asset held by the Commission at June 30, 2020 and 2019 were amounts held on the Commission's behalf by the Multi-State Lottery Association (MUSL). Such amounts, $6.4 and $6.5, at June 30, 2020 and 2019, respectively, are maintained by MUSL to pay the Commission's share to Powerball and Mega Millions prize winners.

At June 30, 2020, the Commission's current liabilities totaled $50.3 compared to $45.4 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, 2020 and 2019, accrued prize expense was $45.8 and $38.1, respectively.

At June 30, 2020, the Commission's net position totaled $28.0 compared to $15.3 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 $27.0 and $14.4 at June 30, 2020 and 2019, respectively. At June 30, 2020, the Fidelity Bond Fund was $0.5 compared to $0.5 at June 30, 2019. At June 30, 2020 and 2019, property, equipment and other capital assets were $0.5 and $0.4, 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 2019 Compared to Fiscal Year 2018

Financial Highlights

Cash Transfers attributable to FY 2019 operations were $487.6 compared to $434.8 in FY 2018, an increase of $52.8. Net Income increased $50.6 in FY 2019 to $488.6 compared to Net Income in FY 2018 of $437.9. The increase in Net Income was related to an increase in Net Game Margin of $52.4.

Total game revenues were $1,980.9 in FY 2019 and $1,750.2 in FY 2018 for an increase of $230.8, or 13.2%. Total prize expense was $1,312.1 in FY 2019 and $1,149.8 in FY 2018 for an increase of $162.3, or 14.1%. Accordingly, Game Margin increased $68.5 and, as noted above, Net Game Margin increased $52.4.

Instant Game revenues increased $189.8 and Terminal Game revenues increased $40.9. The increase in Instant Game revenues was overwhelmingly related to the increase in the sales of $10 Instant Game tickets of $195.5. Terminal Game revenues increased, in aggregate, by $40.9. All Terminal Games performed well and revenues were up $34.6 for National Game, Mega Millions. Powerball remained consistent with revenues of $92.9. A few very significant "mega" jackpot runs contributed to the performance of both National Games. Pick 3 and Pick 4 also performed well and, in aggregate, increased $7.1, or 2.3%.

The relationship of commissions and incentives and other game-related costs to revenues was consistent in FY 2019 and FY 2018. Operating expenses were generally consistent and totaled $23.2 and $24.0 in FY 2019 and FY 2018, 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, 2020	June 30, 2019
CURRENT ASSETS		
Cash and cash equivalents	$ 29,304,133	$ 24,722,904
Cash - restricted fidelity bond fund	484,277	491,902
Retailer accounts receivable, net of allowance for doubtful accounts of $1,190,685 and $1,221,503 for 2020 and 2019, respectively	63,410,089	48,273,143
Inventory	4,481,644	4,490,849
Prepaid expenses and other current assets	1,163,016	2,349,181
Total current assets	98,843,159	80,327,979
NONCURRENT ASSETS		
Capital assets, net	526,946	382,575
Deposits with Multi-State Lottery Association	6,401,893	6,534,499
Total noncurrent assets	6,928,839	6,917,074
TOTAL ASSETS	**105,771,998**	**87,245,053**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to the net pension liability	1,852,496	1,956,932
Deferred outflows related to the net OPEB liability	1,710,633	695,238
Total deferred outflows of resources	3,563,129	2,652,170
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**109,335,127**	**89,897,223**
CURRENT LIABILITIES		
Prizes payable	44,957,910	36,447,462
Prizes payable - Multi-State Lottery Association	797,573	1,648,670
Accounts payable	1,541,256	4,171,944
Accrued liabilities	1,661,146	1,952,875
Current portion of accrued compensated absences	596,032	581,283
Unearned revenue	753,489	601,193
Total current liabilities	50,307,406	45,403,427
NONCURRENT LIABILITIES		
Accrued compensated absences	407,240	246,256
Net pension liability	15,844,710	15,287,279
Net OPEB liability	13,165,858	12,141,924
TOTAL LIABILITIES	**79,725,214**	**73,078,886**
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to the net pension liability	276,447	442,174
Deferred inflows related to the net OPEB liability	1,330,946	1,097,493
Total deferred inflows of resources	1,607,393	1,539,667
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**81,332,607**	**74,618,553**
Investment in capital assets	526,946	382,575
Restricted fidelity bond fund	484,277	491,902
Restricted for Education Lottery Account	26,991,297	14,404,193
TOTAL NET POSITION	**$ 28,002,520**	**$ 15,278,670**

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, 2020	For the years ended June 30, 2019
OPERATING REVENUES		
Sales Revenues		
Instant games	$ 1,582,212,492	$ 1,450,410,830
Terminal games	524,155,790	530,531,403
Total sales revenues	2,106,368,282	1,980,942,233
Other Operating Revenues		
Retailer permit fees	531,975	537,530
Retailer on-line communication fees	2,973,374	2,962,773
Other	209,550	207,506
Total other operating revenues	3,714,899	3,707,809
Total revenues	2,110,083,181	1,984,650,042
DIRECT COSTS		
Commissions and incentives to retailers	148,215,550	139,577,150
Prize expense		
Instant games	1,155,818,394	1,058,582,483
Terminal games	268,410,494	253,479,566
Total prize expense	1,424,228,888	1,312,062,049
Instant and terminal game costs	22,351,859	21,276,348
Total direct costs	1,594,796,297	1,472,915,547
Gross profit	515,286,884	511,734,495
OPERATING EXPENSES		
Advertising and promotion	9,037,811	8,617,705
Security checks	235,260	270,195
Salaries, wages and benefits	11,931,894	10,630,080
Contracted and professional services	690,760	777,715
Depreciation and amortization	291,742	262,421
Rent	615,169	689,193
Office supplies	93,859	78,853
Other general and administrative	1,793,684	1,889,609
Total operating expenses	24,690,179	23,215,771
Operating income	490,596,705	488,518,724
NON-OPERATING INCOME		
Interest income	23,216	25,783
Gain on disposition of other assets	12,846	6,535
Total non-operating income	36,062	32,318
Change in net position before amount remitted to Education Lottery Account	490,632,767	488,551,042
REMITTED TO EDUCATION LOTTERY ACCOUNT	(477,908,917)	(488,091,540)
Change in net position	12,723,850	459,502
NET POSITION - BEGINNING OF YEAR	15,278,670	14,819,168
NET POSITION - END OF YEAR	$ 28,002,520	$ 15,278,670

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, 2020	For the years ended June 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retailers	$ 2,095,098,531	$ 1,983,282,937
Cash payments to prize winners	(1,416,569,537)	(1,308,902,051)
Cash payments for goods and services	(184,760,124)	(173,584,182)
Cash payments to employees for services	(11,018,904)	(10,511,065)
Net cash provided by operating activities	482,749,966	490,285,639
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from (paid to) Multi-State Lottery Association	132,606	(1,068,591)
Payments to Education Lottery Account	(477,908,917)	(488,091,540)
Net cash used for noncapital financing activities	(477,776,311)	(489,160,131)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposition of other assets	12,846	6,535
Purchases of capital assets	(436,113)	(170,968)
Net cash used for capital and related financing activities	(423,267)	(164,433)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	23,216	25,783
Net cash provided by investing activities	23,216	25,783
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,573,604	986,859
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	25,214,806	24,227,947
END OF YEAR	**$ 29,788,410**	**$ 25,214,806**
Cash and cash equivalents	29,304,133	24,722,904
Cash - restricted fidelity fund	484,277	491,902
	$ 29,788,410	**$ 25,214,806**
OPERATING ACTIVITIES		
Operating income	$ 490,596,705	$ 488,518,724
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	291,742	262,421
Changes in assets and liabilities		
Retailer accounts receivable	(15,136,946)	(1,512,646)
Inventory	9,204	(264,355)
Prepaid expenses and other current assets	1,186,166	(1,596,703)
Accounts payable and accrued liabilities	(1,165,319)	1,624,964
Prizes payable	7,659,351	3,159,998
Unearned revenue and deferred outflows and inflows	(690,937)	93,237
Net cash provided by operating activities	**$ 482,749,966**	**$ 490,285,639**

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

Prepaid Expenses

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

Restricted Fidelity Bond Fund

In accordance with the Act, retailers contribute a fee to a Fidelity Bond Fund upon acceptance as a lottery retailer. The Fidelity Bond Fund is used to cover losses the Commission may incur due to misfeasance, nonfeasance, or malfeasance of retailers. At the end of each fiscal year, any amount in the fund in excess of $500,000 is treated as net proceeds from the Commission and is payable to the ELA. As of June 30, 2020 and 2019, the balance in the Restricted Fidelity Bond Fund was $484,277 and $491,902, respectively.

The Commission transferred $30,819 and $34,610 from the Fidelity Bond Fund to the Education Lottery Account during the years ended June 30, 2020 and 2019, 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, 2020 and 2019 were $6,401,893 and $6,534,499, 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, 2020 and 2019 were $797,573 and $1,648,670, 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, 2020 and 2019 were $9,037,811 and $8,617,705, 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.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through September 23, 2020, 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 bank.

As of June 30, 2020 and 2019, the amounts of the Commission's deposits were as follows:

	2020		2019	
	Carrying amounts	Bank balances	Carrying amounts	Bank balances
Demand deposits	$ 29,788,410	$ 30,948,296	$ 25,214,806	$ 25,664,450

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, 2020 and 2019, all of the Commission's bank balances of $30,948,296 and $25,664,450, 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, 2020 and 2019.

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 2020:

	Balance as of June 30, 2019	Additions	Deletions	Balance as of June 30, 2020
Cost				
Machinery and equipment	$ 3,498,572	$407,514	$ -	$ 3,906,086
Vehicles	411,335	28,599	-	439,934
Leasehold improvements	1,315,694	-	-	1,315,694
Intellectual property	555,815	-	-	555,815
	5,781,416	436,113	-	6,217,529
Accumulated depreciation / amortization				
Machinery and equipment	$ (3,348,683)	$ (214,411)	-	$ (3,563,094)
Vehicles	(243,898)	(26,222)	-	(270,120)
Leasehold improvements	(1,301,556)	-	-	(1,301,556)
Intellectual property	(504,704)	(51,109)	-	(555,813)
	(5,398,841)	(291,742)	-	(5,690,583)
Total capital assets, net	**$ 382,575**	**$ 144,371**	**$ -**	**$ 526,946**

The following is a summary of changes in capital assets and accumulated depreciation and amortization during fiscal year 2019:

	Balance as of June 30, 2018	Additions	Deletions	Balance as of June 30, 2019
Cost				
Machinery and equipment	$ 3,327,604	$ 170,968	$ -	$ 3,498,572
Vehicles	411,335	-	-	411,335
Leasehold improvements	1,315,694	-	-	1,315,694
Intellectual property	555,815	-	-	555,815
	5,610,448	170,968	-	5,781,416
Accumulated depreciation / amortization				
Machinery and equipment	(3,194,873)	(153,810)	-	(3,348,683)
Vehicles	(211,951)	(31,947)	-	(243,898)
Leasehold improvements	(1,301,556)	-	-	(1,301,556)
Intellectual property	(428,040)	(76,664)	-	(504,704)
	(5,136,420)	(262,421)	-	(5,398,841)
Total capital assets, net	**$ 474,028**	**$ (91,453)**	**$ -**	**$ 382,575**

NOTE 5 - ACCRUED LIABILITIES

	2020	2019
Accrued expenses consist of the following as of June 30:		
Accrued payroll and related expenses	$ 907,813	$ 1,018,800
Accrued other expenses	753,333	934,075
Total accrued expenses	$ 1,661,146	$ 1,952,875

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 was subject to the competitive bid process and 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.

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

Fiscal Year	Contract Payments to IGT
2021	7,750,000
2022	7,750,000
2023	7,750,000
2024	7,750,000
2025	7,750,000
Thereafter	23,250,000

The monthly terminal gaming fee payments to IGT totaled $7,750,000 for the years ended June 30, 2020 and 2019.

Scientific Games International (SGI) has provided services for the instant games contract since inception. During fiscal year 2013, the current contract was awarded to SGI 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 $12,195,345 and $12,169,744 for the years ended June 30, 2020 and 2019, respectively. The current contract period ends September 2020. The contract was subject to a competitive bid process and was rebid in fiscal year 2020. The new contract was again awarded to SGI and will be effective October 2020 through September 2027.

NOTE 7 - ACCRUED COMPENSATED ABSENCES

The following is a summary of changes in accrued compensated absences during fiscal year 2020:

	Balance as of June 30, 2019	Additions	Deductions	Balance as of June 30, 2020
Accrued compensated absences	$ 827,539	$ 665,713	$ 489,980	$ 1,003,272

Compensated absences due in the next fiscal year are estimated at $596,032, 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 2019:

	Balance as of June 30, 2018	Additions	Deductions	Balance as of June 30, 2019
Accrued compensated absences	$ 832,965	$ 587,629	$ 593,055	$ 827,539

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
2021	582,076
2022	593,363
2023	604,650
2024	615,937

Rental expenses under all operating leases, including those on month-to-month terms, totaled $609,718 and $687,147 for the years ended June 30, 2020 and 2019, respectively.

NOTE 9 – RESTRICTED FOR EDUCATION LOTTERY ACCOUNT

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

	2020	2019
Restricted for ELA, beginning of year, as originally reported	$ 14,404,193	$ 13,851,178
Change in net position before transfers to ELA	490,632,767	488,551,042
Cash transfers to ELA	(477,908,917)	(488,091,540)
Change in capital assets, net	(144,371)	91,453
Net amount paid from fidelity fund	7,625	2,060
Restricted for ELA, end of year	**$ 26,991,297**	**$ 14,404,193**

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). 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 at age 65 or 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. SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability over a period that does not exceed the number of years scheduled in the state statute. 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 exceed the ceiling established by Legislation in 2017. The Retirement System Funding and Administration Act establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for SCRS and PORS respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty year amortization period. Additionally, the contribution rates cannot be decreased until the funded ratio is at least 85 percent. Subsequently, if the most recent annual actuarial valuation of the system shows a funded ratio of less than 85 percent, then contribution rates will be increased, effective the following July first, as necessary until the funded ratio is equal to or greater than 85 percent.

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

	For the Years Ended June 30,	
	2020	**2019**
SCRS		
Employee Class Two	9.00%	9.00%
Employee Class Three	9.00%	9.00%
State ORP		
Employee	9.00%	9.00%
PORS		
Employee Class Two	9.75%	9.75%
Employee Class Three	9.75%	9.75%

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

SCRS		
Employer Class Two	15.41%	14.41%
Employer Class Three	15.41%	14.41%
Employer Incidental Death Benefit	0.15%	0.15%
State ORP		
Employer Contribution	15.41%	14.41%
Employer Incidental Death Benefit	0.15%	0.15%
PORS		
Employer Class Two	17.84%	16.84%
Employer Class Three	17.84%	16.84%
Employer Incidental Death Benefit	0.20%	0.20%
Employer Accidental Death Program	0.20%	0.20%

Of the ORP employer contribution 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 $1,111,610, $67,442, and $10,271 for the year ended June 30, 2020, respectively. Contributions to the SCRS, ORP, and PORS pension plans from the Commission were $980,841, $78,705, and $9,464 for the year ended June 30, 2019, respectively.

Pension Expense

For the years ended June 30, 2020 and 2019, the Commission recognized pension expense for the SCRS plan of $1,667,505 and $1,031,245, respectively and for the PORS plan of $17,959 and $16,267, respectively.

Deferred outflows of resources and deferred inflows of resources

At June 30, 2020 and 2019, 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, 2020		June 30, 2019	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 10,817	$ 113,044	$ 27,399	$ 89,322
Changes of assumptions	317,100	-	602,202	-
Net difference between projected and actual earnings on pension plan investments	139,314	-	241,112	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	186,550	159,511	-	349,471
Commission contributions subsequent to the measurement date	1,179,052	-	1,059,546	-
Total	$ 1,832,833	$ 272,555	$ 1,930,259	$ 438,793

	PORS			
	June 30, 2020		June 30, 2019	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 2,230	$ 802	$ 3,337	$ -
Changes of assumptions	4,301	-	7,141	-
Net difference between projected and actual earnings on pension plan investments	1,375	-	2,166	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	1,486	3,090	4,565	3,381
Commission contributions subsequent to the measurement date	10,271	-	9,464	-
Total	$ 19,663	$ 3,892	$ 26,673	$ 3,381

The $1,179,052 and $10,271 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, 2020 will be recognized as a reduction of the net pension liability during the year ending June 30, 2021.

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

	SCRS
Year ended June 30:	
2021	$ 374,615
2022	(117,974)
2023	69,516
2024	55,069
2025	-

	PORS
Year ended June 30:	
2021	$ 5,179
2022	107
2023	(185)
2024	399
2025	-

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, 2019 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, 2018, actuarial valuations, as adopted by the PEBA Board and State Fiscal Accountability Authority which utilized membership data as of July 1, 2018. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2019, using generally accepted actuarial principles.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2019 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 2016. Assumptions used in the July 1, 2019, 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, 2019, 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	$ 50,073,060,256	$ 27,238,916,138	$ 22,834,144,118	54.4%
PORS	7,681,749,768	4,815,808,554	2,865,941,214	62.7%

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, 2020, the Commission reported liabilities of $15,735,864 and $108,846 for its proportionate shares of the SCRS and PORS net pension liabilities, respectively. At June 30, 2019, the Commission reported liabilities of $15,178,603 and $108,676 for its proportionate shares of the SCRS and PORS net pension liabilities, respectively. The net pension liabilities were measured as of July 1, 2019 and 2018, 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, 2020 and 2019, the Commission's proportionate shares of the SCRS and PORS plans were 0.06891% and 0.00379 %, respectively, and 0.06774% and 0.00382%, 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 20 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 at the beginning of the 2019 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 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	Policy Target Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	**51.00%**		
Global Public Equity	35.00%	7.29%	2.55%
Private Equity	9.00%	7.67%	0.69%
Equity Options Strategies	7.00%	5.23%	0.37%
Real Assets	**12.00%**		
Real Estate (Private)	8.00%	5.59%	0.45%
Real Estate (REITs)	1.00%	8.16%	0.08%
Infrastructure (Private)	2.00%	5.03%	0.10%
Infrastructure (Public)	1.00%	6.12%	0.06%
Opportunistic	**8.00%**		
Global Tactical Asset Allocation	7.00%	3.09%	0.22%
Other Opportunistice Strategies	1.00%	3.82%	0.04%
Credit	**15.00%**		
High Yield Bonds/Bank Loans	4.00%	3.14%	0.13%
Emerging Markets Debt	4.00%	3.31%	0.13%
Private Debt	7.00%	5.49%	0.38%
Rate Sensitive	**14.00%**		
Core Fixed Income	13.00%	1.62%	0.21%
Cash and Short Duration (Net)	1.00%	0.31%	0.00%
Total Expected Real Return	100.00%		5.41%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.66%

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	$ 19,823,969	$ 15,735,864	$ 12,324,210
PORS	147,011	108,846	76,906

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, 2019 (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, 2019.

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 years ended June 30, 2020 and 2019.

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.

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, 2019 was 6.05 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, 2020 and 2019 the Commission remitted $489,938 and $466,789, 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, 2020 and 2019, the commission reported liabilities of $13,165,858 and $12,141,924, respectively, for its proportionate share of the net OPEB liability. The net OPEB liabilities were measured at June 30, 2019 and 2018 based on actuarial valuations as of those dates. The Commission's proportionate share of the net OPEB liabilities were 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 June 30, 2020 and 2019, the Commission's proportionate share related to the SCRHITF was 0.08707% and 0. 08568%, respectively.

For the years ended June 30, 2020 and 2019, the Commission recognized OPEB expense related to the SCRHITF of $806,936 and $692,859, respectively. At June 30, 2020, the Commission recognized deferred outflows and inflows of resources related to OPEB from the following sources:

	June 30, 2020		June 30, 2019	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 155,031	$ 427,961	$ 181,892	$ 4,231
Changes of assumptions	871,196	815,301	-	988,719
Net difference between projected and actual earnings on pension plan investments	15,500	-	46,557	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	178,968	87,684	-	104,543
Commission contributions subsequent to the measurement date	489,938	-	466,789	-
Total	$ 1,710,633	$ 1,330,946	$ 695,238	$ 1,097,493

Deferred outflows related to Commission contributions subsequent to the measurement date of $489,938 will be recognized as a reduction of the OPEB liability in the year ended June 30, 2021. 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:	
2020	(66,848)
2021	(66,848)
2022	(71,942)
2023	(79,942)
2024	59,334
Thereafter	115,795

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.

Additional information as of the latest actuarial valuation for SCRHITF:

Valuation Date:	June 30, 2018
Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	2.75%, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	3.13% as of June 30, 2019
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 6.40% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 14 years
Aging Factors:	Based on plan specific experience
Retiree Participation:	79% participation for retirees who are eligible for Funded Premiums 59% participation for retirees who are eligible for Partial Funded Premiums 20% participation for retirees who are eligible for Non-Funded Premiums
Notes:	There were no benefit changes during the current year. The discount rate changed from 3.62% as of June 30, 2018 to 3.13% as of June 30, 2019. Minor updates were made to the healthcare trend rate assumption.

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, 2019:

OPEB Trust	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as a % of Total OPEB Liability
SCRHITF	$ 16,516,264,617	$ 1,394,740,049	$ 15,121,524,568	8.44%

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 3.13% 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 2018 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%	0.60%	0.48%
Cash	20.00%	0.10%	0.02%
Total	100.00%		0.50%
Expected Inflation			2.25%
Total Return			2.75%
Investment Return Assumption			**2.75%**

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 3.13%, 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 2.13%	**Current Discount Rate 3.13%**	**1% Increase 4.13%**
Commission's Proportionate Share	$ 15,607,963	$ 13,165,858	$ 11,205,967

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**
Commission's Proportionate Share	$ 10,744,746	$ 13,165,858	$ 16,318,860

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, 2019 (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, 2019. 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.

NOTE 12 - CONTINGENCIES

The 2019 novel coronavirus (or "COVID-19") has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact the Commission's and its customers' costs, demand for the Commission's products and services, and the U.S. economy. These conditions could adversely affect the Commission's business, financial condition, and results of operations. Further, COVID-19 may result in health or other government authorities requiring the closure of the Commission's operations or other businesses of the Commission's customers and suppliers, which could significantly disrupt the Commission's operations. The extent of the adverse impact of the COVID-19 outbreak on the Commission cannot be predicted at this time.

In response to the COVID-19 pandemic, the Federal Government initiated certain programs to reduce the effect of the pandemic ("The CARES Act"), which included direct payments and loans to businesses that meet certain qualifications. The CARES Act also included funding to reimburse certain COVID-19 related expenses based on criteria established by the Federal Government. The Commission is currently investigating its eligibility for any CARES Act or federal funding to cover COVID-19 related expenses. In the opinion of management, the amount of any eligible funding will be insignificant to the results of operations.

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, 2020.

NOTE 13 - TRANSACTIONS WITH STATE ENTITIES AND RELATED PARTIES

For the year ended June 30, 2020, 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	$ 8,802,231	Transfers of state income tax withholdings for prizes, use taxes, prize debt setoffs, and retailer credit checks
South Carolina Law Enforcement Division	351,365	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	492,801,503	Remittances of net proceeds and unclaimed prizes
South Carolina State Treasurer	7,204	Unclaimed property return
South Carolina Deparment of Administration	9,605	Vehicles, telephone, printing, and miscellaneous services
South Carolina Public Employee Benefit Authority (PEBA)	1,163,869	Employee health, life and dental insurance
South Carolina Department of Social Services	66,117	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	178,713	Security services
South Carolina Public Employee Benefit Authority (PEBA)	2,410,740	Employee retirement contributions / employer match
South Carolina Department of Employment & Workforce	10,968	Unemployment insurance
South Carolina Legislative Audit Council	268,833	Management review
South Carolina Department of Corrections	2,500	Furniture and miscellaneous maintenance
Total	**$ 506,073,648**	

For the year ended June 30, 2019, 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	$ 69,000,288	Transfers of state income tax withholdings for prizes, use taxes, prize debt setoffs, and retailer credit checks
South Carolina Law Enforcement Division	493,464	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	487,623,191	Remittances of net proceeds and unclaimed prizes
South Carolina State Treasurer	4,213	Unclaimed property return
South Carolina Deparment of Administration	15,910	Vehicles, telephone, printing, and miscellaneous services
South Carolina Public Employee Benefit Authority (PEBA)	1,114,260	Employee health, life and dental insurance
South Carolina Department of Social Services	5,239	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	172,434	Security services
South Carolina Public Employee Benefit Authority (PEBA)	2,054,656	Employee retirement contributions / employer match
South Carolina Department of Employment & Workforce	7,993	Unemployment insurance
South Carolina Department of Corrections	362	Furniture and miscellaneous maintenance
Total	**$ 560,492,010**	

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			
	2020	2019	2018	2017	2016	2015	2014
Commission's proportion of the net pension liability	0.06891%	0.06774%	0.06852%	0.06989%	0.07133%	0.007417%	0.007417%
Commission's proportionate share of the net pension liability	$ 15,735,864	$ 15,178,603	$ 15,425,179	$ 14,929,635	$ 13,527,510	$ 12,768,753	$ 13,302,555
Commission's covered payroll during the measurement period	$ 6,736,548	$ 6,478,230	$ 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	233.58943%	234.30170%	237.89409%	232.13031%	212.26326%	206.82681%	212.92462%
Plan fiduciary net position as a percentage of the total pension	54.40000%	54.10484%	53.33844%	52.90645%	57.99175%	59.91945%	56.38821%

				PORS			
	2020	2019	2018	2017	2016	2015	2014
Commission's proportion of the net pension liability	0.00379%	0.00382%	0.00401%	0.00398%	0.00356%	0.32600%	0.32600%
Commission's proportionate share of the net pension liability	$ 108,846	$ 108,676	$ 110,182	$ 100,926	$ 77,590	$ 62,791	$ 67,759
Commission's covered payroll during the measurement period	$ 54,895	$ 52,901	$ 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	198.28035%	205.43279%	204.12012%	198.97482%	176.05282%	160.20564%	183.62861%
Plan fiduciary net position as a percentage of the total pension	62.70000%	61.72943%	60.93977%	60.44490%	64.56865%	67.54949%	62.97880%

*The above information is presented for all available years.

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

SCRS

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	$ 1,179,052	$ 1,059,546	$ 868,731	$ 739,830	$ 701,685	$ 685,184	$ 703,992	$ 713,645	$ 666,552	$ 646,657
Contributions in relation to the contractually required contribution	$ 1,179,052	$ 1,059,546	$ 868,731	$ 739,830	$ 701,685	$ 685,184	$ 703,992	$ 713,645	$ 666,552	$ 646,657
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commission's covered-employee payroll	$ 7,144,023	$ 6,736,548	$ 6,478,230	$ 6,484,053	$ 6,431,575	$ 6,372,987	$ 6,173,645	$ 6,247,542	$ 6,596,637	$ 6,620,028
Contributions as a percentage of covered-employee payroll	16.50404%	14.41000%	13.41001%	11.41000%	10.91000%	10.75138%	11.40318%	11.42281%	10.10442%	9.76819%

PORS

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	$ 10,271	$ 9,464	$ 8,380	$ 7,470	$ 6,765	$ 5,187	$ 4,876	$ 4,379	$ 4,051	$ 3,091
Contributions in relation to the contractually required contribution	$ 10,271	$ 9,464	$ 8,380	$ 7,470	$ 6,765	$ 5,187	$ 4,876	$ 4,379	$ 4,051	$ 3,091
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commission's covered-employee payroll	$ 56,312	$ 54,895	$ 52,901	$ 53,979	$ 50,723	$ 44,072	$ 39,194	$ 36,802	$ 35,652	$ 27,772
Contributions as a percentage of covered-employee payroll	18.23998%	17.24030%	15.84091%	13.83834%	13.33714%	11.76938%	12.44068%	11.89881%	11.36262%	11.12992%

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			
	2020	2019	2018	2017
Commission's proportion of the net OPEB liability	0.08707%	0.08568%	0.08651%	0.08651%
Commission's proportionate share of the net OPEB liability	$ 13,165,858	$ 12,141,924	$ 11,717,096	$ 12,516,244
Commission's covered payroll during the measurement period	$ 6,736,548	$ 6,478,230	$ 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	195.43924%	187.42657%	180.70636%	194.60620%
Plan fiduciary net position as a percentage of the total OPEB liability	8.4400%	7.9100%	7.6000%	7.6000%

*The above information is presented for all available years.

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

	SCRHITF									
	2020	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Contractually required contribution	$ 489,938	$ 466,789	$ 406,501	$ 388,818	$ 378,258	$ 350,277	$ 344,075	$ 321,716	$ 316,517	$ 296,154
Contributions in relation to the contractually required contribution	$ 489,938	$ 466,789	$ 406,501	$ 388,818	$ 378,258	$ 350,277	$ 344,075	$ 321,716	$ 316,517	$ 296,154
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commission's covered-employee payroll	$ 7,144,023	$ 6,736,548	$ 6,478,230	$ 6,484,053	$ 6,431,575	$ 6,372,987	$ 6,173,645	$ 6,247,542	$ 6,596,637	$ 6,620,028
Contributions as a percentage of covered-employee payroll	6.85801%	6.92920%	6.27141%	5.99652%	5.88127%	5.49628%	5.57328%	5.14948%	4.79816%	4.47360%

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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 23, 2020.

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
September 23, 2020

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

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