South Carolina Education Lottery

2022

ANNUAL REPORT

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

South Carolina Education Lottery Commission

EST. 2001

SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2022 AND 2021

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

September 28, 2022

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, 2022 and 2021, was issued by Elliott Davis, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

George L. Kennedy, III

George L. Kennedy, III, CPA
State Auditor

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SOUTH CAROLINA EDUCATION LOTTERY COMMISSION

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Independent Auditor's Report

Mr. George L. Kennedy, III, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

Opinion

We have audited the 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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as of June 30, 2022 and 2021, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements, Continued

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Adoption of New Accounting Standard

As discussed in Note 2, the Commission adopted Governmental Accounting Standards Board Statement No. 87, *Leases*, during the year ended June 30, 2022. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of the Commission's Proportionate Share of the Net Pension Liability, the Schedule of the Commission's Pension Contributions, the Schedule of the Commission's Proportionate Share of the Net OPEB Liability, and the Schedule of the Commission's OPEB Contributions, 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 28, 2022 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 28, 2022

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, 2022. 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")* 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 four Terminal Games: *Pick 3, Pick 4, Cash Pop and Palmetto Cash 5.* In addition, the Commission participates in two national Terminal Games: *Powerball® and Mega Millions.* The Commission also participated in one Terminal Game, *Lucky for Life®*, which it offered in conjunction with twenty-six other States and the District of Columbia. The Commission stopped participating in *Lucky for Life®* on June 28, 2021.

Financial Highlights

Cash Transfers attributable to FY 2022 operations were $564.0 compared to $607.6 in FY 2021, a decrease of $43.6, or 7.2%. Net Income decreased $46.0 in FY 2022 to $559.5 compared to Net Income in FY 2021 of $605.5. The overall decrease in Net Income was primarily the result of a decrease in "Net Game Margin" of $44.0. 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.

* 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

	2022	2021	2020
Revenues			
Instant games	$ 1,599.0	$ 1,763.0	$ 1,582.2
Terminal games	654.6	652.8	524.2
	2,253.6	2,415.8	2,106.4
Other revenues	3.6	3.7	3.7
Total revenues	2,257.2	2,419.5	2,110.1
Prize expense			
Instant games	1,162.5	1,281.7	1,155.8
Terminal games	324.4	312.0	268.4
Total prize expense	1,486.9	1,593.7	1,424.2
Margin	770.3	825.8	685.9
Commissions and incentives	158.6	170.0	148.2
Other game-related costs	24.3	24.1	22.4
Operating expenses	27.9	26.2	24.7
Change in net position ("Net income") before cash transfers to ELA	559.5	605.5	490.6
Cash transfers to ELA	(561.8)	(609.0)	(477.9)
Change in net position	(2.3)	(3.5)	12.7
Net Position - beginning of year, as restated (see note 9)	24.5	28.0	15.3
Net Position - end of year	$ 22.2	$ 24.5	$ 28.0
Other information			
Instant game margin	27.3%	27.3%	26.9%
Terminal game margin	50.4%	52.2%	48.8%
Total game margin	34.0%	34.0%	32.4%
Net instant game margin	20.3%	20.3%	19.9%
Net terminal game margin	43.4%	45.2%	41.8%
Net game margin	27.0%	27.0%	25.4%

Net Position Data

	2022	2021	2020
Current assets	$ 99.3	$ 97.5	$ 98.8
Non-current assets			
Lease asset, net	1.2	1.8	-
Capital assets, net	0.9	0.4	0.5
Other non-current assets	6.0	6.1	6.4
Total non-current assets	8.1	8.3	6.9
Total assets	107.4	105.8	105.7
Deferred outflows of resources	7.7	6.3	3.6
Current liabilities	55.2	51.6	50.3
Long-term liabilities	34.2	34.4	29.4
Total liabilities	89.4	86.0	79.7
Deferred inflows of resources	3.5	1.6	1.6
Net position			
Net investment in capital assets	0.9	0.4	0.5
Restricted fidelity fund	0.5	0.5	0.5
Restricted for ELA	20.8	23.6	27.0
Total net position	$ 22.2	$ 24.5	$ 28.0
Lease asset	$ 2.4	$ 2.4	$ -
Less: accumulated amortization	1.2	0.6	-
Net Investment in lease asset	$ 1.2	$ 1.8	$ -
Capital assets	$ 7.0	$ 6.3	$ 5.6
Less: accumulated depreciation	6.1	5.9	5.1
Net Investment in capital assets	$ 0.9	$ 0.4	$ 0.5

Fiscal Year 2022 Compared to Fiscal Year 2021

Game Revenue and Margins

Total game revenues were $2,253.6 in FY 2022 and $2,415.8 in FY 2021, for a decrease of $162.2, or 6.7%. Total prize expense was $1,486.9 in FY 2022 and $1,593.7 in FY 2021, for a decrease of $106.8, or 6.7%. Accordingly, on the game revenue decrease of $162.2, Game Margin decreased $55.4. Net Game Margin (includes commissions and incentives) decreased $44.0. As noted above, the decreased Net Game Margin is the primary component of the decrease in Net Income for the fiscal year.

Net Game Margin decreased on overall game revenues due to a decrease in Instant Ticket game revenues and, to some extent, statistical variation. As more fully discussed below, Instant Ticket revenues decreased $164.0 and Terminal Game revenues increased $1.8. Instant Game prize expense decreased by $119.2 and Terminal Game prize expense increased by $12.4. Prize expense on Instant Games is relatively higher as a percentage of Instant Game revenues compared to Terminal Games. In FY 2022, Instant Game prize expense was 72.7% of Instant Game revenues compared to 49.6% for Terminal Games.

In FY 2022, total Instant Game revenues were $1,599.0, a decrease of $164.0, or 9.3%, compared to FY 2021. The decrease was attributable to a decrease in revenues for all price points except $3 Instant Tickets. Revenues associated with $3 Tickets increased by $4.6 (7.3%) due to more game launches. For the year, $10 Instant Ticket Revenues decreased by $145.7 (11.1%) from $1,309.8 to $1,164.1. Revenues associated with the $1 and $2 price points, in aggregate, decreased by $5.2 (4.3%). The net effect of the decrease in Instant Game revenues was that the Instant Game Margin decreased $44.8, or 9.3%. The Instant Game Margin % remained at 27.3% for FY 2022 and FY 2021.

The primary components of the overall $164.0 decrease in Instant Game revenues are as follows:

- $1 Tickets decreased $3.3, or 7.8%;
- $2 Tickets decreased $2.0, or 2.4%;
- $3 Tickets increased $4.6, or 7.3%;
- $5 Tickets decreased $17.7, or 6.6%; and,
- $10 Tickets decreased $145.7, or 11.1%.

Terminal Game revenues were $654.6, an increase of $1.8, or 0.3%. This increase can be attributed to increases in Powerball and Cash Pop compared to FY 2021. These increases were offset by decreases in Pick 3, Pick 4, and PC5. FY 2022 had four Powerball Jackpot Runs that exceeded $300, compared to FY 2021, which only had two. These Jackpot runs, the addition of Double Play and a third draw contributed to Powerball's strong results. Powerball revenue increased $25.6, or 32.2%. On the other hand, Mega Millions revenue decreased $20.8, or 31.9%. Mega Millions had three jackpot runs over $300 in FY 2021 (one of which was over $1 billion) compared to two in FY 2022.

Pick 3 revenue decreased $22.4, or 7.2% and Pick 4 decreased $.9, or .6%. The primary reason revenues were down is that they were competing with record results from FY 2021. The Game Margin % on Pick 3 and Pick 4 decreased from 53.4% to 51.1%, and 53.1% to 52.1%, respectively, in FY 2022. The decrease in revenues for Pick 3 and Pick 4 combined with statistical variation resulted in decreases in Game Margin of $18.5, or 11.1% and $2.1, or 2.5%, respectively.

Palmetto Cash 5 revenue decreased $0.6, or 1.9% and Prize Expense increased $0.2, or 1.5% (due to statistical variation). As a result, Game Margin decreased $0.8, or 5.5%.

Cash Pop had a phenomenal year since the game launched in January 2022. Cash Pop revenues were $34.2 and Game Margin was $11.9.

The overall Terminal Game Margin % was 50.4% in FY 2022 compared to 52.2% in FY 2021, a decrease of 1.8%. 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 Its Effects

While the Covid-19 Pandemic and its effects had a positive impact on the Commission's improved financial results in FY 2021, management believes this impact subsided in FY 2022 compared to the previous year. Covid-19 effects included federal stimulus programs, which included direct payments to individuals in response to the adverse economic impact of the Covid-19 Pandemic. In addition, travel and other restrictions limited recreational opportunities, which normally compete with our products. While the impact of these variables continued in FY 2022 to an extent, management believes market conditions began to return to historical patterns and the impact of Covid-19 was much less in FY 2022 compared to FY 2021.

In FY 2022, the Commission experienced lower rates of revenue increases compared to the prior fiscal year. Management believes that the rates of revenue decreases were due to subsiding effects of the Covid-19 Pandemic as market conditions return to normal.

Other Revenue and Game Costs

Other revenues, which consist primarily of license and telephone fees, were \$3.6 in FY 2022 and \$3.7 in FY 2021. Other direct game costs were \$24.3 in FY 2022 compared to \$24.1 in FY 2021. The increase of \$0.2 was primarily attributable to increases in terminal game licensing, supply, and shipping costs.

Operating Expenses

Operating expenses consist of advertising and administrative expenses (compensation, occupancy, etc.). In total, operating expenses increased by \$1.7 in FY 2022 compared to FY 2021. Operating expenses were \$27.9 and \$26.2 in FY 2022 and FY 2021, respectively. Advertising increased by \$2.0, which largely related to production for the new Terminal Game, Cash Pop. Salaries and benefits decreased a modest, \$0.2.

Assets, Liabilities and Cash Flows (See Notes 3 through 11 to the financial statements)

As more fully explained in Footnote 1 (on page 4) 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 2022 and FY 2021, the Commission generated \$563.9 and \$619.1 from operating activities. Amounts used or provided by capital-related financing and investing activities were insignificant in FY 2022 and FY 2021.

At June 30, 2022, the Commission's current assets totaled \$99.3 compared to \$97.5 at the end of the preceding year. In both years, cash and accounts receivable from retailers comprised most of the Commission's current assets. As of June 30, 2022 and 2021, combined cash and accounts receivable were \$92.0 and \$91.3, respectively. Most of the cash held by the Commission, \$40.4 and \$39.5 at June 30, 2022 and 2021, respectively, was remitted to the State Treasurer the following month.

The only other substantive non-capital asset held by the Commission at June 30, 2022 and 2021 were amounts held on the Commission's behalf by the Multi-State Lottery Association (MUSL). Such amounts, $6.1 and $6.1, at June 30, 2022 and 2021, respectively, are maintained by MUSL to pay the Commission's share to Powerball and Mega Millions prize winners.

At June 30, 2022, the Commission's current liabilities totaled $54.6 compared to $51.0 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, 2022 and 2021, accrued prize expense was $48.8 and $45.3, respectively.

At June 30, 2022, the Commission's net position totaled $22.2 compared to $24.5 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 $19.7 and $21.8 at June 30, 2022 and 2021, respectively. At June 30, 2022, the Fidelity Bond Fund was $0.5 compared to $0.5 at June 30, 2021. At June 30, 2022 and 2021, property, equipment and other capital assets were $.9 and $.4, respectively. Additional discussion on capital assets can be found in Note 4 to the financial statements.

The Commission implemented GASB Statement No. 87, *Leases*, effective July 1, 2021. At June 30, 2022 and 2021, lease assets, net, were $1.2 and $1.8, respectively. The related lease liabilities were $1.2 and $1.8 during the same periods. Additional discussion on lease assets can be found in Note 8 to the financial statements.

<u>Fiscal Year 2021 Compared to Fiscal Year 2020</u>

Financial Highlights

Cash Transfers attributable to FY 2021 operations were $607.6 compared to $492.8 in FY 2020, an increase of $114.8, or 23.3%. Net Income increased $114.9 in FY 2021 to $605.5 compared to Net Income in FY 2020 of $490.6. The overall increase in Net Income was primarily the result of an increase in Net Game Margin of $118.2.

Total game revenues were $2,415.8 in FY 2021 and $2,106.4 in FY 2020, for an increase of $309.4, or 14.7%. Total prize expense was $1,593.7 in FY 2021 and $1,424.2 in FY 2020, for an increase of $169.5, or 11.9%. Accordingly, on the game revenue increase of $309.4, Game Margin increased $140.0.

Instant Game revenues increased $180.8 and Terminal Game revenues increased $128.6. The increase in Instant Game revenues was overwhelmingly related to the increase in the sales of $10 Instant Game tickets of $134.0. The increase in terminal game revenue can be attributed to significant increases in Powerball and Mega Millions, Pick 3 and Pick 4 revenues compared to FY 2020. FY 2021 had multiple Jackpot Runs compared to no substantive Runs in the previous year. Powerball revenues increased $16.3, or 25.8%, and Mega Millions revenues increased $19.6, or 43.2%. These increases resulted in a net margin increase for these two games of $18.2, or 32.2%.

Management believes that the effects of the Covid-19 Pandemic as described under the above caption ***"Covid-19 Pandemic and its Effects"*** had a significant and positive impact on its financial results in FY 2021. Although Q4 of FY 2020 was also positively impacted by the effects of the Covid-19 Pandemic, an entire year of these effects was even more significant.

The Commission experienced significantly higher rates of revenue increases in FY 2021 compared to FY 2020. During FY 2021, Instant Game revenues increased $180.8, or 11.4%. Likewise, Terminal Game revenues, increased $128.6, or 24.5%. Management believes that the rates of revenue increases were primarily due to the effects of the Covid-19 Pandemic.

Although it is impossible to measure the exact impact of the Covid-19 Pandemic on the Commission's FY 2021 results, management believes that the effect on FY 2021 results was significant and should be considered in any comparison of the Commission's financial results in FY 2021 compared to FY 2020.

The relationship of commissions and incentives and other game-.related costs to revenues was consistent in FY 2021 and FY 2020. Operating expenses were generally consistent and totaled $26.2 and $24.7 in FY 2021 and FY 2020, 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, 2022	June 30, 2021
CURRENT ASSETS		
Cash and cash equivalents	$ 39,900,621	$ 38,990,014
Cash - restricted fidelity bond fund	452,541	473,048
Retailer accounts receivable, net of allowance for doubtful accounts of $1,084,203 and $1,139,232 for 2022 and 2021, respectively	51,652,112	51,879,407
Inventory	5,134,863	3,540,193
Prepaid expenses and other current assets	2,150,880	2,639,765
Total current assets	99,291,017	97,522,427
NONCURRENT ASSETS		
Lease asset, net	1,182,593	1,773,069
Capital assets, net	869,118	411,187
Deposits with Multi-State Lottery Association	6,082,695	6,139,154
Total noncurrent assets	8,134,406	8,323,410
TOTAL ASSETS	**107,425,423**	**105,845,837**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to the net pension liability	2,805,700	2,871,990
Deferred outflows related to the net OPEB liability	4,887,500	3,378,413
Total deferred outflows of resources	7,693,200	6,250,403
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**115,118,622**	**112,096,239**
CURRENT LIABILITIES		
Prizes payable	47,123,980	44,297,674
Prizes payable - Multi-State Lottery Association	1,708,231	963,016
Accounts payable	2,251,802	2,819,287
Accrued liabilities	1,942,116	1,747,531
Current portion of accrued compensated absences	645,432	632,512
Current portion of lease liability	587,163	566,155
Unearned revenue	908,372	557,652
Total current liabilities	55,167,096	51,583,827
NONCURRENT LIABILITIES		
Accrued compensated absences	378,230	348,819
Lease liability	659,794	1,246,948
Net pension liability	15,164,971	17,453,203
Net OPEB liability	18,044,952	15,351,311
TOTAL LIABILITIES	**89,415,043**	**85,984,108**
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to the net pension liability	2,357,785	299,090
Deferred inflows related to the net OPEB liability	1,181,334	1,336,947
Total deferred inflows of resources	3,539,119	1,636,037
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**92,954,162**	**87,620,145**
Net investment in capital assets	869,118	411,187
Restricted fidelity bond fund	452,541	473,048
Restricted for Education Lottery Account	20,842,801	23,591,859
TOTAL NET POSITION	**$ 22,164,460**	**$ 24,476,094**

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,	
	2022	2021
OPERATING REVENUES		
Sales Revenues		
Instant games	$ 1,599,001,689	$ 1,763,009,448
Terminal games	654,562,785	652,762,731
Total sales revenues	2,253,564,474	2,415,772,179
Other Operating Revenues		
Retailer permit fees	542,790	551,760
Retailer on-line communication fees	3,034,740	3,010,275
Other	60,208	174,196
Total other operating revenues	3,637,738	3,736,231
Total revenues	2,257,202,212	2,419,508,410
DIRECT COSTS		
Commissions and incentives to retailers	158,607,884	169,997,170
Prize expense		
Instant games	1,162,518,784	1,281,692,476
Terminal games	324,392,758	311,977,334
Total prize expense	1,486,911,542	1,593,669,810
Instant and terminal game costs	24,272,267	24,082,816
Total direct costs	1,669,791,693	1,787,749,796
Gross profit	587,410,519	631,758,614
OPERATING EXPENSES		
Advertising and promotion	11,300,460	9,227,130
Security checks	260,216	278,437
Salaries, wages and benefits	12,419,800	12,578,355
Contracted and professional services	884,372	971,340
Depreciation	251,281	238,794
Amortization	590,476	588,836
Rent	86,496	60,269
Office supplies	134,657	301,985
Other general and administrative	1,963,957	1,960,185
Total operating expenses	27,891,715	26,205,331
Operating income	559,518,804	605,553,283
NON-OPERATING EXPENSE		
Interest income (expense)	(9,243)	19,937
Gain on disposition of other assets	1,486	274
Total non-operating expense	(7,757)	20,211
Change in net position before amount remitted to Education Lottery Account	559,511,048	605,573,494
REMITTED TO EDUCATION LOTTERY ACCOUNT	(561,822,682)	(609,044,545)
Change in net position	(2,311,634)	(3,471,051)
NET POSITION - BEGINNING OF YEAR, AS RESTATED	24,476,094	28,002,520
IMPLEMENTATION EFFECT OF GASB NO. 87	-	(55,375)
NET POSITION - END OF YEAR	$ 22,164,460	$ 24,476,094

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, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retailers	$ 2,257,780,226	$ 2,430,843,255
Cash payments to prize winners	(1,483,340,021)	(1,594,164,603)
Cash payments for goods and services	(198,987,594)	(206,049,237)
Cash payments to employees for services	(11,513,175)	(11,465,960)
Net cash provided by operating activities	563,939,436	619,163,455
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from (paid to) Multi-State Lottery Association	56,459	262,739
Payments to Education Lottery Account	(561,822,682)	(609,044,545)
Net cash used for noncapital financing activities	(561,766,223)	(608,781,806)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposition of other assets	1,486	274
Payments on lease payable	(566,145)	(604,173)
Purchases of capital assets	(709,212)	(123,035)
Net cash used for capital and related financing activities	(1,273,871)	(726,934)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest paid	(9,243)	19,937
Net cash used for investing activities	(9,243)	19,937
NET INCREASE IN CASH AND CASH EQUIVALENTS	890,099	9,674,652
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	39,463,062	29,788,410
END OF YEAR	**$ 40,353,162**	**$ 39,463,062**
Cash and cash equivalents	39,900,621	38,990,014
Cash - restricted fidelity fund	452,541	473,048
	$ 40,353,162	**$ 39,463,062**
OPERATING ACTIVITIES		
Operating income	$ 559,518,803	$ 605,553,283
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	251,281	238,794
Amortization	590,476	588,836
Changes in assets and liabilities		
Retailer accounts receivable	227,295	11,530,682
Inventory	(1,594,670)	941,451
Prepaid expenses and other current assets	488,885	(1,476,749)
Accounts payable and accrued liabilities	74,840	5,136,417
Prizes payable	3,571,521	(494,793)
Unearned revenue and deferred outflows and inflows	811,004	(2,854,467)
Net cash provided by operating activities	**$ 563,939,436**	**$ 619,163,455**

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

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - REPORTING ENTITY

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

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 percent 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.

Leases

The Commission determines if an arrangement is a lease at inception.

Agreements in which the Commission is the lessee are included as lease assets, net of accumulated amortization and lease payables on the Statement of Net Position. Leased assets represent the Commission's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Leased assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Commission's leases do not provide an implicit rate, an incremental borrowing rate based on the information available at commencement date is used in determining the present value of lease payments. The leased asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that those options will be exercised. Lease expenses are included in amortization expense.

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, 2022 and 2021, the balance in the Restricted Fidelity Bond Fund was $452,541 and $473,048, respectively.

The Commission transferred $55,029 and $51,453 from the Fidelity Bond Fund to the Education Lottery Account during the years ended June 30, 2022 and 2021, 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's exposure to custodial credit risk on deposits 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, 2022 and 2021 were $6,082,695 and $6,139,154, 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, 2022 and 2021 were $1,708,231 and $963,016, 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, 2022 and 2021 were $11,300,460 and $9,227,130, respectively.

Pensions

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

Other Post-Employment Benefits (OPEB)

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

Adoption of New Accounting Standards

The Commission implemented GASB Statement No. 87, Leases, effective July 1, 2021. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases based on the payment provisions of the contract. A retrospective transition approach was required, applying the new standard to all leases existing at the date of initial application and restating the financial statements for all periods presented. See Note 8 and 9 for the effect of this statement.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through September 28, 2022, 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, 2022 and 2021, the amounts of the Commission's deposits were as follows:

	2022		2021	
	Carrying amounts	Bank balances	Carrying amounts	Bank balances
Demand deposits	$ 40,353,162	$ 41,508,777	$ 39,463,062	$ 40,182,644

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, 2022 and 2021, all of the Commission's bank balances of $41,508,777 and $40,182,644, respectively, were covered by FDIC insurance or by collateral held by the pledging financial institutions' trust departments in the Commission's name. The Commission's bank balances were not exposed to custodial credit risk as of June 30, 2022. On June 30, 2021, the pledging financial institution made an error and did not request enough collateral to fully collateralize the Commission's deposits. The pledging financial institution identified and timely corrected the error; however, for a short period $22,947,250 of the Commission's bank balances were exposed to custodial credit risk as of June 30, 2021. The Commission's deposits were fully collateralized on June 29, 2021 and July 1, 2021.

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 2022:

	Balance as of June 30, 2021	Additions	Deletions	Balance as of June 30, 2022
Cost				
Machinery and equipment	$ 3,989,215	$607,771	$ -	$ 4,596,986
Vehicles	439,934	-	-	439,934
Leasehold improvements	1,315,694	141,347	-	1,457,041
Intellectual property	555,815	-	-	555,815
Fixed Asset Clearing	39,906	-	(39,906)	-
	6,340,564	749,118	(39,906)	7,049,776
Accumulated depreciation / amortization				
Machinery and equipment	(3,776,742)	(237,670)	-	(4,014,412)
Vehicles	(295,266)	(11,254)	-	(306,520)
Leasehold improvements	(1,301,556)	(2,357)	-	(1,303,913)
Intellectual property	(555,813)	-	-	(555,813)
Fixed Asset Clearing	-	-	-	-
	(5,929,377)	(251,281)	-	(6,180,658)
Total capital assets, net	**$ 411,187**	**$ 497,837**	**$ (39,906)**	**$ 869,118**

The following is a summary of changes in capital assets and accumulated depreciation and amortization during fiscal year 2021:

	Balance as of June 30, 2020	Additions	Deletions	Balance as of June 30, 2021
Cost				
Machinery and equipment	$ 3,906,086	$ 83,129	$ -	$ 3,989,215
Vehicles	439,934	-	-	439,934
Leasehold improvements	1,315,694	-	-	1,315,694
Intellectual property	555,815	-	-	555,815
Fixed Asset Clearing	-	39,906	-	39,906
	6,217,529	123,035	-	6,340,564
Accumulated depreciation / amortization				
Machinery and equipment	(3,563,094)	(213,648)	-	(3,776,742)
Vehicles	(270,120)	(25,146)	-	(295,266)
Leasehold improvements	(1,301,556)	-	-	(1,301,556)
Intellectual property	(555,813)	-	-	(555,813)
Fixed Asset Clearing	-	-	-	-
	(5,690,583)	(238,794)	-	(5,929,377)
Total capital assets, net	**$ 526,946**	**$ (115,759)**	**$ -**	**$ 411,187**

NOTE 5 - ACCRUED LIABILITIES

	2022	2021
Accrued expenses consist of the following as of June 30:		
Accrued payroll and related expenses	$ 1,042,054	$ 946,348
Accrued other expenses	900,062	801,183
Total accrued expenses	$ 1,942,116	$ 1,747,531

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. During FY 2022, the Commission launched a new online game, Cash Pop, and purchased in-store digital jackpot signs to display current Powerball and Mega Millions jackpot prize values. Also, in FY 2021, the Commission implemented additional features to the gaming system including Sales Wizard and a mobile application. These additional items required formal change orders to the contractual fee, and the future payments are listed below.

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

Fiscal Year	Contract Payments to IGT
2023	7,927,000
2024	7,927,000
2025	7,927,000
2026	7,927,000
2027	7,927,000
Thereafter	7,927,000

The monthly terminal gaming fee payments to IGT totaled $7,915,667 and $7,820,417 for the years ended June 30, 2022 and 2021, respectively.

Scientific Games International (SGI) has provided services for the instant games contract since inception. During fiscal year 2020, 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 $13,408,851 and $12,330,689 for the years ended June 30, 2022 and 2021, respectively. The current contract period ends September 2027.

NOTE 7 - ACCRUED COMPENSATED ABSENCES

The following is a summary of changes in accrued compensated absences during fiscal year 2022:

	Balance as of June 30, 2021	Additions	Deductions	Balance as of June 30, 2022
Accrued compensated absences	$ 981,331	$ 689,648	$ 647,317	$ 1,023,662

Compensated absences due in the next fiscal year are estimated at $645,432, 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 2021:

	Balance as of June 30, 2020	Additions	Deductions	Balance as of June 30, 2021
Accrued compensated absences	$ 1,003,272	$ 684,441	$ 706,382	$ 981,331

NOTE 8 – LEASES

The Commission, as a lessee, recognizes a lease asset and lease liability at the commencement of the lease term, with certain exceptions for short-term leases and leases that transfer ownership of the underlying asset. As lessee, the lease asset is measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease liability is measured at the present value of the lease payments expected to be made during the lease term.

For the purpose of GASB No. 87 implementation, the Commission's leases have been categorized as follows:

1. Included
2. Excluded - Short-term
3. Excluded - Cancellable

Included leases:
In accordance with GASB No. 87, the Commission recognizes a lease asset and lease liability for leases the Commission categorized as Included. For these leases, the Commission is reporting lease assets as follows as of June 30:

	Balance at June 30, 2022	Balance as of June 30, 2021
Headquarters Building Lease	$ 2,361,905	$ 2,361,905
Accumulated Amortization	(1,179,312)	(588,836)
Net Lease	$ 1,182,593	$ 1,773,069

For the fiscal year ended June, 30, 2022, the Commission reported amortization and interest expense of $590,476 and $26,277, respectively. For the fiscal year ended June, 30, 2021, the Commission reported amortization and interest expense of $588,836 and $32,333, respectively.

The leases held by the Commission do not have an implicit rate of return, therefore, the Commission used risk-free rate (1.69% at June 30, 2022) to discount the lease liability to the net present value.

The GASB No. 87 Included Leases are summarized as follows:

Building:

The Commission leases office space for its headquarters in Columbia, South Carolina. The terms of the lease included scheduled rental increases, which are considered in the value of the lease asset. Amounts expensed under the lease agreement totaled $592,423 and $581,136 for the fiscal years ended June 30, 2022 and 2021, respectively.

Minimum future lease payments are as follows for the year ending June 30:

Fiscal Year	Principal Payments	Interest Payments	Lease Payments
2023	587,163	16,547	603,710
2024	608,538	6,549	615,087
2025	51,256	72	51,328

NOTE 9 – RESTRICTED FOR EDUCATION LOTTERY ACCOUNT

The implementation effect of adopting GASB Statement No. 87 reduced the amount of the component of net position classified as Restricted for ELA for the year ended June 30, 2021. The following table summarizes the activity in Restricted for ELA for the year ended June 30:

	2022	2021
Restricted for ELA, beginning of year	$ 23,591,859	$ 26,991,297
Change in net position before transfers to ELA	559,511,048	605,573,494
Cash transfers to ELA	(561,822,682)	(609,044,545)
Change in capital assets, net	(457,932)	115,759
Net amount paid from fidelity fund	20,508	11,229
Restricted for ELA, end of year	**$ 20,842,801**	**$ 23,647,234**
Implementation effect of GASB No. 87	-	55,375
Restricted for ELA, end of year, as restated	**$ 20,842,801**	**$ 23,591,859**

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 Annual Comprehensive Financial Report (ACFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The ACFR 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 annual comprehensive 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. However, the General Assembly postponed the one percent increase in the SCRS and PORS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. 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,	
	2022	**2021**
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	16.41%	15.41%
Employer Class Three	16.41%	15.41%
Employer Incidental Death Benefit	0.15%	0.15%
State ORP		
Employer Contribution	16.41%	15.41%
Employer Incidental Death Benefit	0.15%	0.15%
PORS		
Employer Class Two	18.84%	17.84%
Employer Class Three	18.84%	17.84%
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 $1,264,797, $59,971, and $11,473 for the year ended June 30, 2022, respectively. Contributions to the SCRS, ORP, and PORS pension plans from the Commission were $1,170,988, $52,387, and $10,915 for the year ended June 30, 2021, respectively.

Pension Expense

For the years ended June 30, 2022 and 2021, the Commission recognized pension expense for the SCRS plan of $1,162,418 and $1,826,976, respectively and for the PORS plan of $11,427 and $17,617, respectively.

Deferred outflows of resources and deferred inflows of resources

At June 30, 2022 and 2021, 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, 2022		June 30, 2021	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 256,574	$ 20,329	$ 199,960	$ 65,531
Changes of assumptions	824,476	-	21,232	-
Net difference between projected and actual earnings on pension plan investments	-	2,188,038	1,274,737	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	372,150	124,725	124,900	229,997
Commission contributions subsequent to the measurement date	1,324,768	-	1,223,375	-
Total	$ 2,777,968	$ 2,333,092	$ 2,844,204	$ 295,528

	PORS			
	June 30, 2022		June 30, 2021	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 3,483	$ 319	$ 2,627	$ 544
Changes of assumptions	7,303	-	1,509	-
Net difference between projected and actual earnings on pension plan investments	-	22,955	12,658	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	5,473	1,419	77	3,018
Commission contributions subsequent to the measurement date	11,473	-	10,915	-
Total	$ 27,732	$ 24,693	$ 27,786	$ 3,562

The $1,324,768 and $11,473 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, 2022 will be recognized as a reduction of the net pension liability during the year ending June 30, 2023.

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:	
2023	22,881
2024	8,744
2025	(92,782)
2026	(818,735)

	PORS
Year ended June 30:	
2023	(400)
2024	186
2025	(327)
2026	(7,894)

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 for the period ending June 30, 2019. The June 30, 2021 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 actuarial valuation performed as of July 1, 2020. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2021, using generally accepted actuarial principles. There was no legislation enacted during the 2021 legislative session that had a material change in the benefit provisions for any of the systems. In FY 2021 the Board adopted updated demographic assumptions. Also, the General Assembly permitted the investment return assumption at July 1, 2021 to decrease from 7.25% to 7.00%, as provided by Section 9-16-335 in South Carolina State Code.

The following table provides a summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2021.

	SCRS	PORS
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions:		
Investment rate of return	7%	7%
Projected salary increases, includes	3.0% to 11.0% (varies by service)	3.5% to 10.5% (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 80% of Scale UMP projected from the year 2020. Assumptions used in the June 30, 2021, valuations for SCRS and PORS are as follows.

Former Job Class	Males	Females
Educators	2020 PRSC Males multiplied by 95%	2020 PRSC Females multiplied by 94%
General Employees and Members of the General Assembly	2020 PRSC Males multiplied by 97%	2020 PRSC Females multiplied by 107%
Public Safety and Firefighters	2020 PRSC Males multiplied by 127%	2020 PRSC Females multiplied by 107%

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, 2021, 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	$ 55,131,579,363	$ 33,490,305,970	$ 21,641,273,393	60.7%
PORS	8,684,586,488	6,111,672,064	2,572,914,424	70.4%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB 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, 2022, the Commission reported liabilities of $15,062,582 and $102,389 for its proportionate shares of the SCRS and PORS net pension liabilities, respectively. At June 30, 2021, the Commission reported liabilities of $17,329,585 and $123,618 for its proportionate shares of the SCRS and PORS net pension liabilities, respectively. The net pension liabilities were measured as of June 30, 2021 and July 1, 2020, 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 its long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2022 and 2021, the Commission's proportionate shares of the SCRS and PORS plans were 0.06960% and 0.00398%, respectively, and 0.06782% and 0.00373%, respectively.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rates of return 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 2021 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 and is summarized in the table below. For actuarial purposes, the 7 percent assumed annual investment rate of return set in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.25 percent inflation component.

Allocation/Exposure	Policy Target	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Public Equity [1]	46.00%	6.87%	3.16%
Bonds	26.00%	0.27%	0.07%
Private Equity [1,2]	9.00%	9.68%	0.87%
Private Debt [2]	7.00%	5.47%	0.39%
Real Assets			
Real Estate [2]	9.00%	6.01%	0.54%
Infrastructure [2]	3.00%	5.08%	0.15%
Total Expected Return [3]	100.00%		5.18%
Inflation for Actuarial Purposes			2.25%
			7.43%

[1]The target weight to Private Equity will be equal to its actual weight, reported by the custodial bank, as of prior month end. When flows have occurred, flow adjusted weights are used to more accurately reflect the impact of the asset class weight. Private Equity and Public Equity combine for 55% of the entire portfolio.

[2] Staff and Consultant will notify the Commission if Private Markets assets exceed 25% of total assets.

[3] Portable Alpha Strategies, which are not included in the Policy Target, will be capped at 12% of total assets; hedge funds (including all hedge funds used in portable alpha implementation) are capped at 20% of total assets.

Discount Rate

The discount rate used to measure the total pension liability was 7 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, the 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 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 percent) or 1.00 percent higher (8 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	**1.00% Decrease (6%)**	**Current Discount Rate (7%)**	**1.00% Increase (8%)**
SCRS	$ 19,730,056	$ 15,062,582	$ 11,182,874
PORS	148,535	102,389	64,565

Additional Financial and Actuarial Information

Information contained in these Notes to the Schedules of Employer and Nonemployer Allocations and Schedules of Pension Amounts by Employer was compiled from the Systems' audited financial statements for the fiscal year ended June 30, 2021, and the accounting valuation report as of June 30, 2021. Additional financial information supporting the preparation of the Schedules (including the unmodified audit opinion on the financial statements and required supplementary information) is available in the Systems' Annual Comprehensive Financial Report.

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, 2022 and 2021.

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, 2021 was 6.25 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, 2022 and 2021 the Commission remitted $513,505 and $505,097 respectively, to SCRS for SCRHITF 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 annual comprehensive financial report of the state.

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

At June 30, 2022 and 2021, the commission reported liabilities of $18,044,952 and $15,351,311, respectively, for its proportionate share of the net OPEB liability. 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, 2022 and 2021, the Commission's proportionate share related to the SCRHITF was 0.08666% and 0.08504%, respectively.

For the years ended June 30, 2022 and 2021, the Commission recognized OPEB expense related to the SCRHITF of $1,535,592 and $1,168,024, respectively. At June 30, 2022, the Commission recognized deferred outflows and inflows of resources related to OPEB from the following sources:

	June 30, 2022		June 30, 2021	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 365,173	$ 462,521	$ 439,062	$ 349,604
Changes of assumptions	3,668,625	434,499	2,284,467	611,368
Net difference between projected and actual				35,806
earnings on pension plan investments	-	4,879	-	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	340,196	279,435	149,787	340,169
Commission contributions subsequent to the measurement date	513,506	-	505,097	-
Total	$ 4,887,500	$ 1,181,334	$ 3,378,413	$ 1,336,947

Deferred outflows related to Commission contributions subsequent to the measurement date of $513,506 will be recognized as a reduction of the OPEB liability in the year ended June 30, 2023. 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:

2023	495,922
2024	487,933
2025	626,577
2026	680,228
2027	584,552
Thereafter	317,448

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, 2020
Actuarial Cost Method:	Individual Entry – Age Normal
Inflation:	2.25%
Investment Rate of Return:	2.75%, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	1.92% as of June 30, 2021
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2019
Mortality:	For healthy retirees, the gender-distinct South Carolina Retirees 2020 Mortality Tables are used with fully generational mortality projections based on a fully generational basis by the 80% of Scale UMP to account for future mortality improvements and adjusted with multipliers based on plan experience.
Health Care Trend Rate:	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 15 years
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:	The discount rate changed from 2.45% as of June 30, 2020 to 1.92% as of June 30, 2021; demographic and salary increases assumptions were updated to reflect the 2020 SCRS experience study and the health care trend rates were reset to better reflect the plan's anticipated experience.

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. This method is expected to be reflective of the employer's long-term contribution effort as well as be transparent to individual employers and their external auditors.

The following table represents the components of the net OPEB liability related to the SCRHITF as of June 30, 2021:

OPEB Trust	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as a % of Total OPEB Liability
SCRHITF	$ 22,506,597,989	$ 1,683,416,992	$ 20,823,180,997	7.48%

The TOL 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 1.92% 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 equivalents	20.00%	0.35%	0.07%
Total	100.00%		0.55%
Expected Inflation			2.25%
Total Return			2.80%
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 1.92%, 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 0.92%	Current Discount Rate 1.92%	1% Increase 2.92%
Commission's Proportionate Share	$ 21,748,631	$ 18,044,952	$ 15,125,058

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	$ 14,476,908	$ 18,044,952	$ 22,799,252

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, 2021 (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, 2021. 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 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, 2022.

NOTE 13 - TRANSACTIONS WITH STATE ENTITIES AND RELATED PARTIES

For the year ended June 30, 2022, 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	11,358,294	Transfers of state income tax withholdings for prizes, use taxes, prize debt setoffs, and retailer credit checks
South Carolina Law Enforcement Division	355,443	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	561,822,682	Remittances of net proceeds and unclaimed prizes
South Carolina State Treasurer	3,213	Unclaimed property return
South Carolina Department of Administration	956	Vehicles, telephone, printing, and miscellaneous services
South Carolina Public Employee Benefit Authority (PEBA)	1,139,437	Employee health, life and dental insurance
South Carolina Department of Social Services	50,268	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	212,158	Security services
South Carolina State Accident Fund	33,765	Worker's Compensation Insurance
South Carolina Public Employee Benefit Authority (PEBA)	2,469,860	Employee retirement contributions / employer match
South Carolina Department of Employment & Workforce	123,531	Unemployment insurance
South Carolina Department of Corrections	1,306	Furniture and miscellaneous maintenance
State Fiscal Accountability Authority (IRF)	139,747	Worker's Compensation Insurance
Other	359	State codes, memberships, class registrations
Total	**$ 577,711,019**	

For the year ended June 30, 2021, 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	$ 10,988,482	Transfers of state income tax withholdings for prizes, use taxes, prize debt setoffs, and retailer credit checks
South Carolina Law Enforcement Division	369,533	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	609,044,545	Remittances of net proceeds and unclaimed prizes
South Carolina State Treasurer	4,769	Unclaimed property return
South Carolina Department of Administration	598	Vehicles, telephone, printing, and miscellaneous services
South Carolina Public Employee Benefit Authority (PEBA)	1,148,689	Employee health, life and dental insurance
South Carolina Department of Social Services	111,917	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	359,186	Security services
South Carolina State Accident Fund	28,670	Worker's Compensation Insurance
South Carolina Public Employee Benefit Authority (PEBA)	2,337,230	Employee retirement contributions / employer match
South Carolina Department of Employment & Workforce	56,001	Unemployment insurance
South Carolina Department of Corrections	274	Furniture and miscellaneous maintenance
Other	967	State codes, memberships, class registrations
Total	**$ 624,450,861**	

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								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
Commission's proportion of the net pension liability	0.06960%	0.06782%	0.06891%	0.06774%	0.06852%	0.06989%	0.07133%	0.007417%	0.007417%
Commission's proportionate share of the net pension liability	$ 15,062,582	$ 17,329,585	$ 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	$ 8,021,718	$ 7,782,689	$ 7,559,821	$ 7,336,218	$ 7,240,912	$ 7,046,052	$ 6,955,465	$ 6,642,115	$ 6,688,677
Commission's proportionate share of the net pension liability as a percentage of its covered payroll during the measurement period	187.77252%	222.66835%	208.15128%	206.89956%	237.89409%	232.13031%	212.26326%	206.82681%	212.92462%
Plan fiduciary net position as a percentage of the total pension	60.70000%	50.70000%	54.40000%	54.10484%	53.33844%	52.90645%	57.99175%	59.91945%	56.38821%

	PORS								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
Commission's proportion of the net pension liability	0.00398%	0.00373%	0.00379%	0.00382%	0.00401%	0.00398%	0.00356%	0.00326%	0.00326%
Commission's proportionate share of the net pension liability	$ 102,389	$ 123,618	$ 108,846	$ 108,676	$ 110,182	$ 100,926	$ 77,590	$ 62,791	$ 67,759
Commission's covered payroll during the measurement period	$ 59,839	$ 56,312	$ 54,895	$ 52,901	$ 53,979	$ 50,723	$ 44,072	$ 39,194	$ 36,802

*The above information is presented for all available years.

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

SCRS

	2022	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Contractually required contribution	$1,324,768	$1,223,375	$ 1,179,052	$ 1,059,546	$ 868,731	$ 739,830	$ 701,685	$ 685,184	$ 703,992	$ 713,645
Contributions in relation to the contractually required contribution	$1,324,768	$1,223,375	$ 1,179,052	$ 1,059,546	$ 868,731	$ 739,830	$ 701,685	$ 685,184	$ 703,992	$ 713,645
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commission's covered payroll	$8,156,447	$8,021,718	$ 7,782,689	$ 7,559,821	$ 7,336,218	$ 7,240,912	$ 7,046,052	$ 6,955,465	$ 6,642,115	$ 6,688,677
Contributions as a percentage of covered payroll	16.24197%	15.25079%	15.14967%	14.41000%	13.41001%	11.41000%	10.91000%	10.75138%	11.40318%	11.42281%

PORS

	2022	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Contractually required contribution	$ 11,473	$ 10,915	$ 10,271	$ 9,464	$ 8,380	$ 7,470	$ 6,765	$ 5,187	$ 4,876	$ 4,379
Contributions in relation to the contractually required contribution	$ 11,473	$ 10,915	$ 10,271	$ 9,464	$ 8,380	$ 7,470	$ 6,765	$ 5,187	$ 4,876	$ 4,379
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commission's covered payroll	$ 59,633	$ 59,839	$ 56,312	$ 54,895	$ 52,901	$ 53,979	$ 50,723	$ 44,072	$ 39,194	$ 36,802
Contributions as a percentage of covered payroll	19.23942%	18.24061%	18.23998%	17.24030%	15.84091%	13.83834%	13.33714%	11.76938%	12.44068%	11.89881%

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					
	2022	**2021**	**2020**	**2019**	**2018**	**2017**
Commission's proportion of the net OPEB liability	0.08666%	0.08504%	0.08707%	0.08568%	0.08651%	0.08651%
Commission's proportionate share of the net OPEB liability	$ 18,044,952	$ 15,351,311	$ 13,165,858	$ 12,141,924	$ 11,717,096	$ 12,516,244
Commission's covered payroll during the measurement period	$ 8,081,557	$ 7,839,001	$ 7,614,716	$ 7,389,119	$ 7,294,891	$ 7,096,775
Commission's proportionate share of the net OPEB liability as a percentage of its covered payroll during the measurement period	223.28559%	195.83249%	172.90018%	164.32167%	160.62058%	176.36524%
Plan fiduciary net position as a percentage of the total OPEB liability	7.4800%	8.3900%	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									
	2022	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Contractually required contribution	$ 513,506	$ 505,097	$ 489,938	$ 466,789	$ 406,501	$ 388,818	$ 378,258	$ 350,277	$ 344,075	$ 321,716
Contributions in relation to the contractually required contribution	$ 513,506	$ 505,097	$ 489,938	$ 466,789	$ 406,501	$ 388,818	$ 378,258	$ 350,277	$ 344,075	$ 321,716
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commission's covered payroll	$ 8,216,080	$ 8,081,557	$ 7,839,001	$ 7,614,716	$ 7,389,119	$ 7,294,891	$ 7,096,775	$ 6,999,537	$ 6,681,309	$ 6,725,479
Contributions as a percentage of covered payroll	6.25001%	6.25000%	6.25000%	6.13009%	5.50135%	5.33000%	5.33000%	5.00429%	5.14981%	4.78354%

Independent Auditor's 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, 2022 and 2021, 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 28, 2022.

Report on 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 or significant deficiencies may exist that have not been identified.

Report on 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 28, 2022

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2022

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