



a global lottery with a local focus

south carolina education lottery 2005 annual financial report

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SCHEDULE OF FINDINGS

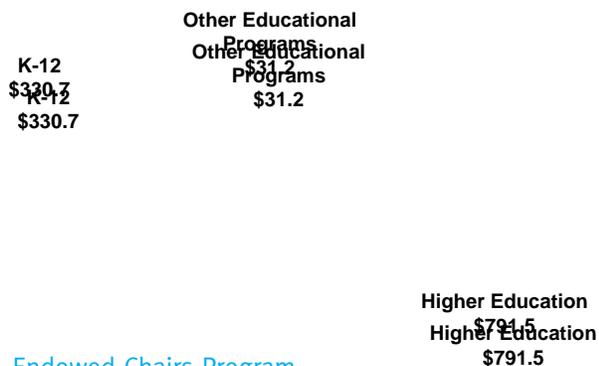
47

claims centers

48



Appropriations to Date*



Endowed Chairs Program

The Endowed Chairs Program awards lottery funds to South Carolina's three research universities: Clemson University, the University of South Carolina, and the Medical University of South Carolina based upon these institutions raising private, matching funds. The program's goal is to attract world-class researchers whose research will create the highly skilled jobs necessary to meet the economic challenges of the twenty-first century.

First Steps

First Steps to School Readiness (First Steps) is a statewide education initiative created in 1999 to help prepare kindergarten-age children for the first grade. The program is a joint public/private partnership that enables individual communities to address the unmet needs of young children and their families.

K-5 Academic Enhancement Programs

The K-5 enhancement funds support efforts to improve teaching and student achievement in kindergarten through grade five (K-5) in reading, mathematics, social studies, and science.

Every school district in South Carolina receives lottery money based upon a formula set by the Legislature. For a more detailed analysis of the amount of money that your local school district receives, please visit www.sceducationlottery.com.

County Libraries

County libraries have been appropriated \$8.3 million to date, based upon a formula set by the General Assembly.

Gambling Addiction

SCEL strongly encourages people to "play responsibly." To this end, \$2 million has been appropriated to gambling addiction treatment programs. Citizens who need help can call a toll-free number (877-452-5155) for assistance.

Educational Television Network (ETV)

South Carolina's Educational Television Network has been awarded nearly \$20 million, primarily to upgrade to digital technology.

Are there websites that can provide additional information?

For more information on scholarship assistance or where the money goes, you are encouraged to visit the following websites:

SC Education Lottery

www.sceducationlottery.com

South Carolina Department of Education (K-12)

www.myscschools.com

South Carolina Commission on Higher Education (scholarships)

www.che.sc.gov

South Carolina Technical College System (technical and 2-year colleges)

www.sctechsystem.com

K-12 Appropriations to Date*

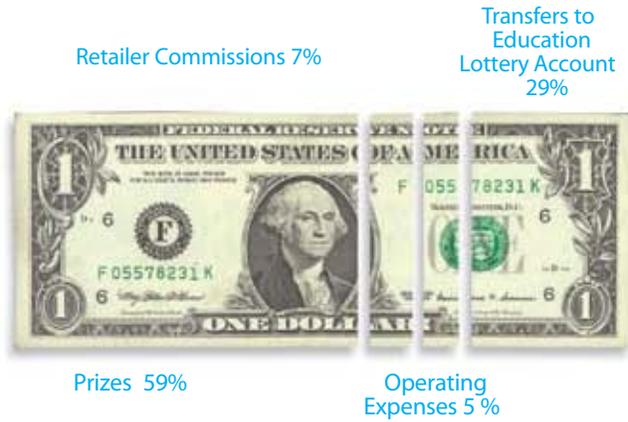
Other Appropriations to Date*

The 2004 South Carolina State Fair provided the backdrop for SCEL's Carolina Millionaire Summer Promotion!

scel proceeds

a global lottery with a

What is the breakdown of SCEL's gross proceeds?



Grades 6-8

School Buses

Distribution of lottery revenue from January 7, 2002–June 30, 2005

State Fiscal Year	Revenues**	Prizes	Retailer Commissions	Operating Expenses	Transfers to Education Lottery Acct.‡
2001-2002	\$337.1	\$200.3	\$23.5	\$25.6	\$87.7
	100%	59%	7%	8%	26%
2002-2003	\$726.9	\$415.7	\$51.1	\$40.8	\$219.3
	100%	57%	7%	6%	30%
2003-2004	\$953.2	\$552.3	\$66.5	\$44.3	\$290.1
	100%	58%	7%	5%	30%
2004-2005*	\$960.1	\$573.6	\$67.5	\$41.5	\$277.5
	100%	60%	7%	4%	29%
TOTAL	\$2,977.3	\$1,714.9	\$290.1	\$151.7	\$874.6
%	100%	59%	7%	5%	29%

Governor's School for the Arts & Humanities

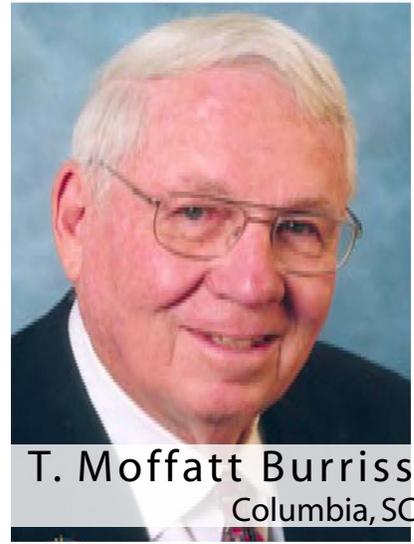
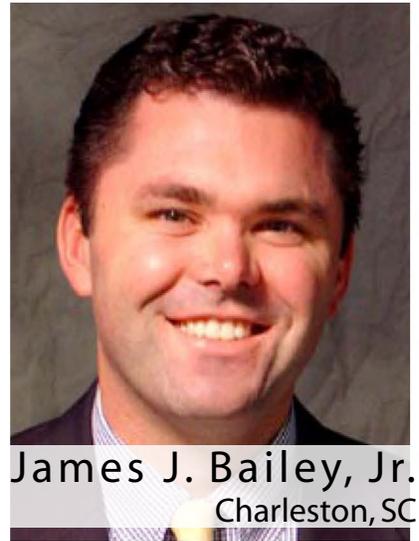
Dollar figures are in millions.

* June 30, 2005 financial statements are preliminary with respect to the audited financials to be issued October 15, 2005, in accordance with S.C. Code Ann. § 59-150-320(4).

**Revenues include ticket sales, permit fees, retailer telephone fees, and other additional costs.

‡ Includes Unclaimed Prizes.

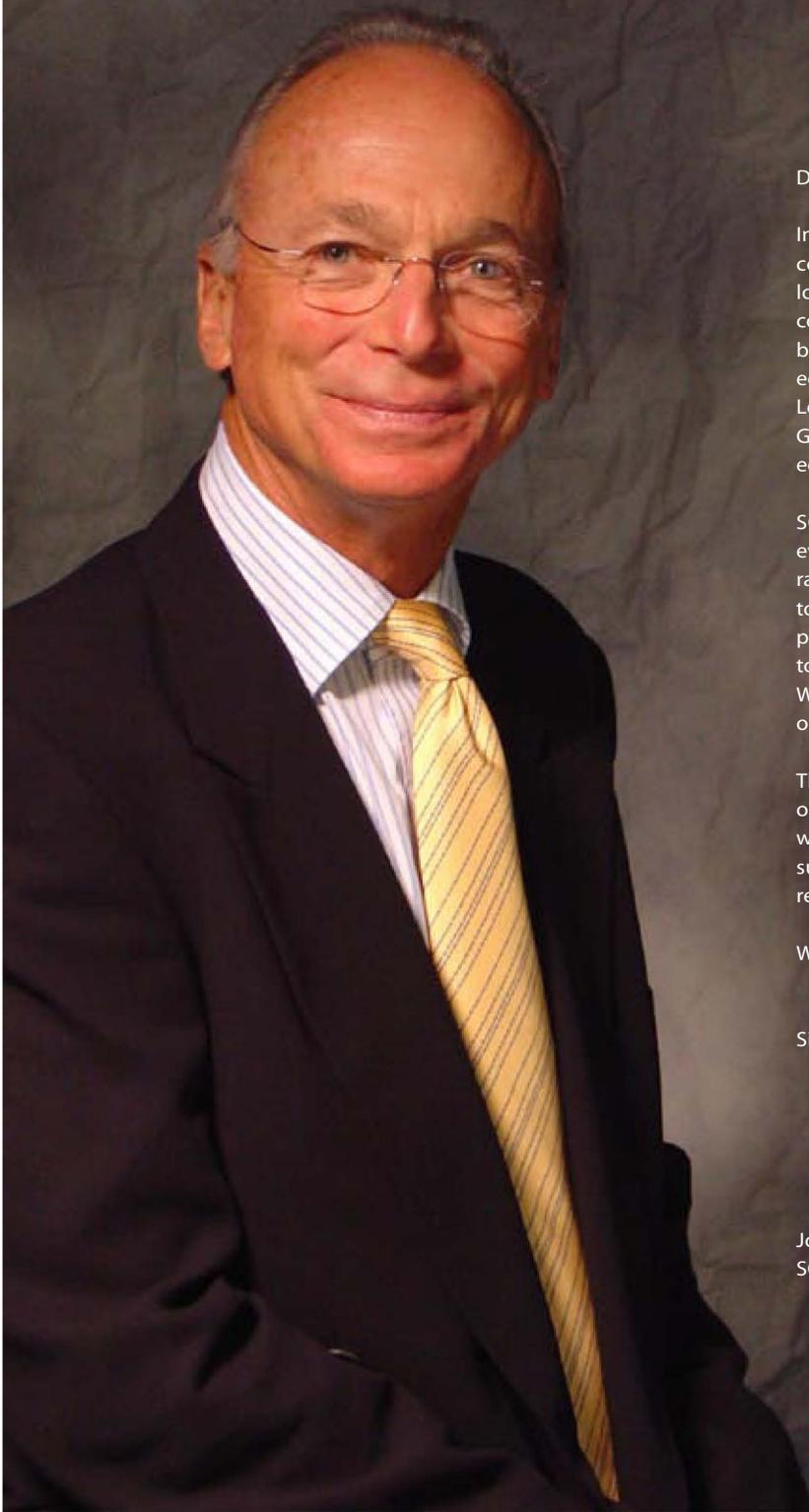
Higher Education Appropriations to Date*



Treasurer

chairman of the board

a global lottery



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Treasurer

B. Boykin Rose
Charleston, SC



Treasurer

Dr. Edward Keith
Sumter, SC



Treasurer

Lisa H. Stevens
Greenville, SC



Treasurer

A. Marvin Quattlebaum, Jr.
Greenville, SC

executive director

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From the Executive Office:

A little less than three and one-half years ago, SCEL commenced selling lottery tickets. In that relatively short span of time, we have moved from the start-up mode to a maturing business enterprise. Naturally, age and maturity create new challenges that must be met in order to fulfill our core mission to provide resources to enhance the educational opportunities of the citizens of the Palmetto State. On top of the typical issues business enterprises face as they mature, SCEL is faced with the unexpected occurrences of the ever-changing business marketplace, such as competition along our northern border and record high gasoline prices. A good barometer of determining whether SCEL will be able to achieve future success is to review how we have accomplished ourselves in the past.

By any objective criteria, SCEL has been an overachieving organization. La Fleur's Magazine rated South Carolina's lottery as number twenty in the world in per capita total sales and number one worldwide in per capita instant ticket sales for calendar year 2005. In fact, SCEL witnessed another record-breaking sales year in fiscal year 2005, with gross revenues exceeding \$957 million. Transfers for the same period surpassed \$280 million, \$25 million more than was estimated by the State's Board of Economic Advisors. Further, in an attempt to gauge the Agency's operational efficiencies, SCEL transferred \$69 per capita to the State's Education Lottery Account (ELA) for appropriation.

Simply put, our operating costs are very low, highlighting the fact that our Agency adheres to a very conservative philosophy when it comes to spending the taxpayers' money.

Sometime during fiscal year 2005-06, SCEL will transfer one billionth dollar to the ELA. In fact, the General Assembly appropriated a total of 1.149 billion lottery dollars throughout year 2005-06 to benefit a multitude of educational programs that expand the opportunities available to the citizens of South Carolina - from students starting kindergarten to adults striving to earn a higher education. As we move forward through these demanding times, rest assured that SCEL will look at each challenge as an opportunity to excel, and we fully intend to measure up to our mission statement: to support and provide educational opportunities for the people of the Palmetto State while providing entertainment options to adults who play our games.

Sincerely,

Ernie Passailaigue
Executive Director



Dale Rhodes
Director of Finance

Tom Marsh
Director of Security

Bethany Narboni
Internal Auditor

Tony Cooper
Chief Operating
Officer

Hogan
Director
Services

The work of the Education Lottery is to provide games for players, support for retailers, and funds for education. In achieving our

managemen

a global lottery with a

Ernestine
Middleton
Director of Internal
Operations

Pat Koop
Director of Sales and
Marketing

Leslie Vang
Director of
Information
Technology

Brown
of Legal
ices

mission, we are directly helping to build a better future for the citizens of our state.

lottery scholarship distribution by county

**COUNTY
A-G**

K-12

Scholarships

Libraries

TOTAL

fy 2004-05 scholarships

LIFE
Number \$ Amount

Aiken Tech	57	136,300
Central Carolina Tech	73	145,569
Denmark Tech	62	130,620
Florence-Darlington Tech	197	505,717
Greenville Tech	372	968,476
Horry-Georgetown Tech	222	470,838
Midlands Tech	506	1,382,553
Northeastern Tech	114	266,025
Orangeburg-Calhoun Tech	118	304,008
Piedmont Tech	234	594,392
Spartanburg Tech	361	909,520
Tech College of the Low Country	19	46,400
Tri County Tech	463	1,088,560
Trident Tech	252	587,215
Williamsburg Tech	13	29,700
York Tech	230	614,322
TOTAL	3293	\$8,180,215

**COUNTY
H-Z**

K-12

Scholarships

Libraries

TOTAL

scel beneficiaries

a global lottery with a

& grants awarded by technical college

NEED BASED		LOTT TUITION ASST		TOTAL	
Number	\$ Amount	Number	\$ Amount	Number	\$ Amount
388	185,252	1,722	1,314,057	2,167	1,635,609
302	187,657	1,817	1,400,834	2,192	1,734,060
139	243,694	522	394,441	723	768,755
260	266,750	2,502	2,184,065	2,959	2,956,532
284	332,251	8,180	7,459,566	8,836	8,760,293
299	305,214	3,104	2,745,006	3,625	3,521,058
612	794,305	5,866	5,344,486	6,984	7,521,344
173	82,247	888	498,823	1,175	847,095
169	162,712	1,615	1,338,825	1,902	1,805,545
499	334,412	3,480	2,567,461	4,213	3,496,265
283	336,614	2,444	1,947,748	3,088	3,193,882
165	96,373	1,206	936,663	1,390	1,079,436
363	334,084	3,209	2,975,837	4,035	4,398,481
1,303	737,615	8,518	7,849,460	10,073	9,174,290
42	34,479	567	240,453	622	304,632
273	296,592	2,269	2,020,447	2,772	2,931,361
5554	\$4,730,251	47,909	\$41,218,170	56,756	\$54,128,636

Funds earned by the Lottery are appropriated by the General Assembly to expand the educational opportunities of people all across the state. A little known program assists members of the South Carolina National Guard in paying off their student loans. Funding for this program is dependent upon proceeds SCEL transfers to the Education Lottery Account. This past year's loan repayment was based on the General Assembly's appropriation of \$1.5 million. The funds appropriated by the General Assembly for the S.C. Guard Student Repayment Program are retained in a separate account and are used on a revolving basis.

Recipients of this program have committed to six years in the S.C. National Guard in an area of critical need as defined by the Office of the Adjutant General and the Commission on Higher Education. In 2004-05, there were a total of 87 positions that were identified as areas of critical need. These areas ranged from Flight Engineers to Environmental Controls and Aerospace Medical Services.

Recent Citadel graduate and newly commissioned 2nd Lieutenant Robert Kirk reports from Fort Leonard Wood, Missouri, "I took a Commission in the National Guard instead of the Active Army because I wanted to go to graduate school. I am very thankful that the National Guard and the Lottery Commission have made this money available to help me pay student loans. I will be applying to the Citadel and USC graduate programs and look forward to putting the money to use!"



2nd Lieutenant Robert Kirk

Figures based on data provided by the South Carolina Commission on Higher Education for Fall, Winter, Spring, and Summer 1 figures combined. During fiscal year 2004-05; 56,756 scholarships and grants were awarded to students attending technical colleges in South Carolina.



promotions

a global lottery with a



The 2004 South Carolina State Fair provided the backdrop for SCEL's Carolina Millionaire Summer Promotion! Ten contestants took center stage on October 14 vying for \$1 million! The musical entertainment of bands Sea Cruz and Second Nature brought the sounds of summer to life as they performed before the Grand Prize was awarded. It only took one second-chance entry for Ken Holcomb of Boiling Springs to become the Carolina Millionaire.

Carolina

(con't)

Holcomb, along with nine other finalists chosen in several second-chance drawings during the summer, vied for the million dollars. SCEL received more than 243,000 entries for the promotion.

Players had to send in \$20 worth of non-winning qualifying tickets to enter the drawing. The qualifying tickets were: **Carolina Payout** (\$10), **Cash Explosion** (\$5), **Big Bang Boom** (\$2), and **Beach Music Cash** (\$1). All the tickets were marked with a special logo and tagline to alert players as to the qualifying games. More than \$96 million of the qualifying tickets were sold for the promotion!

Holcomb, with his wife Gina by his side, said the win won't change their lives much, but their children's educational futures have been secured.

As fiscal year 2004-05 draws to a close, SCEL staff is already hard at work on a new summer campaign, the **ULTIMATE Harley-Davidson® Summer Promotion**. Stay tuned to learn about the 2005 State Fair event!



promotions

a global lottery with a

Clean\$weep

The South Carolina Education Lottery (SCEL) and PalmettoPride have just finished the fourth year of a very successful promotion entitled "Clean\$weep," which utilizes second-chance drawings of non-winning lottery tickets to encourage players to properly dispose of those tickets. PalmettoPride and SCEL engaged in a joint effort to support an anti-littering campaign. Clean\$weep has continued to be a great opportunity to urge South Carolinians to be environmentally responsible, while having fun and providing lottery players with added value.

Clean\$weep gave players a second chance to win a product from Lennox Industries, while at the same time being environmentally responsible. Winners had the choice of a Dave Lennox Elite® or Signature® environmentally friendly prize: a heat pump, an air conditioner, a furnace, or an indoor air quality product.

SCEL is embarking on the fifth year of the partnership with PalmettoPride. With the continued support of the citizens of the Palmetto State, the Lottery is confident that the fiscal year 2006 Clean\$weep promotion will be even more successful than in previous years. Remember, now is the time to take pride, take responsibility, and take action against litter in your community. Let's work together to keep South Carolina clean and beautiful!

During the 2005 Clean\$weep promotion more than 870,000 tickets were recovered. The Lottery has recycled more than 14.98 tons of paper. With the assistance of lottery players, approximately 2,555 trees; 104,137 gallons of water; 6,934 gallons of oil; 61,062 kilowatt hours of electricity; 8,792 pounds of air pollution; and 1,237 cubic feet of landfill space have been saved.

Clean\$weep was part of a successful partnership with Lennox Industries and PalmettoPride.

Take Pride!
Clean Up SC with
Clean\$weep!

Clean\$weep Drawings
12 grand prizes!

Be environmentally responsible, and win one of 12 grand prizes sponsored by Lennox Industries, Inc. Winners may select from the following:

- A Dave Lennox Elite or Signature Collection heat pump
- A Dave Lennox Elite or Signature Collection air conditioner
- A Dave Lennox Elite or Signature Collection furnace
- A Healthy Climate indoor air quality product

Clean\$weep is sponsored by the South Carolina Education Lottery, Lennox Industries & PalmettoPride. Take pride. Take responsibility. Take action against litter, and keep South Carolina clean!



The Lottery recognizes the need for balance between its social responsibilities and its marketing goals. While the Commission focuses on marketing games to entertain our customers and raise funds to support educational programs, SCEL also markets a “Play Responsibly” message. The balance is achieved by the consistent use of the “Have Fun. Play Smart. Play Responsibly!™” message and by the promotion of a new gambling assistance hotline number in advertising and other communication materials.

These messages direct people seeking help for problems associated with gambling to the appropriate resources.

In March 2004, SCEL along with the Department of Alcohol and Other Drug Abuse Services (DAODAS) launched a toll-free hotline, 877-452-5155. In one year, nearly 22 percent of the calls received were related to gambling addiction. DAODAS has three employees that are dedicated to answering the calls live.

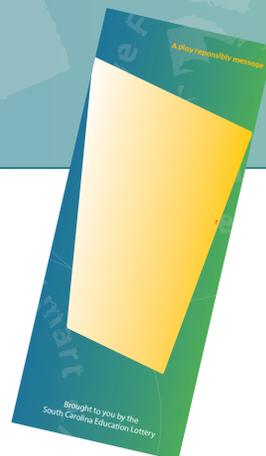
The following are examples of the types of calls received:

- South Carolinians desiring information on gambling addiction or treatment resources for themselves or family members.
- Residents of border states desiring information on gambling addiction or treatment resources for themselves or family members. (DAODAS provides these callers with hotline numbers and contact information for treatment programs in their states.)

Since launch, the General Assembly has appropriated \$2 million to gambling treatment programs.

In addition to partnering with DAODAS in this effort, the Lottery urges players to “Play Responsibly” when the Powerball® jackpot reaches \$100 million. Lottery officials use \$100 million as a measuring stick because this jackpot amount is usually when more people opt to play. A unified “Play Responsibly” message goes to the general public through radio, television, and print media. The Lottery is careful to only market games and products to players 18 years of age or older.

Through these ongoing product relations programs, the Lottery regularly encourages players to play responsibly and to avoid spending more than they can afford on its games.



promotions

a global lot



In November of 2004, SCEL partnered with a talented group of performers called “Cocktails.” Cocktails is a student-led female acapella group from the University of South Carolina. SCEL chose to highlight Cocktails in the Lottery’s holiday radio and television advertisements. What made the members of Cocktails so appealing to SCEL was not only their obvious vocal talent, but also their academic achievements. The performers featured in SCEL commercials were also recipients of lottery-funded scholarships. These students provide faces to go with more than 400,000 scholarships that SCEL has provided for South Carolinians through the end of June 2005.



Have Fun. Play Smart. Play Responsibly.SM

scel games

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SCEL operates one of the most successful lotteries in the United States. Fiscal year 2004-05 included outstanding financial results due in part to a colorful mix of games for players.

Instant Games!

South Carolina Education Lottery





Instant Games

Instant games are easy to play and provide instant entertainment for players. More than 44 instant games were launched in this fiscal year. By scratching off the thin latex coating on the face of a ticket, players can discover in an instant if they've won and the amount of the prize. Plus, there's a play style for everyone — from the Southern flair of **Shrimp and Grits 1 and 2**, **Sweet Tea 1 and 2**, and **South Eastern Wildlife Exposition** to licensed properties such as **NASCAR®**, **ULTIMATE Harley-Davidson®**, and **Monopoly™** instant games.

Many of the instant games found in SCEL's nearly 3,500 retail locations are designed in-house by the Lottery's creative division. Staff also decreased the quantity of tickets printed for certain price points, which enables new games to reach the marketplace sooner.

Online Games

Pick 3 & Pick 4

Pick 3 and **Pick 4** drawings are held twice a day (midday and evening) every day but Sunday when the drawing is held only in the evening. **Pick 3** and **Pick 4** have maintained consistent sales, making up more than \$161.5 million in total sales.



s cel games

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Carolina 5

Carolina 5 quickly became a fixture in SCEL's online game mix. Research showed players wanted more opportunities to win and, of course, bigger prizes! **Carolina 5** had a loyal player base because of the taxes paid feature. To appease everyone, **Carolina 5** became an instant ticket — keeping the top prize \$100,000 taxes paid!

Palmetto Cash 5

With **Carolina 5** now an instant ticket, in comes **Palmetto Cash 5** with the Power-Up® multiplier feature! SCEL launched **Palmetto Cash 5** on February 12, 2005. The top prize is \$100,000. The Power-Up® feature is available for an extra dollar to multiply a player's winnings up to five times. Now **Palmetto Cash 5** players could win up to \$500,000!

Powerball®

Powerball® maintained consistent sales this fiscal year – despite a lack of high jackpot runs. In an effort to keep players interested in the game, SCEL launched a promotion with **Powerball®** and PowerPlay® – “Drive Away with PowerPlay®!” **Powerball®** players had a chance to win a 2006 Chevy Cobalt SS! The vehicle was provided courtesy of LOVE Chevrolet, located in the Columbia area.

Here's how the promotion worked: players had to make a total single **Powerball®** ticket purchase of \$10, consisting of a \$5 **Powerball®** purchase AND a \$5 PowerPlay® purchase. An entry form dispensed from the lottery terminal. Players then were asked to fill-out and mail the entry to the appropriate address noted on the entry form.

More than 134,000 entries were received. At the end of the promotion, Maurice Waddell of Columbia won the 2006 Chevy Cobalt SS! Look for more exciting promotions with **Powerball®** and PowerPlay® next year!

Instant Games!

South Carolina Education Lottery



fiscal year 2005

Business Name	City	Total Sales	Statewide Ranking
Carowinds Convenience	Fort Mill	\$6,558,313	1
Clover Shop and Save	Clover	\$4,052,209	2
Kountry Mart # 1	Bennettsville	\$4,031,964	3
Carowinds Exxon Shop #4737	Fort Mill	\$3,694,108	4
Miller Produce & Farm	Fort Mill	\$3,675,331	5
The Rocket Group	Fort Mill	\$3,466,552	6
Red Rocket Fireworks, Inc.	Fort Mill	\$3,323,200	7
Petro Express #26	Fort Mill	\$3,055,227	8
Circle K Stores #5116	Fort Mill	\$3,034,544	9
Ruby's	Hamer	\$3,011,348	10
Hot Spot #2005	Clover	\$2,871,281	11
Diamond B Kwik Shops	Landrum	\$2,655,726	12
Eugene's Auto Sales	Hamer	\$2,476,334	13
Panhandle Food Store	Fort Mill	\$2,426,703	14
State Line Mini Mart	Little River	\$2,265,005	15
Lake Wylie Mini Market	Clover	\$2,190,682	16
Time Saver Food Store	Loris	\$2,171,759	17
Borderline Mini Mart	Clover	\$2,169,280	18
Jaber's	Charleston	\$1,990,050	19
EZ Mart	Fort Mill	\$1,839,801	20
Free Time Convenience	Chesnee	\$1,743,589	21
Wayne's BP	Dillon	\$1,739,332	22
Goodwins of Orangeburg, Inc.	Orangeburg	\$1,718,016	23
Quick Pantry #5	Orangeburg	\$1,661,705	24
Lucky Diamond	Blacksburg	\$1,569,980	25
Food Mart #1	Charleston	\$1,548,396	26
Scotchman #48	Little River	\$1,493,156	27
R R Enterprises	Beaufort	\$1,451,673	28
Judy's ABC Store	McColl	\$1,431,230	29
Sam's Mart # 21	Fort Mill	\$1,425,684	30

In the fiscal year ending June 30, 2005, SCEL retailers sold over \$954 million in lottery tickets! This resulted in over \$280 million transferred to the Education Lottery Account and nearly \$67 million in retailer commissions earned.

Above is a listing of the MILLION DOLLAR SALES CLUB for retailers with sales of over \$1 million in fiscal year 2005! Congratulations to all of our lottery retailers for another successful year!

million dollar club

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Business Name	City	Total Sales	Statewide Ranking
Gold Hill Shell # 1	Fort Mill	\$1,389,815	31
Dawg Bone # 2	Charleston	\$1,385,150	32
Shop & Go Food Mart	Fort Mill	\$1,380,326	33
Tripps Mini Mart	Hartsville	\$1,308,840	34
Petro Express #55	Fort Mill	\$1,305,868	35
Shergill Food Mart	Blacksburg	\$1,287,749	36
Nic's Pic Kwik	McColl	\$1,270,404	37
Quick Pantry	Saint Matthews	\$1,263,980	38
Quick Stop #3072	Little River	\$1,241,192	39
Jabs Mobil	Dillon	\$1,230,009	40
Garden Spot #4	Taylors	\$1,226,869	41
Kaival Plaza, Inc. # 1	Saint Helena Is.	\$1,221,897	42
Texaco Food Mart	Florence	\$1,211,873	43
Hickory Point #35	Blacksburg	\$1,196,046	44
Bharati, Inc.	Wallace	\$1,180,518	45
McCray's Country Cupboard	Pageland	\$1,168,879	46
Gate Petroleum Co #326	Fort Mill	\$1,141,914	47
Southern Spirits	Fort Mill	\$1,133,392	48
Quick C #105	Chester	\$1,130,801	49
Pedro's Pantry East	Hamer	\$1,124,574	50
Times Turn Around #41	Clover	\$1,116,317	51
Butch's Foodmart, LLC	Dillon	\$1,108,127	52
Rivers Mart #12	N. Charleston	\$1,102,265	53
Parklane Amoco Food	Columbia	\$1,100,667	54
Quick Pantry #3	Bowman	\$1,091,049	55
Jimmy's Mart # 1	Columbia	\$1,074,883	56
Dusty Bend Discount Beverage	Camden	\$1,057,512	57
Bypass Quick Mart	Bennettsville	\$1,043,143	58
O & E Food Mart # 1	Charleston	\$1,027,240	59
Kangaroo Express #3438	Gaffney	\$1,017,645	60

Play Here

South Carolina
Education
Lottery

a global lotte

Global Citizen

In the May 2005 issue of La Fleur's Magazine, SCEL made the top 25 in three rankings. La Fleur's is a publication for the global lottery industry. The magazine researches and reports on the two hundred plus legal state operated lotteries around the world. The rankings reported in the May 2005 issue are for sales during the 2004 calendar year.

In terms of total sales per capita, SCEL is ranked 20th in the world with total sales of \$934.1 million. This ranking reflects total per capita sales of \$223 for both instant and online tickets. SCEL also ranked 20th in the world with instant ticket sales of \$550.8 million. SCEL is ranked 5th in the world in per capita instant ticket sales. The instant ticket sales per capita is \$131.

The success SCEL has achieved since the first instant ticket was sold on January 7, 2002, has not gone unnoticed. During FY 2004-05, SCEL hosted lotteries from around the country and from the Netherlands, New Zealand, and Thailand. Officials from these sister lotteries came to Columbia, South Carolina, to study the practices that have made SCEL a benchmark of success in the lottery industry.

Local Focus

Part of being a global lottery with a local focus is ensuring that South Carolina can become a global leader in cutting-edge research. The South Carolina Research Centers of Economics Excellence Act of 2002 has earmarked \$200 million of lottery proceeds through 2010 to help create "centers of excellence," that will lead to economic opportunities through knowledge-based industries. The goal of the program is through endowed professorships to bring leading researchers to South Carolina's three research universities: the University of South Carolina, Clemson University, and the Medical University of South Carolina. Each university is required to raise private funds; the act states that lottery money is to be a matched "dollar for dollar" with private investment. With the right resources these researchers and their discoveries will propel South Carolina into the forefront of life-changing technology, which will lead to higher-wage jobs and a better overall economy throughout the state.

Specifically, the University of South Carolina is building a roster of leading nanoscientists to study particles so tiny that the laws of physics no longer apply. Clemson is attracting engineers for its new International Center for Automotive Research in Greenville, and the Medical University of South Carolina is studying the proteins made by genes. The Endowed Chairs Program is another example of how the Lottery's global position has and will continue to positively impact the citizens of the Palmetto State.

ry with a local focus

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la fleur's magazine
Vol. 12, No. 7 May 2005

In the May 2005 issue of La Fleur's Magazine, SCEL made the top 25 in three rankings. La Fleur's is a publication for the global lottery industry. The magazine researches and reports on the two hundred plus legal state operated lotteries around the world. The rankings reported in the May 2005 issue are for sales during the 2004 calendar year.

Worldwide Lotteries Ranked by Top 25 Calendar 2004 Instant & Pulltab PC Sales

Rank	Lottery	Country	Year	Pop. (M)	Instant/Pulltab Sales (\$/B)	Instant/Pulltab % of Total
1	Massachusetts Lottery	United States	2004	6.8	1,212.1	84%
2	Illinois Lottery	United States	2004	12.8	1,081.3	10%
3	Georgia Lottery Corp.	United States	2004	10.3	1,067.3	65%
4	New York Lottery	United States	2004	21.2	1,067.3	10%
5	South Carolina Education Lottery	United States	2004	5.3	1,052.2	10%
6	Michigan Lottery	United States	2004	10.7	1,052.2	10%
7	New Hampshire Lottery	United States	2004	1.5	951.9	10%
8	New Jersey Lottery	United States	2004	8.8	951.9	10%
9	Alaska Lottery	United States	2004	0.6	951.9	10%
10	Connecticut Lottery	United States	2004	3.6	951.9	10%
11	Florida Lottery	United States	2004	17.4	951.9	10%
12	Washington Lottery	United States	2004	6.7	951.9	10%
13	California Lottery	United States	2004	37.6	951.9	10%
14	Virginia Lottery	United States	2004	7.5	951.9	10%
15	Minnesota Lottery	United States	2004	5.3	951.9	10%
16	La Floriente Lottery	United States	2004	1.9	951.9	10%
17	Indiana Lottery	United States	2004	6.7	951.9	10%
18	Wisconsin Lottery	United States	2004	5.3	951.9	10%
19	Montana Lottery	United States	2004	1.0	951.9	10%
20	Illinois Lottery	United States	2004	12.8	951.9	10%
21	Michigan Lottery	United States	2004	10.7	951.9	10%
22	Washington Lottery	United States	2004	6.7	951.9	10%
23	California Lottery	United States	2004	37.6	951.9	10%
24	Virginia Lottery	United States	2004	7.5	951.9	10%
25	Minnesota Lottery	United States	2004	5.3	951.9	10%

Worldwide Lotteries Ranked by Top 25 Calendar 2004 Total PC Sales including 3:1 F extension

Rank	Lottery	Country	Year	Pop. (M)	Total Sales (\$/B)	Total PC Sales (\$/B)
1	Massachusetts Lottery	United States	2004	6.8	4,481.1	84%
2	Illinois Lottery	United States	2004	12.8	3,281.0	10%
3	Georgia Lottery Corp.	United States	2004	10.3	3,281.0	10%
4	New York Lottery	United States	2004	21.2	3,281.0	10%
5	South Carolina Education Lottery	United States	2004	5.3	3,281.0	10%
6	Michigan Lottery	United States	2004	10.7	3,281.0	10%
7	New Hampshire Lottery	United States	2004	1.5	3,281.0	10%
8	New Jersey Lottery	United States	2004	8.8	3,281.0	10%
9	Alaska Lottery	United States	2004	0.6	3,281.0	10%
10	Connecticut Lottery	United States	2004	3.6	3,281.0	10%
11	Florida Lottery	United States	2004	17.4	3,281.0	10%
12	Washington Lottery	United States	2004	6.7	3,281.0	10%
13	California Lottery	United States	2004	37.6	3,281.0	10%
14	Virginia Lottery	United States	2004	7.5	3,281.0	10%
15	Minnesota Lottery	United States	2004	5.3	3,281.0	10%
16	La Floriente Lottery	United States	2004	1.9	3,281.0	10%
17	Indiana Lottery	United States	2004	6.7	3,281.0	10%
18	Wisconsin Lottery	United States	2004	5.3	3,281.0	10%
19	Montana Lottery	United States	2004	1.0	3,281.0	10%
20	Illinois Lottery	United States	2004	12.8	3,281.0	10%
21	Michigan Lottery	United States	2004	10.7	3,281.0	10%
22	Washington Lottery	United States	2004	6.7	3,281.0	10%
23	California Lottery	United States	2004	37.6	3,281.0	10%
24	Virginia Lottery	United States	2004	7.5	3,281.0	10%
25	Minnesota Lottery	United States	2004	5.3	3,281.0	10%

Worldwide Lotteries Ranked by Top 25 Calendar 2004 Instant & Pulltab Sales

Rank	Lottery	Country	Year	Pop. (M)	Instant/Pulltab Sales (\$/B)	Instant/Pulltab % of Total
1	La Floriente Lottery	United States	2004	1.9	4,072.2	84%
2	Massachusetts Lottery	United States	2004	6.8	3,281.0	10%
3	New York Lottery	United States	2004	21.2	3,281.0	10%
4	Georgia Lottery Corp.	United States	2004	10.3	3,281.0	10%
5	Florida Lottery	United States	2004	17.4	3,281.0	10%
6	California Lottery	United States	2004	37.6	3,281.0	10%
7	Illinois Lottery	United States	2004	12.8	3,281.0	10%
8	Michigan Lottery	United States	2004	10.7	3,281.0	10%
9	Washington Lottery	United States	2004	6.7	3,281.0	10%
10	Virginia Lottery	United States	2004	7.5	3,281.0	10%
11	Minnesota Lottery	United States	2004	5.3	3,281.0	10%
12	South Carolina Education Lottery	United States	2004	5.3	3,281.0	10%
13	Illinois Lottery	United States	2004	12.8	3,281.0	10%
14	Michigan Lottery	United States	2004	10.7	3,281.0	10%
15	Washington Lottery	United States	2004	6.7	3,281.0	10%
16	California Lottery	United States	2004	37.6	3,281.0	10%
17	Virginia Lottery	United States	2004	7.5	3,281.0	10%
18	Minnesota Lottery	United States	2004	5.3	3,281.0	10%
19	Illinois Lottery	United States	2004	12.8	3,281.0	10%
20	Michigan Lottery	United States	2004	10.7	3,281.0	10%
21	Washington Lottery	United States	2004	6.7	3,281.0	10%
22	California Lottery	United States	2004	37.6	3,281.0	10%
23	Virginia Lottery	United States	2004	7.5	3,281.0	10%
24	Minnesota Lottery	United States	2004	5.3	3,281.0	10%
25	Illinois Lottery	United States	2004	12.8	3,281.0	10%



performance measures

south carolina education lottery 2005 annual financial report

Measuring Success

How does an organization know it is successful or that it is achieving its mission? When you set parameters and goals, measure the results, and the facts support your achievement, you have a gauge by which to assess success or failure. The South Carolina Education Lottery by all measures is a top performer and successful in carrying out its mission of providing funds for education. SCEL is among the highest performing lotteries in the world, ranking 5th in the world in per capita instant ticket sales.^[1] In terms of total sales per capita, SCEL is ranked 20th in the world with total sales of \$934.1 million. This ranking reflects total per capita sales of \$223 for both instant and online tickets. SCEL also ranked 20th in the world with instant ticket sales of \$550.8 million.

Sales and revenue achievements are the bottom line *results* of several performance measures which tied together direct and focus SCEL towards the vision and overall goal of being a world-class lottery. These performance measures are incorporated into SCEL's strategic plan and into the performance evaluation of each employee. Instead of listing page after page of performance measures in this report, performance measures are incorporated into a new report, *Lotto Facts July 1, 2004 – June 30, 2005*. The performance measures and results for each department are outlined in *Lotto Facts*, including a section on cost savings where through process improvement, reengineering, and basic cost cutting, SCEL documented savings of \$6,871,387.30.

The *Lotto Facts* report can be accessed on our website at www.sceducationlottery.com or by request to the Public Affairs Manager, S.C. Education Lottery, P.O. Box 11949, Columbia, South Carolina 29211.

^[1] "Worldwide 2004 Lottery Sales," La Fleur's Magazine May 2005: 17-26.



2005 financial statements

report on financial statements for the years ended June 30, 2005 and 2004

south carolina education lottery 2005 annual financial report

State of South Carolina



Office of the State Auditor

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THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

September 28, 2005

The Honorable Mark Sanford, Governor
and
Members of the South Carolina Education Lottery Commission
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Education Lottery Commission for the fiscal year ended June 30, 2005, 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,

A handwritten signature in black ink that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/ksg

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying statements of net assets of the South Carolina Education Lottery Commission (the Commission), a discretely presented component unit of the State of South Carolina (the State), as of June 30, 2005 and 2004 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the Commission. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the the Commission as of June 30, 2005 and 2004, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2005 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Commission. The schedule of business-type activities for the state-wide CAFR is supplementary information required by the South Carolina Office of the Comptroller General and is not a required part of the basic financial statements. It has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Elliott Davis LLC

Elliott Davis, LLC
August 25, 2005

***SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS***

Management of the Commission provides this *Management's Discussion and Analysis* of their 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, 2005. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the Commission's financial activities based on facts, decisions, and conditions currently facing management.

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 discussion and analysis by management, and are designed to highlight the Commission's net assets and changes to those assets resulting from Commission operations.

The most important relationship demonstrated within the Commission's financial statements is the requirement that the Commission transfer all net proceeds to the State Treasurer for the Education Lottery Account. Accordingly, the primary focus of these financial statements is determining net proceeds available for transfer to the Education Lottery Account, rather than the change in net assets of the Commission.

Financial Highlights

Revenues from lottery games increased by \$7.0 million. We returned \$573.6 million to winners of lottery games and \$67.5 million was paid to retailers for commissions and incentives. Other game related expenses were \$18.2 million and operating expenses were \$23.7 million. Transfers to and due to the Education Lottery Account were \$279.7 million as of and for the year ended June 30, 2005.

Assets and Liabilities (in millions)

	<u>2005</u>	<u>2004</u>
Capital Assets	\$ 8.7	\$ 12.2
Other Assets	57.5	72.6
Current Liabilities	57.3	72.7
Long-term Liabilities	1.9	2.9
Net Assets		
Capital Assets Net of Related Debt	6.5	8.8
Restricted Assets	0.5	0.4

Lottery Operations

	<u>2005</u>	<u>2004</u>
Gaming Revenues	\$ 957.0	\$ 950.0
Other Revenues	3.2	3.2
Prizes Expense	573.6	552.3
Retailer Commissions and Incentives	67.5	67.0
Other Direct Game Costs	18.2	20.4
Other Operating Expenses	23.7	23.0

All proceeds of the Commission must be transferred to the State Treasurer for the Education Lottery Account with the following exceptions: 1) the cost of property and equipment net of depreciation and related debt, and 2) the Restricted Fidelity Fund, derived from the licensing fees of new retailers, which may be retained by the Commission up to \$500,000 and used to cover losses the commission may experience due to nonfeasance, misfeasance, or malfeasance of a lottery retailer. Therefore, the net assets of the Commission will never exceed \$500,000 related to the Restricted Fidelity Fund plus the cost of property and equipment, net of depreciation and related debt. As of July 14, 2005 the Commission had transferred \$266 million related to operations and \$14.2 million in unclaimed prize funds to the State Treasurer for the Education Lottery Account for the fiscal year ended June 30, 2005. Total transfers to the Education Lottery Account are \$846 million from inception to June 30, 2005.

Potential Factors Impacting Future Operations

The Commission is considering membership in a new multi-state game now under development by the Multi-State Lottery Association. This is intended to complement Powerball®. Drawings would occur on days other than those of the current Powerball® drawings.

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 Director of Finance, South Carolina Education Lottery, Post Office Box 11949, Columbia, South Carolina 29211-1949.

***SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
STATEMENTS OF NET ASSETS***

		JUNE 30,	
		2005	2004
<i>ASSETS</i>			
CURRENT ASSETS			
Cash and cash equivalents	\$	17,680,300	\$ 18,265,609
Cash - Restricted fidelity fund		455,330	402,269
Retailer accounts receivable, net of allowance for doubtful accounts of \$167,000 and \$166,000- for 2005 and 2004, respectively		27,410,349	23,389,638
Accounts receivable - Multi-State Lottery		1,509,562	23,277,101
Inventory		2,404,855	2,005,888
Prepaid expenses and other current assets		262,656	93,761
Total current assets		49,723,052	67,434,266
CAPITAL ASSETS, net		8,710,058	12,236,025
DEPOSIT WITH MULTI-STATE LOTTERY		7,753,026	5,127,408
Total assets		66,186,136	84,797,699
<i>LIABILITIES</i>			
CURRENT LIABILITIES			
Due to Education Lottery Account		21,244,269	18,083,373
Prizes payable		23,976,093	24,220,162
Prizes payable - Multi-State Lottery		3,655,771	23,277,101
Accounts payable		5,414,498	3,957,426
Accrued liabilities		877,566	1,004,726
Current portion of accrued compensated absences		58,456	117,385
Current portion of long-term debt		1,104,166	1,232,559
Deferred revenue		998,294	766,454
Total current liabilities		57,329,113	72,659,186
LONG -TERM DEBT		1,113,054	2,217,220
ACCRUED COMPENSATED ABSENCES		795,801	732,778
Total liabilities		59,237,968	75,609,184
<i>NET ASSETS</i>			
Invested in capital assets, net of related debt		6,492,838	8,786,246
Restricted - fidelity funds		455,330	402,269
Total net assets	\$	6,948,168	\$ 9,188,515

See notes to financial statements which are an integral part of these statements.

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For the years ended	
	June 30,	
	<u>2005</u>	<u>2004</u>
REVENUES		
Instant games	\$ 578,838,811	\$ 537,339,766
On-line games	199,175,235	180,480,976
Powerball games	178,937,972	232,186,929
Retailer permit fees	480,600	496,555
Retailer telephone fees	2,645,765	2,596,384
Other	71,079	62,037
Total revenue	<u>960,149,462</u>	<u>953,162,647</u>
DIRECT COSTS		
Commissions and incentives to retailers	<u>67,534,047</u>	<u>66,950,403</u>
Prize expense		
Instant games	396,667,017	359,887,245
On-line games	96,056,371	87,533,205
Powerball games	80,872,481	104,866,608
Total prize expense	<u>573,595,869</u>	<u>552,287,058</u>
Instant and on-line costs	<u>18,175,707</u>	<u>20,385,780</u>
Total direct costs	<u>659,305,623</u>	<u>639,623,241</u>
Gross profit	<u>300,843,839</u>	<u>313,539,406</u>
OPERATING EXPENSES		
Advertising and promotion	7,746,455	6,729,307
Security checks	221,295	176,910
Salaries, wages and benefits	8,717,883	8,707,090
Contracted and professional services	392,031	623,115
Depreciation	3,592,637	3,522,001
Rent expense	815,102	866,110
Office supplies	102,800	167,448
Bad debt expense	110,000	271,092
Other general and administrative	2,006,493	1,967,306
Total operating expenses	<u>23,704,696</u>	<u>23,030,379</u>
Operating Income	<u>277,139,143</u>	<u>290,509,027</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	590,010	225,481
Interest expense	<u>(231,441)</u>	<u>(602,948)</u>
Total non-operating expense	<u>358,569</u>	<u>(377,467)</u>
Change in net assets before transfers to and due to Education Lottery Account	277,497,712	290,131,560
TRANSFERS TO AND DUE TO EDUCATION LOTTERY ACCOUNT	<u>279,738,059</u>	<u>286,751,598</u>
Change in net assets	(2,240,347)	3,379,962
NET ASSETS,		
BEGINNING OF YEAR	<u>9,188,515</u>	<u>5,808,553</u>
END OF YEAR	<u>\$ 6,948,168</u>	<u>\$ 9,188,515</u>

See notes to financial statements which are an integral part of these statements.

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

	For the years ended	
	June 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retailers	\$ 978,143,880	\$ 937,539,438
Cash payments to prize winners	(593,461,268)	(528,400,705)
Cash payments to suppliers for goods and services	(96,447,799)	(99,569,179)
Cash payments to employees for services	(8,610,662)	(8,644,675)
Net cash provided by operating activities	279,624,151	300,924,879
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to fund deposit with Multi-State Lottery	(2,625,618)	(2,837,099)
Payments to Education Lottery Account	(276,577,163)	(286,486,698)
Net cash used for noncapital financing activities	(279,202,781)	(289,323,797)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from dispositions of capital assets	7,871	8,612
Interest paid	(231,441)	(602,948)
Purchase of capital assets	(87,499)	(593,974)
Net paid for short-term and long-term debt	(1,232,559)	(6,275,052)
Net cash used for financing activities	(1,543,628)	(7,463,362)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	590,010	225,481
Net cash provided by investing activities	590,010	225,481
NET INCREASE IN CASH AND CASH EQUIVALENTS	(532,248)	4,363,201
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	18,667,878	14,304,677
END OF YEAR	\$ 18,135,630	\$ 18,667,878
OPERATING ACTIVITIES		
Operating income	\$ 277,139,143	\$ 290,509,027
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	3,592,637	3,522,001
Gain on dispositions of capital assets	(2,792)	(1,012)
Changes in assets and liabilities		
Retailer accounts receivable	(4,004,961)	8,756,920
Accounts receivable - Multi-State Lottery	21,767,539	-
Inventory	(398,967)	276,445
Prepaid expenses and other assets	(168,895)	171,016
Accounts payable and accrued liabilities	1,334,006	(1,815,742)
Prizes payable	(19,865,399)	609,252
Deferred revenue	231,840	(1,103,028)
Net cash provided by operating activities	\$ 279,624,151	\$ 300,924,879

See notes to financial statements which are an integral part of these statements.

***SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
NOTES TO FINANCIAL STATEMENTS***

NOTE 1 - REPORTING ENTITY

The *South Carolina Education Lottery Commission* (the Commission), was established as an instrumentality of the state of South Carolina (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. Three commissioners are appointed by the Governor, three are appointed by the President Pro Tempore of the Senate and three are appointed by the Speaker of the House of Representatives. The Commission exercises powers comparable to those of a governing board of an entrepreneurial organization. The Commission transfers "net proceeds" as defined by the Act to the State. Therefore, the Commission is reported as a discretely presented component unit in the State's Comprehensive Annual Financial Report (CAFR).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Commission are as follows:

Method of accounting

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

The Government 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 Statement 20, 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 that 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.

Revenue and accounts receivable recognition

Revenue and accounts receivable for on-line games are recognized when tickets are sold to the public by contracted retailers, except for on-line tickets sold in advance of the draw date for which deferred revenue is recorded.

Revenue and accounts receivable for instant scratch games are recognized upon activation of ticket packs for sale by the retailers. The Commission evaluates its receivables on an ongoing basis for collectability.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Commissions

Retailers receive a commission of 7% on total sales.

Prizes

In accordance with the Act, as nearly as practical, at least 45% 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 on-line games is recorded at the time the related revenue is recognized based on the known prizes.

Ticket inventories

Inventories are carried at cost (as determined by the specific identification method) and consist of scratch tickets located in the Commission's warehouses or held by retailers. The cost of tickets is charged to operations upon the recognition of revenue under the procedures described above.

Unclaimed prizes

Prizes must be claimed within 90 days after game-end (end of sales) for instant games and within 180 days after the draw date for on-line games. Unclaimed prize money must be deposited in the Education Lottery Account each year.

Net assets

Net assets represent cumulative revenues less expenses in excess of net proceeds transferred or payable to the Education Lottery Account, as defined under the Act.

Net proceeds

Net proceeds, as defined by the Act, consist of all revenue derived from the sale of lottery game tickets or shares and all other monies derived from the lottery games, less operating expenses and prizes.

Operating expenses

Operating expenses, as defined by the Act, in the determination of net proceeds, consist of all costs of doing business including, but not limited to, prizes, commissions and other compensation paid to lottery retailers, advertising and marketing costs, rental fees, personnel costs, capital costs, depreciation of property and equipment 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, petty cash and cash on deposit with the South Carolina State Treasurer.

Retailer accounts receivable

Retailer accounts receivable represents lottery proceeds due from retailers for net ticket sales less commissions and prizes paid by the retailers. Lottery proceeds are collected weekly by the Commission from retailer bank accounts.

Capital Assets

Capital assets, which consist of machinery, equipment, vehicles and leasehold improvements, are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of two to five years. Leasehold improvements are amortized over their expected useful lives or the lease term, whichever is shorter. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the results from operations in the period of disposal. The Commission capitalizes all property and equipment purchases of \$1,000 or more.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Restricted fidelity fund

In accordance with the Act, retailers contribute a fee to a fidelity fund upon acceptance as a lottery retailer. The fund is used to cover losses the Commission may incur due to misfeasance, nonfeasance or malfeasance of retailers. At the end of each fiscal year, any amount in the fund in excess of \$500,000 is treated as net proceeds from the Commission and is payable to the Education Lottery Account. At June 30, 2005, no amounts were available for transfer as net proceeds. The fidelity fund is held in a separate account and appears on the balance sheet as restricted fidelity fund cash and in net assets as restricted fidelity funds.

Insurance

The Commission is exposed to various risks 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.

Compensated absences

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

Advertising

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

Deposit with Multi-State Lottery (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.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

NOTE 3 - DEPOSITS

The Commission's cash and cash equivalents are considered to be cash-on-hand and interest bearing demand deposits held by banks and the State Treasurer.

At June 30, 2005 and 2004, the amount of the Commission deposits were as follows:

	<u>2005</u>		<u>2004</u>	
	<u>Carrying amount</u>	<u>Bank balances</u>	<u>Carrying amount</u>	<u>Bank balances</u>
Demand deposits	\$ 551,312	\$ 18,087,424	\$ 18,285,020	\$ 18,816,920
Deposits held by State Treasurer	17,584,318	9,075	382,858	382,858
	<u>\$ 18,135,630</u>	<u>\$ 18,096,499</u>	<u>\$ 18,667,878</u>	<u>\$ 19,199,778</u>

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. The Commission does not have a deposit policy for custodial credit risk. As of June 30, 2005 and 2004, none of the Commission's bank balances of \$18,096,499 and \$19,199,778, respectively, were exposed to custodial credit risk.

(Continued)

NOTE 3 - DEPOSITS, Continued

State law

The Act requires the Commission to transfer 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 during fiscal year 2005:

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Cost				
Machinery and equipment	\$ 19,836,623	\$ 87,499	\$ 35,724	\$ 19,888,398
Vehicles	68,826	-	-	68,826
Leasehold improvements	<u>641,349</u>	<u>-</u>	<u>-</u>	<u>641,349</u>
	<u>20,546,798</u>	<u>87,499</u>	<u>35,724</u>	<u>20,598,573</u>
Accumulated depreciation				
Machinery and equipment	(7,991,631)	(3,447,995)	14,895	(11,424,731)
Vehicles	(48,954)	(16,372)	-	(65,326)
Leasehold Improvements	<u>(270,188)</u>	<u>(128,270)</u>	<u>-</u>	<u>(398,458)</u>
	<u>(8,310,773)</u>	<u>(3,592,637)</u>	<u>14,895</u>	<u>(11,888,515)</u>
Total property and equipment, net	<u>\$ 12,236,025</u>	<u>\$ (3,505,138)</u>	<u>\$ (20,829)</u>	<u>\$ 8,710,058</u>

The following is a summary of changes in capital assets and accumulated depreciation during fiscal year 2004:

	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>
Cost				
Machinery and equipment	\$ 19,271,419	\$ 576,143	\$ (10,939)	\$ 19,836,623
Vehicles	68,826	-	-	68,826
Leasehold improvements	<u>623,518</u>	<u>17,831</u>	<u>-</u>	<u>641,349</u>
	<u>19,963,763</u>	<u>593,974</u>	<u>(10,939)</u>	<u>20,546,798</u>
Accumulated depreciation				
Machinery and equipment	(4,623,983)	(3,370,988)	3,340	(7,991,631)
Vehicles	(26,012)	(22,942)	-	(48,954)
Leasehold Improvements	<u>(142,117)</u>	<u>(128,071)</u>	<u>-</u>	<u>(270,188)</u>
	<u>(4,792,112)</u>	<u>(3,522,001)</u>	<u>3,340</u>	<u>(8,310,773)</u>
Total property and equipment, net	<u>\$ 15,171,651</u>	<u>\$ (2,928,027)</u>	<u>\$ (7,599)</u>	<u>\$ 12,236,025</u>

NOTE 5 - ACCRUED EXPENSES

Accrued liabilities at June 30, 2005 consist of the following:

Accrued payroll and related expenses	\$ 821,455
Other	<u>56,111</u>
	<u>\$ 877,566</u>

Accrued liabilities at June 30, 2004 consist of the following:

Accrued payroll and related expenses	\$ 942,926
Other	<u>61,800</u>
	<u>\$ 1,004,726</u>

NOTE 6 - LONG-TERM DEBT AND COMMITMENTS

In October 2001, the Commission entered into a six year contract with a vendor, to provide amongst other things, services and equipment to operate their on-line lottery. The contract required an initial payment of \$5,287,938, which has been paid. The contract also calls for monthly administrative fees of \$450,000 for the life of the contract. Under the original contract, additional payments, which have been imputed for the purchase of equipment of \$140,000 and \$122,000 per month, will be made for months three through twenty-six and twenty-seven through sixty-two of the contract, respectively. These additional payments have been imputed to include principal and interest at 8%. A lump sum payment of \$5,270,000 was due and paid in March 2004. Title to and risk of loss for this equipment occurred upon installation and acceptance in March 2002.

In January 2005, the contract for the vendor to provide administrative services was extended for an additional ten and a half (10½) months through November 15, 2008. The extension will require ten monthly payments of \$450,000 with a final payment of \$225,000.

At June 30, 2005, the future maturities of the imputed principal and interest payments on the equipment are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2006	\$ 1,104,166	\$ 129,136	\$ 1,233,302
2007	<u>1,113,054</u>	<u>25,088</u>	<u>1,138,142</u>
	<u>\$ 2,217,220</u>	<u>\$ 154,224</u>	<u>\$ 2,371,444</u>

The following is a summary of changes in long-term debt during fiscal year 2005:

	<u>Balance</u> <u>June 30, 2004</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2005</u>
Long-term debt	<u>\$ 3,449,779</u>	<u>\$ -</u>	<u>\$ 1,232,559</u>	<u>\$ 2,217,220</u>

The following is a summary of changes in long-term debt during fiscal year 2004:

	<u>Balance</u> <u>June 30, 2003</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2004</u>
Long-term debt	<u>\$ 9,724,831</u>	<u>\$ -</u>	<u>\$ 6,275,052</u>	<u>\$ 3,449,779</u>

NOTE 7 - ACCRUED COMPENSATED ABSENCES

The following is a summary of changes in accrued compensated absences during fiscal year 2005:

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
Accrued compensated absences	<u>\$ 850,163</u>	<u>\$ 499,951</u>	<u>\$ 495,857</u>	<u>\$ 854,257</u>

The following is a summary of changes in accrued compensated absences during fiscal year 2004:

	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2004</u>
Accrued compensated absences	<u>\$ 783,363</u>	<u>\$ 474,192</u>	<u>\$ 407,392</u>	<u>\$ 850,163</u>

NOTE 8 - OPERATING LEASES

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

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

	<u>Operating</u> <u>leases</u>
2006	\$ 347,414
2007	70,896
2008	4,042

Rental expenses under all operating leases including those on month-to-month terms totaled approximately \$815,000 and \$866,000 for the year ended June 30, 2005 and 2004, respectively. This includes \$65,739 and \$84,669 of vehicle rental expense to the State Fleet management.

NOTE 9 - DUE TO EDUCATION LOTTERY ACCOUNT

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

	<u>2005</u>	<u>2004</u>
Amount payable to the Education Lottery Account, beginning of year	\$ 18,083,373	\$ 17,818,473
Change in net assets subject to transfer	<u>277,497,712</u>	<u>290,131,560</u>
	<u>295,581,085</u>	<u>307,950,033</u>
Change in capital assets, net of related debt		
Property and equipment, net	3,525,967	2,935,626
Long-term debt	<u>(1,232,559)</u>	<u>(6,275,052)</u>
	<u>2,293,408</u>	<u>(3,339,426)</u>
Amount collected for fidelity fund	<u>(53,061)</u>	<u>(40,536)</u>
Amount paid during the year	<u>(276,577,163)</u>	<u>(286,486,698)</u>
Amount payable to the Education Lottery Account, end of year	<u>\$ 21,244,269</u>	<u>\$ 18,083,373</u>

Transfers related to the above payable were made to the Education Lottery Account in July 2005.

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS

The Commission contributes to the South Carolina Retirement System (SCRS) cost sharing multiple-employer defined benefit plan administered by the Retirement Division of the State Budget and Control Board.

As established by Title 9-1-480 Code Laws of South Carolina, 1976 (as amended), all eligible persons, except those specifically excluded, shall become members of the retirement system as a condition of their employment. The responsibility of the administration of the system is assigned by law to the State Budget & Control Board.

SCRS offers retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits and survivor benefits. The Plan's provisions are established under Title 9 of the SC Code of Laws.

The following is a recap of the mandated contribution rates for the current fiscal year.

	<u>SCRS</u>
Employee contributions	6% of salary
Employer contributions	
Retirement	7.55% of salary
Insurance surcharge	3.25% of salary
Group life insurance	.15% of salary

For the years ending June 30, 2005, 2004 and 2003 the Commission contributions to SCRS were \$710,153, \$699,039 and \$605,768, respectively.

All employer contributions were equal to the required contribution rates for the year. Contributions as a percentage of statewide contributions were not available for June 30, 2005.

(Continued)

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS, Continued

A comprehensive annual financial report containing financial statements and required supplementary information for the South Carolina Retirement System is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29211-1960.

NOTE 11 - 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 for the year ending June 30, 2005.

NOTE 12 - TRANSACTIONS WITH STATE ENTITIES AND RELATED PARTIES

For the year ended June 30, 2005, the Commission had certain transactions with the State and various other state agencies as follows:

<u>Related Party</u>	<u>Amount</u>	<u>Nature of Transaction</u>
South Carolina Department of Revenue	\$ 6,598,192	Transfers of state tax withholding, use taxes and debt setoffs
SLED	316,341	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	276,577,163	Transfers of net proceeds and unclaimed prizes
South Carolina State Treasurer	8,316,391	Transfer of payroll funds for processing
Comptroller General	39,258	Fees for payroll processing and unemployment insurance
South Carolina Budget & Control Board	357,319	Insurance, telephone, printing, miscellaneous services
Prison Industries - Department of Corrections	6,679	Recycling services and office furniture
South Carolina Department of Social Services	31,525	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	241,266	Security services
	<u>\$ 292,484,134</u>	

NOTE 12 -TRANSACTIONS WITH STATE ENTITIES AND RELATED PARTIES, Continued

For the year ended June 30, 2004, the Commission had certain transactions with the State and various other state agencies as follows:

<u>Related Party</u>	<u>Amount</u>	<u>Nature of Transaction</u>
South Carolina Department of Revenue	\$ 7,670,388	Transfers of state tax withholding, use taxes and debt setoffs
SLED	249,208	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	286,487,698	Transfers of net proceeds and unclaimed prizes
South Carolina State Treasurer Comptroller General	7,485,998 37,300	Transfer of payroll funds for processing Fees for payroll processing and unemployment insurance
South Carolina Budget & Control Board	168,458	Insurance, telephone, printing, miscellaneous services
Prison Industries - Department of Corrections	17,654	Recycling services and office furniture
South Carolina Legislative Audit Council	104,777	Audit
South Carolina Department of Social Services	28,589	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	<u>240,110</u>	Security services
	<u>\$ 302,490,180</u>	

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

	For the years ended	
	June 30,	
	<u>2005</u>	<u>2004</u>
Charges for services	\$ 960,149,462	\$ 953,162,647
Operating grants and contributions	590,010	225,481
Less expenses	<u>683,241,760</u>	<u>663,256,568</u>
Net program revenue	277,497,712	290,131,560
Transfers out to state agencies/funds	<u>(279,738,059)</u>	<u>(286,751,598)</u>
Change in net assets	(2,240,347)	3,379,962
NET ASSETS - BEGINNING	<u>9,188,515</u>	<u>5,808,553</u>
NET ASSETS - ENDING	<u><u>\$ 6,948,168</u></u>	<u><u>\$ 9,188,515</u></u>



**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**

Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the *South Carolina Education Lottery Commission* (the Commission), a discretely presented component unit of the State of South Carolina (the State), as of and for the years ended June 30, 2005 and 2004, and have issued our report therein dated August 25, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of 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*.

This report is intended solely for the information and use of the audit committee, management of the Commission and the Office of the State Auditor of South Carolina and is not intended to be and should not be used by anyone other than these specified parties.

Elliott Davis LLC

August 25, 2005

***SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
SCHEDULE OF FINDINGS
For the year ended June 30, 2005***

SCHEDULE OF AUDITOR'S RESULTS

We have issued an unqualified opinion, dated August 25, 2005 on the financial statements of the Commission as of and for the year ended June 30, 2005.

Our audit disclosed no instances of noncompliance which are material to the Commission's financial statements.

Our audit disclosed no reportable conditions or material weaknesses relating to the audit of the financial statements.

FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Our audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards*.

claims centers

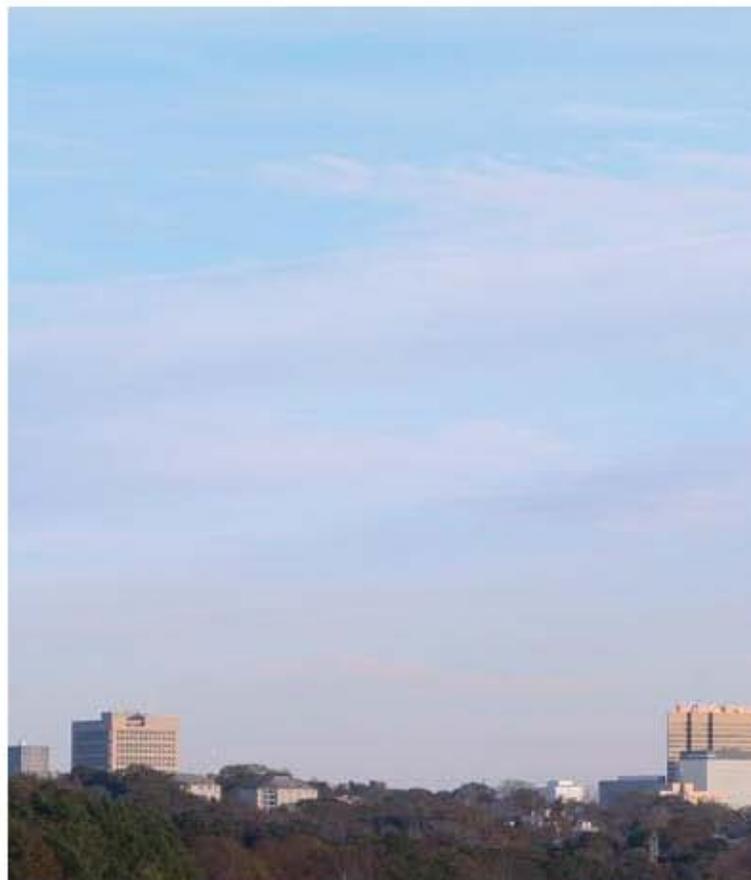
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717C Lady Street
Columbia, SC 29201

Greenville Office/Redemption Center
18 Augusta Street
Greenville, SC 29601

Charleston Office/Redemption Center
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