2006 Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2006

South Carolina Education Lottery Commission

A Component Unit of the State of South Carolina

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
A COMPONENT UNIT OF THE STATE OF SOUTH CAROLINA

2006 Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2006

Prepared by:
The Finance and Sales & Marketing Departments

South Carolina Education Lottery™

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letter of transmittal

October 30, 2006

To the Board of the South Carolina Education Lottery Commission and the Citizens of the State of South Carolina:

We are pleased to submit the Comprehensive Annual Financial Report of the South Carolina Education Lottery Commission (the Commission) for the fiscal year ended June 30, 2006. The audit report of our auditors, Elliott Davis, LLC, appears in the Financial Section and expresses an unqualified opinion on the Commission's financial statements.

Management assumes full responsibility for the completeness and reliability of all information presented in this report. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the Commission. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included. The report is organized into three sections.

The Introductory Section includes the transmittal letter, Certificate of Achievement for Excellence in Financial Reporting, organizational chart, lists of the commissioners and directors, along with other information intended to acquaint the reader with the organization, structure, and scope of operations of the Commission.

The Financial Section presents the basic financial statements, management's discussion and analysis, and the report of the independent external auditors. The basic financial statements are prepared in accordance with generally accepted accounting principles as defined by the Governmental Accounting Standards Board.

The Statistical Section contains selected financial and statistical information. This information is intended to present to readers a broad overview of trends in the finances of the Commission.

The Commission's financial statements have been audited by Elliott Davis, LLC, who issued the Commission an unqualified ("clean") opinion on the Commission's financial statements for the year ended June 30, 2006. The independent auditor's report is presented as the first component in the Financial Section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

The Commission, as an instrumentality of the State of South Carolina, is included as a component unit with other component units of the State within the State's Comprehensive Annual Financial Report. This report presents all activities of the Commission as a discretely presented component unit.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the South Carolina Education Lottery for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Profile of the Commission
The South Carolina Education Lottery Commission, headquartered in Columbia, South Carolina, was created by the South Carolina General Assembly in 2001 as an instrumentality of the State and a public commission, with powers comparable to those exercised by commissions engaged in entrepreneurial pursuits.

The Commission is governed by a nine-member board and has a staff of approximately 140 employees. The Commission has eight departments: Executive; Internal Operations; Internal Audit; Information Technology Systems; Sales & Marketing; Security; Legal Services; and Finance. The Internal Auditor reports directly to the South Carolina Education Lottery Commission. All employees of the Commission serve at-will and are not covered by the State Employee Grievance Procedures Act.

In addition to its headquarters, the Commission has four Regional Offices (Columbia, Charleston, Greenville and Fort Mill). Combined, they have a sales and claims staff of approximately 36 employees, who service lottery retailers throughout their respective territories, as well as validating winning tickets from lottery players. Regional sales employees provide delivery of point-of-sale materials as well as advise retailers on marketing techniques, assist with retail licensure, and perform other duties as directed by senior management.

The Commission operates its games through a network of approximately 3,500 retailers.

Internal Controls
Management of the Commission is responsible for establishing and maintaining internal controls designed to ensure that assets are protected from loss, theft, or abuse, and to ensure that the accounting systems allow compilation of accurate and timely financial information. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met.

Access to the Commission's offices and instant ticket warehouse is limited through high-level security. The Commission has segregated responsibilities to enhance controls over accounting procedures relative to personnel and payroll; purchasing and accounts payable; sales and accounts receivable; and general ledger. Management personnel maintains oversight and approval authority over all areas of operation. The Commission's independent auditors review significant and relevant areas annually and issue a report on their financial audit to the state Office of Budget and Control.

Financial Planning
The Commission prepares an annual budget. The Commission transfers all net proceeds on a monthly basis to the state Education Lottery Account.

Relevant Financial Policies
All proceeds from the Commission's operations are designated to be appropriated to support education in South Carolina. Once a month these proceeds are transferred to the Education Lottery Account, which is managed by the South Carolina State Treasurer's Office for disbursement as determined by the South Carolina Legislature.

Major Initiatives
In the spring of 2006, another regional office was established in Fort Mill which mainly serves as a claims and prize redemption center for customers in that market area.

A new game, "Carolina Millionaire Raffle," designed to excite loyal lottery players and attract new, first-time players, will be introduced fall 2006. A new promotion "Carolina Power Deal" will also be introduced fall 2006, and this promotion is designed to complement Powerball® and maintain players' interest in playing Powerball®.

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

Acknowledgements
The preparation of the Comprehensive Annual Financial Report would not have been possible without the coordinated efforts of the Commission's employees. All employees who made contributions in the preparation of the report have my sincere appreciation.

Sincerely,

Ernest L. Passailaigue, Jr., CPA
Executive Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

South Carolina Education Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Our Mission
The South Carolina Education Lottery Commission's mission is to provide entertainment options to adults, with integrity, to support education in South Carolina.

To fulfill our mission, the Commission holds true to the vision and values ingrained in the culture as guideposts to success.

The work of the Commission is to provide games for players, support for the retailers, and funds for the Legislature to appropriate for education. Security and oversight are built into the process at every step to ensure ongoing integrity.

Our Vision
A vision describes an organization's ultimate destination and the Commission's vision is to operate the South Carolina Education Lottery in a "world-class" manner – "literally." Every aspect of our operations will function at a high level of excellence. We intend to maintain our integrity through openness, honesty, and hard work. We will also vigorously support responsible gaming through our marketing strategies and funding of treatment programs.

We will control our expenses so as to give the General Assembly as much money as possible to allocate toward educational funding in the state of South Carolina. We will not compromise our integrity.

Achieving this level of performance requires a loyal and well-trained workforce with high ethical standards, and this is why we intend to be known for employing bright and creative individuals, providing them with a supportive work environment, and empowering them to achieve their best.

Our Values
Values represent the desired behavior and beliefs of an organization. They are the yardstick against which all major decisions are measured. The Commission's values include:

Integrity – We will maintain public trust through our high ethical standards.

Education – The purpose of the Commission is to support educational funding in the state of South Carolina.

Play Responsibly – We strongly support the concept of playing responsibly.

Fair treatment – We will treat employees, retailers, players, the public, and vendors fairly.

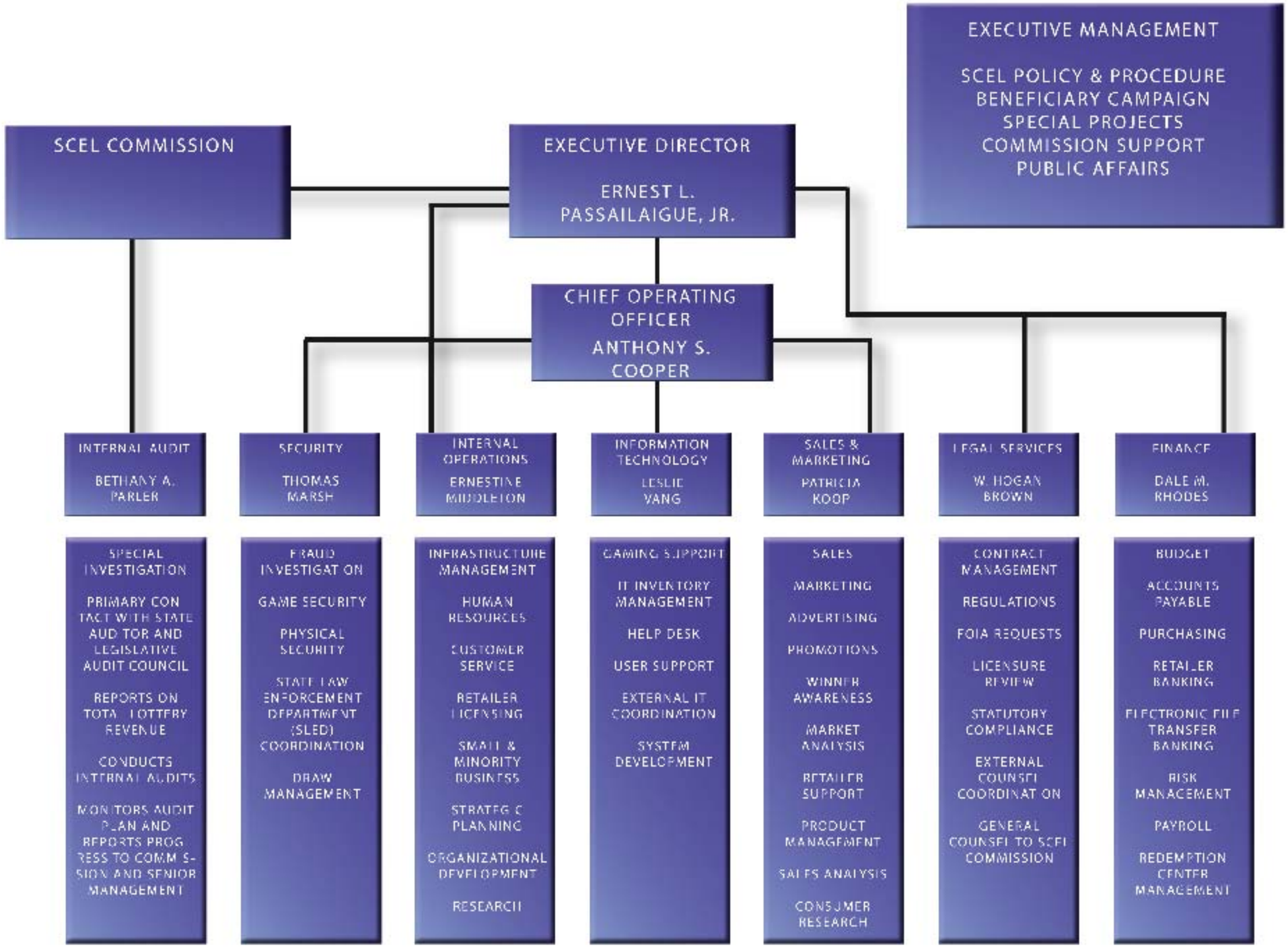
Quality products – We will be known for offering the finest possible products through a program of innovation, creativity, and continuous improvement.

Fiscal responsibility – We will manage our resources so as to maximize the dollars going to support education in South Carolina.

Non-political – We will operate the Education Lottery as a business, and we are dedicated to being both non-partisan and non-political in all our operations.

mission, vision & values

organizational chart



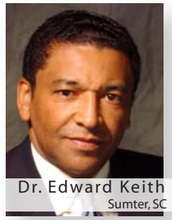
commission & directors

Commission Members

Tim Madden, Chairman
Greenville, SC

Vice Chairman
James J. Bailey, Jr.
Charleston, SC

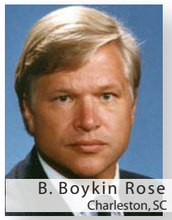
Nathaniel Spells Sr.
Hopkins, SC



Dr. Edward Keith
Sumter, SC

Treasurer
T. Moffatt Burriss
Columbia, SC

A. Marvin Quattlebaum, Jr.
Greenville, SC



B. Boykin Rose
Charleston, SC

Secretary
Ashley Landess
Columbia, SC

Lisa H. Stevens
Greenville, SC

Executive Director
Ernest L. Passailaigue, Jr., CPA

Agency Directors

Instant Games
Instant Games are easy to play and provide instant entertainment for players. More than 44 instant games were launched in the 2005 – 2006 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 **Hoppin' John, Sweethearts and Magnolias, Lizard Man**, and **Boiled Peanuts** to licensed properties such as **Wheel of Fortune®** and **Mustang Money** instant games.

Many of the instant games found in the Commission's nearly 3,500 retail locations are designed in-house by the Commission's Marketing Department. 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 drawings are held only in the evening. Pick 3 and Pick 4 have maintained consistent sales, making up more than $192.7 million in total sales in fiscal year 2006.

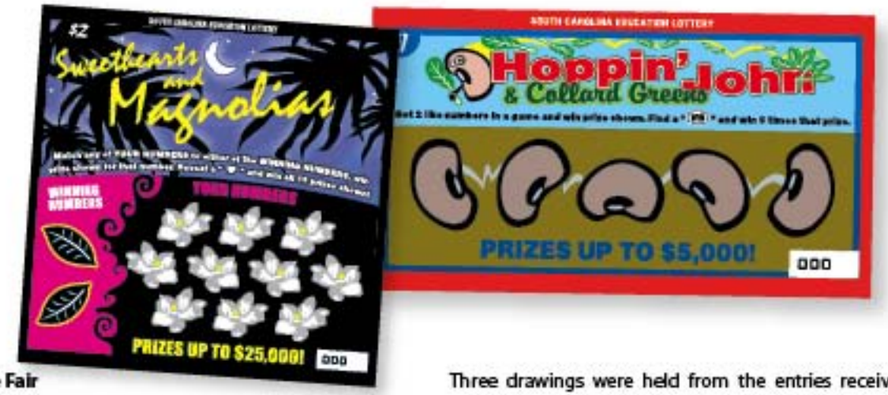
Palmetto Cash 5
Palmetto Cash 5, which launched on February 12, 2005, flourished in its first full year of sales, and players have won approximately $20 million in fiscal year 2006. Total sales for Palmetto Cash 5 were $33.6 million for the 2006 fiscal year. The top prize is $100,000, but there is a Power-Up feature available for an extra dollar which can multiply a player's winnings up to five times; therefore, a Palmetto Cash 5 player could win up to $500,000!

Powerball®
Powerball® sales increased by more than $42.8 million this fiscal year due to high jackpot runs during the year. In an effort to keep players interested in the game, the Commission launched a promotion with Powerball® and PowerPlay® – "Cruise Away with PowerPlay®!" Powerball® players had a chance to win one of two Grand Prize cruise vacations for two on the grand ship "Majesty" of the Norwegian Cruise Line.

Here's how the promotion worked: players had to make a 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 were then asked to fill-out and mail the entry to the appropriate address noted on the entry form.

After more than 47,700 entries were received, Rayburn Gardner of Bishopville, South Carolina, won a trip for two to Bermuda and Robert Stephens of Laurens, South Carolina, won a cruise to the Western Caribbean! Look for more exciting promotions with Powerball® and PowerPlay® next year!

Carolina Millionaire Raffle
A new game will be launched in fall 2006, the Carolina Millionaire Raffle in which one million tickets will be sold for $10 each, giving players a chance to win up to $1 million, with a total prize payout of $5.5 million.



State Fair
The 2005 South Carolina State Fair provided the backdrop for "The Ultimate Harley-Davidson® HOG Calling Champion Promotion!" Sixteen contestants took center stage vying to become champion and the winner of a Harley-Davidson® Fat Boy® motorcycle.

The ULTIMATE Harley-Davidson® instant ticket launched in late June 2005. This ticket was unique in that it was the first in the nation to feature a Fat Boy® as a prize, and players had the opportunity to win one of the 12 Fat Boys® featured. In 2003, the Commission had success with a Harley-Davidson® ticket. The popularity of the earlier Harley ticket led to the Commission choosing the ULTIMATE Harley-Davidson® game as the summer promotion.

For six weeks during the summer, contestants across the state of South Carolina called into radio stations to yell out their version of "HARRRLLLEEEY" with listeners choosing weekly semi-finalists. All semi-finalists converged upon the Columbia, South Carolina television station WLTX's Stage at the S.C. State Fair on October 13, 2005, to declare "The Ultimate Harley-Davidson® HOG Champion."

In addition to the radio Hog Calling Contest, there were two drawings with Grand Prizes of both a Harley-Davidson® Fat Boy® motorcycle AND a Ford Harley-Davidson™ F-250 Super Duty truck. The Grand Prizes were each valued at $110,000. Players had to mail in non-winning ULTIMATE Harley-Davidson® tickets to enter.

Three drawings were held from the entries received over the summer. At each drawing, 963 semi-finalists were chosen to receive Harley-Davidson® prize packs worth $495. The first three semi-finalists drawn at each drawing became contestants in the Grand Prize Drawing held on October 13, 2005, at the South Carolina State Fair. From the nine contestants, Donald O'Neal of Darlington became the Grand Prize Winner. The other eight contestants did not leave empty handed, as they received a Harley prize pack and accommodations for the fair event.

The final Grand Prize drawing was held after instant ticket sales ended. Pamela Fernandez of Ruffin was the first name drawn of the 112 semi-finalists chosen on August 22, 2006. The other 111 semi-finalists received prize packs.

As fiscal year 2006-07 approaches, the Commission's staff is already hard at work on a promotional game show, "Carolina Power Deal," which will air weekly on television stations throughout the state beginning in September 2006.

Clean$weep Second-Chance Drawing

Take Pride!

Clean Up SC with Clean$weep!

Clean$weep Drawings

The South Carolina Education Lottery Commission and PalmettoPride have just finished the fourth year of a very successful promotion entitled "Clean$weep," which utilizes second-chance drawings of non-winning lottery tickets to encourage players to properly dispose of those paper tickets. PalmettoPride and the Commission engaged in a joint effort to support an anti-littering campaign. Clean$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 gives players a second chance to win $50 while at the same time being environmentally responsible.

The Commission is embarking on the fifth year of the partnership with PalmettoPride. With the continued support of the citizens of the Palmetto State, the Commission is confident that the fiscal year 2007 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 – 2006 fiscal year, Clean$weep promotions recovered more than 3,408,000 paper tickets. The Commission has recycled more than 12.99 tons of paper. With the assistance of lottery players, approximately 2,871 trees; 6,016 gallons of oil; 52,972 kilowatt hours of electricity; 7,627 pounds of air pollution; and 1,073 cubic feet of landfill space have been saved.

Clean$weep is part of a successful partnership with PalmettoPride.

PalmettoPride

Have Fun – Play Smart – Play Responsibly

The South Carolina Education Lottery Commission 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, the Commission 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 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.

By partnering with the Department of Alcohol and Other Drug Abuse Services (DAODAS), the Commission urges players to "Play Responsibly," especially when the Powerball® jackpot reaches and exceeds $100 million. The Commission 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 Commission is careful to only market games and products to players 18 years of age or older.

During the week of March 6 through 12, 2006, Governor Mark Sanford proclaimed Problem Gambling Awareness Week in the state of South Carolina.

The Commission along with DAODAS announced local initiatives in support of increased public awareness of the availability and benefits of problem gambling treatment. The joint effort is designed to help educate the public about the warning signs of problem gambling and where to call to obtain treatment services.

During National Problem Gambling Awareness Week, communities nationwide strive to raise awareness of both the consequences of problem gambling and the resources available for individuals whose gambling addiction has disrupted their lives. The week raised public consciousness that treatment for problem gambling is available and has been proven effective in improving the lives of problem gamblers and their families. This week was also a celebration of the men and women who are overcoming or have overcome problems associated with gambling.

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

South Carolina
DAODAS
Department of Alcohol and Other Drug Abuse Services
1-877-452-5155

SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2006 AND 2005

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State of South Carolina

Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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

September 18, 2006

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, 2006, was issued by Elliott Davis, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

RHGjr/trb

ElliottDavis
Accountants and Business Advisors

1901 Main Street, Suite 1650
P.O. Box 2227
Columbia, SC 29202-2227

Phone 803.256.0002
Fax 803.254.4724

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Richard H. Gilbert, Jr., CPA
Interim 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, 2006 and 2005 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 Commission as of June 30, 2006 and 2005, 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 30, 2006 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 30, 2006

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, 2006. 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 $187.7 million. The Commission returned $702.3 million to winners of lottery games and $81.1 million was paid to retailers for commissions and incentives. Other game related expenses were $20.4 million and operating expenses were $26.3 million. Transfers to and due to the Education Lottery Account were $320.6 million as of and for the year ended June 30, 2006.

Assets and Liabilities (in millions) (See Notes to Financial Statements 4 and 6)

	2006	2005	2004
Capital Assets	$ 5.6	$ 8.7	$12.2
Current and Other Assets	46.1	57.5	72.6
Total Assets	51.7	66.2	84.8
Current Liabilities	45.7	57.3	72.7
Long-term Liabilities	0.8	1.9	2.9
Total Liabilities	46.5	59.2	75.6
Net Assets			
Capital Assets Net of Related Debt	4.7	6.5	8.8
Restricted Assets	0.5	0.5	0.4
Total Net Assets	5.2	7.0	9.2

Commission Operations

	2006	2005	2004
Sales by game and other revenues:			
Revenue - Instant games	696.5	578.8	537.3
Revenue – Online games	226.3	199.2	180.5
Revenue – Powerball®	221.8	178.9	232.2
Other Revenues	3.2	3.2	3.2
Total Revenues	1,147.8	960.1	953.2
Expense by prize and other expenses:			
Retailer Commissions and Incentives	81.1	67.5	67.0
Prize expense - Instant games	482.0	396.7	359.9
Prize expense - Online games	115.5	96.1	87.5
Prize expense – Powerball®	104.9	80.9	104.9
Instant and online direct costs	20.4	18.2	20.4
Operating expenses	26.3	23.7	23.0
Total Expenses	830.2	683.1	662.7
Non-operating income and expense:			
Interest Income	1.2	0.6	0.2
Interest Expense	(0.1)	(0.2)	(0.6)
Total Non-Operating Income (Expense)	1.1	0.4	(0.4)
Transfers to and due to Education Lottery Acct	320.6	279.7	286.8
Change in Net Assets	(1.9)	(2.3)	3.3
Ending Net Assets	5.2	6.9	9.2

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 capital assets 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 capital assets, net of depreciation and related debt. As of July 13, 2006 the Commission had transferred $330.9 million, including $22.9 million in unclaimed prize funds to the State Treasurer for the Education Lottery Account for the fiscal year ended June 30, 2006. Total transfers to the Education Lottery Account are $1.2 billion from inception to June 30, 2006.

Capital Assets and Long Term Debt Activity (in millions)

	Capital Assets	21.1
Less:	Accumulated Depreciation	15.5
Less:	Outstanding principal of related debt	0.9
	Net assets invested in capital assets, net of related debt	4.7

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 new game 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, 2006	JUNE 30, 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,997,173	$ 17,680,300
Cash - Restricted fidelity fund	495,230	455,330
Retailer accounts receivable, net of allowance for doubtful accounts of $229,058 and $167,000 for 2006 and 2005, respectively	29,019,114	27,410,349
Accounts receivable - Multi-State Lottery	-	1,509,562
Inventory	3,381,484	2,404,855
Prepaid expenses and other current assets	834,711	262,656
Total current assets	38,727,712	49,723,052
CAPITAL ASSETS, net	5,568,400	8,710,058
DEPOSIT WITH MULTI-STATE LOTTERY	7,425,000	7,753,026
Total assets	51,721,112	66,186,136
LIABILITIES		
CURRENT LIABILITIES		
Due to Education Lottery Account	10,939,754	21,244,269
Prizes payable	28,506,282	23,976,093
Prizes payable - Multi-State Lottery	1,016,738	3,655,771
Accounts payable	2,369,867	5,414,498
Accrued liabilities	1,064,908	877,566
Current portion of accrued compensated absences	40,817	58,456
Current portion of long-term debt	882,359	1,104,166
Deferred revenue	884,928	998,294
Total current liabilities	45,705,653	57,329,113
LONG -TERM DEBT	-	1,113,054
ACCRUED COMPENSATED ABSENCES	834,188	795,801
Total liabilities	46,539,841	59,237,968
NET ASSETS		
Invested in capital assets, net of related debt	4,686,041	6,492,838
Restricted - fidelity funds	495,230	455,330
Total net assets	**$ 5,181,271**	**$ 6,948,168**

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, 2006	2005
REVENUES		
Instant games	$ 696,459,836	$ 578,838,811
On-line games	226,336,340	199,175,235
Powerball games	221,810,074	178,937,972
Retailer permit fees	505,230	480,600
Retailer telephone fees	2,690,863	2,645,765
Other	49,357	71,079
Total revenue	1,147,851,700	960,149,462
DIRECT COSTS		
Commissions and incentives to retailers	81,065,367	67,534,047
Prize expense		
Instant games	481,989,311	396,667,017
On-line games	115,450,912	96,056,371
Powerball games	104,901,331	80,872,481
Total prize expense	702,341,554	573,595,869
Instant and on-line costs	20,378,890	18,175,707
Total direct costs	803,785,811	659,305,623
Gross profit	344,065,889	300,843,839
OPERATING EXPENSES		
Advertising and promotion	8,682,936	7,746,455
Security checks	216,860	221,295
Salaries, wages and benefits	9,119,334	8,717,883
Contracted and professional services	685,931	392,031
Depreciation	3,647,532	3,592,637
Rent expense	711,261	815,102
Office supplies	160,318	102,800
Bad debt expense	691,200	110,000
Other general and administrative	2,404,460	2,012,467
Total operating expenses	26,319,832	23,710,670
Operating Income	317,746,057	277,133,169
NON-OPERATING INCOME (EXPENSE)		
Interest income	1,233,565	590,010
Gains and Losses	12,549	5,974
Interest expense	(129,139)	(231,441)
Total non-operating expense	1,116,975	364,543
Change in net assets before transfers to and due to Education Lottery Account	318,863,032	277,497,712
TRANSFERS TO AND DUE TO EDUCATION LOTTERY ACCOUNT	320,629,929	279,738,059
Change in net assets	(1,766,897)	(2,240,347)
NET ASSETS,		
BEGINNING OF YEAR	6,948,168	9,188,515
END OF YEAR	**$ 5,181,271**	**$ 6,948,168**

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, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retailers	$ 1,147,639,131	$ 978,143,880
Cash payments to prize winners	(700,450,398)	(593,461,268)
Cash payments to suppliers for goods and services	(119,221,465)	(96,447,799)
Cash payments to employees for services	(9,280,317)	(8,610,662)
Net cash provided by operating activities	318,686,951	279,624,151
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Reimbursements of (Payments to fund) deposits with Multi-State Lottery	328,026	(2,625,618)
Payments to Education Lottery Account	(330,934,444)	(276,577,163)
Net cash used for noncapital financing activities	(330,606,418)	(279,202,781)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from dispositions of capital assets	45,747	7,871
Interest paid	(129,139)	(231,441)
Purchase of capital assets	(539,072)	(87,499)
Net paid for short-term and long-term debt	(1,334,861)	(1,232,559)
Net cash used for financing activities	(1,957,325)	(1,543,628)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,233,565	590,010
Net cash provided by investing activities	1,233,565	590,010
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,643,227)	(532,248)
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	18,135,630	18,667,878
END OF YEAR	**$ 5,492,403**	**$ 18,135,630**
OPERATING ACTIVITIES		
Operating income	$ 317,746,057	$ 277,133,169
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	3,647,532	3,592,637
Changes in assets and liabilities		
Retailer accounts receivable	(1,608,765)	(4,004,961)
Accounts receivable - Multi-State Lottery	1,509,562	21,767,539
Inventory	(976,629)	(398,967)
Prepaid expenses and other assets	(572,055)	(165,713)
Accounts payable and accrued liabilities	(2,836,541)	1,334,006
Prizes payable	1,891,156	(19,865,399)
Deferred revenue	(113,366)	231,840
Net cash provided by operating activities	**$ 318,686,951**	**$ 279,624,151**

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)

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 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, 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 capital assets purchases of $1,000 or more.

(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, 2006, 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. The amount of settlements did not exceed insurance coverage in each of the past three years.

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 to 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, 2006 and 2005, the amounts of the Commission deposits were as follows:

	2006		2005	
	Carrying amount	Bank balances	Carrying amount	Bank balances
Demand deposits	$ 5,123,669	$ 7,217,440	$ 17,584,318	$ 18,087,424
Deposits held by State Treasurer	368,734	368,734	551,312	9,075
	$ 5,492,403	$ 7,586,174	$ 18,135,630	$ 18,096,499

(Continued)

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, 2006 and 2005, none of the Commission's bank balances of $7,586,174 and $18,096,499, respectively, were exposed to custodial credit risk.

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 2006:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Cost				
Machinery and equipment	$ 19,888,398	$ 480,205	$ (46,522)	$20,322,081
Vehicles	68,826	-	-	68,826
Leasehold improvements	641,349	58,867	-	700,216
	20,598,573	539,072	(46,522)	21,091,123
Accumulated depreciation				
Machinery and equipment	(11,424,731)	(3,514,120)	13,324	(14,925,527)
Vehicles	(65,326)	(3,500)	-	(68,826)
Leasehold Improvements	(398,458)	(129,912)	-	(528,370)
	(11,888,515)	(3,647,532)	13,324	(15,522,723)
Total capital assets, net	$ 8,710,058	$ (3,108,460)	$ (33,198)	$ 5,568,400

The following is a summary of changes in capital assets and accumulated depreciation during fiscal year 2005:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Cost				
Machinery and equipment	$ 19,836,623	$ 87,499	$ (35,724)	$ 19,888,398
Vehicles	68,826	-	-	68,826
Leasehold improvements	641,349	-	-	641,349
	20,546,798	87,499	(35,724)	20,598,573
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	(270,188)	(128,270)	-	(398,458)
	(8,310,773)	(3,592,637)	14,895	(11,888,515)
Total capital assets, net	$ 12,236,025	$ (3,505,138)	$ (20,829)	$ 8,710,058

NOTE 5 - ACCRUED EXPENSES

Accrued liabilities at June 30, 2006 consist of the following:

Accrued payroll and related expenses	$ 658,869
Accrued audit fees	193,507
Accrued SLED costs	112,985
Other	99,547
	$ 1,064,908

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

Accrued payroll and related expenses	$ 821,775
Other	55,791
	$ 877,566

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.

The balance of the long term debt for purchase of equipment to include the imputed principal and interest will be paid in full February 2007 as follows:

	Principal	Interest	Payment
2007	$ 882,359	$ 25,092	$ 907,451

The following is a summary of changes in long-term debt during fiscal year 2006:

	Balance June 30, 2005	Proceeds	Payments	Balance June 30, 2006
Long-term debt	$ 2,217,220	$ -	$ 1,334,861	$ 882,359

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

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

NOTE 7 - ACCRUED COMPENSATED ABSENCES

The following is a summary of changes in accrued compensated absences during fiscal year 2006:

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
Accrued compensated absences	$ 854,257	$ 426,879	$ 406,131	$ 875,005

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

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

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:

	Operating leases
2007	$ 286,796
2008	27,694
2009	23,947
2010	23,773
2011	14,828

Rental expenses under all operating leases including those on month-to-month terms totaled approximately $711,261 and $815,102 for the year ended June 30, 2006, and 2005, respectively. This includes $63,463 and $65,739 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:

	2006	2005
Amount payable to the Education Lottery Account, beginning of year	$ 21,244,269	$ 18,083,373
Change in net assets subject to transfer	318,863,032	277,497,712
	340,107,301	295,581,085
Change in capital assets, net of related debt		
Capital assets, net	3,141,658	3,525,967
Long-term debt	(1,334,861)	(1,232,559)
	1,806,797	2,293,408
Amount collected for fidelity fund	(39,900)	(53,061)
Amount paid during the year	(330,934,444)	(276,577,163)
Amount payable to the Education Lottery Account, end of year	$ 10,939,754	$ 21,244,269

Transfers related to the above payable were made to the Education Lottery Account in July 2006 and 2005 respectively.

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.

	SCRS
Employee contributions	6.25% 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, 2006, 2005, and 2004 the Commission contributions to SCRS were $721,520, $710,153, and $699,039 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, 2006.

(Continued)

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS, Continued

Commission employees may participate in the 457 and/or 401(k) deferred compensation plans, which are available to state and local governmental employees and administered by a state approved nongovernmental third party. The plans, available to all Commission employees, permit them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation plans are not available to employees until termination, retirement, death or unforeseeable emergency.

Employees eligible for service retirement may participate in the Teacher and Retiree Incentive Program (TERI). TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

New employees may elect to participate in the Optional Retirement Program (ORP), which provides retirement and death benefits through the purchase of individual or fixed variable annuity contracts, which are issued to and become the property of the participants. To elect ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

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, 2006.

NOTE 12 -TRANSACTIONS WITH STATE ENTITIES AND RELATED PARTIES

For the year ended June 30, 2006, the Commission had certain transactions with the State and various other state agencies as follows:

Related Party	Amount	Nature of Transaction
South Carolina Department of Revenue	$ 6,152,393	Transfers of state tax withholding, use taxes and debt setoffs
SLED	277,926	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	330,934,444	Transfers of net proceeds and unclaimed prizes
South Carolina State Treasurer	8,551,465	Transfer of payroll funds for processing
Comptroller General	30,000	Fees for payroll processing
Comptroller General	24,648	Unemployment compensation premium
South Carolina Budget & Control Board	251,828	Insurance, telephone, printing, miscellaneous services
Prison Industries - Department of Corrections	5,679	Recycling services and office furniture
South Carolina Department of Social Services	12,183	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	306,181	Security services
SC Legislative Audit Council	116,426	Legislative audit of commission operations
CB Richard Ellis	485,215	Rent for offices used in commission operations, building owned by commission chair

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

Related Party	Amount	Nature of Transaction
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	30,000	Fees for payroll processing
Comptroller General	9,258	Unemployment compensation premium
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

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

	For the years ended June 30, 2006	2005
Charges for services	$1,147,851,700	$ 960,149,462
Operating grants and contributions	1,246,114	595,984
Less expenses	830,234,782	683,247,734
Net program revenue	318,863,032	277,497,712
Transfers out to state agencies/funds	(320,629,929)	(279,738,059)
Change in net assets	(1,766,897)	(2,240,347)
NET ASSETS - BEGINNING	6,948,168	9,188,515
NET ASSETS - ENDING	**$ 5,181,271**	**$ 6,948,168**

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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

Richard H. Gilbert, Jr., CPA
Interim 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, 2006 and 2005, and have issued our report thereon dated August 30, 2006. 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 30, 2006

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
SCHEDULE OF FINDINGS
For the years ended June 30, 2006 and 2005

SCHEDULE OF AUDITOR'S RESULTS

We have issued an unqualified opinion, dated August 30, 2006 on the financial statements of the Commission as of and for the year ended June 30, 2006 and 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*.

SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION

2006 Statistical Information

Report on financial statements for the year ended June 30, 2006

global & local focus

Global
In the September 2006 issue of *La Fleur's Magazine*, the South Carolina Education Lottery Commission was included in the top 10 in four national lottery rankings. *La Fleur's Magazine* is a publication for the global lottery industry. The magazine researches and reports on the two hundred plus legal state operated lotteries in the United States and around the world. The rankings reported in the September 2006 issue are for sales during the 2006 fiscal year.

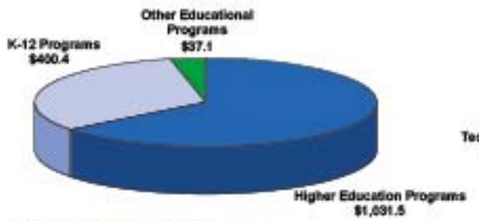
The Commission is ranked 1st in the United States with percentage increase in total sales from the prior year of $1,144.6 million or 20%. This ranking reflects total sales of instant and online games for the 2006 fiscal year. In percentage increase of instant sales, SCEL ranked 2nd with $696.5 million in instant ticket sales or a 20% improvement. In terms of total sales per capita, the Commission ranked 5th with instant ticket sales per capita of $164 and 8th in the United States in total sales per capita of $269.

The success that the Commission has achieved since the first instant ticket sold on January 7, 2002, has not gone unnoticed. For the fiscal year 2005 - 2006, lottery ticket sales surpassed the $1 billion mark. "This remarkable feat is the direct result of the wonderful partnership our lottery has forged with our players, retailers and vendors," said Ernie Passailaigue, the Commission's Executive Director. "We have put together a world-class staff to oversee this enterprise, and the results are evident. The people of the Palmetto State continue to see the fruits of our labor with over one billion dollars directed to new educational initiatives since we launched," added Mr. Passailaigue.

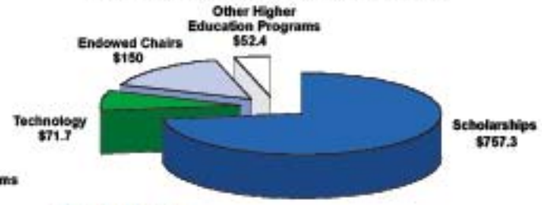
Local
Part of being a global lottery with a local focus is supporting initiatives that would assist the state of South Carolina in becoming a global leader in cutting-edge research. The South Carolina Research Centers of Economics Excellence Act of 2002 has earmarked $200 million of lottery proceeds 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 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 Commission's global position has and will continue to positively impact the citizens of the Palmetto State.

Lottery Dollars Appropriated to Date*



Higher Education 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 our website at www.sceducationlottery.com.

County Libraries

County libraries have been appropriated $8.3 million to date, based upon a formula set by the General Assembly. An additional $5.4 million was appropriated from surplus funds in August 2006.

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 (1-877-452-5155) for assistance.

Educational Television Network (ETV)

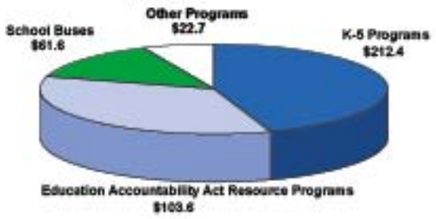
South Carolina's Educational Television Network has been awarded nearly $20 million, primarily to upgrade to digital technology.

Are there websites that can provide additional information?

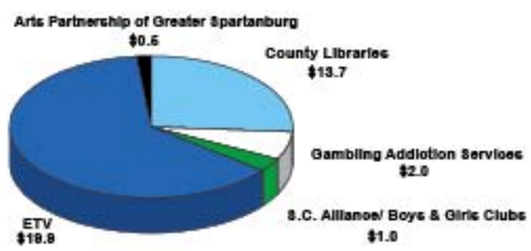
For more information on scholarship assistance or where the money goes, you are encouraged to visit the following websites:

South Carolina Education Lottery
www.sceducationlottery.com
South Carolina Department of Education
(K-12)
www.ed.sc.gov
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*



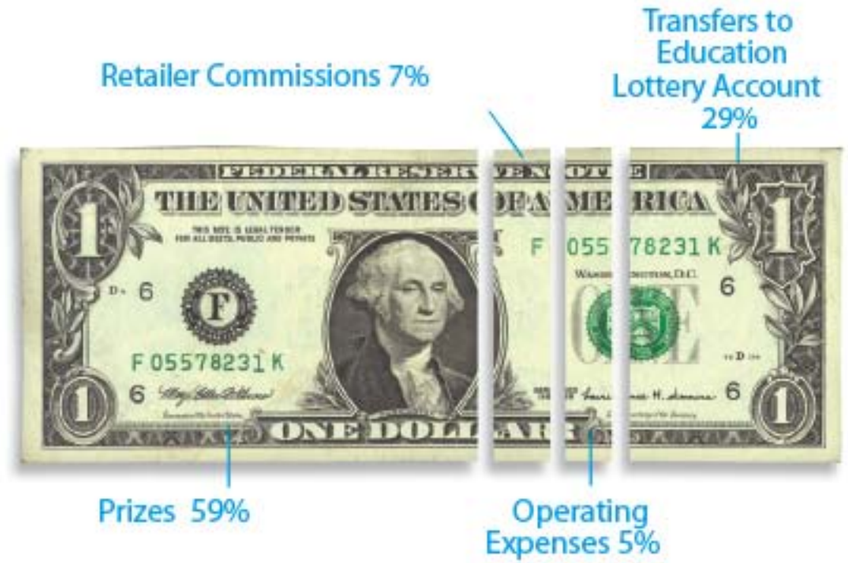
Other Appropriations to Date*



Source of appropriations: Office of State Budget, SC Budget and Control Board. "Education Lottery Appropriations." August 30, 2006. http://www.budget.sc.gov

*Dollar figures for all charts are in millions and incorporate the period from January 7, 2002-June 30, 2007.

What is the breakdown of SCEL's gross proceeds?



Distribution of lottery revenue from January 7, 2002–June 30, 2006

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	$67.0	$43.8	$290.1
	100%	58%	7%	5%	30%
2004-2005	$960.1	$573.6	$67.5	$41.5	$277.5
	100%	60%	7%	4%	29%
2005-2006	$1,147.9	$702.3	$81.1	$45.6	$318.9
	100%	61%	7%	4%	28%
TOTAL	$4,125.2	$2,444.2	$290.2	$197.3	$1,193.5
	100%	59%	7%	5%	29%

Dollar figures are in millions.

* Revenues include ticket sales, permit fees, retailer telephone fees, and other items.
** Includes Unclaimed Prizes.

Lottery Scholarship Distribution by County Since Inception

County	Scholarships	K-12	Scholarship Amounts	Library Amounts	Total
ABBEVILLE	3,819	$ 1,334,274	$ 3,244,279	$ 209,201	$ 4,787,753
AIKEN	17,334	7,107,897	20,454,864	380,355	27,943,115
ALLENDALE	1,127	6,213,591	4,763,945	187,207	11,164,742
ANDERSON	20,921	8,199,557	20,281,431	414,454	28,895,442
BAMBERG	2,148	3,567,246	5,593,997	195,217	9,356,460
BARNWELL	3,167	2,824,536	3,524,431	205,246	6,554,214
BEAUFORT	10,340	7,168,149	10,829,061	348,568	18,345,778
BERKELEY	18,756	8,291,461	18,257,984	380,500	26,929,945
CALHOUN	1,891	2,022,930	4,612,966	193,051	6,828,946
CHARLESTON	38,805	24,913,195	37,392,856	626,555	62,932,607
CHEROKEE	4,697	3,740,173	11,524,753	247,980	15,512,905
CHESTER	2,929	2,939,640	3,835,342	220,820	6,995,801
CHESTERFIELD	5,623	2,779,493	5,468,284	233,614	8,481,391
CLARENDON	4,017	4,559,531	4,337,218	218,517	9,115,266
COLLETON	3,911	3,866,610	4,419,969	226,990	8,513,569
DARLINGTON	7,441	7,258,539	7,886,092	269,828	15,414,459
DILLON	3,400	4,933,845	4,796,649	215,899	9,946,394
DORCHESTER	17,170	10,068,580	16,800,463	312,503	27,181,546
EDGEFIELD	2,434	1,216,574	5,281,631	206,889	6,705,094
FAIRFIELD	2,196	4,118,636	2,599,449	205,211	6,923,296
FLORENCE	16,824	11,060,188	18,305,958	355,662	29,721,808
GEORGETOWN	6,821	3,363,628	10,527,898	252,774	14,144,301
GREENVILLE	51,258	17,518,499	54,366,389	728,977	72,613,864
GREENWOOD	11,172	3,632,323	19,352,916	268,177	23,253,417
HAMPTON	2,458	3,475,464	4,041,175	202,170	7,718,809
HORRY	19,682	8,834,208	20,978,406	459,879	30,272,493
JASPER	879	4,132,976	4,509,538	201,129	8,843,643
KERSHAW	6,707	3,369,800	7,206,421	248,142	10,824,363
LANCASTER	5,959	3,673,793	8,241,671	260,942	12,176,406
LAURENS	8,294	3,416,614	8,452,599	273,024	12,142,237
LEE	1,777	3,480,567	2,834,455	200,307	6,515,329
LEXINGTON	29,245	17,424,747	35,710,040	488,387	53,623,173
MCCORMICK	1,566	3,618,355	7,809,967	185,364	11,613,686
MARION	3,687	4,026,740	3,626,680	222,876	7,876,296
MARLBORO	3,635	1,629,454	3,303,707	213,099	5,146,260
NEWBERRY	5,026	2,872,115	5,239,004	223,820	8,334,939
OCONEE	8,258	3,000,785	9,237,049	268,095	12,505,929
ORANGEBURG	12,248	13,165,268	12,022,545	305,399	25,493,212
PICKENS	14,561	3,753,504	16,470,697	333,597	20,557,798
RICHLAND	37,308	20,394,808	42,056,583	642,302	63,093,694
SALUDA	2,350	1,331,382	9,712,215	198,927	11,242,524
SPARTANBURG	31,942	15,451,099	34,272,294	543,941	50,267,334
SUMTER	14,514	6,277,064	19,636,490	324,611	26,238,164
UNION	3,552	2,960,891	5,894,725	214,662	9,070,278
WILLIAMSBURG	4,868	3,097,018	4,381,158	225,451	7,703,627
YORK	19,686	8,441,947	24,779,480	412,799	33,634,226
Total	**496,405**	**$ 290,527,694.85**	**$ 588,875,723**	**$ 13,753,116**	**$ 893,156,534**

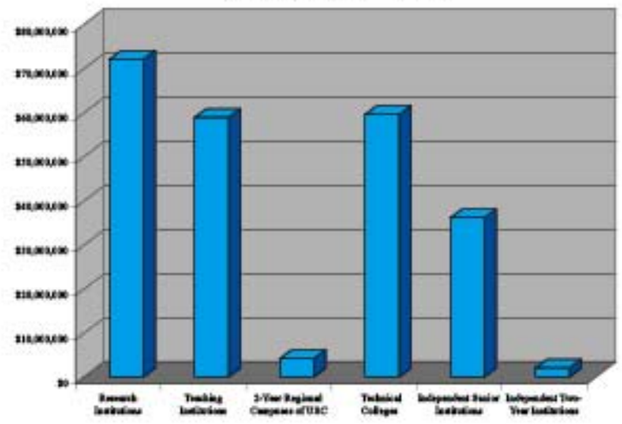
Funds appropriated by the General Assembly are based on the current fiscal year, July 1-June 30. K-12 funding is updated in March of each year by the South Carolina Department of Education. The Commission on Higher Education updates the information on the number of scholarships and fund amounts awarded by county through the spring semester in March-April of each year. Surplus funds, if available, are not appropriated to support county libraries until after the start of the fiscal year, when the previous year's books are closed and surplus funds are identified. Appropriations last updated 7.1.06.

South Carolina Commission on Higher Education
Scholarship Disbursements
2005-2006 Academic Year (Fall, Winter, Spring and Summer Combined)

	Total Number	Total Amount
Research Institutions:		
Clemson Univ.	6,796	$ 30,999,799
U.S.C. Columbia	10,053	40,433,659
Medical University of S.C.	75	290,925
Sub Totals	16,924	71,724,383
Teaching Institutions:		
The Citadel	473	1,863,694
Coastal Carolina University	2,063	6,333,049
College of Charleston	3,667	15,500,424
Francis Marion University	1,802	5,657,514
Lander University	1,329	4,214,736
South Carolina State Univ.	1,374	3,346,001
U.S.C. Aiken	1,241	4,651,569
U.S.C. Beaufort	235	771,952
U.S.C. Upstate	1,728	6,188,045
Winthrop University	2,523	10,259,512
Sub Totals	16,435	58,786,536
Two-Year Regional Campuses of USC		
U.S.C. Lancaster	595	1,434,530
U.S.C. Salkehatchie	457	771,141
U.S.C. Sumter	755	1,447,269
U.S.C. Union	261	459,278
Sub Totals	2,068	4,112,218
Technical Colleges:		
Aiken Tech	1,654	1,695,457
Central Carolina Tech	1,871	1,728,905
Denmark Tech	572	585,722
Florence-Darlington Tech	2,604	3,351,922
Greenville Tech	7,747	9,461,627
Horry-Georgetown Tech	3,286	4,118,775
Midlands Tech	7,098	8,825,999
Northeastern Tech	1,009	881,009
Orangeburg-Calhoun Tech	1,597	1,788,466
Piedmont Tech	3,786	3,858,130
Spartanburg Tech	3,161	4,157,408
Tech Coll.of the Lowcountry	1,345	1,235,956
Tri-County Tech	3,466	4,813,499
Trident Tech	7,589	9,184,478
Williamsburg Tech	441	295,221
York Tech	2,460	3,462,902
Sub Totals	49,686	59,445,476
Independent Senior Institutions:		
Allen University	231	187,426
Anderson College	1,402	3,041,519
Benedict College	1,156	1,381,588
Bob Jones University	459	2,161,703
Charleston Southern Univ.	1,837	3,145,896
Claflin University	1,444	2,197,849
Coker College	900	1,294,889
Columbia College	921	1,833,554
Columbia International Univ.	233	483,168
Converse College	579	1,394,906
Erskine College	541	1,392,802
Furman University	1,125	3,713,186
Johnson and Wales Univ.	15	64,999
Limestone College	1,123	767,700
Morris College	553	425,634
Newberry College	785	1,472,353
North Greenville College	1,605	3,327,964
Presbyterian College	914	2,500,601
South University	11	39,366
Southern Wesleyan Univ.	847	755,457
Voorhees College	221	240,116
Wofford College	1,018	3,359,316
Sub Totals	17,920	35,181,992
Independent Two-Year Institutions:		
Spartanburg Methodist Coll.	1,106	2,014,213
Sub Totals	1,106	2,014,213
ACADEMIC TOTALS	**104,139**	**$ 231,264,818**

* Unduplicated headcount for the academic year for each scholarship type.

Scholarship Disbursements
2005-2006 Academic Year



million dollar sales club

In the fiscal year ending June 2006, the Commission had 82 retailers that reached a million dollars or more in sales as compared to 60 retailers for the fiscal year ending 2005. In fiscal year 2006, retailers sold over $1 billion in lottery tickets! Lottery sales resulted in over $322 million transferred to the Education Lottery Account and over $81 million in retailer commissions earned.

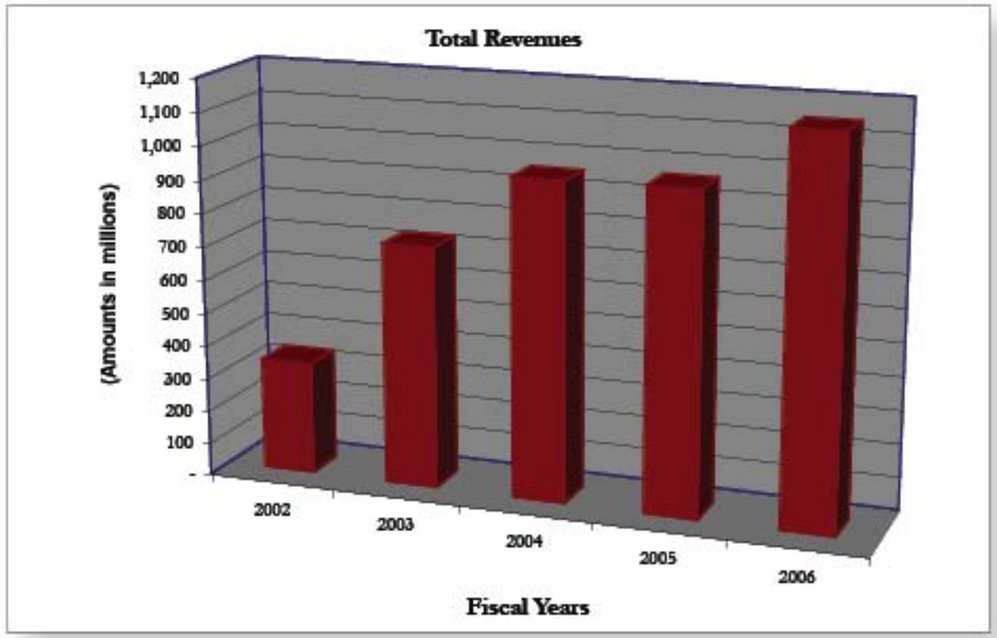
The following is a listing of the ranking of sales by retailers who sold over $1 million in lottery tickets and made the MILLION DOLLAR SALES CLUB in fiscal year 2006! Congratulations to all of our lottery retailers for a record-breaking year!

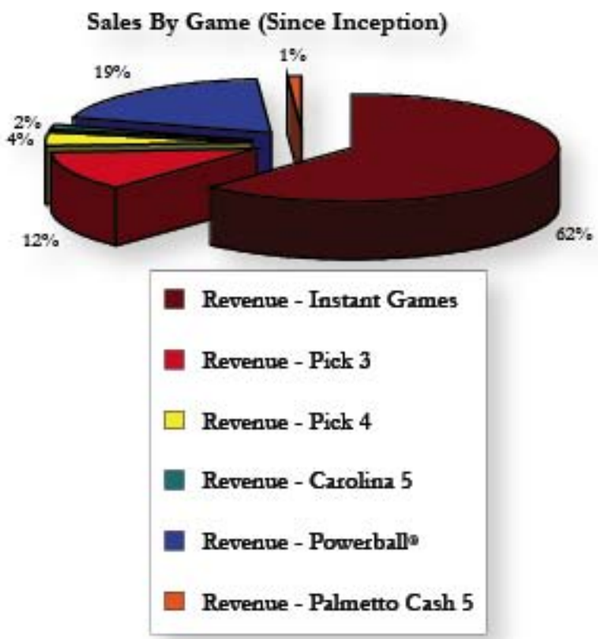
Statewide Ranking	Total Sales	Statewide Ranking	Total Sales	Statewide Ranking	Total Sales
1	$ 11,619,403.50	29	$ 1,644,526.50	56	$ 1,252,900.50
2	4,735,053.50	30	1,625,698.50	57	1,250,999.00
3	4,118,398.00	31	1,593,504.50	58	1,249,492.00
4	4,083,328.00	32	1,558,934.50	59	1,246,967.50
5	3,722,358.00	33	1,516,262.00	60	1,211,772.00
6	3,609,746.50	34	1,492,806.00	61	1,210,719.00
7	3,551,212.50	35	1,477,680.00	62	1,195,933.50
8	3,347,460.00	36	1,477,459.50	63	1,191,606.00
9	3,171,901.00	37	1,447,922.50	64	1,169,220.50
10	3,159,733.50	38	1,447,307.50	65	1,168,679.50
11	2,947,131.50	39	1,426,206.00	66	1,160,769.00
12	2,915,984.00	40	1,419,926.50	67	1,137,455.50
13	2,854,487.00	41	1,402,276.00	68	1,108,874.00
14	2,794,078.50	42	1,383,362.00	69	1,104,642.50
15	2,701,702.50	43	1,373,353.00	70	1,102,786.50
16	2,479,052.50	44	1,370,154.50	71	1,102,443.00
17	2,280,451.00	45	1,363,179.00	72	1,092,839.50
18	2,273,501.00	46	1,356,274.50	73	1,068,819.00
19	2,195,876.50	47	1,335,726.50	74	1,053,003.00
20	2,194,746.00	48	1,328,833.00	75	1,038,954.00
21	2,018,206.50	49	1,324,606.00	76	1,025,291.50
22	2,007,106.50	50	1,312,094.00	77	1,024,445.00
23	2,004,367.50	51	1,310,178.00	78	1,021,203.50
24	1,981,553.50	52	1,305,800.00	79	1,016,574.50
25	1,979,087.50	53	1,290,483.50	80	1,007,264.50
26	1,967,940.00	54	1,284,355.00	81	1,005,130.50
27	1,755,820.50	55	1,255,601.00	82	1,003,062.50
28	1,745,990.50				

Revenues By Game - Since Inception

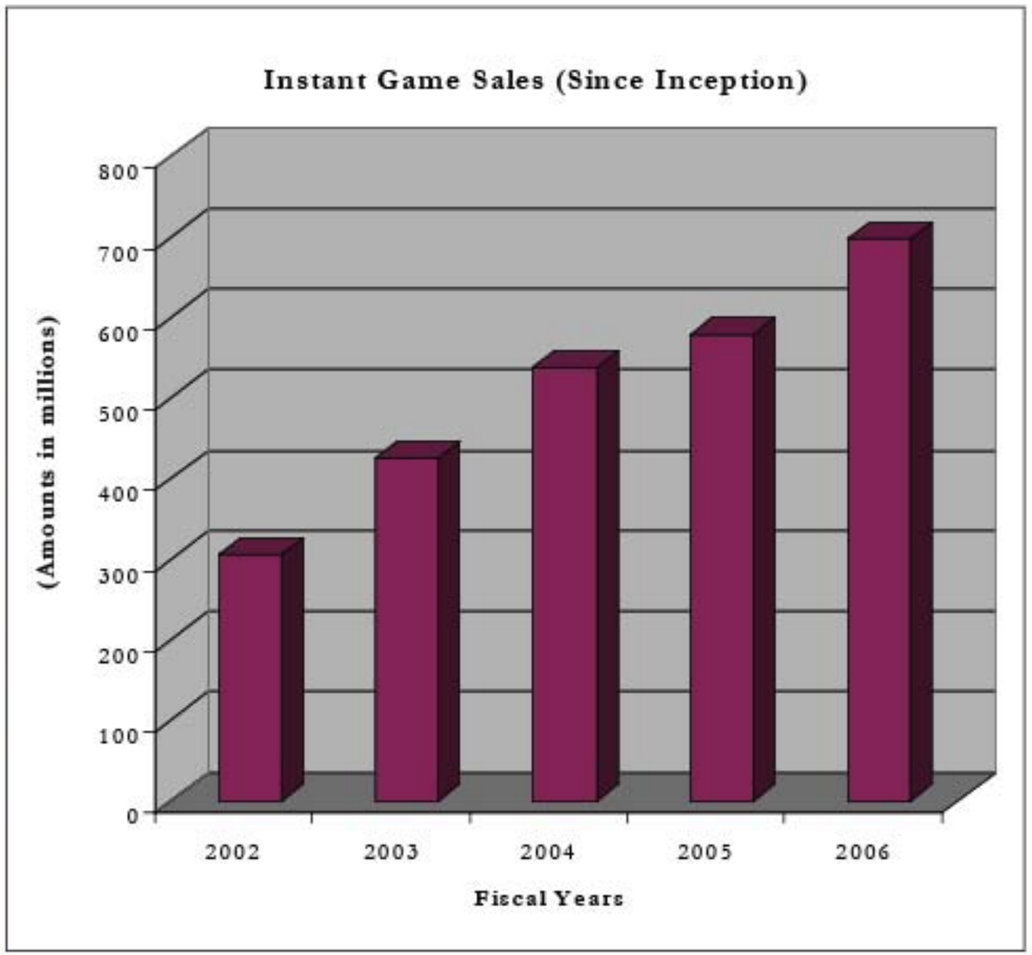
(Amounts expressed in millions)

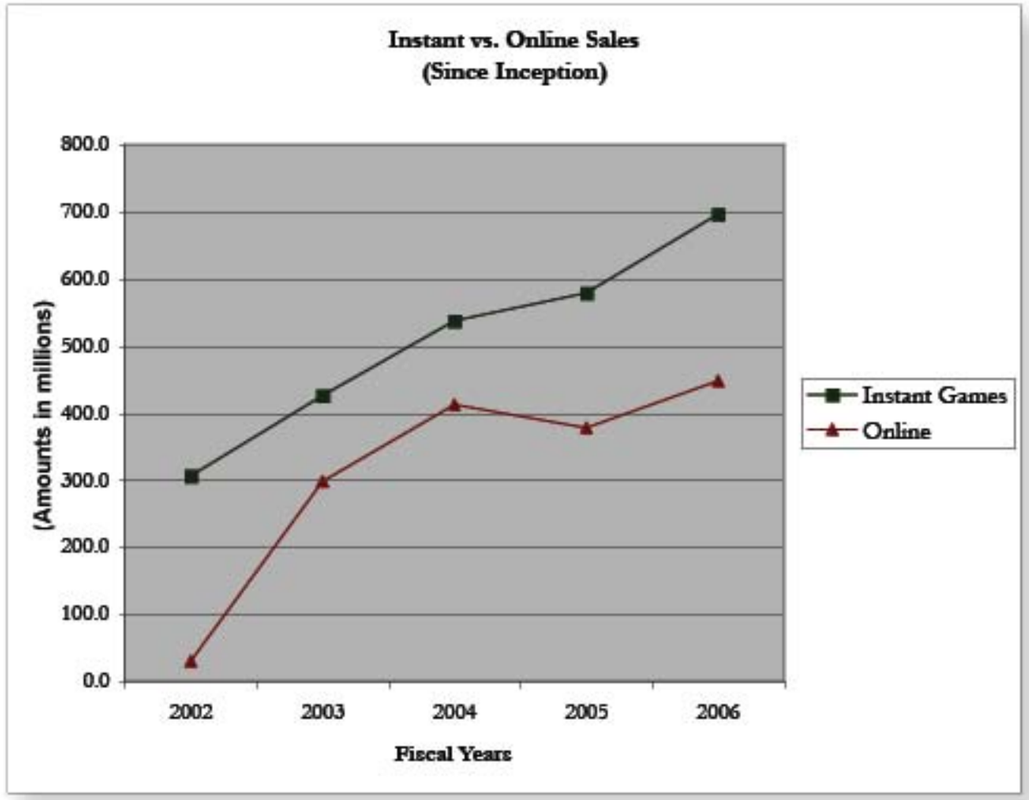
Revenues by Fiscal Year	2002	2003	2004	2005	2006	Total
Revenue - Instant Games	$ 306.3	$ 426.3	$ 537.3	$ 578.8	$ 696.5	$ 2,545.2
Revenue - Pick 3	27.8	99.1	109.1	118.9	134.3	489.2
Revenue - Pick 4	-	19.5	48.6	51.3	58.4	177.8
Revenue - Carolina 5	1.4	25.6	22.8	12.5	-	62.3
Revenue - Powerball®	-	153.9	232.2	178.9	221.8	786.8
Revenue - Palmetto Cash 5	-	-	-	16.5	33.6	50.1
Revenue - Other	1.6	2.5	3.2	3.2	3.3	13.8
Total Revenues	**$ 337.1**	**$ 726.9**	**$ 953.2**	**$ 960.1**	**$ 1,147.9**	**$ 4,125.2**





scel statistics





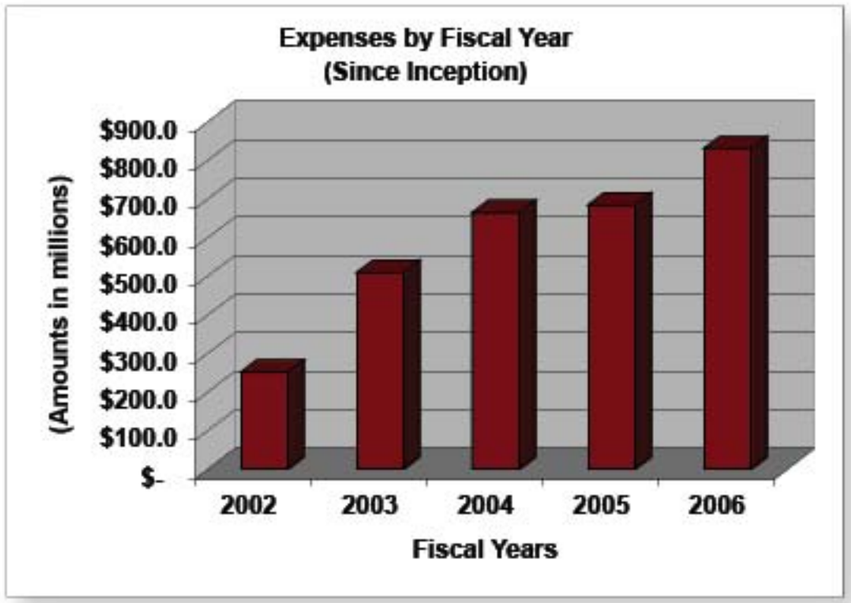
Expenses and Transfers Since Inception

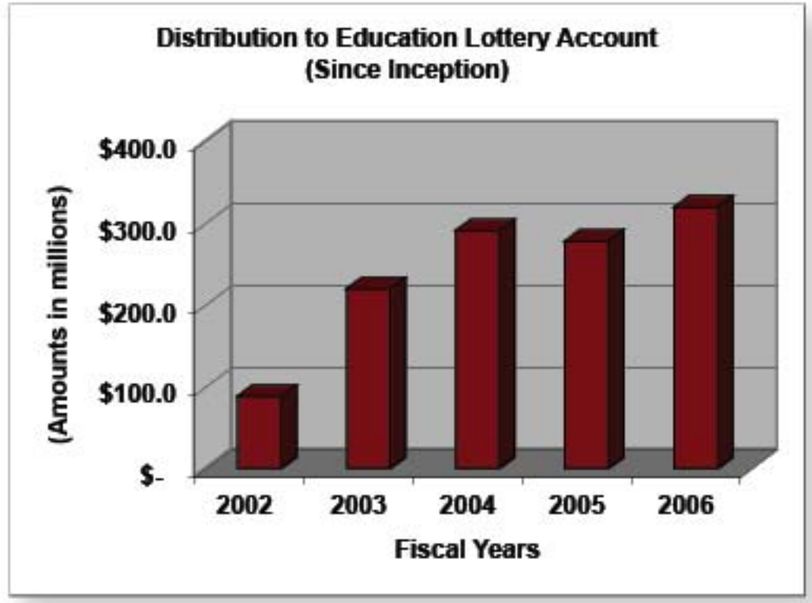
(Amounts expressed in millions)

Expenses	2002	2003	2004	2005	2006	Total
Prize Expenses	$ 200.3	$ 415.7	$ 552.3	$ 573.6	$ 702.3	$ 2,444.2
Retailer Commissions	23.5	51.1	67.0	67.5	81.1	290.2
Operating Expenses	25.6	40.8	43.8	41.5	45.6	197.3
Total	$ 249.4	$ 507.6	$ 663.1	$ 682.6	$ 829.0	$ 2,931.7

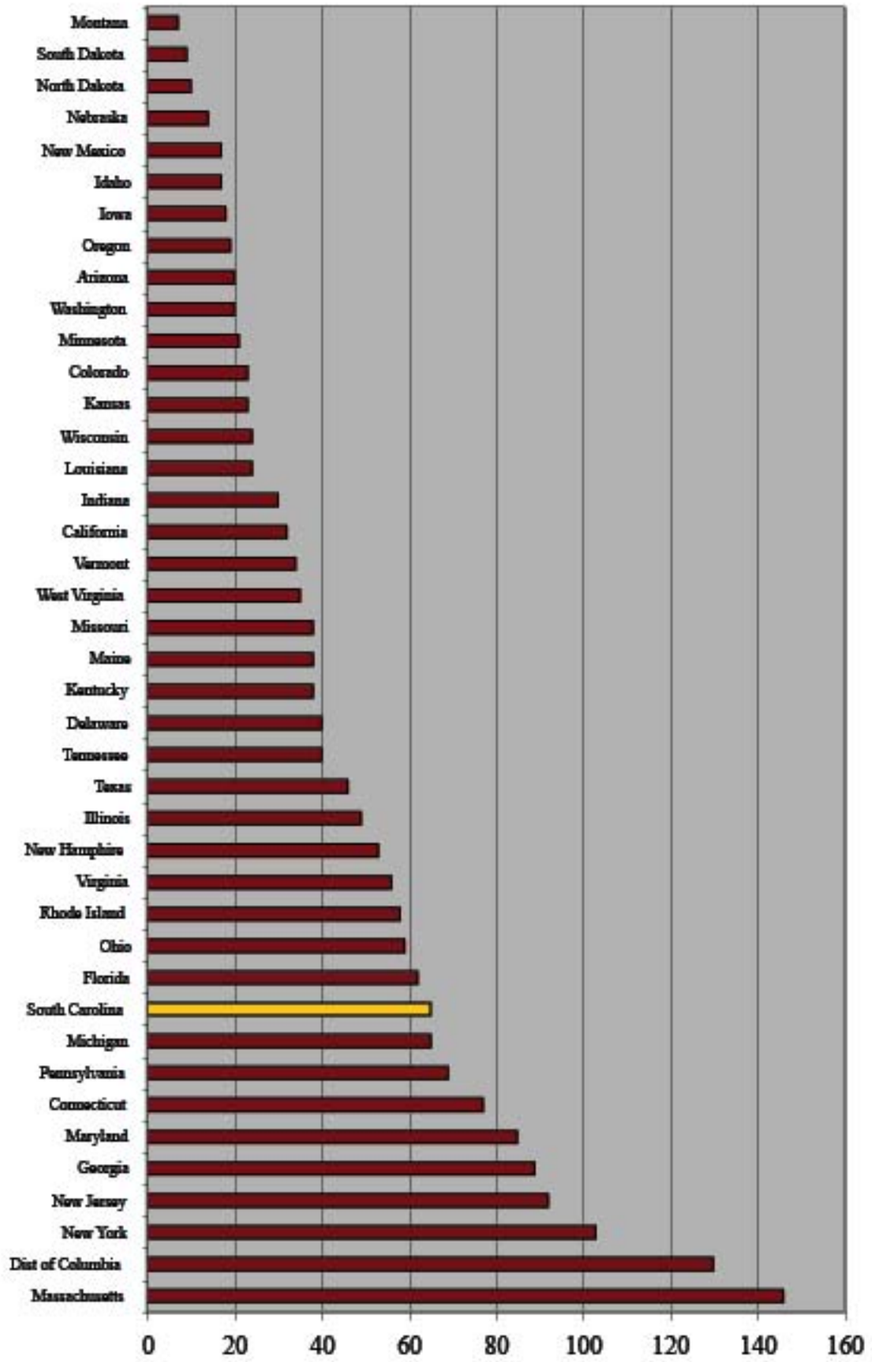
Transfers

	2002	2003	2004	2005	2006	Total
Transfers to Education Account	$ 87.7	$ 219.3	$ 290.1	$ 277.5	$ 318.9	$ 1,193.5





Fiscal Year 2006 Per Capita Lottery Income Comparison*



*From data provided in La Fleur's 2006 World Lottery Almanac - not including VLT income.

Fiscal Year 2006

Per Capita Lottery Income		
Massachusetts	$	146
Dist of Columbia		130
New York		103
New Jersey		92
Georgia		89
Maryland		85
Connecticut		77
Pennsylvania		69
Michigan		65
South Carolina		65
Florida		62
Ohio		59
Rhode Island		58
Virginia		56
New Hamphire		53
Illinois		49
Texas		46
Tennessee		40
Delaware		40
Kentucky		38
Maine		38
Missouri		38
West Virginia		35
Vermont		34
California		32
Indiana		30
Louisiana		24
Wisconsin		24
Kansas		23
Colorado		23
Minnesota		21
Washington		20
Arizona		20
Oregon		19
Iowa		18
Idaho		17
New Mexico		17
Nebraska		14
North Dakota		10
South Dakota		9
Montana	$	7
Median	$	46

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South Carolina Education Lottery

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