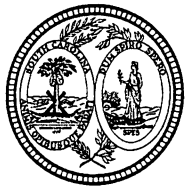
SOUTH CAROLINA
EDUCATION LOTTERY COMMISSION

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2011 AND 2010

State of South Carolina



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September 20, 2011

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

This report on the audit of the financial statements of the South Carolina Education Lottery Commission for the fiscal years ended June 30, 2011, was issued by Elliott Davis, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

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SOUTH CAROLINA EDUCATION LOTTERY COMMISSION

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Richard H. Gilbert, Jr., CPA
Deputy 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 component unit of the State of South Carolina (the State), as of June 30, 2011 and 2010, 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 respective financial position of the Commission as of June 30, 2011 and 2010, and the respective changes in financial position and where applicable, cash flows thereof 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 September 15, 2011, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 accompanying Management's Discussion and Analysis on pages 2 through 4 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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 forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The supplementary schedule of business-type activities for the Statewide Comprehensive Annual Financial Report (CAFR) is supplementary information required by the South Carolina Office of the Comptroller General and is presented for purposes of additional analysis 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 basic financial statements taken as a whole.

Elliott Davis, LLC

Columbia, South Carolina
September 15, 2011

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Commission provides this *Management's Discussion and Analysis* of its financial performance for the readers of the Commission's financial statements. This narrative provides an overview of the Commission's financial activity for the fiscal year ended June 30, 2011. 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 the Commission's operations.

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

Financial Highlights

There was an increase in fiscal year 2011 of $39.9 million in revenues from lottery games over fiscal year 2010. The Commission returned $667.6 million to winners of lottery games and paid $74 million to retailers for commissions and incentives. Other game-related expenses were $15.4 million and operating expenses were $22.2 million. Remittances to and due to the ELA were $271.4 million as of and for the year ended June 30, 2011.

Assets and Liabilities (in millions) (See notes 4 through 9 of the financial statements)

	2011	2010	2009
Current assets	$ 56.3	$ 49.6	$ 49.5
Non-current assets:			
Capital assets, net	0.5	0.6	0.9
Other non-current assets	5.4	4.8	4.8
Total non-current assets	5.9	5.4	5.7
Total assets	62.2	55.0	55.2
Current liabilities	61.1	53.8	53.6
Long-term liabilities	0.1	0.1	0.2
Total liabilities	61.2	53.9	53.8
Net assets			
Invested in capital assets	0.5	0.6	0.9
Restricted assets	0.5	0.5	0.5
Total net assets	$ 1.0	$ 1.1	$ 1.4

Commission Operations (in millions)

	2011	2010	2009
Sales by game and other revenues:			
Revenue - instant games	$ 698.2	$ 646.2	$ 650.0
Revenue - on-line Games	348.9	361.0	355.1
Other revenues	3.5	3.5	3.4
Total revenues	1,050.6	1,010.7	1,008.5
Expense by prize and other expenses:			
Retailer commissions and incentives	74.1	71.2	71.3
Prize expense - instant games	498.6	457.6	463.2
Prize expense - on-line games	169.0	170.8	170.0
Instant and on-line direct costs	15.4	16.4	19.2
Operating expenses	22.2	22.6	23.7
Total expenses	779.3	738.6	747.4
Non-operating income:			
Interest income	0.1	0.1	0.1
Remitted and due to ELA	$ 271.4	$ 272.5	$ 261.5
Change in net assets	$ (0.1)	$ (0.3)	$ (0.3)
Ending net assets	$ 1.0	$ 1.1	$ 1.4

All proceeds of the Commission must be remitted to the State Treasurer for the ELA 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. The Commission remitted $271.1 million, including $14.2 million in unclaimed prize funds, to the State Treasurer for the ELA for the fiscal year ended June 30, 2011. Total remittances to the ELA are about $ 2.5 billion from inception to June 30, 2011.

Net Assets Invested in Capital Assets (in millions)

Capital assets	$4.0
Less: accumulated depreciation	3.5
Net assets invested in capital assets	$0.5

Additional discussion on capital assets can be found in note 4 of the financial statements.

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. Address questions concerning any of the information provided in this report or requests for additional financial information, 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, 2011	June 30, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 21,178,645	$ 17,192,144
Cash - restricted fidelity fund	469,109	499,395
Retailer accounts receivable, net of allowance for doubtful accounts of $264,729 and $265,517 for 2011 and 2010, respectively	32,161,135	29,388,357
Inventory	1,710,481	1,333,973
Prepaid expenses and other current assets	752,479	1,241,966
Total current assets	56,271,849	49,655,835
NONCURRENT ASSETS		
Capital assets, net	540,157	597,970
Deposits with Multi-State Lottery Association	5,432,133	4,780,313
Total noncurrent assets	5,972,290	5,378,283
Total assets	**$ 62,244,139**	**$ 55,034,118**
LIABILITIES		
CURRENT LIABILITIES		
Due to Education Lottery Account	$ 34,754,637	$ 25,633,766
Prizes payable	22,209,928	23,394,802
Prizes payable - Multi-State Lottery Association	1,052,317	929,818
Accounts payable	976,687	1,747,191
Accrued liabilities	995,212	1,117,618
Current portion of accrued compensated absences	550,561	589,589
Deferred revenue	600,836	408,269
Total current liabilities	61,140,178	53,821,053
NONCURRENT LIABILITIES		
Accrued compensated absences	94,695	115,700
Total liabilities	61,234,873	53,936,753
NET ASSETS		
Invested in capital assets	540,157	597,970
Restricted fidelity funds	469,109	499,395
Total net assets	**$ 1,009,266**	**$ 1,097,365**

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,	
	2011	**2010**
OPERATING REVENUES		
Sales Revenues		
Instant games	$ 698,201,433	$ 646,181,682
On-line games	348,861,235	360,981,842
Net sales revenues	1,047,062,668	1,007,163,524
Other Operating Revenues		
Retailer permit fees	505,845	490,050
Retailer telephone fees	2,871,084	2,839,397
Other	142,334	209,446
Total other operating revenue	3,519,263	3,538,893
Total revenue	1,050,581,931	1,010,702,417
DIRECT COSTS		
Commissions and incentives to retailers	74,049,371	71,168,765
Prize expense		
Instant games	498,602,984	457,551,076
On-line games	169,034,514	170,787,581
Total prize expense	667,637,498	628,338,657
Instant and on-line costs	15,398,857	16,395,589
Total direct costs	757,085,726	715,903,011
Gross profit	293,496,205	294,799,406
OPERATING EXPENSES		
Advertising and promotion	8,619,502	8,659,566
Security checks	251,940	232,333
Salaries, wages and benefits	9,683,441	9,988,692
Contracted and professional services	337,237	364,424
Depreciation	335,946	355,863
Rent expense	927,902	967,208
Office supplies	52,884	85,127
Other general and administrative	2,027,831	1,995,423
Total operating expenses	22,236,683	22,648,636
Operating income	271,259,522	272,150,770
NON-OPERATING INCOME		
Interest income	43,149	72,933
Gain on disposition of capital assets	240	10,429
Total non-operating income	43,389	83,362
Change in net assets before amount remitted to and due to Education Lottery Account	271,302,911	272,234,132
REMITTED TO AND DUE TO EDUCATION LOTTERY ACCOUNT	271,391,010	272,487,581
Change in net assets	(88,099)	(253,449)
NET ASSETS,		
BEGINNING OF YEAR	1,097,365	1,350,814
END OF YEAR	**$ 1,009,266**	**$ 1,097,365**

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, 2011	For the years ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retailers	$ 1,048,001,960	$ 1,014,754,923
Cash payments to prize winners	(668,699,873)	(629,448,291)
Cash payments to suppliers for goods and services	(102,292,154)	(99,847,793)
Cash payments to employees for services	(9,897,015)	(10,052,954)
Net cash provided by operating activities	267,112,918	275,405,885
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Refunds of deposit with Multi-State Lottery Association	(651,820)	2,903
Allocation from Multi-State Lottery Association	-	51,865
Payments to Education Lottery Account	(262,270,139)	(270,509,249)
Net cash used for noncapital financing activities	(262,921,959)	(270,454,481)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from dispositions of capital assets	261	92,148
Purchase of capital assets	(278,154)	(160,834)
Net cash used for financing activities	(277,893)	(68,686)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	43,149	72,933
Net cash provided by investing activities	43,149	72,933
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,956,215	4,955,651
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	17,691,539	12,735,888
END OF YEAR	**$ 21,647,754**	**$ 17,691,539**
OPERATING ACTIVITIES		
Operating income	$ 271,259,522	$ 272,150,770
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	335,946	355,863
Changes in assets and liabilities		
Retailer accounts receivable	(2,772,778)	4,306,620
Inventory	(376,508)	405,944
Prepaid expenses and other assets	489,487	52,996
Accounts payable and accrued liabilities	(952,943)	(502,560)
Prizes payable	(1,062,375)	(1,109,634)
Deferred revenue	192,567	(254,114)
Net cash provided by operating activities	**$ 267,112,918**	**$ 275,405,885**

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 State of South Carolina (the State) established the Commission as an instrumentality of the State with enactment of Act 59 of 2001 (the Act). The Commission is responsible for the provision of lotteries on behalf of the State in accordance with the Act. The Act established a board of nine commissioners as an organization legally separate from the State. The Governor appoints three commissioners, the President *Pro Tempore* of the Senate appoints three and the Speaker of the House of Representatives appoints three. The Commission exercises powers comparable to those of a governing board of an entrepreneurial organization. The Commission remits "net proceeds" as defined by the Act to the State. Therefore, the State reports the Commission as a component unit in the State's CAFR.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Commission are as follows:

Method of Accounting

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

The 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 Code Sec. P80.103, the Commission has elected not to implement FASB Statements 103 and after.

Basis of Accounting

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

Use of Estimates

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

Net Operating Revenues

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

Non-operating Income

Non-operating income is defined as all revenue that is not generated through ticket sale operations, such as interest income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Revenue, Accounts Receivable, and Deferred Revenue 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 games are recognized upon activation of ticket packs for sale by the retailers. The Commission evaluates its receivables on an ongoing basis for collectability.

Revenue includes a net value of $935,526 for tickets activated and available for sale in retail locations, but not paid for by the retailers as of the statement date.

Commissions

Retailers receive a commission of 7 percent on total sales.

Prizes

In accordance with the Act, as nearly as practical, at least 45 percent of ticket sales must be returned to the public in the form of prizes. Prize expense for instant ticket games is recorded as an estimate at the time the related revenue is recognized based on the predetermined prize structure for each game; periodically, the prize expense is adjusted to reflect amounts actually won. Prize expense for 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 and consist of instant 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 the last day to sell for instant games and within 180 days after the draw date for on-line games. Unclaimed prize money must be deposited into the ELA with the State Treasurer each year.

Net Assets

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

Change in Net Assets

Change in net assets equals net proceeds, as defined by the Act, and consists of all revenues 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 and petty cash.

Retailer Accounts Receivable

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

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 the capital assets. 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 asset purchases with a unit cost of $5,000 or more. The estimated useful lives used for the major asset categories are as follows:

Machinery and equipment	3 – 7 years;
Vehicles	3 – 5 years; and
Leasehold improvements	5 – 10 years.

Prepaid Expenses

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

Restricted Fidelity Fund

In accordance with the Act, retailers contribute a fee to a fidelity fund upon acceptance as a lottery retailer. The fund is used to cover losses the Commission may incur due to misfeasance, nonfeasance, or malfeasance of retailers. At the end of each fiscal year, any amount in the fund in excess of $500,000 is treated as net proceeds from the Commission and is payable to the ELA. As of June 30, 2011, the balance in the restricted fidelity fund was $469,109. A transfer of $65,511 was made during the reporting year for retailer losses. The fidelity fund is held in a separate account and appears on the Statements of Net Assets as "Restricted fidelity funds."

Insurance

The Commission is exposed to the risk of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission combines coverage provided by the South Carolina Insurance Reserve Fund with the purchase of commercial insurance to substantially cover these risks. The amount of settlements did not exceed insurance coverage in each of the past three fiscal years. The Commission is also exposed to custodial credit risk on deposits, which is outlined in Note 3.

Compensated Absences

Employees earn the right to be compensated during absences for 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Accounts Receivable - Multi-State Lottery Association (MUSL)

Accounts Receivable – MUSL consists of the Commission's annual pro rata allocation of earnings on a reserve account in which MUSL holds member deposits. There were no outstanding balances related to these receivables as of June 30, 2011 and 2010.

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 Association (MUSL)

The Commission is required to maintain funds in reserve with MUSL. This reserve serves as a contingent source for prize payouts should MUSL games not generate sufficient funds to pay amounts due to prizewinners. MUSL is not a financial institution. Balances related to these deposits as of June 30, 2011 and 2010 were $5,432,133 and $4,780,313, respectively.

New Accounting Pronouncements

Certain recently issued accounting standards have not yet been adopted by the Commission as management has determined that they did not have a material effect on the Commission's financial position or results of operations as of and for the year ended June 30, 2011.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through September 15, 2011, the date the financial statements were available for issue.

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.

For the years ending June 30, 2011 and 2010, the amounts of the Commission's deposits were as follows:

	2011		2010	
	Carrying amount	Bank balances	Carrying amount	Bank balances
Demand deposits	$ 21,647,754	$ 22,035,970	$ 17,691,539	$ 18,047,177

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. For the years ending June 30, 2011 and 2010, all of the Commission's bank balances of $22,035,970 and $18,047,177, respectively, were covered by FDIC insurance or by collateral held by the pledging financial institutions' trust departments in the Commission's name. Therefore, none of the Commission's bank balances were exposed to custodial credit risk as of June 30, 2011 and 2010.

State Law

The Act requires the Commission to remit to the State Treasurer all net proceeds on a monthly basis. Net proceeds are not available to the Commission for long-term investment. State Code Section 11-13-60 requires full collateralization of all deposits held by the State Treasurer.

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets and accumulated depreciation during fiscal year 2011:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Cost				
Machinery and equipment	$ 2,388,295	$ 278,154	$ (29,146)	$ 2,637,303
Vehicles	47,826	-	-	47,826
Leasehold improvements	1,315,694	-	-	1,315,694
	3,751,815	278,154	(29,146)	4,000,823
Accumulated depreciation				
Machinery and equipment	(2,078,766)	(202,719)	29,125	(2,252,360)
Vehicles	(47,826)	-	-	(47,826)
Leasehold improvements	(1,027,253)	(133,227)	-	(1,160,480)
	(3,153,845)	(335,946)	29,125	(3,460,666)
Total capital assets, net	**$ 597,970**	**$ (57,792)**	**$ (21)**	**$ 540,157**

The following is a summary of changes in capital assets and accumulated depreciation during fiscal year 2010:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Cost				
Machinery and equipment	$ 11,326,185	$ 160,834	$ (9,098,724)	$ 2,388,295
Vehicles	47,826	-	-	47,826
Leasehold improvements	1,315,694	-	-	1,315,694
	12,689,705	160,834	(9,098,724)	3,751,815
Accumulated depreciation				
Machinery and equipment	(10,874,777)	(220,994)	9,017,005	(2,078,766)
Vehicles	(47,826)	-	-	(47,826)
Leasehold improvements	(892,384)	(134,869)	-	(1,027,253)
	(11,814,987)	(355,863)	9,017,005	(3,153,845)
Total capital assets, net	**$ 874,718**	**$ (195,029)**	**$ (81,719)**	**$ 597,970**

NOTE 5 – ACCRUED EXPENSES

Accrued expenses as of June 30, 2011 consist of the following:	
Accrued payroll and related expenses	$ 774,636
Accrued other expenses	220,576
Total accrued expenses	$ 995,212

Accrued expenses as of June 30, 2010 consist of the following:	
Accrued payroll and related expenses	$ 928,177
Accrued other expenses	131,801
Accrued SLED costs	57,640
Total accrued expenses	$ 1,117,618

NOTE 6 – LONG-TERM CONTRACTS AND COMMITMENTS

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

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

Fiscal Year	Contract Payments to Intralot
2012	$ 6,777,900
2013	$ 6,777,900
2014	$ 6,777,900
2015	$ 6,777,900
2016	$ 6,777,900
2017 - 2019	$ 15,871,582

The monthly on-line gaming fee payments to Intralot totaled $6,777,900 and $6,777,900 for fiscal years 2011 and 2010, respectively.

Scientific Games International (SGI) has provided services for the instant games contract since inception. During fiscal year 2006, the contract was rebid and SGI was awarded the contract to provide instant tickets, including services of marketing support, warehousing, and distribution, among other items associated with providing instant tickets. Payments to SGI are contingent upon actual services provided. Total payments to SGI as it relates to instant ticket services was $8,559,504 and $7,775,519 for fiscal years 2011 and 2010, respectively. The contract period ends September 2013.

NOTE 7 – ACCRUED COMPENSATED ABSENCES

The following is a summary of changes in accrued compensated absences during fiscal year 2011:

	Balance as of June 30, 2010	Additions	Deductions	Balance as of June 30, 2011
Accrued compensated absences	$ 705,289	$ 484,737	$ 544,770	$ 645,256

Compensated absences due in the next fiscal year are estimated at $550,561, which is based on an average of the prior years' annual leave deductions.

The following is a summary of changes in accrued compensated absences during fiscal year 2010:

	Balance as of June 30, 2009	Additions	Deductions	Balance as of June 30, 2010
Accrued compensated absences	$ 857,247	$ 505,706	$ 657,664	$ 705,289

Compensated absences due in the next fiscal year were estimated at $589,589, which is based on an average of the prior years' annual leave deductions.

NOTE 8 – OPERATING LEASES

The Commission has entered into operating leases for the rental of office space for its headquarters and 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 non-cancellable leases with original terms of one year or more are scheduled as follows for the year ending June 30:

Fiscal Year	Operating Leases
2012	$ 653,005
2013	635,592
2014	654,979
2015	674,366
2016	502,384
2017	4,122

Rental expenses under all operating leases, including those on month-to-month terms, totaled approximately $927,902 and $967,208 for the years ended June 30, 2011, and 2010, respectively. This amount includes $88,756 and $91,775, respectively, in vehicle rental paid to the State Fleet management.

NOTE 9 – DUE TO ELA

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

NOTE 9 – DUE TO ELA, Continued

	2011	2010
Amount payable to the ELA, beginning of year	$ 25,633,766	$ 23,655,434
Change in net assets subject to remittance	271,302,911	272,234,132
	296,936,677	295,889,566
Change in capital assets	57,813	276,748
Net amount paid from (collected for) fidelity fund	30,286	(23,299)
Amount paid during the year	(262,270,139)	(270,509,249)
Amount payable to the ELA, end of year	**$34,754,637**	**$25,633,766**

Net proceeds related to the above payable were remitted to the ELA in July 2011 and 2010, respectively.

NOTE 10 – EMPLOYEE RETIREMENT SYSTEMS

The Commission contributes to the South Carolina Retirement System (SCRS) Cost Sharing Multiple-Employer Defined Benefit Plan (the Plan) administered by the Retirement Division of the State Budget and Control Board (SBCB).

As established by Section 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 SBCB.

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 State Code of Laws.

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

	SCRS
Employee contributions	6.50% of salary
Employer contributions	
Retirement	9.24% of salary
Insurance surcharge	3.90% of salary
Group life insurance	.15% of salary

For the years ending June 30, 2011, 2010, and 2009, the Commission's contributions to SCRS were $930,095, $960,906, and $962,486, 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, 2011.

Commission employees may participate in Internal Revenue Code Sections 457 and/or 401(k) Deferred Compensation Plans (the 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 Plans is optional. Access to the funds in the deferred compensation plans is not available to employees until termination, retirement, death, or unforeseeable emergency.

NOTE 10 – EMPLOYEE RETIREMENT SYSTEMS, Continued

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 CAFR containing financial statements and required supplementary information for the SCRS is issued and publicly available by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29211-1960, by calling (803) 737-6800, and on the website at www.retirement.sc.gov.

NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Commission contributes to the Retiree Medical Plan (RMP) and the Long-Term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit postemployment healthcare, and long-term disability plans administered by the Employee Insurance Program (EIP), which is a part of the SBCB. Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires as of May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100 percent employer funding and fifteen through twenty-four years of service for 50 percent employer funding. Benefits become effective when the former employee retires under a state retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies

Sections 1-11-710 and 1-11-720 of the South Carolina Code of Laws, 1976, as amended, requires these post-employment healthcare and long-term disability benefits be funded though annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, which is 3.90% and 3.50% for the annual covered payroll of 2011 and 2010, respectively. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Commission paid approximately $295,603 and $262,851 applicable to the surcharge included with the employer contribution for RMP and LTDP for the fiscal years ended June 30, 2011 and 2010, respectively, which were 100 percent of the required contribution amounts. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was $3.22 and $3.23 for the fiscal years ended June 30, 2011 and 2010, respectively.

Effective May 1, 2008, the State established two trust funds through Act 195 of 2008 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long-Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

NOTE 12 – CONTINGENCIES

The Commission is subject to litigation in the ordinary course of its business. In the opinion of management and legal counsel, the outcome of such litigation will not have a material impact on the financial position or cash flows of the Commission for the year ending June 30, 2011.

NOTE 13 – TRANSACTIONS WITH STATE ENTITIES AND RELATED PARTIES

For the year ended June 30, 2011, 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	$ 5,508,357	Transfers of state income tax withholding for prizes, use taxes, prize debt setoffs, and retailer credit checks
South Carolina Law Enforcement Division	373,513	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	262,270,139	Remittances of net proceeds and unclaimed prizes
South Carolina Budget & Control Board	132,996	Vehicles, telephone, printing, miscellaneous services
South Carolina Budget & Control Board	966,299	Employee insurance
South Carolina Department of Social Services	16,133	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	327,848	Security services
South Carolina Retirement Systems	1,446,847	Employee contributions / employer match
South Carolina Dept of Employment & Workforce	4,496	Unemployment Insurance beginning January 1, 2011
Other	1,223	State Codes, recycling pickup fees, notary public licenses

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

For the year ended June 30, 2010, 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	$ 14,044,786	Transfers of state income tax withholding, for payroll and prizes, prize debt setoffs, use taxes, retailer credit checks, and payroll garnishments
South Carolina Law Enforcement Division	279,532	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	270,509,249	Remittances of net proceeds and unclaimed prizes
South Carolina State Treasurer	4,399,773	Transfer of payroll funds for processing
Comptroller General	15,000	Fees for payroll processing
South Carolina State Treasurer	17,817	Unclaimed property transfer
Comptroller General	25,889	Unemployment compensation premium
South Carolina Budget & Control Board	300,250	Vehicles, telephone, printing, miscellaneous services
South Carolina Budget & Control Board	749,715	Employee insurance
South Carolina Department of Social Services	17,225	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	327,848	Security services
South Carolina Retirement Systems	549,683	Employee contributions / employer match
South Carolina State Accident Fund	57,158	Workers' compensation premium
Other	1,771	State Codes and recycling pickup fees

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

	For the years ended June 30,	
	2011	**2010**
Charges for services	$ 1,050,581,931	$ 1,010,702,417
Operating grants and contributions	43,389	83,362
Less expenses	779,322,409	738,551,647
Net program revenue	271,302,911	272,234,132
Remittances out to state agencies/funds	(271,391,010)	(272,487,581)
Change in net assets	(88,099)	(253,449)
NET ASSETS - BEGINNING	1,097,365	1,350,814
NET ASSETS - ENDING	**$ 1,009,266**	**$ 1,097,365**

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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
Deputy State Auditor
State of South Carolina

We have audited the financial statements of the ***South Carolina Education Lottery Commission*** (the Commission), a component unit of the State of South Carolina (the State), as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 15, 2011. We conducted our audit 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

Management of the Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information and use of management, the audit committee, 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 those specified parties.

Elliott Davis, LLC

Columbia, South Carolina
September 15, 2011

SOUTH CAROLINA EDUCATION LOTTERY COMMISSION
SCHEDULE OF FINDINGS
For the year ended June 30, 2011

I. SUMMARY OF AUDITOR'S RESULTS

We have issued an unqualified opinion, dated September 15, 2011 on the financial statements of the Commission as of and for the years ended June 30, 2011 and 2010.

Our audit disclosed no material weaknesses relating to the audit of the Commission's financial statements.

Our audit disclosed no significant deficiencies relating to the audit of the Commission's financial statements.

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

II. FINANCIAL STATEMENTS FINDINGS

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