2003 SOUTH CAROLINA EDUCATION LOTTERY COMPREHENSIVE FINANCIAL ANNUAL REPORT

MESSAGE FROM THE COMMISSION CHAIRMAN

Dear South Carolinians:

The goals of the South Carolina Education Lottery (SCEL) staff for fiscal year 2003 were to build on past successes, to conserve costs, and to remain accountable to our players and beneficiaries. Accounts would show that these goals were successfully achieved.

During fiscal year 2003, SCEL staff generated nearly $727 million in revenue, a notable accomplishment in light of the nation's economic slowdown. This outstanding performance provided the state treasury with more than $220 million for the Education Lottery Account.

Since ticket sales began in January 2002, SCEL has paid out more than $616 million to winners, including an $88 million Powerball jackpot. I believe this has been a significant step in building the rapid success of our lottery. Equally important, however, is that South Carolina citizens are observing how the lottery benefits the education community in the Palmetto State. SCEL has transferred more than $300 million into the Education Lottery Account since inception. These funds provide scholarships to college students and enhance educational programs for children across the State.

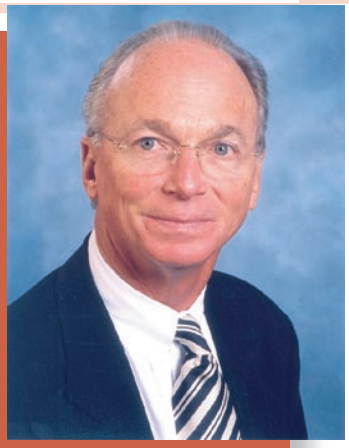
I am truly proud of the work of the members of our commission, and more importantly, the South Carolina Education Lottery staff. In only two short years, our commission staff has developed a successful and thriving lottery that offers responsible adults both instant and on-line games while maintaining high levels of integrity, security and creativity.

As we begin our third year, we at the South Carolina Education Lottery will continue our efforts to operate an outstanding lottery for the benefit of education in South Carolina.

Sincerely,

John C.B. Smith Jr.
SCEL Commission Chairman

"The SCEL continues to create additional opportunities for education..."



John C.B. Smith, Jr.
SCEL Commission Chairman

COMMISSION MEMBERS

Tim Madden, Vice Chairman
Greenville

James Bailey, Jr., Treasurer
Charleston

Paula Harper-Bethea,
Secretary
Hilton Head
(Resigned March 2003)

T. Moffatt Burriss
Eastover

Dr. Edward Keith
Sumter

Barry Krell
Sullivans Island
(Term Expired June2003)

Angela B. Mulholland
Mt. Pleasant

Aretha B. Pigford, Ph.D
Columbia

Newest Commission Members

Marvin A.
Quattlebaum
Greenville
(June 2003)

Ashley Landess
Columbia
(May 2003)

vacancy available

LETTER FROM THE EXECUTIVE DIRECTOR

My Fellow South Carolinians:

Fiscal year 2003 was an amazing year for the South Carolina Education Lottery. We had record sales, record dividends, record retailer commissions, and record prizes paid to our players! In just two short years, we have grown into a more mature lottery and have watched our games grow along with our dollar return to education.

From the inauguration of the South Carolina Education Lottery in January 2002 until June 30, 2003, we have sold over $1 billion in both instant and online lottery tickets. Sales for fiscal year ending June 30, 2003 alone exceeded $724 million.

From January 2002 to June 30, 2003, the lottery transferred over $300 million to the Education Lottery Account. These funds have helped provide over 64,000 scholarships for higher education as well as funded academic programs for K-12 schools. These numbers are something all South Carolinians can and should be proud of because the numbers have exceeded not only our own expectations, but expectations throughout the lottery industry.

Our ongoing performance and success should come as no surprise to anyone who is familiar with the South Carolina Education Lottery's solid mission of integrity, innovation and, most importantly, social responsibility to both our players and to the State of South Carolina.

It is truly remarkable to see what has been accomplished over the past two years. It has taken a lot of work from many people to make this dream a reality for the people of South Carolina, and for our State's education community. I am proud to report to you that support for your lottery remains extremely high. The South Carolina Education Lottery looks forward to an even better fiscal year 2004.

We pledge to you, the citizens of South Carolina, to continue to be the best managed lottery in the world, in keeping with our commitment to social responsibility.

Sincerely,

Ernie Passailaigue
SCEL Executive Director

"It is remarkable to see what has been accomplished over the past two years..."

Ernie Passailaigue
SCEL Executive Director

SCEL MANAGEMENT STAFF

Standing left to right:

Anthony Cooper, Chief Operating Officer; Bethany Narboni, Internal Auditor; Thomas Marsh, Director of Security; Liz Mason, Director of Information Technology; Dale Rhodes, Director of Finance; Ernestine Middleton, Director of Internal Operations; Hogan Brown, Director of Legal Services; Pat Koop, Director of Sales & Marketing; Ernie Passailaigue, Executive Director

OUR MISSION

Provide entertainment options to adults, with integrity, to support education in South Carolina.

The work of the Education Lottery is providing games for the players, support for the retailers and funds for education. In achieving our mission, we are directly helping to build a better future for the citizens of our State.

OUR VISION

SCEL's vision is to operate in a "world-class" manner-literally. Every aspect of our operation will function at a level of excellence.

Achieving this level of performance requires a loyal, diverse and well-trained workforce. Understanding this, we will strive to employ the best, brightest and most talented employees in the industry.

We will control our expenses so as to give the State as much money as possible to benefit education in South Carolina.

These dollars will support a broad range of educational programs. In summary, everyone is a winner with the South Carolina Education Lottery!

OVER $300 MILLION TO EDUCATION SINCE '02

Integrity ● Education ● Play Responsibly ● Treat All Stakeholders Fairly ● Quality Products ● Fiscal Responsibility ● Non-p

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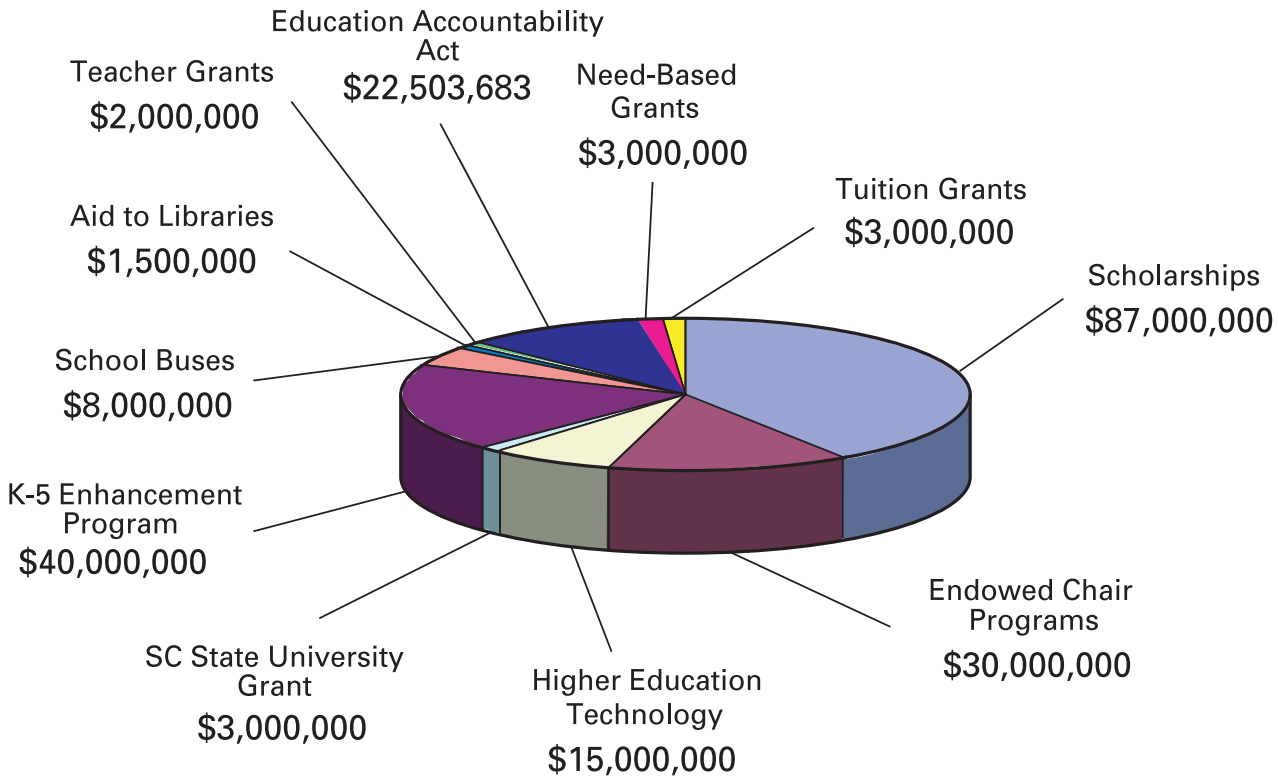
FISCAL YEAR 2004 ANNUAL APPROPRIATIONS



TOTAL $215,003,683

How will educational programs use annually projected lottery funds?

K-5 Academic Enhancement Programs:
The K-5 Enhancement fund supports efforts to improve teaching and student achievement in kindergarten through fifth grade in the areas of reading, mathematics, social studies and science.

School Buses: Purchase and Repair
To date, 390 new school buses have been purchased with lottery funds, including 45 "special needs" buses. Lottery funds are also used to repair school buses currently in service.

Local Libraries:
Each county library system will receive a share of $1.5 million. The funds are used for cooperative efforts to improve technology with neighboring libraries, schools, local units of government and local colleges and universities.

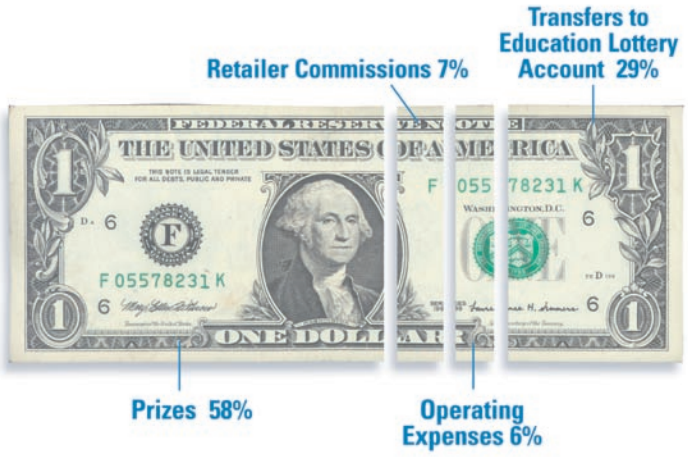
Endowed Chairs:
Endowed chairs were created for South Carolina's three research universities —Clemson University, the University of South Carolina and the Medical University of South Carolina — to assist the state in meeting its economic development goals.

Higher Education Excellence Enhancement Program:
For fiscal year 2003-2004, the General Assembly appropriated $3 million dollars for South Carolina's 4-year colleges that receive Federal Pell Grants for at least 60% of their students. These funds are distributed in equal amounts to each eligible institution and are used for enhancement programs.

Which educational programs receive lottery funds?

For fiscal year 2004, the General Assembly divided the estimated lottery proceeds into two general categories: programs that benefit kindergarten through grade twelve (K-12) and programs that benefit higher education.

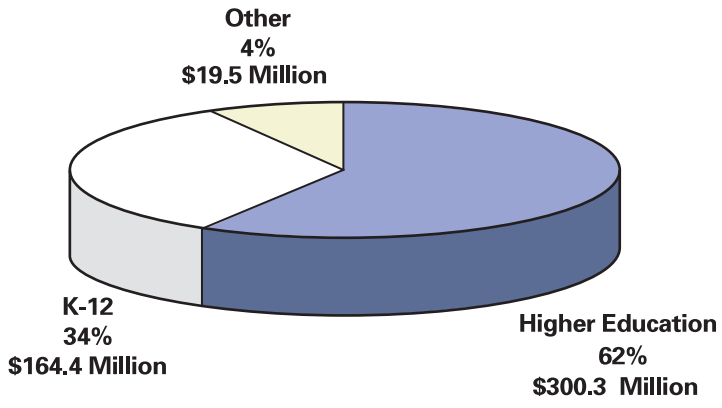
DISTRIBUTION OF LOTTERY REVENUE TO DATE*



How much money does the SCEL raise for education in South Carolina?

From the start of lottery ticket sales on January 7, 2002, through the end of the fiscal year, June 30, 2003, the SCEL has provided over $300 million new dollars to enhance educational opportunities for tens of thousands of South Carolinians.

LOTTERY APPROPRIATIONS BY LEGISLATURE TO DATE*



Total Appropriations $484.2 Million

Who decides how lottery proceeds are to be distributed?

On a monthly basis, the SCEL transfers the net proceeds of all lottery sales to the Office of the State Treasurer's Education Lottery Account. The responsibility for distributing the funds raised by the lottery belongs to the state. The South Carolina General Assembly decides annually, through the appropriation process, the educational programs that will be funded. Once the Legislature has completed its work, the Governor either agrees with the dollar allocation, or he may veto individual items of the lottery spending plan. Upon completion of this constitutional process, the act becomes law.

*FROM JANUARY 7,2002 THROUGH JUNE 30,2003

The South Carolina Education Lottery (SCEL) has been recognized for its aggressive approach in launching new games. For example, the SCEL was the first lottery in history to launch with four instant tickets. The tradition continues for fiscal year 2003.

Each month the SCEL introduces at least three new instant tickets. In fiscal year 2003, Red Hot Cash was the best selling ticket, running for 43 weeks. The next best selling ticket was Cash Explosion. Instant ticket winners were popping up everywhere.

In August, the Lottery Express hit the road promoting the start of the Shark Cash scratch-off ticket. Shark Cash was the first instant ticket where the lottery teamed up with another state agency, the South Carolina Aquarium, to help promote educational programs and organizations statewide.

The uniqueness of the Shark Cash ticket is that individuals who purchased this ticket not only supported one of the leading educational non-profits in the state, but players also had a chance to receive a family membership to the Aquarium, $4 off admission to the Aquarium or a cash prize up to $2,000.

The February 2003 launch of instant games included a $3.00 Harley Davidson® ticket. The launch of SCEL's first registered trademark ticket began with a bike run from West Columbia to Gilbert's Town & Country retailer.

...the first lottery

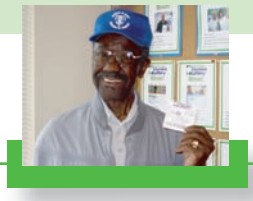
Forty bikers and shoppers at the store enjoyed the beautiful day and lots of spins on the prize wheel.

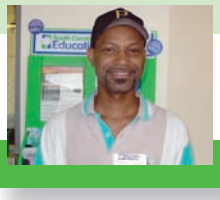
From that retail location, a model of the 2003 Harley-Davidson® Sportster® 1200 Custom™ motorcycle made its way across South Carolina for two months promoting the second chance component of the ticket. All the events concluded on May 14, 2003 with a block party in front of SCEL's Main Street draw studio. Ticket sales, wheel spins and hotdogs with all the fixings added to the Grand Prize drawing festivities. Ten semi-finalists waited to see if their name would be drawn for one of the two 100th Anniversary Harley-Davidson® Sportster® 1200 Custom™ motorcycles. Joseph Harley of Ravenel and Jeff Regan of Columbia were awarded the two motorcycles. The remaining eight semi-finalists each received a check for $2,000.

Instant Games!

Over $415 million in prizes went back to players in FY 2003.

IN THE PALMETTO STATE!!





NASCAR fans saw blue and green when the South Carolina Education Lottery teamed up with driver Mike Wallace's NASCAR Busch Series car. In partnership with Mike Wallace and Biagi Bros., SCEL became an associate sponsor for his car at the two Darlington races in 2003.

Wallace conducted several sports and news radio interviews in the Columbia area and visited area retailers to help promote the races and the games of the lottery. He even had lunch with some of his race fans who won pit passes as a promotional give-a-way with radio stations statewide.

ONLINE GAMES

In January, the lottery launched its four-digit game, Pick 4. The top prize is $5,000, making more and more winners everyday!

in history to launch with four instant tickets.

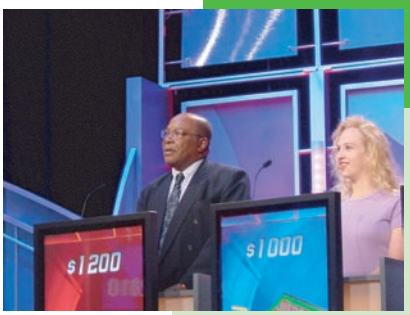
In May, the South Carolina Education Lottery began Tuesday draws for Carolina 5, thus giving players two chances a week to win $100,000 taxes paid! Beginning on May 5th, the Lottery's TV draw partners gave away Carolina 5 prize packs to players who correctly answered Carolina 5 questions. The questions ran on the 6:59 Pick 3 and Pick 4 nightly drawings for 10 days.

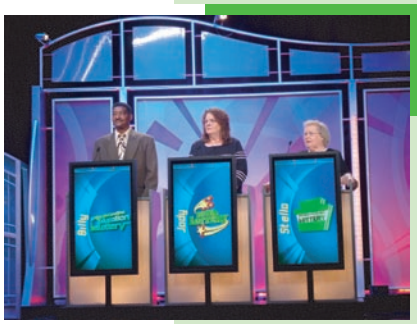
Powerball Instant Millionaire Host Todd Netwon

Lottery players also played for a chance to go to Las Vegas. The lottery sent its first group of contestants to Las Vegas, Nevada in January 2003 to play on the national television game show, Powerball Instant Millionaire. The first game shows aired in March 2003.

INSTANT WINNERS

The Powerball Instant Millionaire contestants have a great time in Vegas, and for some players, it is their first time flying. Not only is their airfare paid for, contestants also stay in the world-renowned Venetian Resort Hotel, and are given $750 in spending money. As each on-air contestant vies for a chance to win one million dollars, there are dozens of at-home players that are cheering them on! At-home players are guaranteed to win $100 and can win up to $10,000.





Some of the first contestants representing South Carolina on the Powerball Instant Millionaire game show.

Our red Power Bug helped usher in the launch of Powerball.

In October 2002, South Carolina became the 24th jurisdiction to join the multi-state lottery game, Powerball®. The lottery conducted a Power Bug promotion leading up to launch day. The Power Bug, a red Volkswagen Beetle filled with ping pong balls, traveled across the State to help promote the game. Participants received a free chance to guess the total number of ping pong balls in the Power Bug. The person with the correct answer drove away in the 2002 Volkswagen Beetle.

In October 2002, we became the 24th jurisdiction

Our unofficial mascot, "Bud" was happy to help with our launch activities. "Bud" rode in the Power Bug as it traveled the State.

As a part of the Powerball® launch, the lottery hosted several "Midnight Madness" kickoff parties at retailer locations across the state.

The festivities began at 10:30 p.m. on Saturday, October 5th. The first Powerball® tickets were sold at 11 p.m. Powerball® players were greeted with long lines, but all enjoyed the food, fun and a chance to spin the prize wheel. The evening was a great success and all those who played waited eagerly for the first drawing on October 9th!

Plus, to add to all of the POWERful events happening with the South Carolina Education Lottery, in less than two months from launch, players saw one of the highest jackpots in lottery history. December 25, 2002, the Powerball® jackpot was $314.9 million dollars. Although the jackpot was hit in West Virginia, there were also lots of winners in South Carolina.

FY 03' was our inaugural year for...

POWERBALL®

POWER PLAY®

to join the multi-state lottery game, Powerball®.

Speaking of winners, there have been lots of winners with the South Carolina Education Lottery. Over $415 million in prizes went back to players in fiscal year 2003.

The prizes ranged from a few dollars won here or there, all the way to the multi-million dollar Powerball® jackpot won by Anthony and Monica Wilson!

On May 7, 2003, the Wilsons, of Charlotte, North Carolina, won an $88.7 million Powerball® jackpot.

Mr. Wilson, who worked in Columbia, was on his way home and decided to purchase 60 quick pick tickets at Red Rocket Fireworks in Fort Mill. "I passed the gas station, and decided to turn back around to get some tickets," Wilson said. "I actually felt like the guy ahead of me had a lucky ticket."

That decision changed Mr. Wilson's life forever.

The option to PowerPlay® with Powerball®, for an extra dollar per play, has changed the lives of other winners. PowerPlay® gives players the chance to multiply their non-jackpot winnings up to five times!

The Wilsons won $88.7million playing Powerball®.

"I actually felt like the guy ahead of me had a lucky ticket."

WINNERS

WWW.SCEDUCATIONLOTTERY.COM

OUR NEW WEBSITE

The South Carolina Education Lottery's website continues to draw a crowd each month, as visitors check winning numbers, find out about new games, participate in surveys and learn about the latest promotions.

This year the website underwent a total redesign to better serve our players. After the website launched its new look, players were very excited as they found the site much easier to navigate, more interactive, and full of new information. Several visitors stated it is now the best lottery website they have ever seen.

The website receives anywhere from 30 million hits in an "average" month to well over 40 million hits in an active month. Our visitors come from all over the US and as far away as Australia and Europe.

The website is an evolving information medium for our players, and new features are added every month. In the near future, a free members-only section named "My Lottery Connection" will be added. This exciting new section will feature special contests, surveys, information and tools for anyone who wants to sign up.

Stop by our website at www.sceducationlottery.com to see the excitement!

Our website visitors come from as far away as Australia and Europe.

TOP RETAILERS

TOP RETAILERS STATEWIDE

1. Red Rocket Fireworks, Inc.	Fort Mill	$2,890,013.50
2. Circle K Stores #5116	Fort Mill	$2,599,819.00
3. Miller Produce & Farm, Inc.	Fort Mill	$2,444,066.00
4. Clover Shop and Save, Inc.	Clover	$2,019,831.50
5. Mike's Food Store dba Cherokee	Blacksburg	$1,480,717.50

TOP RETAILERS BY REGION-UPSTATE

1. Red Rocket Fireworks	Fort Mill	$2,890,013.50
2. Circle K Stores #5116	Fort Mill	$2,599,819.00
3. Miller Produce & Farm, Inc.	Fort Mill	$2,444,066.00

TOP RETAILERS BY REGION-MIDLANDS

1. Kountry Mart #1	Bennettsville	$1,857,725.00
2. McColl Food Pantry #1	McColl	$928,702.50
3. Goodwins of Orangeburg	Orangeburg	$901,516.50

TOP RETAILERS BY REGION-COASTAL

1. Scotchman #48	Little River	$1,238,061.00
2. Granny's One Stop Grocery	Dillon	$1,081,618.00
3. Pedro's Pantry East #1	Hamer	$1,030,405.00

RETAILER INCENTIVE PROGRAM

The South Carolina Education Lottery offers retailers numerous chances to win throughout the year with retailer incentives! In fiscal year 2003, retailers had the opportunity to receive selling bonuses, incentive checks and even trips to Las Vegas!

Here are some brief highlights from the past year:

In February, three retailers, one from each region, were awarded trips to Las Vegas to view the first set of tapings of the Powerball Instant Millionaire Game Show, plus $750 spending money. The retailers earned their trips by having the highest Vegas Jackpot ticket sales in their region from December 3, 2002 to January 25, 2003.

With the addition of the Carolina 5 Tuesday draw, retailers had a chance to win up to $5,000.

From May 13, 2003 through June 24, 2003, the overall top 5 retailers with the highest Tuesday Carolina 5 draw sales were awarded $5,000. The top 20 retailers with the highest Tuesday sales for the week received $1,000.

Retailers earn a 1% Selling Bonus, capped at $50,000, for any redeemed winning ticket of $10,000 and above.

In May 2003, Red Rocket Fireworks, Inc. in Fort Mill received a $50,000 Selling Bonus for selling the Wilson's winning $88.7 million Powerball® jackpot ticket.

SCEL has found that retailer incentives help encourage retailers to actively promote the lottery to their customers. All lottery sales generate additional funds for education in the State of South Carolina.

SOUTH CAROLINA EDUCATION LOTTERY FINANCIAL REPORT

SOUTH CAROLINA EDUCATION LOTTERY

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2003

State of South Carolina

Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-072

September 30, 2003

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 for the fiscal year ended June 30, 2003, 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,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Commission
South Carolina Education Lottery
Columbia, South Carolina

We have audited the accompanying statement of net assets of the ***South Carolina Education Lottery*** (the SCEL), a component unit of the State of South Carolina, as of June 30, 2003 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the SCEL. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides 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 ***South Carolina Education Lottery*** as of June 30, 2003, and the changes in financial position and cash flows for the year 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 22, 2003 on our consideration of the SCEL's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 SCEL. The schedule of business-type activities for the state-wide CAFR is supplementary information required by the South Carolina Office of the Comptroller General. It has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Elliott Davis LLC

August 22, 2003

Management of the Lottery provides this *Management's Discussion and Analysis* of their financial performance for the readers of the Lottery's financial statements. This narrative provides an overview of the Lottery's financial activity for the fiscal year ended June 30, 2003. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the Lottery's financial activities based on facts, decisions, and conditions currently facing management.

Understanding the Lottery's Financial Statements

The Lottery, 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 generally accepted accounting principles, 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 Lottery's net assets and changes to those assets resulting from Lottery operations.

The most important relationship demonstrated within the Lottery's financial statements is the requirement that the Lottery 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 Lottery. It is also important to note that most financial statement balances have a direct or indirect relationship to revenue. As lottery sales increase, the amount transferred to the Education Lottery Account also increases. Similarly, increases in revenue for a particular lottery game result in direct increases to the related prize awards and commissions expense.

Most assets included on the Statements of Net Assets represent current amounts such as cash and accounts receivable from lottery retailers. Most liabilities represent current prize awards payable and amounts due to the Education Lottery Account.

The fiscal year ended June 30, 2002 included only six months of sales and related expenses, therefore, no comparisons are made with the prior year.

Financial Highlights

Lottery operations generated $724.3 million in sales of lottery products and $2.8 million in other revenues. We incurred $415.7 million in prize expense for winners, $51.1 million was paid to retailers in commissions and incentives, and other expenses amounted to $40.9 million.

Assets and Liabilities

Capital Assets

The Lottery acquired additional Capital Assets of $1.7 million in the fiscal year. The most significant item in this category was the purchase of additional retailer terminals.

Debt

The debt is related to the original purchase of the retailer terminals. The on-line vendor agreed to a deferred payment for $5.3 million for the retailer terminals until March, 2004. The Lottery reduced the principle of this debt by $0.8 million during the fiscal year.

Lottery Operations

- Total sales of instant tickets for the year were $426.3 million. The prize expense related to these sales was $274.3 million or 64.3%.
- The Lottery sales of Pick 3 (a three number game with a daily draw) were $99.0 million with a related prize expense of $49.4 million or 49.9%.
- The Lottery began sales of its second daily game (Pick 4), a five number game with a daily draw, on January 27, 2003. Total sales for the period were $19.4 million with a related prize expense of $8.7 million or 44.8%.
- The Lottery began a second draw on Tuesdays to complement the Saturday draw for the Carolina 5 game. Sales for this game were $25.6 million with a related prize expense of $10.3 million or 40.2%.
- The Lottery joined the Multi-State Lottery Association (MUSL), the sponsoring organization for Powerball. The SC Lottery began Powerball sales on October 5, 2002 with the first draw being on October 9. Total Powerball sales were $153.8 with a related prize expense of $72.9 or 47.4%.
- All proceeds of the Lottery must be transferred to the State Treasurer for the Education Lottery Account with the following exceptions: 1) the cost of property and equipment net of depreciation and related debt, and 2) the Restricted Fidelity Fund which may be retained by the Lottery 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 Lottery will never exceed $500,000 related to the Restricted Fidelity Fund plus the cost of property and equipment net of depreciation and related debt. As of July 14, 2003, the Lottery had transferred $213.3 million resulting from operations and $7.3 million in unclaimed prize funds to the State Treasurer for the Education Lottery Account for the fiscal year ended June 30, 2003.

Potential Factors Impacting Future Operations

Management added a mid-day draw (six days per week) to the Pick 3 and Pick 4 games effective July 1, 2003.

Contacting the Lottery's Financial Management

This financial report is designed to provide a general overview of the Lottery's financial activity for all those interested in the Lottery'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
STATEMENT OF NET ASSETS
JUNE 30, 2003

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 13,942,944
Cash - Restricted fidelity fund	361,733
Retailer accounts receivable	32,146,558
Inventory	2,282,333
Prepaid expenses and other current assets	264,777
Total current assets	48,998,345
CAPITAL ASSETS , net	15,171,651
Deposit with Multi-State Lottery	2,290,309
Total assets	66,460,305
LIABILITIES	
CURRENT LIABILITIES	
Due to Education Lottery Account	17,818,473
Prizes payable	23,610,910
Accounts payable	5,963,787
Accrued liabilities	880,906
Accrued compensated absences	270,000
Current portion of long-term debt	6,275,056
Deferred revenue	1,869,482
Total current liabilities	56,688,614
LONG -TERM DEBT	3,449,775
ACCRUED COMPENSATED ABSENCES	513,363
Total liabilities	60,651,752
NET ASSETS	
Invested in capital assets, net of related debt	5,446,820
Restricted - fidelity funds	361,733
Total net assets	**$ 5,808,553**

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

SOUTH CAROLINA EDUCATION LOTTERY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended June 30, 2003

REVENUES	
Instant games	$ 426,311,967
On-line games	298,001,308
Retailer permit fees	327,813
Retailer telephone fees	2,044,924
Other	223,518
Total revenue	726,909,530
DIRECT COSTS	
Commissions and incentives to retailers	51,136,250
Prize expense	
Instant games	274,301,493
On-line games	141,415,762
Total prize expense	415,717,255
Instant and on-line costs	19,253,048
Total direct costs	486,106,553
Gross profit	240,802,977
OPERATING EXPENSES	
Advertising and promotion	6,405,304
Security checks	117,950
Salaries, wages and benefits	7,871,294
Contracted and professional services	450,097
Depreciation	3,322,198
Rent expense	798,651
Office supplies	158,581
Other general and administrative	1,797,326
Total operating expenses	20,921,401
Operating Income	219,881,576
NON-OPERATING INCOME (EXPENSE)	
Interest income	223,287
Interest expense	(815,892)
Total non-operating expense	(592,605)
Change in net assets before transfers to and due to Education Lottery Account	219,288,971
TRANSFERS TO AND DUE TO EDUCATION LOTTERY ACCOUNT	220,056,527
Change in net assets	(767,556)
NET ASSETS,	
BEGINNING OF YEAR	6,576,109
END OF YEAR	**$ 5,808,553**

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

SOUTH CAROLINA EDUCATION LOTTERY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from retailers	$ 716,284,432
Cash payments to prize winners	(404,389,058)
Cash payments to suppliers for goods and services	(79,469,411)
Cash payments to employees for services	(7,360,383)
Net cash provided by operating activities	225,065,580
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments to fund deposit with Multi-State Lottery	(2,290,309)
Payments to Education Lottery Account	(213,133,348)
Net cash used for noncapital financing activities	(215,423,657)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest paid	(886,945)
Net paid for short-term and long-term debt	(864,108)
Net cash used for financing activities	(1,751,053)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	226,039
Purchase of capital assets	(1,650,926)
Net cash used for investing activities	(1,424,887)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,465,983
CASH AND CASH EQUIVALENTS	
BEGINNING OF YEAR	7,838,694
END OF YEAR	**$ 14,304,677**
OPERATING ACTIVITIES	
Operating income	$ 219,881,576
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	3,322,198
Changes in assets and liabilities	
Retailer accounts receivable	(12,273,297)
Inventory	(385,855)
Prepaid expenses and other assets	(30,164)
Accounts payable and accrued liabilities	1,574,726
Prizes payable	11,328,197
Deferred revenue	1,648,199
Net cash provided by operating activities	**$ 225,065,580**

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

NOTE 1 - REPORTING ENTITY

The ***South Carolina Education Lottery*** (the SCEL), a component unit of the State of South Carolina, was established as an instrumentality of the state with the enactment of the South Carolina Lottery for Education Act (the Act) on June 29, 2001 and began development operations upon enactment. The SCEL is responsible for the provision of lotteries on behalf of the State of South Carolina in accordance with the Act.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the SCEL are as follows:

Method of accounting

The SCEL 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 SCEL is reported as a discretely presented component unit within the State of South Carolina's Comprehensive Annual Financial Report (CAFR) due to the fact that the State appoints members of the SCEL's Commission.

The Government Accounting Standards Board (GASB) is the recognized standard setting body for accounting principles generally accepted applicable to governmental proprietary activities in the United States of America. The SCEL applies all applicable GASB pronouncements and all applicable Financial Accounting Standards (FASB) pronouncements issued on or before November 30, 1989 when not in conflict with GASB pronouncements. In accordance with GASB Statement 20, the SCEL 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 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 SCEL evaluates its receivables on an ongoing basis for collectability. As of June 30, 2003, management determined that no allowance for doubtful accounts was necessary.

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 SCEL's warehouses or held by retailers. The cost of tickets is charged to operations upon the recognition of revenue under the procedures described above.

Unclaimed prizes

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

Net assets

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

Net proceeds

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

Operating expenses

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

Cash and cash equivalents

The SCEL 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 SCEL 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 SCEL capitalizes all property and equipment purchases of $1,000 or more.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Restricted fidelity fund

In accordance with the Act, retailers contribute a fee to a fidelity fund upon acceptance as a SCEL retailer. The fund is used to cover losses the SCEL 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 SCEL and is payable to the Education Lottery Account. At June 30, 2003, 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 SCEL 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 SCEL combines coverage provided by the South Carolina Insurance Reserve Fund with the purchase of commercial insurance to substantially cover these risks.

Compensated absences

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

Advertising

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

Deposit with Multi-State Lottery (MUSL)

The SCEL 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.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of interest bearing demand deposits. The deposits are categorized to indicate the level of risk assumed by the SCEL at year end. Category A includes deposits insured or collateralized with securities held by the SCEL or its agent in the SCEL's name. Category B includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agency in the SCEL's name. Category C includes uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the SCEL's name.

At June 30, 2003 cash and cash equivalents were as follows:

	A	B	C	Bank Balance	Carrying Value
Demand deposits	$ 15,682,390	$	$	$15,682,390	$ 13,983,215
Deposits held by State Treasurer				321,462	321,462
Total cash and cash equivalents				$16,003,852	$ 14,304,677

NOTE 4 - CAPITAL ASSETS

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

	Balance June 30, 2002	Additions	Deletions	Balance June 30, 2003
Property and equipment				
Machinery and equipment	$ 17,685,875	$ 1,585,544	$ -	$ 19,271,419
Vehicles	47,826	21,000	-	68,826
Leasehold improvements	579,136	44,382	-	623,518
	18,312,837	1,650,926	-	19,963,763
Accumulated depreciation				
Machinery and equipment	(1,445,559)	(3,178,424)	-	(4,623,983)
Vehicles	(6,570)	(19,442)	-	(26,012)
Leasehold Improvements	(17,785)	(124,332)	-	(142,117)
	(1,469,914)	(3,322,198)	-	(4,792,112)
Total property and equipment, net	**$ 16,842,923**	**$ (1,671,272)**	**$ -**	**$ 15,171,651**

NOTE 5 - ACCRUED EXPENSES

Accrued liabilities at June 30, 2003 consists of the following:

Accrued payroll and related expenses	$ 722,712
Other	158,194
	$ 880,906

NOTE 6 - LONG -TERM DEBT AND COMMITMENTS

In October 2001, the SCEL 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. 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, with a lump sum payment of $5,270,000 due March 2004. These additional payments have been imputed to include principal and interest at 8%. Title to and risk of loss for this equipment occurred upon installation and acceptance in March 2002.

At June 30, 2003, the future maturities of the imputed principal and interest payments on the equipment are as follows:

	Principal	Interest	Payment
2004	$ 6,275,056	$ 602,944	$ 6,878,000
2005	1,232,563	231,438	1,464,001
2006	1,334,864	129,136	1,464,000
2007	882,348	25,092	907,440
	$ 9,724,831	**$ 988,610**	**$ 10,713,441**

NOTE 6 - LONG -TERM DEBT AND COMMITMENTS, Continued

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

	Balance June 30, 2002	Proceeds	Payments	Balance June 30, 2003
Long-term debt	$ 10,588,939	$ -	$ 864,108	$ 9,724,831

NOTE 7 - ACCRUED COMPENSATED ABSENCES

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

	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
Accrued compensated absences	$ 333,940	$ 829,710	$ 380,287	$ 783,363

NOTE 8 - OPERATING LEASES

The SCEL 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 SCEL.

Future minimum rental payments, to entities outside the State of South Carolina 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
2004	$ 618,521
2005	577,925
2006	269,795
2007	48,502
2008	4,042

Rental expenses under all operating leases including those on month-to-month terms, totaled approximately $798,651 for the year ended June 30, 2003. This includes $76,577 of vehicle rental expense to the State of South Carolina Fleet management.

NOTE 9 - DUE TO EDUCATION LOTTERY ACCOUNT

In accordance with the Act, all net proceeds of the SCEL are to be transferred to the Education Lottery Account within the South Carolina 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. At June 30, 2003 a payable resulted from transfers due to the Education Lottery Account as follows:

Amount payable to the Education Lottery Account at June 30, 2002	$ 10,895,294
Change in net assets subject to transfer	219,288,971
	230,184,265
Change in capital assets, net of related debt	
Property and equipment, net	1,671,272
Long-term debt	(864,108)
	807,164
Amount collected for fidelity fund	(39,608)
Amount paid during the year	(213,133,348)
Amount payable to the Education Lottery Account at June 30, 2003	**$ 17,818,473**

Transfers related to the above payable of $17,569,475 and $248,998 were made to the Education Lottery Account in July 2003 and August 2003, respectively.

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS

The SCEL 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% of salary
Employer contributions	7.55% of salary

For the years ending June 30, 2003 and 2002 the SCEL contributions to SCRS were $605,768 and $359,533, 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, 2003.

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS, Continued

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

NOTE 11 - CONTINGENCIES

The SCEL 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 SCEL for the year ending June 30, 2003.

SOUTH CAROLINA EDUCATION LOTTERY
SUPPLEMENTARY SCHEDULE OF BUSINESS-TYPE
ACTIVITIES FOR THE STATEWIDE CAFR
For the year ended June 30,

	2003	2002
Charges for services	$ 726,909,530	$ 337,149,060
Operating grants and contributions	223,287	60,592
Less expenses	507,843,846	249,488,249
Net program revenue	219,288,971	87,721,403
Transfers out to state agencies/funds	(220,056,527)	(81,145,294)
Change in net assets	(767,556)	6,576,109
NET ASSETS - BEGINNING	6,576,109	-
NET ASSETS - ENDING	**$ 5,808,553**	**$ 6,576,109**

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Commission
of the ***South Carolina Education Lottery***

We have audited the financial statements of the ***South Carolina Education Lottery*** (the SCEL), a component unit of the State of South Carolina, as of and for the year ended June 30, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the SCEL's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the SCEL'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 assurance 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 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 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.

This report is intended solely for the information and use of the audit committee, management of the SCEL and the State Auditor of Public Accounts 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 22, 2003

SOUTH CAROLINA EDUCATION LOTTERY
SCHEDULE OF FINDINGS
For the year ended June 30, 2003

SCHEDULE OF AUDITOR'S RESULTS

We have issued an unqualified opinion, dated August 22, 2003 on the financial statements of the South Carolina Education Lottery as of and for the year ended June 30, 2003.

Our audit disclosed no instances of noncompliance which are material to the South Carolina Education Lottery'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*.

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