2004 South Carolina Education Lottery Comprehensive Annual Financial Report

Education Lottery operations in South Carolina

2004

Expanding the horizons of South Carolina's students through the support from the people of this state.

About the cover

The cover photo, shot in the midlands of South Carolina, was taken by Matthew Brodie (brodiefoto@hotmail.com), 2003 graduate of the University of South Carolina.

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South Carolina Education Lottery™

Letter from the Chairman

Dear Citizens of the Palmetto State:

In fiscal year 2003-04, the South Carolina Education Lottery (SCEL) added to its growing record of success for our players and beneficiaries.

SCEL maintained its mission and accomplished its objectives by streamlining operations and reducing costs. Our objectives have been and continue to be operating with integrity, accountability and maximizing funding for education.

I am extremely proud of the ongoing work of the members of our Commission, and more importantly, the members of SCEL staff. Over the last three years, our staff has propelled the Lottery into an accomplished organization that offers responsible adults both instant and online entertainment options while maintaining the highest levels of creativity, integrity and security.

As the Commission and staff of the Education Lottery enthusiastically begin our fourth year of operation, we pledge to you, the citizens of South Carolina, that we will support education in the Palmetto State by setting our goals at the highest level. We hope that, with your support of the Education Lottery, you will join us in our endeavors.

Sincerely,

John C.B. Smith

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

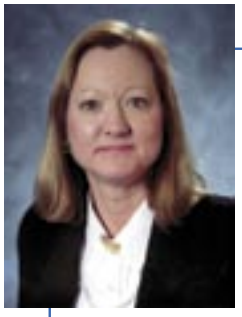
Commission Members

South Carolinians are deservingly proud shareholders. Our dedicated lottery team redefines industry standards of excellence.

Tim Madden, *Vice Chairman*
Greenville

I am impressed by the job that has been done by Ernie Passailaigue and his staff to make the SC Education Lottery a tremendous success.

James Bailey, Jr., *Treasurer*
Charleston



I am inspired by the way that our Lottery has continued to grow, progress, and provide funding for both College Scholarships and the K-12 educational needs in our state. Keep up the good work!

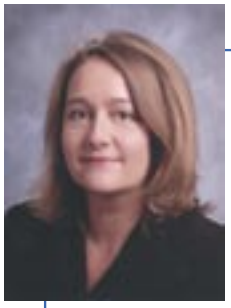
Angela B. Mulholland, *Secretary*
Mt. Pleasant

The Lottery is fun to play and a great way to support education!

T. Moffatt Burriss
Eastover

Serving on SCEL's Commission since its inception and working with SCEL's staff has been one of the most fulfilling experiences of my life.

Dr. Edward Keith
Manning



It is a pleasure to work with such a dedicated, professional staff. I am proud of the high standards the SCEL has set to run a responsible lottery.

Ashley Landess
Columbia

SCEL is committed to operating as efficiently as possible and in a way that is consistent with South Carolina values.

A. Marvin Quattlebaum
Greenville

Letter from the Executive Director

From the Executive Office:

In less than three short years, the SCEL's role has both evolved and expanded in its mission to enhance educational opportunities for the people of the Palmetto State. Our ultimate goal is to provide the Governor and the General Assembly with incremental educational dollars that have been derived in a responsible manner.

In tough economic times, I am pleased to report gross lottery revenues exceeded $950 million in fiscal year '04, a 31% increase over the previous 12-month period. Monetary transfers by SCEL to the Education Lottery Account for fiscal year '04 was in excess of $287 million and cumulatively since start-up in January 2002, has surpassed $587 million.

This accomplishment has been the direct result of all stakeholders (citizens, players, government officials, retail agents, the education community, SCEL employees and vendors) working as a team to maximize net lottery dollars. The new fiscal year brings with it both challenges and opportunities. The ongoing commitment of SCEL is to build on this stakeholder partnership that has been a success story to date.

Sincerely,

Ernie Passailaigue
SCEL Executive Director

Management Staff

Our Mission

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

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

Performance Measures

As the organization has matured, SCEL has developed performance measures for each department which are in addition to achieving our yearly sales goal. These performance measures are incorporated into SCEL's strategic plan. Objectives from the Three-Year Strategic Plan, written in terms of performance measures, are further incorporated into the job evaluation of each SCEL employee.

Having developed performance measures, we are now moving towards full implementation in all of our business applications. In the future, our annual report will include the results of these measures. Some of SCEL's performance measures include:

- Percentage of retailers with non-sufficient funds (goal is to maintain NSFs below 5%)
- Testing the viability of SCEL operations under abnormal/emergency conditions
- Number of lottery violations received and complaints resolved
- Number of retailer license applications rejected and the number of licenses revoked
- Number of renewed retailer licenses
- Increase/decrease in sales per retailer

Expanding the horizons of South Carolina's students through the support of our management team.

Where the Money Goes

Why does South Carolina have a lottery?

In 2000, the people of South Carolina voted to amend the Constitution permitting a state-run lottery. As a result of this action, the General Assembly established SCEL to enhance the educational opportunities for the people of the Palmetto State.

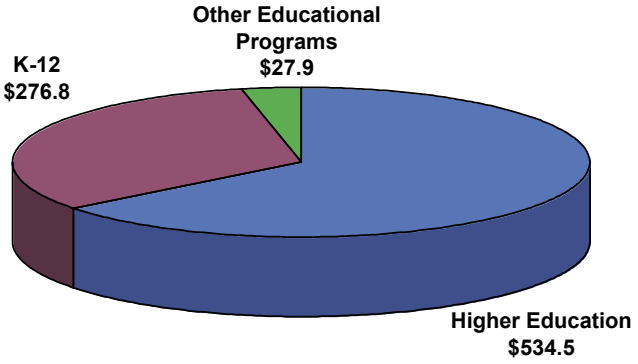
Who decides which programs are funded?

Each year the Legislature, in concert with the Governor, decides which education programs will be funded by lottery dollars.

How many dollars have been appropriated to date?

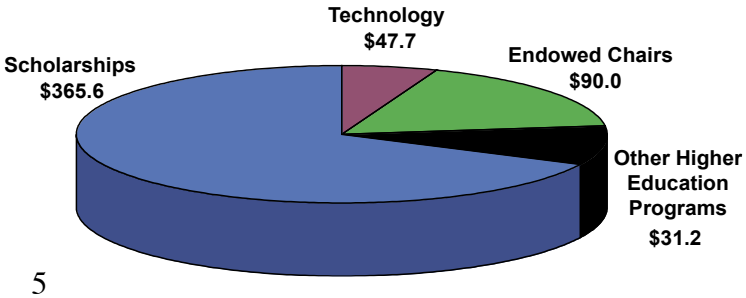
Since the start of the Lottery in January 2002, the Legislature has appropriated more than $839 million in lottery proceeds through the end of fiscal year 2004-05.

Appropriation of Lottery Dollars*



*Dollar figures for all charts are in millions and incorporate the period from January 7, 2002 - June 30, 2005.

Higher Education Appropriations To Date*

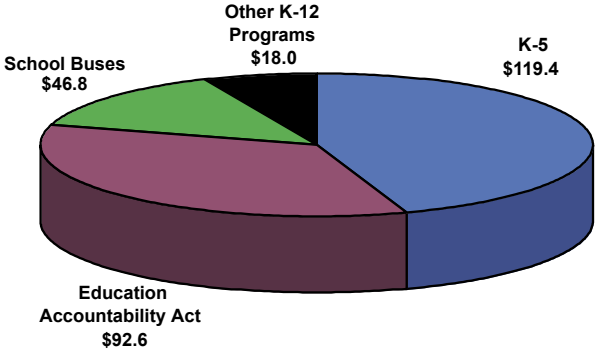


Endowed Chairs

The Endowed Chairs Program awards lottery funds to South Carolina's three research universities (Clemson University, the University of South Carolina, and the Medical University of South Carolina) based upon these institutions bringing in competitive, matching funds. The program's goal is to attract world-class researchers to teach students, while creating the highly skilled jobs necessary to meet the economic challenges of the 21st century.

K-12 Program Information

K-12 Appropriations To Date*



First Steps

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

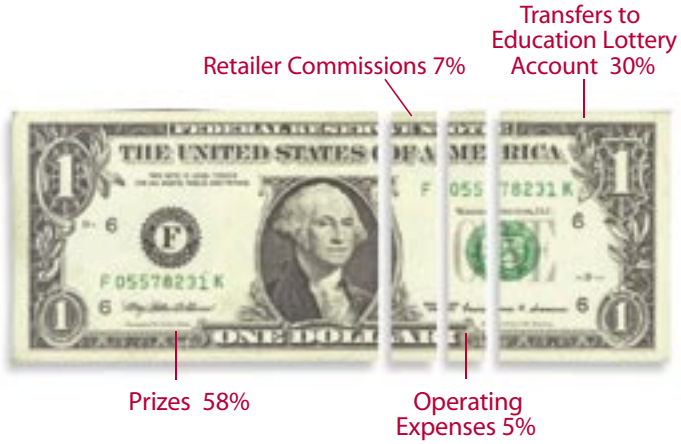
K-5 Academic Enhancement Programs

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

SCEL Proceeds

Expanding the horizons of South Carolina's students through solid results.

What is the breakdown of SCEL's gross proceeds?



Distribution of lottery revenue from January 7, 2002 – June 30, 2004

State Fiscal Year	Revenues**	Prizes	Retailer Commissions	Operating Expenses	Transfers to Education Lottery Acct.‡
2001-2002	$337.1	$200.3	$23.5	$25.6	$87.7
	100%	59%	7%	8%	26%
2002-2003	$726.9	$415.7	$51.1	$40.8	$219.3
	100%	57%	7%	6%	30%
2003-2004*	$953.2	$552.3	$66.5	$44.3	$290.1
	100%	58%	7%	5%	30%
TOTAL	$2,017.2	$1,168.3	$141.1	$110.7	$597.1
%	100%	58%	7%	5%	30%

For more information on how lottery proceeds benefit education in South Carolina, pick up a copy of the Lottery's beneficiary brochure available at lottery retailers and claim centers around the state. You also may visit our website at: www.sceducationlottery.com and click on "How Education Wins."

Dollar figures are in millions.

* June 30, 2004 financial statements are preliminary with respect to the audited financials issued October 15, 2004, in accordance with S.C. Code Ann. § 59-150-320(4).

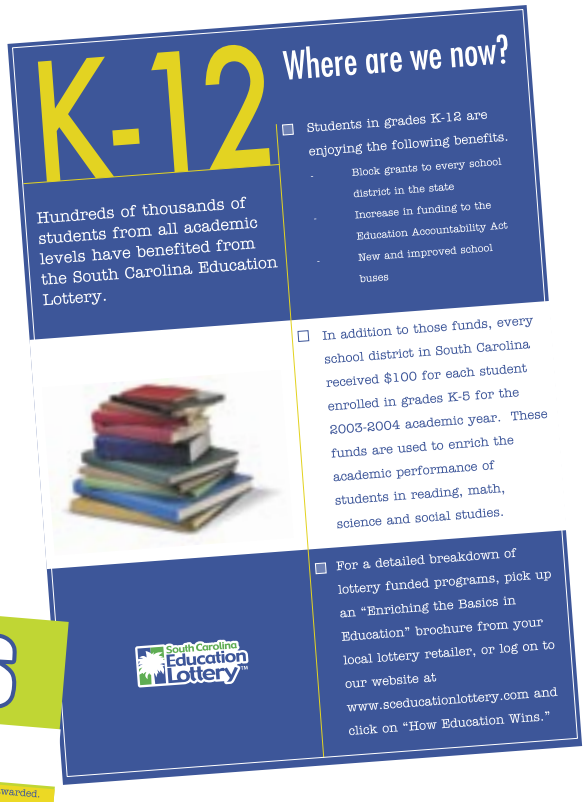
**Revenues include ticket sales, permit fees, retailer telephone fees and other additional costs.

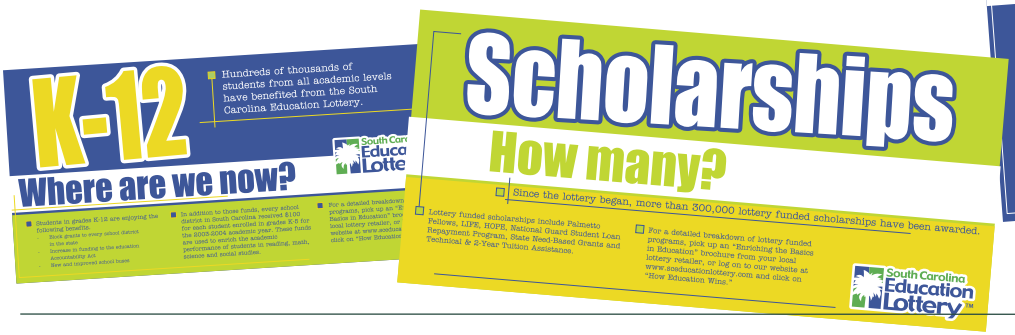
‡ Includes Unclaimed Prize Funds.

Lottery Beneficiaries

How does it work?

Every time you play the Lottery, you contribute to education in South Carolina. In fiscal year 2003-04, SCEL contributed more than $287 million to education. Since 2002, SCEL has funded over 300,000 college scholarships, purchased more than 200 new school buses, as well as funded K-5 enhancement programs and more. This is just the beginning of what the Lottery has done for education in South Carolina. Nearly $600 million has been transferred to the Education Lottery Account to be appropriated for educational programs.





Testimonials

After 20 years in commercial printing, I found myself unemployed in June 2003. The same day that I was laid off, I enrolled at York Tech with no idea how we would pay for the tuition without my income. Thanks to the SC Education Lottery, I have been able to attend school full-time and I'm on my way to a new, stable career in the medical lab tech profession. Without the funds from the Lottery, this dream would have been just that-a dream.

Sandi Leighty

The Lottery benefited me and my family by saving us tuition costs in my return to college. The lottery tuition assistance allowed me to work part-time while my school efforts were full-time. The Lottery enabled to me not only to obtain my dream in life, but to have time to share the dreams of my loved ones.

Michelle Stevens

I am very thankful to the Lottery for the SC Tuition Assistance Program. It has helped many students who are in need such as myself. I hope to continue receiving lottery tuition assistance until I complete my four-year degree.

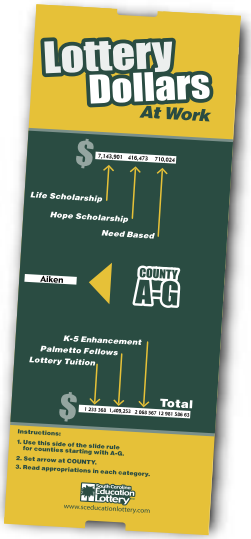
Shaniece McBride

The Lottery paid a lot for me to go to Piedmont Technical College. If it wasn't for lottery tuition assistance, I wouldn't have the money to go. Thanks so much.

Jessica Crocker

My daughter decided to go to nursing school at 27 years of age. She didn't qualify for most scholarships but did qualify for lottery money. She is finishing her first year at York Tech and is making top grades. If not for the Lottery, she wouldn't have been able to attend school to become an RN.

Rebecca Lawson



For more information on how lottery dollars have been appropriated to specific counties in South Carolina, request a copy of our "Lottery Dollars at Work" brochure by calling 803-737-2002.

Education

Expanding the horizons of South Carolina's students through scholarship funding.

Lottery Scholarship Distribution by County

COUNTY A-G	Life Scholarship	Hope Scholarship	Need Based	Lottery Tuition	Palmetto Fellows	K-5 Enhancement	TOTAL
Abbeville	965,197	40,865	181,250	410,130	154,100	366,081	2,117,623.84
Aiken	7,143,901	416,473	710,024	1,233,368	1,409,253	2,068,567	12,981,586.63
Allendale	310,396	9,998	86,803	83,078	16,374	272,022	778,671.94
Anderson	5,864,585	291,690	764,197	2,041,445	1,195,905	2,696,190	12,854,011.91
Bamberg	637,330	32,222	114,593	205,418	82,000	382,137	1,453,702.13
Barnwell	1,027,528	55,048	155,721	275,502	161,858	596,679	2,272,336.12
Beaufort	3,145,187	105,837	437,007	913,216	535,992	1,509,615	6,646,852.38
Berkeley	4,343,470	125,938	790,671	2,100,637	942,266	2,219,659	10,522,641.01
Calhoun	549,574	27,946	91,953	145,901	76,961	246,496	1,138,831.56
Charleston	11,438,749	728,282	1,753,063	4,320,907	1,461,881	3,981,340	23,684,221.95
Cherokee	1,577,669	99,317	223,817	231,304	299,129	878,322	3,309,558.66
Chester	1,047,895	35,173	175,744	263,417	84,939	619,659	2,226,828.15
Chesterfield	1,628,276	47,521	229,533	418,272	327,986	723,238	3,374,825.26
Clarendon	1,116,250	27,946	219,080	330,551	100,627	673,468	2,467,922.61
Colleton	1,171,855	58,844	218,793	317,651	238,861	733,436	2,739,439.72
Darlington	2,633,253	189,538	410,471	416,489	304,958	1,163,036	5,117,745.57
Dillon	1,126,180	31,198	228,329	184,089	305,292	711,382	2,586,470.08
Dorchester	4,854,966	163,085	640,142	2,092,291	914,876	1,661,482	10,326,840.55
Edgefield	780,943	29,572	116,012	200,475	157,509	426,951	1,711,461.66
Fairfield	741,677	47,220	133,103	145,968	128,649	466,321	1,662,936.98
Florence	5,639,881	495,643	745,451	1,239,899	1,316,218	2,127,931	11,565,023.68
Georgetown	2,232,577	91,969	352,312	507,341	509,187	894,351	4,587,736.36
Greenville	16,413,791	947,941	1,604,637	4,972,815	2,996,374	5,295,140	32,230,699.13
Greenwood	2,772,268	196,058	430,150	1,024,883	546,202	1,198,228	6,167,788.50

COUNTY H-Z	Life Scholarship	Hope Scholarship	Need Based	Lottery Tuition	Palmetto Fellows	K-5 Enhancement	TOTAL
Hampton	772,770	28,247	142,474	172,510	55,587	514,342	1,685,930.98
Horry	5,970,022	296,441	824,707	2,076,663	1,438,029	2,467,775	13,073,637.15
Jasper	288,970	2,650	46,851	39,816	18,994	392,291	789,572.20
Kershaw	2,203,827	91,069	310,278	496,216	641,185	859,046	4,601,620.84
Lancaster	2,487,061	44,448	293,086	521,315	351,583	986,176	4,683,668.00
Laurens	2,038,776	131,117	352,779	733,187	442,609	910,107	4,608,574.98
Lee	534,420	10,299	89,689	139,575	50,413	383,313	1,207,708.80
Lexington	12,617,188	635,796	1,077,910	2,276,888	2,729,404	4,189,843	23,527,028.75
McCormick	343,543	14,997	82,153	66,494	36,850	152,140	696,177.47
Marion	1,092,805	50,350	240,637	147,209	252,833	776,686	2,560,520.24
Marlboro	794,535	28,473	171,141	314,011	96,313	587,812	1,992,285.07
Newberry	1,504,074	61,071	223,567	418,880	340,916	576,307	3,124,815.45
Oconee	2,661,516	111,242	361,752	812,517	540,940	923,781	5,411,748.22
Orangeburg	3,219,927	158,641	690,906	1,159,277	448,836	1,606,102	7,283,688.68
Pickens	4,391,893	163,673	501,057	1,452,848	1,003,908	1,410,781	7,513,380
Richland	13,557,268	698,834	1,917,148	2,623,682	1,836,456	3,920,173	24,553,559.71
Saluda	784,517	40,774	119,735	203,964	128,675	293,910	1,571,575.07
Spartanburg	11,209,768	643,776	1,313,359	2,443,418	2,421,421	4,087,604	22,119,345.26
Sumter	4,198,347	143,239	658,973	1,443,934	566,197	1,647,948	8,658,638.05
Union	1,100,701	53,845	162,084	274,996	193,894	491,126	2,276,646.04
Williamsburg	1,236,799	62,819	310,074	229,739	155,862	602,631	2,597,923.31
York	7,893,109	288,838	756,837	1,797,020	1,667,682	2,777,383	15,180,869.56

***Fall 2002/2003 data is distributed by county based on the enrollment information supplied by the public and independent institutions. Spring/Summer 2003 data is distributed by county based on the enrollment information supplied by the public institutions. Data provided by the Commission on Higher Education as of February 9, 2004.**

South Carolina Education Lottery™

Promotions

Our Website

The Lottery's website is definitely the place to go for all things dealing with the Lottery. The site offers a wide selection of features including winning numbers, game information, promotion specifics and stories about winners.

The website's hit counts are still remarkably high. They ranged from just over 32 million hits during the least active month, to nearly 50 million during the month of January when the Powerball® jackpot was much higher than usual.

Visitors to the website come from all over the world. According to WebTrends® data, nearly 50% of the site's traffic comes from outside the state of South Carolina and from as far away as South Africa and the Middle East.

Website Fast Facts

- Our site averages 38 million hits per month.
- An average of 785,000 visitors log on each month.
- On average, a person visits our site every 3.29 seconds.

THE LOTTERY INSIDER™

The Lottery Insider

New to the website this year is the *Lottery Insider*. This free, members-only section gives players the inside scoop on new games and exciting promotions before they are released to the general public. The *Lottery Insider* also offers special members-only surveys and promotions. In its inaugural year, about 10,000 lottery players signed up to be members of the *Lottery Insider*. There are great plans for future development of this section of the website, including ticket animations, interactive games and more! Log on to www.sceducationlottery.com today to check out all of the exciting features!

Lottery Promotion Here Today! Lottery Promotion Here Today! Lottery Promotion Here Today! Lottery Promotion Here Today!

Promotions

Expanding the horizons of South Carolina's students through public awareness.

PalmettoPride

Clean$weep

South Carolina lottery players showed their pride and helped keep South Carolina clean by participating in SCEL and PalmettoPride's yearlong initiative aimed at taking action against litter. In July 2003, the two organizations launched Clean$weep, an effort to urge South Carolinians to properly dispose of non-winning lottery tickets. By submitting five non-winning tickets, entrants had the chance to win in the Clean$weep second-chance drawing. More than 900,000 tickets were mailed to SCEL for the monthly drawings. Each month, 100 entries were drawn by SCEL. Each winning entrant received $50.

Over 900,000 entries were mailed to SCEL during our Clean$weep Second-Chance Drawing.

Look for Play Responsibly brochures at your local retailer.

Promoting Responsible Play...

SCEL recognizes the need for balance with its "Play Responsibly" message. This year SCEL and the Department of Alcohol and Other Drug Abuse Services (DAODAS) introduced a new toll-free Gambling Helpline telephone number, 1-877-452-5155. In addition, SCEL launched a new logo for the program and an information brochure. These messages direct people seeking help for problems with gambling to the appropriate resources.

SCEL has contributed more than $2 million to help fund gambling-related programs offered by DAODAS. Through SCEL's ongoing public relations programs, the Lottery regularly encourages players (especially when jackpots are high) to play responsibly and to avoid spending more than they can afford on tickets.

Lottery Promotion Here Today! Lottery Promotion Here Today! Lottery Promotion Here Today!

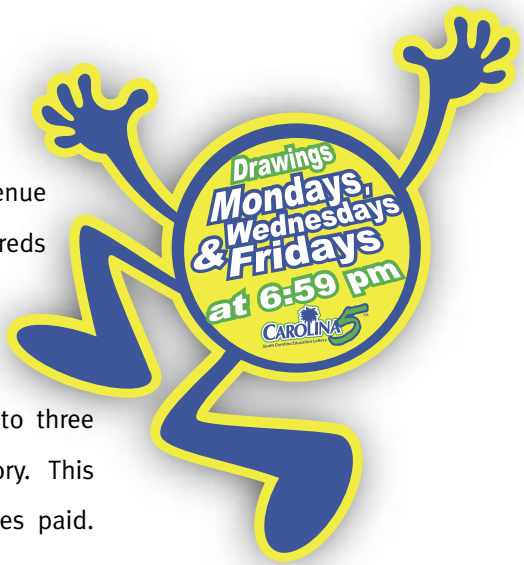
SCEL's Games

New Drawing Opener

After months of teamwork, we were excited to kick off this year with a new opener to our daily drawings.

Pick 3 and Pick 4

Pick 3 and Pick 4 games provide a staple stream of revenue for SCEL. Everyday of the year, these games create hundreds of winners throughout South Carolina.



Carolina 5

The drawings for Carolina 5 were increased from two to three nights a week, marking another milestone in SCEL's history. This move gave players more chances to win $100,000 taxes paid. Sales in the game soared with the additional drawing time.

Instant Games

What better way to show South Carolina's Southern "feel" than to highlight its culinary skills? To help get all of South Carolina involved, several events were planned. Radio partners, local hockey teams, and retailers alike supported this homegrown ticket with lots of promotional items as give-a-ways. There was even a "Spot the Shrimp" promotion in addition to a website promotion where players could email SCEL their favorite shrimp and grits recipe.

Even local restaurants cooked up some fun with Shrimp and Grits. Cru Café, located in Charleston, provided SCEL with gift certificates to give away as prizes for lottery participants. Special thanks go to Allen Brothers Milling Company for providing SCEL with Adluh stone-ground grits as well as their shrimp and grits recipe.

Pick3 Pick4 CAROLINA 5 Instant Games!

Have Fun • Play Smart • Play Responsibly

Powerball®

Expanding the horizons of South Carolina's students through a creative game base.

POWERBALL® POWER PLAY®

Norman & DeAnna Shue

On January 2, 2004, Norman Shue and his wife, DeAnna, walked into the Columbia Claims Center with one of two winning Powerball® tickets worth $110.75 million each! The Shues, residents of Concord, NC, are the second South Carolina Powerball jackpot winners!

Powerball

During the 1st twelve months of SCEL's participation in the multi-state Powerball® game, the Lottery witnessed a number of multi-million dollar jackpots winners. On December 31, 2003, one lucky couple split a $221 million jackpot. On June 26, 2004, one person won $62 million. In total, more than $484.2 million in prizes were awarded to Powerball players.

In October 2003, SCEL hosted the national Powerball® drawing at the SC State Fair. This drawing brought national attention to the state and its lottery. SCEL's Draw Partner, WCBD-TV in Charleston, sent their Chief Meteorologist, Rob Fowler, and SCEL sent Public Relations Manager Tara Robertson to host the live drawing for the 26 jurisdictions that carry the drawing.

Jackpot Awareness

Wanting something new and exciting for Powerball® jackpot runs, the Lottery teamed up with a local animation shop to come up with a jackpot alert commercial. The spot features a red "Powerball®" and takes a behind the scenes look at what could possibly happen in a "lottery ball-making factory." As a part of the media buy, this commercial automatically goes into rotation when the Powerball® jackpot reaches $50 million and has several different versions that change as the jackpot grows.

Since SCEL began, players have always won BIG! From prizes of $1 to winning millions with Powerball® jackpots, winners leave the Claims Centers with smiles on their faces, like many of the people you see on this page.

On an average, 58% percent of the revenue generated by SCEL goes back to the players in the form of prizes. In fiscal year '04, not only did players win on SCEL's instant and online tickets, but also in second chance drawings.

Clean$weep and Powerbowl Sunday were just two promotions where players had an additional chance to mail in and win.

Wi

With Clean$weep, players had the chance to win $50 by mailing in five non-winning tickets. Each month, 100 players were drawn and won $50 with Clean$weep. In December 2003, with a $10 Powerball® purchase ($5 in Powerball® and $5 in PowerPlay), players mailed-in an entry form for a chance to go watch the NFL's Super Bowl and hang out with NFL Hall of Famer Lynn Swann for a weekend. The 18 winning couples also received leather jackets.

Every time a player plays SCEL's games,, education in South Carolina wins! Our players are enhancing the educational opportunities of all South Carolinians. Thank you!

nners

Expanding the horizons of South Carolina's students through the support of our players.

Corporate Citizen

Education Scholarship Alliance

SCEL's primary objective is to ensure funding for beneficiaries designated by the South Carolina General Assembly. Further, SCEL's goal is to maintain sales revenue performance, communicate the benefits of SCEL proceeds to the public, beneficiaries and winners and to market SCEL games in a responsible manner.

In addition to generating revenue through ticket sales, SCEL is working to increase the growth of non-traditional revenue and reduce expenses through a corporate partnership program entitled the "SCEL Education Scholarship Alliance." The Education Scholarship Alliance Program provides a venue for organizations to become directly involved in the promotion and growth of education in the State of South Carolina.

SCEL intends to secure corporate partnerships to enhance the marketing efforts of both entities by leveraging media, advertising, retail exposure and promotional opportunities while providing more funds to the State Legislature for education.

Benefits to participants in the Education Scholarship Alliance Program include the potential for:

- increasing sales
- targeting similar demographics as those of the Lottery's
- increasing statewide exposure through various lottery media
- receiving a marketing platform from which to sell products or services
- expanding opportunities for customers and retailers
- developing an affiliation with a highly visible state agency

Our corporate partners

Corporate partners receive in-kind advertising and/or promotional value in exchange for naming rights and exposure through daily and nightly identification during SCEL's television broadcasts of winning numbers, visibility at more than 3,500 SCEL retailers throughout South Carolina and extensive promotional opportunities.

SCEL has negotiated successful partnerships with corporate citizens such as Dell Computer Corporation, Dunlop Sports, the Real Yellow Pages from BellSouth, the R.L. Bryan Company, Hargray Telephone Company and the Greenville Grrrowl of the East Coast Hockey League. These cooperative partnerships have resulted in nearly $250,000 worth of in-kind goods traded in FY 2004.

Small and Minority Business

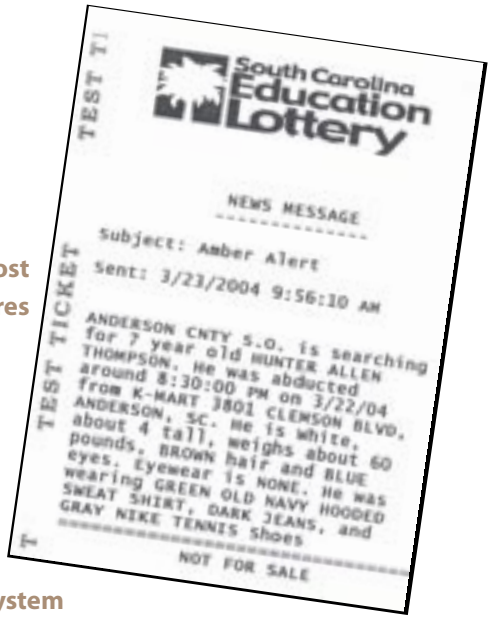
In fiscal year 2004, SCEL and its major subcontractors spent a total of $856,313.95 with small and minority businesses across the state. The $856,313.95 accounts for 22.44% of SCEL's controllable dollars. Of the 22.44%, $741,373.06 or 19.43% was spent with South Carolina companies that have been certified through the Governor's Office of Small and Minority Business Assistance. The other 3.01% was spent with non-certified small and minority businesses.

Throughout the fiscal year, SCEL hosts a significant number of training and educational programs geared toward giving small and minority businesses the opportunity to compete for contracts on an equal basis.

Since inception, the Lottery has put an emphasis on ensuring that partnerships exist with the minority community. These partnerships guarantee that SCEL continues to offer vendor opportunities to small and minority businesses in South Carolina.

AMBER Alert

Expanding the horizons of South Carolina's students through community partnerships.



Lottery retailers print and post information like this in their stores in the event of a child abduction.

SCEL partners with SC AMBER Alert System

On August 27, 2003, the machines that dispense lottery tickets were programmed to help distribute information about South Carolina's child abductions. SCEL enabled its more than 3,400 online terminals, which dispense tickets for games such as Pick 3, Pick 4, Carolina 5 and Powerball® tickets, to also provide AMBER alert information.

The Customer Display Unit on the terminal is programmed to broadcast a message to retail customers that a SC AMBER Alert has been issued by the South Carolina Law Enforcement Division. The customer is then instructed to ask the cashier for details.

"If the abductor is mobile, he or she very well may have to purchase gas or food," said Ernie Passailaigue, the SCEL's Executive Director. "With our statewide network of retailers, we can help convey the information in a quick and useful way."

Lottery retailers will print and post the abduction information in their stores, increasing the distribution and visibility of vital details at no cost to the state.

On January 8, 2004, SCEL made its first AMBER Alert broadcast to more than 3,400 on-line terminals. The message read as follows:

> "3 CHILDREN ABDUCTED 3 year old Tammy Jones 2 feet tall 30lbs blnd hair blue eyes, 4 year old Brandy Jones 2 feet tall 25lbs blnd hair and blue eyes and 10 year old Brittany Phelps 4 feet tall 50lbs brn shoulder length hair and blue eyes. They were abducted from Gordon County Georgia at 11 AM on Jan 8 2004. Police are looking for a white male, 30 years old, 150lbs with brown shoulder length hair and green eyes wearing glasses. Suspect is driving a 91 FORD EXPLORER with GA tags number 730YFV."

The children, all found safe, were returned to their family members.

2004 South Carolina Education Lottery Comprehensive Annual Financial Report

Education Lottery operations in South Carolina

SOUTH CAROLINA EDUCATION LOTTERY

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STATE AUDITOR

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September 28, 2004

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, 2004, 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 statements of net assets of the ***South Carolina Education Lottery*** (the SCEL), a component unit of the State of South Carolina, as of June 30, 2004 and 2003 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 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, 2004 and 2003, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2004 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 been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Elliott Davis LLC

Elliott Davis, LLC
August 10, 2004

SOUTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2004. 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 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 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.

Financial Highlights

The Lottery's net assets increased by $3.4 million primarily as a result of a lump-sum payment made on the debt. Revenues from lottery games increased by $225.7 million. We returned $552.3 to winners of lottery games and $67 million was paid to retailers for commissions and incentives. Other game related expenses were $20.4 million and operating expenses were $23.6 million. Transfers to the Education Lottery Account were $287 million.

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

	2004	2003
Capital Assets	$ 12.2	$ 15.2
Other Assets	72.6	51.3
Current Liabilities	72.7	56.7
Long-term Liabilities	2.9	3.5
Net Assets		
Capital Assets Net of Related Debt	8.8	5.4
Restricted Assets	0.4	0.4

The debt is related to the original purchase of the retailer terminals. The on-line vendor agreed to a deferred payment plan. A balloon payment of $5.27 million was made in March, 2004.

Lottery Operations

	2004	2003
Gaming Revenues	$ 950.0	$ 724.3
Other Revenues	3.4	2.8
Prizes Expense	552.3	415.7
Retailer Commissions and Incentives	67.0	51.1
Other Direct Game Costs	20.4	19.3
Other Operating Expenses	23.6	21.7

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, derived from the licensing fees of new retailers, 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, 2004 the Lottery had transferred $270.5 million related to operations and $16.5 million in unclaimed prize funds to the State Treasurer for the Education Lottery Account for the fiscal year ended June 30, 2004. Total transfers to the Education Lottery Account are $588 million from inception to June 30, 2004.

Potential Factors Impacting Future Operations

Management expanded the Carolina 5 game to have three evening draws per week rather than two. For FY05, management is considering a six number game and an instant game that would pay out as an annuity in the fourth quarter of FY05.

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
STATEMENTS OF NET ASSETS

	JUNE 30, 2004	JUNE 30, 2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 18,265,609	$ 13,942,944
Cash - Restricted fidelity fund	402,269	361,733
Retailer accounts receivable, net of allowance for doubtful accounts of $166,000 and $-0- for 2004 and 2003, respectively	23,389,638	32,146,558
Accounts receivable - Multi-State Lottery	23,277,101	-
Inventory	2,005,888	2,282,333
Prepaid expenses and other current assets	93,761	264,777
Total current assets	67,434,266	48,998,345
CAPITAL ASSETS, net	12,236,025	15,171,651
DEPOSIT WITH MULTI-STATE LOTTERY	5,127,408	2,290,309
Total assets	84,797,699	66,460,305
LIABILITIES		
CURRENT LIABILITIES		
Due to Education Lottery Account	18,083,373	17,818,473
Prizes payable	24,220,162	23,610,910
Prizes payable - Multi-State Lottery	23,277,101	-
Accounts payable	3,957,426	5,963,787
Accrued liabilities	1,004,726	880,906
Accrued compensated absences	117,385	270,000
Current portion of long-term debt	1,232,559	6,275,056
Deferred revenue	766,454	1,869,482
Total current liabilities	72,659,186	56,688,614
LONG -TERM DEBT	2,217,220	3,449,775
ACCRUED COMPENSATED ABSENCES	732,778	513,363
Total liabilities	75,609,184	60,651,752
NET ASSETS		
Invested in capital assets, net of related debt	8,786,246	5,446,820
Restricted - fidelity funds	402,269	361,733
Total net assets	**$ 9,188,515**	**$ 5,808,553**

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

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

	For the years ended June 30,	
	2004	2003
REVENUES		
Instant games	$ 537,339,766	$ 426,311,967
On-line games	180,480,976	144,151,438
Powerball games	232,186,929	153,849,870
Retailer permit fees	496,555	327,813
Retailer telephone fees	2,596,384	2,044,924
Other	62,037	223,518
Total revenue	953,162,647	726,909,530
DIRECT COSTS		
Commissions and incentives to retailers	66,950,403	51,136,250
Prize expense		
Instant games	359,887,245	274,301,493
On-line games	87,533,205	68,466,302
Powerball games	104,866,608	72,949,460
Total prize expense	552,287,058	415,717,255
Instant and on-line costs	20,385,780	19,253,048
Total direct costs	639,623,241	486,106,553
Gross profit	313,539,406	240,802,977
OPERATING EXPENSES		
Advertising and promotion	6,729,307	6,405,304
Security checks	176,910	117,950
Salaries, wages and benefits	8,707,090	7,871,294
Contracted and professional services	623,115	450,097
Depreciation	3,522,001	3,322,198
Rent expense	866,110	798,651
Office supplies	167,448	158,581
Bad debt expense	271,092	-
Other general and administrative	1,967,306	1,797,326
Total operating expenses	23,030,379	20,921,401
Operating Income	290,509,027	219,881,576
NON-OPERATING INCOME (EXPENSE)		
Interest income	225,481	223,287
Interest expense	(602,948)	(815,892)
Total non-operating expense	(377,467)	(592,605)
Change in net assets before transfers to and due to Education Lottery Account	290,131,560	219,288,971
TRANSFERS TO AND DUE TO EDUCATION LOTTERY ACCOUNT	286,751,598	220,056,527
Change in net assets	3,379,962	(767,556)
NET ASSETS,		
BEGINNING OF YEAR	5,808,553	6,576,109
END OF YEAR	**$ 9,188,515**	**$ 5,808,553**

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

SOUTH CAROLINA EDUCATION LOTTERY
STATEMENTS OF CASH FLOWS

	For the years ended June 30, 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retailers	$ 937,539,438	$ 716,284,432
Cash payments to prize winners	(528,400,705)	(404,389,058)
Cash payments to suppliers for goods and services	(99,569,179)	(79,469,411)
Cash payments to employees for services	(8,644,675)	(7,360,383)
Net cash provided by operating activities	300,924,879	225,065,580
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to fund deposit with Multi-State Lottery	(2,837,099)	(2,290,309)
Payments to Education Lottery Account	(286,486,698)	(213,133,348)
Net cash used for noncapital financing activities	(289,323,797)	(215,423,657)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from dispositions of capital assets	8,612	-
Interest paid	(602,948)	(886,945)
Net paid for short-term and long-term debt	(6,275,052)	(864,108)
Net cash used for financing activities	(6,869,388)	(1,751,053)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	225,481	226,039
Purchase of capital assets	(593,974)	(1,650,926)
Net cash used for investing activities	(368,493)	(1,424,887)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,363,201	6,465,983
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	14,304,677	7,838,694
END OF YEAR	**$ 18,667,878**	**$ 14,304,677**
OPERATING ACTIVITIES		
Operating income	$ 290,509,027	$ 219,881,576
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	3,522,001	3,322,198
Gain on dispositions of capital assets	(1,012)	-
Changes in assets and liabilities		
Retailer accounts receivable	8,756,920	(12,273,297)
Inventory	276,445	(385,855)
Prepaid expenses and other assets	171,016	(30,164)
Accounts payable and accrued liabilities	(1,815,742)	1,574,726
Prizes payable	609,252	11,328,197
Deferred revenue	(1,103,028)	1,648,199
Net cash provided by operating activities	**$ 300,924,879**	**$ 225,065,580**

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

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 Board (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.

(Continued)

Revenue and accounts receivable recognition, (Continued)

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.

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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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, 2004, 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.

Accounts receivable/prizes payable - Multi-State Lottery

During June 2004, a MUSL prize in the amount of $23,277,101 was won as the result of an on-line drawing. The cash prize, which is funded by MUSL and passed through to the prize winner by SCEL, had not been paid to the prize winner or received by SCEL as of June 30, 2004. Therefore, a receivable from MUSL and an offsetting prize payable has been recorded in the amount of $23,277,101. The amounts were subsequently received and paid.

Reclassifications

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

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, 2004 cash and cash equivalents were as follows:

	A	B	C	Bank Balance	Fair Value
Demand deposits	$ 18,816,920	$ -	$ -	$ 18,816,920	$ 18,285,020
Deposits held by State Treasurer				382,858	382,858
Total cash and cash equivalents				$ 19,199,778	$ 18,667,878

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

	A	B	C	Bank Balance	Fair 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 fiscal year 2004:

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

(Continued)

NOTE 4 - CAPITAL ASSETS, Continued

The following is a summary of changes in capital assets and accumulated depreciation during fiscal year 2003:

	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, 2004 consists of the following:

Accrued payroll and related expenses	$ 942,926
Other	61,800
	$ 1,004,726

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. These additional payments have been imputed to include principal and interest at 8%. A lump sum payment of $5,270,000 was due and paid in March 2004. Title to and risk of loss for this equipment occurred upon installation and acceptance in March 2002.

(Continued)

NOTE 6 - LONG -TERM DEBT AND COMMITMENTS, Continued

At June 30, 2004, the future maturities of the imputed principal and interest payments on the equipment are as follows:

	Principal	Interest	Payment
2005	$ 1,232,559	$ 231,438	$ 1,463,997
2006	1,334,864	129,136	1,464,000
2007	882,356	25,088	907,444
	$ 3,449,779	**$ 385,662**	**$ 3,835,441**

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

	Balance June 30, 2003	Proceeds	Payments	Balance June 30, 2004
Long-term debt	**$ 9,724,831**	**$ -**	**$ 6,275,052**	**$ 3,449,779**

The following is a summary of changes in long-term debt during fiscal year 2003:

	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 fiscal year 2004:

	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004
Accrued compensated absences	**$ 783,363**	**$ 474,192**	**$ 407,392**	**$ 850,163**

The following is a summary of changes in accrued compensated absences during fiscal year 2003:

	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
2005	$ 717,418
2006	339,548
2007	65,770
2008	4,042

Rental expenses under all operating leases including those on month-to-month terms totaled approximately $866,000 and $799,000 for the year ended June 30, 2004 and 2003, respectively. This includes $84,669 and 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. The following payables resulted from transfers due to the Education Lottery Account at June 30:

	2004	2003
Amount payable to the Education Lottery Account, beginning of year	$ 17,818,473	$ 10,895,294
Change in net assets subject to transfer	290,131,560	219,288,971
	307,950,033	230,184,265
Change in capital assets, net of related debt		
Property and equipment, net	2,935,626	1,671,272
Long-term debt	(6,275,052)	(864,108)
	(3,339,426)	807,164
Amount collected for fidelity fund	(40,536)	(39,608)
Amount paid during the year	(286,486,698)	(213,133,348)
Amount payable to the Education Lottery Account, end of year	**$ 18,083,373**	**$ 17,818,473**

Transfers related to the above payable were made to the Education Lottery Account in July 2004.

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, 2004, 2003 and 2002 the SCEL contributions to SCRS were $699,039; $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, 2004.

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, 2004.

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

	For the years ended June 30,	
	2004	**2003**
Charges for services	$ 953,162,647	$ 726,909,530
Operating grants and contributions	225,481	223,287
Less expenses	663,256,568	507,843,846
Net program revenue	290,131,560	219,288,971
Transfers out to state agencies/funds	(286,751,598)	(220,056,527)
Change in net assets	3,379,962	(767,556)
NET ASSETS - BEGINNING	5,808,553	6,576,109
NET ASSETS - ENDING	**$ 9,188,515**	**$ 5,808,553**

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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 years ended June 30, 2004 and 2003. 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.

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 audits, 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 10, 2004

SOUTH CAROLINA EDUCATION LOTTERY
SCHEDULE OF FINDINGS
For the year ended June 30, 2004

SCHEDULE OF AUDITOR'S RESULTS

We have issued an unqualified opinion, dated August 10, 2004 on the financial statements of the South Carolina Education Lottery as of and for the year ended June 30, 2004.

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*.

South Carolina Education Lottery™

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