

**SOUTH CAROLINA  
EDUCATION LOTTERY COMMISSION**

**REPORT ON FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JUNE 30, 2010 AND 2009**

# *State of South Carolina*



## *Office of the State Auditor*

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September 15, 2010

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

This report on the audit of the financial statements of the South Carolina Education Lottery Commission for the fiscal years ended June 30, 2010, was issued by Elliott Davis, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

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

RHGjr/trb

***SOUTH CAROLINA EDUCATION LOTTERY COMMISSION***

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Richard H. Gilbert, Jr., CPA  
Interim State Auditor  
State of South Carolina  
Columbia, South Carolina

We have audited the accompanying statements of net assets of the South Carolina Education Lottery Commission (the Commission), a component unit of the State of South Carolina (the State), as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the Commission. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Commission as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2010, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The supplementary schedule of business-type activities for the Statewide Comprehensive Annual Financial Report (CAFR) is supplementary information required by the South Carolina Office of the Comptroller General and is presented for purposes of additional analysis and is not a required part of the basic financial statements. It has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Columbia, South Carolina  
September 15, 2010

*Elliott Davis, LLC*

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

Management of the Commission provides this *Management's Discussion and Analysis* of their financial performance for the readers of the Commission's financial statements. This narrative provides an overview of the Commission's financial activity for the fiscal years ended June 30, 2010 and 2009. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the Commission's financial activities based on facts, decisions, and conditions currently facing management. These financial statements reflect only activities of the Commission, a component unit of the State.

***Understanding the Commission's Financial Statements***

The Commission, an instrumentality of the State, is accounted for as an enterprise fund that reports all assets and liabilities using the accrual basis of accounting, much like a private business entity. In accordance with accounting principles generally accepted in the United States of America, this report consists of a series of financial statements, along with explanatory notes to the financial statements. The financial statements immediately follow this discussion and analysis by management and are designed to highlight the Commission's net assets and changes to those assets resulting from Commission operations.

The financial statements included in this report are as follows:

- The Statements of Net Assets provide information about the Commission's assets, liabilities, and net assets.
- The Statements of Revenues, Expenses, and Changes in Net Assets provide information about the revenues and expenses as they relate to lottery operations.
- The Statements of Cash Flows summarize the cash inflows and cash outflows of the Commission's activities.
- The Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is necessary to gain a comprehensive understanding of data reported in the financial statements.
- A Supplementary Schedule of Business-Type Activities for the Statewide CAFR is presented to show the revenues, expenses, remittances to the Education Lottery Account (ELA), and beginning and ending net assets.

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

***Financial Highlights***

For the year ended June 30, 2010, there was an increase from the prior fiscal year of \$2.2 million in revenues from lottery operations. The Commission returned \$628.3 million to winners of lottery games and \$71.2 million was paid to retailers for commissions and incentives. Other game-related expenses totaled \$16.4 million and operating expenses were \$22.6 million. Net proceeds remitted to and due to the ELA were \$272.5 million as of and for the year ended June 30, 2010.

The overall financial position of the Commission remains strong as the Board of Economic Advisors' (BEA) remittance goal was exceeded once again this fiscal year. The projected remittance of \$252.4 million by the BEA was exceeded by \$20.1 million for actual remittances and amounts due to the ELA of \$272.5 million. Net Assets decreased from the previous fiscal year from \$1.4 million to \$1.1 million.

For the year ended June 30, 2009, there was an increase from the prior fiscal year of \$12.0 million in revenues from lottery operations. The Commission returned \$633.2 million to winners of lottery games and \$71.3 million was paid to retailers for commissions and incentives. Other game-related expenses totaled \$19.2 million and operating

expenses were \$23.7 million. Net proceeds remitted to and due to the ELA were \$261.5 million as of and for the year ended June 30, 2009.

The Commission continues to introduce new games and promote existing games to keep players entertained. The elements which contribute to the level of sales are varied and the Commission attempts to identify these elements while marketing products responsibly to increase sales.

S.C. Code Ann. § 59-150-60(A)(18) limits the amount of advertising expense to 1 percent of the previous year's net sales, and § 59-150-350(A) limits annual administrative expenses to 15 percent of total annual revenue. Actual operating costs and the related limits for FY08 to FY10 follow:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Revenue	\$1,010,702,417	\$1,008,481,495	\$996,507,668
Net Sales Revenue	1,007,163,524	1,005,106,684	992,492,764
Advertising Expense Upper Limit	10,051,067	9,924,928	9,881,582
Actual Advertising Expense	8,659,566	8,285,021	8,332,591
Total Administrative Expense Upper Limit	151,605,363	151,272,224	149,476,150
Actual Total Admin. Exp. and Retailer Comm.	110,212,990	114,218,322	112,654,981

**Condensed Financial Information**

The summary of financial statements of the Commission is presented as follows:

**Assets and Liabilities** (in millions) (See Notes 3 through 9 of the financial statements)

**Assets and Liabilities:**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current Assets	<u>\$ 49.6</u>	<u>\$ 49.5</u>	<u>\$ 49.8</u>
Non-Current Assets:			
Capital Assets	0.6	0.9	1.2
Other Non-Current Assets	<u>4.8</u>	<u>4.8</u>	<u>5.0</u>
Total Non-Current Assets	<u>5.4</u>	<u>5.7</u>	<u>6.2</u>
Total Assets	55.0	55.2	56.0
Current Liabilities	53.8	53.6	53.7
Long-term Liabilities	<u>0.1</u>	<u>0.2</u>	<u>0.6</u>
Total Liabilities	53.9	53.8	54.3
Net Assets			
Net Assets Invested in Capital Assets	0.6	0.9	1.2
Restricted Assets	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>
Total Net Assets	<u>\$ 1.1</u>	<u>\$ 1.4</u>	<u>\$ 1.7</u>

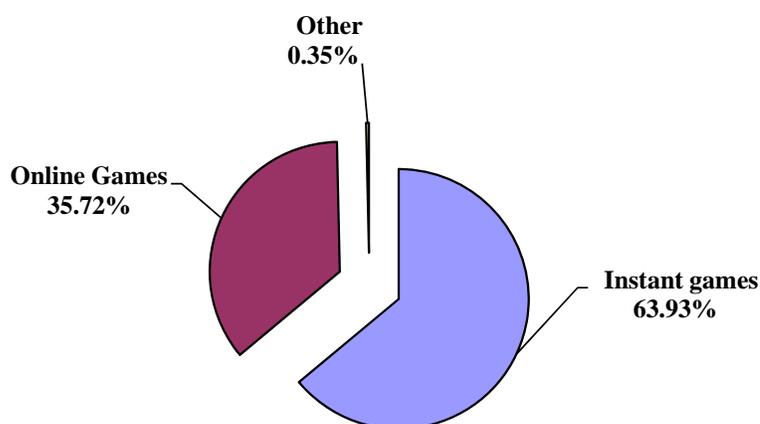
The Commission's current assets consist primarily of cash and cash equivalents with deposits in financial institutions, accounts receivable from retailers, accounts receivable from the Multi-State Lottery Association (MUSL), instant ticket inventory, and prepaid expenses. Non-current capital assets consist of machinery and equipment, vehicles, and leasehold improvements. Other non-current assets consist of deposits with MUSL. Current liabilities consist primarily of amounts payable to the ELA and prizes payable.

**Commission Operations** (in millions)

**Sales by game and other revenues:**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Revenue - Instant games	\$ 646.2	\$ 650.0	\$ 622.9
Revenue – Online games	361.0	355.1	369.6
Other Revenues	<u>3.5</u>	<u>3.4</u>	<u>4.0</u>
Total Revenues	\$ 1,010.7	\$ 1,008.5	\$ 996.5

**FY 2010 Revenue % by Game**



**Expense by prize and other expenses:**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Retailer Commissions and Incentives	\$ 71.2	\$ 71.3	\$ 70.4
Prize expense - Instant games	457.6	463.2	442.9
Prize expense - Online games	170.8	170.0	177.6
Instant and online direct costs	16.4	19.2	17.1
Operating expenses	<u>22.6</u>	<u>23.7</u>	<u>25.1</u>
Total Expenses	\$ 738.6	\$ 747.4	\$ 733.1

**Non-operating income:**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Interest Income	\$ 0.1	\$ 0.1	\$ 0.5

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Remitted and due to ELA	\$ 272.5	\$ 261.5	\$ 265.3
Change in Net Assets	(0.3)	(0.3)	(1.4)
Ending Net Assets	1.1	1.4	1.7

Instant games prize expense decreased by \$5.6 million in fiscal year 2010 from fiscal year 2009. This decrease is attributable to the change in product mix of instant and online games and the decrease in sales for instant tickets. Instant and online direct costs decreased by \$2.8 million in fiscal year 2010 from fiscal year 2009. This is attributable mostly to the decrease in operating costs in the first complete year of Intralot as the online vendor.

All proceeds of the Commission must be remitted to the State Treasurer for the ELA with the following exceptions: 1) the cost of capital assets, net of depreciation and related debt, and 2) the Restricted Fidelity Fund, derived from the licensing fees of new retailers, which may be retained by the Commission up to \$500,000 and used to cover losses the Commission may experience due to nonfeasance, misfeasance, or malfeasance of a lottery retailer. Therefore, the net assets of the Commission will never exceed \$500,000 related to the Restricted Fidelity Fund plus the cost of capital assets, net of depreciation and related debt.

As of June 30, 2010, the balance in the Restricted Fidelity Fund was \$499,395. A transfer was made during the year in the amount of \$15,011 for retailer losses. As of June 30, 2009, the balance in the Restricted Fidelity Fund was \$476,096. A transfer was made during the year in the amount of \$27,718 for retailer losses. As of July 10, 2010, the Commission remitted \$272.4 million, including \$15.4 million in unclaimed prize funds to the State Treasurer for the ELA for the fiscal year ended June 30, 2010. Total remittances to the ELA are \$2.3 billion from inception to June 30, 2010.

During the reporting year, the Commission collected the aggregate amount of \$3,364,697, pertaining to charges for lottery retailer licensure and operations, as authorized at S.C. Code Ann. §§ 59-150-165 *et seq.* and S.C.R. 44-30. This amount was included in total revenue as a component of the net income transferred to the ELA in accordance with S.C. Code Ann. § 59-150-350(B).

**Net Assets Invested in Capital Assets**

Net capital assets for fiscal year 2010 are \$597,970. Capital asset activity during the year included purchases of \$160,834 and depreciation expense of \$355,863. Large capital assets no longer in use were removed from the books during the fiscal year.

<i>(in millions)</i>	
Capital Assets	\$ 3.8
<u>Less: Accumulated Depreciation</u>	<u>3.2</u>
Net assets invested in capital assets	\$ 0.6

Net capital assets for fiscal year 2009 were \$874,718. Capital asset activity during the year included purchases of \$122,182 and depreciation expense of \$444,248. Large capital assets no longer in use were removed from the books during the fiscal year.

<i>(in millions)</i>	
Capital Assets	\$ 12.7
<u>Less: Accumulated Depreciation</u>	<u>11.8</u>
Net assets invested in capital assets	\$ 0.9

Additional discussion on net assets invested in capital assets can be found in Note 4 of the financial statements.

**Potential Factors Impacting Future Operations**

There are no known potential factors that would have a significant impact on future operations.

**Contacting the Commission's Financial Management**

This financial report is designed to provide a general overview of the Commission's financial activity for all those interested in the Commission's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, South Carolina Education Lottery, Post Office Box 11949, Columbia, South Carolina 29211-1949.

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

	For the years ended June 30,	
	2010	2009
<i>ASSETS</i>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 17,192,144	\$ 12,259,792
Cash - Restricted fidelity fund	499,395	476,096
Retailer accounts receivable, net of allowance for doubtful accounts of \$265,517 and \$264,878 for 2010 and 2009, respectively	29,388,357	33,694,977
Allocation Accounts receivable - Multi-State Lottery Association		51,865
Inventory	1,333,973	1,739,917
Prepaid expenses and other current assets	1,241,966	1,294,962
Total current assets	49,655,835	49,517,609
<b>NONCURRENT ASSETS</b>		
Capital assets, net	597,970	874,718
Deposits with Multi-State Lottery Association	4,780,313	4,783,216
Total noncurrent assets	5,378,283	5,657,934
Total assets	\$ 55,034,118	\$ 55,175,543
<i>LIABILITIES</i>		
<b>CURRENT LIABILITIES</b>		
Due to Education Lottery Account	\$ 25,633,766	\$ 23,655,434
Prizes payable	23,394,802	24,376,500
Prizes payable - Multi-State Lottery	929,818	1,057,754
Accounts payable	1,747,191	2,079,097
Accrued expenses	1,117,618	1,136,314
Current portion of accrued compensated absences	589,589	588,393
Deferred revenue	408,269	662,383
Total current liabilities	53,821,053	53,555,875
<b>NONCURRENT LIABILITIES</b>		
Accrued compensated absences	115,700	268,854
Total liabilities	53,936,753	53,824,729
<i>NET ASSETS</i>		
Net assets, invested in capital assets	597,970	874,718
Restricted - fidelity funds	499,395	476,096
Total net assets	\$ 1,097,365	\$ 1,350,814

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

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

	For the years ended June 30,	
	2010	2009
<b>OPERATING REVENUES</b>		
Sales Revenues		
Instant games	\$ 646,181,682	\$ 650,042,661
On-line games	360,981,842	355,064,023
Net sales revenues	1,007,163,524	1,005,106,684
Other Operating Revenues		
Retailer permit fees	490,050	482,895
Retailer telephone fees	2,839,397	2,761,993
Other	209,446	129,923
Total other operating revenue	3,538,893	3,374,811
Total revenue	1,010,702,417	1,008,481,495
<b>DIRECT COSTS</b>		
Commissions and incentives to retailers	71,168,765	71,255,655
Prize expense		
Instant games	457,551,076	463,165,582
On-line games	170,787,581	170,030,824
Total prize expense	628,338,657	633,196,406
Instant and on-line costs	16,395,589	19,241,071
Total direct costs	715,903,011	723,693,132
Gross profit	294,799,406	284,788,363
<b>OPERATING EXPENSES</b>		
Advertising and promotion	8,659,566	8,285,021
Security checks	232,333	219,175
Salaries, wages and benefits	9,988,692	10,219,356
Contracted and professional services	364,424	1,214,777
Depreciation	355,863	444,248
Rent expense	967,208	1,017,575
Office supplies	85,127	103,382
Other general and administrative	1,995,423	2,218,062
Total operating expenses	22,648,636	23,721,596
Operating Income	272,150,770	261,066,767
<b>NON-OPERATING INCOME</b>		
Interest income	72,933	127,464
Gain on disposition of capital assets	10,429	16,836
Total non-operating income	83,362	144,300
Change in net assets before amount remitted to and due to Education Lottery Account	272,234,132	261,211,067
<b>REMITTED TO AND DUE TO EDUCATION LOTTERY ACCOUNT</b>		
Change in net assets	(253,449)	(313,328)
<b>NET ASSETS,</b>		
BEGINNING OF YEAR	1,350,814	1,664,142
END OF YEAR	\$ 1,097,365	\$ 1,350,814

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

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

	For the years ended	
	June 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from retailers	\$ 1,014,754,923	\$ 1,007,942,738
Cash payments to prize winners	(629,448,291)	(637,239,019)
Cash payments to suppliers for goods and services	(99,847,793)	(102,862,164)
Cash payments to employees for services	(10,052,954)	(10,423,932)
Net cash provided by operating activities	275,405,885	257,417,623
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Refunds of deposit with Multi-State Lottery	2,903	176,904
Allocation from Multi-State Lottery Assoc.	51,865	500,631
Payments to Education Lottery Account	(270,509,249)	(256,519,823)
Net cash used for noncapital financing activities	(270,454,481)	(255,842,288)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from dispositions of capital assets	92,148	21,220
Purchase of capital assets	(160,834)	(122,182)
Net cash used for financing activities	(68,686)	(100,962)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	72,933	127,464
Net cash provided by investing activities	72,933	127,464
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	4,955,651	1,601,837
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>	12,735,888	11,134,051
<b>END OF YEAR</b>	\$ 17,691,539	\$ 12,735,888
<b>OPERATING ACTIVITIES</b>		
Operating income	\$ 272,150,770	\$ 261,066,767
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	355,863	444,248
Changes in assets and liabilities		
Retailer accounts receivable	4,306,620	(769,966)
Accounts receivable - Multi-State Lottery		288,939
Inventory	405,944	193,445
Prepaid expenses and other assets	52,996	1,708,838
Accounts payable and accrued liabilities	(502,560)	(1,414,305)
Prizes payable	(1,109,634)	(4,042,613)
Deferred revenue	(254,114)	(57,730)
Net cash provided by operating activities	\$ 275,405,885	\$ 257,417,623

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

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

**NOTE 1 – REPORTING ENTITY**

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies of the Commission are as follows:

**Method of Accounting**

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

The Government Accounting Standards Board (GASB) is the recognized standard setting body for generally accepted accounting principles applicable to governmental proprietary activities in the United States of America. The Commission applies all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, when not in conflict with GASB pronouncements. In accordance with GASB Cod. Sec. P80.103, the Commission has elected not to implement FASB Statements 103 and after.

**Basis of Accounting**

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

**Use of Estimates**

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

**Net Operating Revenues**

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

**Non-operating Income**

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Revenue, Accounts Receivable, and Deferred Revenue Recognition**

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

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

**Commissions**

Retailers receive a commission of 7 percent on total sales.

**Prizes**

In accordance with the Act, as nearly as practical, at least 45 percent of ticket sales must be returned to the public in the form of prizes. Prize expense for instant ticket games is recorded as an estimate at the time the related revenue is recognized based on the predetermined prize structure for each game; periodically, the prize expense is adjusted to reflect amounts actually won. Prize expense for online games is recorded at the time the related revenue is recognized based on the known prizes.

**Ticket Inventories**

Inventories are carried at cost and consist of instant tickets located in the Commission's warehouses or held by retailers. The cost of tickets is charged to operations upon the recognition of revenue under the procedures described above.

**Unclaimed Prizes**

Prizes must be claimed within 90 days after the last day to sell for instant games and within 180 days after the draw date for online games. Unclaimed prize money must be deposited into the ELA each year.

**Net Assets**

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

**Change in Net Assets**

Change in net assets equals net proceeds, as defined by the Act, and consists of all revenues derived from the sale of lottery game tickets or shares and all other monies derived from the lottery games, less operating expenses and prizes.

**Operating Expenses**

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

**Cash and Cash Equivalents**

The Commission considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. This includes cash in banks and petty cash.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Retailer Accounts Receivable**

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

**Capital Assets**

Capital assets, which consist of machinery, equipment, vehicles, and leasehold improvements, are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the capital assets. Leasehold improvements are amortized over their expected useful lives or the lease term, whichever is shorter. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the results from operations in the period of disposal. The Commission capitalizes all capital asset purchases of \$5,000 or more. The estimated useful lives used for the major asset categories are as follows:

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

**Prepaid Expenses**

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

**Restricted Fidelity Fund**

In accordance with the Act, retailers contribute a fee to a fidelity fund upon acceptance as a lottery retailer. The fund is used to cover losses the Commission may incur due to misfeasance, nonfeasance, or malfeasance of retailers. At the end of each fiscal year, any amount in the fund in excess of \$500,000 is treated as net proceeds from the Commission and is payable to the ELA. As of June 30, 2010, the balance in the Restricted Fidelity Fund was \$499,395. A transfer of \$15,011 was made during the current fiscal year for retailer losses. The fidelity fund is held in a separate account and appears on the Statements of Net Assets as “Restricted - fidelity funds.”

**Insurance**

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

**Compensated Absences**

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Accounts Receivable - Multi-State Lottery Association (MUSL)**

Accounts Receivable – MUSL consists of the Commission’s annual pro rata allocation of earnings on a reserve account in which MUSL holds member deposits. Balances related to these receivables as of June 30, 2010 and 2009 are \$0 and \$51,865, respectively.

**Advertising**

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

**Deposit with Multi-State Lottery Association (MUSL)**

The Commission is required to maintain funds in reserve with MUSL. This reserve serves as a contingent source for prize payouts should MUSL games not generate sufficient funds to pay amounts due to prize winners. MUSL is not a financial institution.

**Reclassifications**

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

**New Accounting Pronouncements**

Certain recently issued accounting standards have not yet been adopted by the Commission as management has determined that they did not have a material effect on the Commission’s financial position or results of operations as of and for the year ended June 30, 2010.

**NOTE 3 – DEPOSITS**

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

For the years ending June 30, 2010 and 2009, the amounts of the Commission’s deposits were as follows:

	<b>2010</b>		<b>2009</b>	
	<b>Carrying amount</b>	<b>Bank balances</b>	<b>Carrying amount</b>	<b>Bank balances</b>
Demand deposits	\$ 17,691,539	\$ 18,047,177	\$ 12,348,273	\$ 12,934,023
Deposits held by State Treasurer	-	-	387,615	387,615
	<b><u>\$ 17,691,539</u></b>	<b><u>\$ 18,047,177</u></b>	<b><u>\$ 12,735,888</u></b>	<b><u>\$ 13,321,638</u></b>

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Commission’s deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk. For the years ending June 30, 2010 and 2009, all of the Commission’s bank balances of \$18,047,177 and \$13,321,638, respectively, were covered by FDIC insurance or by collateral held by the pledging financial institutions’ trust departments in the Commission’s name. Therefore, none of the Commission’s bank balances were exposed to custodial credit risk as of June 30, 2010 and 2009.

**State Law**

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

**NOTE 4 – CAPITAL ASSETS**

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

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

The following is a summary of changes in capital assets and accumulated depreciation during fiscal year 2009:

	<b><u>Balance as of June 30, 2008</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Balance as of June 30, 2009</u></b>
Cost				
Machinery and equipment	\$ 21,056,032	\$ 122,182	\$ (9,852,029)	\$ 11,326,185
Vehicles	68,826	-	(21,000)	47,826
Leasehold improvements	<u>1,315,694</u>	<u>-</u>	<u>-</u>	<u>1,315,694</u>
	<u>22,440,552</u>	<u>122,182</u>	<u>(9,873,029)</u>	<u>12,689,705</u>
Accumulated depreciation				
Machinery and equipment	(20,412,507)	(309,915)	9,847,645	(10,874,777)
Vehicles	(68,826)	-	21,000	(47,826)
Leasehold Improvements	<u>(758,051)</u>	<u>(134,333)</u>	<u>-</u>	<u>(892,384)</u>
	<u>(21,239,384)</u>	<u>(444,248)</u>	<u>9,868,645</u>	<u>(11,814,987)</u>
Total capital assets, net	<b><u>\$ 1,201,168</u></b>	<b><u>\$ (322,066)</u></b>	<b><u>\$ (4,384)</u></b>	<b><u>\$ 874,718</u></b>

**NOTE 5 – ACCRUED EXPENSES**

Accrued expenses as of June 30, 2010 consist of the following:

Accrued payroll and related expenses	\$ 928,177
Accrued SLED	57,640
Accrued rent	56,020
Accrued audit fees	46,815
Accrued withholdings for prizes	24,225
Accrued other expenses	4,741
Total Accrued	<u><b>\$ 1,117,618</b></u>

Accrued expenses as of June 30, 2009 consist of the following:

Accrued payroll and related expenses	\$ 840,481
Accrued SLED costs	122,092
Accrued rent	36,827
Accrued audit fees	55,010
Accrued withholdings for prizes	78,936
Accrued other expenses	2,968
Total Accrued	<u><b>\$ 1,136,314</b></u>

**NOTE 6 – LONG-TERM CONTRACTS AND COMMITMENTS**

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

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

<u>Fiscal Year</u>	<u>Contract Payments to Intralot</u>
2011	\$ 6,777,900
2012	6,777,900
2013	6,777,900
2014	6,777,900
2015	6,777,900
2016 - 2019	22,649,482

The monthly online gaming fee payments to Intralot totaled \$6,777,900 and \$4,462,118 for fiscal years 2010 and 2009, respectively.

Scientific Games has provided services for the instant games contract since inception. During fiscal year 2006, the contract was rebid and Scientific Games was awarded the contract to provide instant tickets, including services of marketing support, warehousing, and distribution, among other items associated with providing instant tickets. Payments to Scientific Games are contingent upon actual services provided. Total payments to Scientific Games as it relates to instant ticket services was \$7,775,519 and \$8,159,953 for fiscal years 2010 and 2009, respectively. The contract period ends September 2013.

**NOTE 7 – ACCRUED COMPENSATED ABSENCES**

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

	<b><u>Balance as of June 30, 2009</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>Balance as of June 30, 2010</u></b>
Accrued compensated absences	<b><u>\$ 857,247</u></b>	<b><u>\$ 505,706</u></b>	<b><u>\$ 657,664</u></b>	<b><u>\$ 705,289</u></b>

Compensated absences due in the next fiscal year are estimated at \$589,589, which is based on an average of the prior year's expenses plus all compensatory time.

The following is a summary of changes in accrued compensated absences during fiscal year 2009:

	<b><u>Balance as of June 30, 2008</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>Balance as of June 30, 2009</u></b>
Accrued compensated absences	<b><u>\$ 1,130,980</u></b>	<b><u>\$ 542,379</u></b>	<b><u>\$ 816,112</u></b>	<b><u>\$ 857,247</u></b>

Compensated absences due in the next fiscal year were estimated at \$588,393, which is based on an average of the prior year's expenses plus all compensatory time.

**NOTE 8 – OPERATING LEASES**

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

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

<b><u>Fiscal Year</u></b>	<b><u>Operating Leases</u></b>
2011	\$ 753,835
2012	706,430
2013	635,123
2014	654,510
2015	673,897
2016	522,923

Rental expenses under all operating leases, including those on month-to-month terms, totaled approximately \$967,208 and \$1,017,575 for the years ended June 30, 2010 and 2009, respectively. This amount includes \$91,775 and \$112,933, respectively, in vehicle rental paid to the State Fleet management.

**NOTE 9 – DUE TO ELA**

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

**NOTE 9 – DUE TO ELA, Continued**

	<u>2010</u>	<u>2009</u>
Amount payable to the ELA, beginning of year	\$ 23,655,434	\$ 18,650,862
Change in net assets subject to remittance	<u>272,234,132</u>	<u>261,211,067</u>
	295,889,566	279,861,929
Change in capital assets	276,748	326,450
Net amount collected for fidelity fund	(23,299)	(13,122)
Amount paid during the year	<u>(270,509,249)</u>	<u>(256,519,823)</u>
Amount payable to the ELA, end of year	<b><u>\$ 25,633,766</u></b>	<b><u>\$ 23,655,434</u></b>

Net proceeds related to the above payable were remitted to the ELA in July 2010 and 2009, respectively.

**NOTE 10 – EMPLOYEE RETIREMENT SYSTEMS**

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

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

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

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

	<u>SCRS</u>
Employee contributions	6.50% of salary
Employer contributions	
Retirement	9.24% of salary
Insurance surcharge	3.50% of salary
Group life insurance	.15% of salary

For the years ending June 30, 2010, 2009, and 2008, the Commission's contributions to SCRS were \$960,906, \$962,486, and \$918,133, 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, 2010.

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

**NOTE 10 – EMPLOYEE RETIREMENT SYSTEMS, Continued**

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

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

The Police Officers Retirement System (PORS), is a defined benefit retirement plan for police officers and firefighters employed by the State, and any participating local subdivision, agency, or department of the State. PORS provides service and disability retirement, deferred service retirement, and survivor benefits. PORS provides members and retirees with a comprehensive benefit package. You are considered an active member if you are working for an employer participating in the Retirement Systems, earning service credit, making regular contributions to a PORS retirement account, and have not retired or terminated from covered employment. Employer benefits for fiscal year 2010 to PORS were retirement at 10.65% of salary, insurance surcharge at 3.5% of salary, group life insurance at 0.20% of salary, and accidental death at 0.20% of salary.

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

**NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**Plan Description**

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

**Funding Policies**

Sections 1-11-710 and 1-11-720 of the South Carolina Code of Laws, 1976, as amended, requires these post-employment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, which is 3.50% for the annual covered payroll of 2010 and 2009. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The

**NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued**

Commission paid approximately \$262,851 and \$263,305 applicable to the surcharge included with the employer contribution for RMP and LTDP for the fiscal years ended June 30, 2010 and 2009, respectively, which were 100 percent of the required contribution amounts. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.23 for the fiscal years ended June 30, 2010 and 2009.

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

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

**NOTE 12 – CONTINGENCIES**

The Commission is subject to litigation in the ordinary course of its business. In the opinion of management and legal counsel, the outcome of such litigation will not have a material impact on the financial position or cash flows of the Commission for the year ending June 30, 2010.

**NOTE 13 – TRANSACTIONS WITH STATE ENTITIES AND RELATED PARTIES**

For the year ended June 30, 2010, the Commission had certain transactions with the State and various other state agencies as follows:

<u>Related Party</u>	<u>Amount</u>	<u>Nature of Transaction</u>
South Carolina Department of Revenue	\$ 14,044,786	Transfers of state income tax withholding, for payroll and prizes, prize debt setoffs, use taxes, retailer credit checks, and payroll garnishments
South Carolina Law Enforcement Division	279,532	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	270,509,249	Remittances of net proceeds and unclaimed prizes
South Carolina State Treasurer	4,399,773	Transfer of payroll funds for processing
Comptroller General	15,000	Fees for payroll processing
Comptroller General	17,817	Unclaimed property transfer
Comptroller General	25,889	Unemployment compensation premium
South Carolina Budget and Control Board	300,250	Vehicles, telephone, printing, misc. services
South Carolina Budget and Control Board	749,715	Employee Insurance
South Carolina Department of Social Services	17,225	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	327,848	Security services
South Carolina Retirement Systems	594,683	Employee contributions/employer match
South Carolina State Accident Fund	57,158	FY10 Workers' Compensation Premium
Other	1,771	2010 SC Codes and recycling pickup fees

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

For the year ended June 30, 2009, the Commission had certain transactions with the State and various other state agencies as follows:

<u>Related Party</u>	<u>Amount</u>	<u>Nature of Transaction</u>
South Carolina Department of Revenue	\$ 5,135,158	Transfers of state tax withholding, use taxes, debt setoffs, and retailer credit checks
South Carolina Law Enforcement Division	279,499	Security services and fees paid for background checks on employees and retailers
South Carolina State Treasurer	256,519,823	Remittances of net proceeds and unclaimed prizes
South Carolina State Treasurer	9,600,375	Transfer of payroll funds for processing
Comptroller General	30,000	Fees for payroll processing
Comptroller General	23,970	Unemployment compensation premium
South Carolina Budget and Control Board	134,054	Insurance, telephone, printing, misc. services
South Carolina Department of Social Services	28,138	Debt setoffs withheld from prize winnings
South Carolina Department of Public Safety	333,868	Security services
South Carolina Legislative Audit Council	281,618	FY09 Legislative Audit
South Carolina State Accident Fund	57,213	FY09 Workers' Compensation Premium

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

	For the years ended	
	June 30,	
	<u>2010</u>	<u>2009</u>
Charges for services	\$ 1,010,702,417	\$ 1,008,481,495
Operating grants and contributions	83,362	144,300
Less expenses	<u>738,551,647</u>	<u>747,414,728</u>
Net program revenue	272,234,132	261,211,067
Remittances out to state agencies/funds	<u>(272,487,581)</u>	<u>(261,524,395)</u>
Change in net assets	(253,449)	(313,328)
NET ASSETS - BEGINNING	<u>1,350,814</u>	<u>1,664,142</u>
NET ASSETS - ENDING	<u>\$ 1,097,365</u>	<u>\$ 1,350,814</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Richard H. Gilbert, Jr., CPA  
Interim State Auditor  
State of South Carolina

We have audited the financial statements of the South Carolina Education Lottery Commission (the Commission), a component unit of the State of South Carolina (the State), as of and for the year ended June 30, 2010, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

*Elliott Davis, LLC*

Columbia, South Carolina  
September 15, 2010

***SOUTH CAROLINA EDUCATION LOTTERY COMMISSION  
SCHEDULE OF FINDINGS  
For the year ended June 30, 2010***

**I. SUMMARY OF AUDITOR'S RESULTS**

We have issued an unqualified opinion, dated September 15, 2010 on the financial statements of the Commission as of and for the years ended June 30, 2010 and 2009.

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

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

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

**II. FINANCIAL STATEMENTS FINDINGS**

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