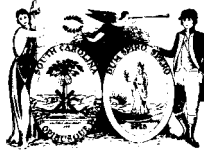


**SOUTH CAROLINA EDUCATION LOTTERY**

**REPORT ON FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2002**

State of South Carolina



Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

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

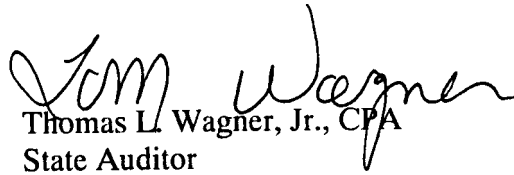
October 4, 2002

The Honorable Jim Hodges, 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, 2002, 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/trb

# ***SOUTH CAROLINA EDUCATION LOTTERY***

## **CONTENTS**

	<b><u>PAGE</u></b>
<b>REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>2 - 3</b>
<b>FINANCIAL STATEMENTS</b>	
Statement of net assets	4
Statement of revenues, expenses and changes in net assets	5
Statement of cash flows	6
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>7 - 12</b>
<b>SUPPLEMENTARY SCHEDULE OF BUSINESS - TYPE     ACTIVITIES FOR THE STATEWIDE CAFR</b>	<b>13</b>
<b>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</b>	<b>14</b>
<b>SCHEDULE OF FINDINGS</b>	<b>15</b>



**Elliott Davis, LLC**  
**Advisors • CPAs • Consultants**

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

Phone 803.256.0002  
Fax 803.254.4724

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Commission  
**South Carolina Education Lottery**  
Columbia, South Carolina

We have audited the accompanying statement of net assets of the **South Carolina Education Lottery** (the SCEL), a component unit of the State of South Carolina, as of June 30, 2002 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the SCEL. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **South Carolina Education Lottery** as of June 30, 2002, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2002 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 supplementary information. However we did not audit the information and express no opinion thereon.

The schedule of business-type activities for the state-wide CAFR is not a required part of the basic financial statements but is supplementary information required by the South Carolina Office of the Comptroller General. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

*Elliott Davis L.L.C.*

September 13, 2002

[www.elliottdavis.com](http://www.elliottdavis.com)

Internationally - Moore Stephens Elliott Davis, LLC

## ***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, 2002. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the Lottery's financial activities based on facts, decisions, and conditions currently facing management.

### **Understanding the Lottery's Financial Statements**

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

The most important relationship demonstrated within the Lottery's financial statements is the requirement that the Lottery transfer all net proceeds to the State Treasurer for the Education Lottery Account. Accordingly, the primary focus of these financial statements is determining net proceeds available for transfer to the Education Lottery Account rather than the change in net assets of the Lottery. It is also important to note that most financial statement balances have a direct or indirect relationship to revenue. As lottery sales increase, the amount transferred to the Education Lottery Account also increases. Similarly, increases in revenue for a particular lottery game result in direct increases to the related prize awards and commissions expense.

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

### **Financial Highlights**

Lottery sales began on January 7, 2002 and in the first six months of operations included in this report the Lottery generated \$335.5 million in sales of lottery products and \$1.6 million in other revenues. We returned \$200.3 million dollars to the winners of lottery games, \$23.5 million was paid to retailers in commissions and other expenses amounted to \$25.3 million.

### **Assets and Liabilities**

#### **Capital Assets**

In the initial year of operations, the Lottery acquired the necessary assets to operate the lottery. The most significant item in this category was the data processing equipment. The Lottery acquired retailer terminals amounting to \$12.5 million, a complete operating system for the gaming system, a complete backup for the gaming system, and a complete test system, also an in-house computer system for non-gaming operations.

#### **Debt**

The debt is related to the purchase of the retailer terminals. The on-line vendor agreed to a deferred payment for \$5.3 million for the retailer terminals until March, 2004.

*(Continued)*

### **Lottery Operations**

- The Lottery sold its first instant win (scratch-off) ticket on January 7, 2002. Total sales of instant tickets for the period were \$306.3 million. The prize expense related to these sales was \$186.5 million or 60.9%.
- The Lottery sold its first on-line ticket (Pick3) for a three number game with a daily draw on March 7, 2002. Total sales for the period for the Pick3 game were \$27.8 million with a related prize expense of \$13.5 million or 48.6%.
- The Lottery began sales of its second on-line game (Carolina 5), a five number game with a weekly draw, on June 17, 2002, with the first draw on June 21. Total sales for the period for the Carolina 5 game were \$1.4 million with a related prize expense of \$0.3 million or 21.4%.
- All proceeds of the Lottery must be transferred to the State Treasurer for the Education Lottery Account. The only exception is the Retailer Fidelity Fund which may be retained by the Lottery up to \$500,000 and used to cover losses the commission may experience due to nonfeasance, misfeasance, or malfeasance of a lottery retailer. Therefore the net assets of the Lottery include only the amount of the Retailer Fidelity Fund account and will never exceed \$500,000.
- The Lottery transferred \$80.4 million to the State Treasurer for the Education Lottery Account for the fiscal year ended June 30, 2002.

### **Potential Factors Impacting Future Operations**

The budget for Fiscal Year was expanded to include an entire fiscal year. Also, the Commission approved participation in a multi-state game and the Lottery has been accepted in the Multi-State Lottery Association (MUSL) which operates the Powerball game. Participation in the Powerball game is expected to begin in October. Management is also considering adding a noon time drawing to the Pick3 game and also a Pick4 game.

### **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, P. O. Box 11949, Columbia, SC 29211-1949.

***SOUTH CAROLINA EDUCATION LOTTERY  
STATEMENT OF NET ASSETS  
JUNE 30, 2002***

***ASSETS***

**CURRENT ASSETS**

Cash and cash equivalents	\$ 7,516,571
Restricted fidelity fund cash	322,125
Retailer accounts receivable	19,873,261
Inventory	1,896,478
Prepaid expenses and other current assets	<u>237,363</u>
Total current assets	29,845,798

<b>PROPERTY AND EQUIPMENT, net</b>	<u>16,842,923</u>
Total assets	<u>46,688,721</u>

***LIABILITIES***

**CURRENT LIABILITIES**

Due to Education Lottery Account	\$ 10,895,294
Prizes payable	12,282,713
Accounts payable	4,504,786
Accrued liabilities	1,285,657
Current portion of long-term debt	864,108
Deferred revenue	<u>221,283</u>
Total current liabilities	<u>30,053,841</u>

<b>LONG -TERM DEBT</b>	9,724,831
------------------------	-----------

<b>ACCRUED COMPENSATED ABSENCES</b>	<u>333,940</u>
Total liabilities	<u>40,112,612</u>

**NET ASSETS**

Invested in capital assets, net of related debt	6,253,984
Restricted - fidelity funds	<u>322,125</u>
Total net assets	<u><b>\$ 6,576,109</b></u>

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

***SOUTH CAROLINA EDUCATION LOTTERY***  
***STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS***  
***For the year ended June 30, 2002***

**REVENUES**

Instant games	\$ 306,321,772
On-line games	29,166,998
Retailer permit fees	1,024,850
Retailer telephone fees	631,549
Other	<u>3,891</u>
Total revenue	<u>337,149,060</u>

**DIRECT COSTS**

Commissions to retailers	<u>23,486,957</u>
Prize expense	
Instant games	186,493,692
On-line games	<u>13,816,805</u>
Total prize expense	<u>200,310,497</u>
Instant and on-line costs	<u>10,305,020</u>
Total direct costs	<u>234,102,474</u>
Gross profit	<u>103,046,586</u>

**OPERATING EXPENSES**

Advertising and promotion	5,401,678
Security checks	175,942
Salaries, wages and benefits	5,261,569
Contracted and professional services	698,029
Depreciation	1,469,914
Rent expense	417,881
Office supplies	459,786
Other general and administrative	<u>1,152,858</u>
Total operating expenses	<u>15,037,657</u>

**NON-OPERATING INCOME (EXPENSE)**

Interest income	60,592
Interest expense	<u>(348,118)</u>
Total non-operating income (expense)	<u>(287,526)</u>

Change in net assets before transfers to and due to Education Lottery Account	87,721,403
---	------------

**TRANSFERS TO AND DUE TO EDUCATION LOTTERY ACCOUNT** 81,145,294

Change in net assets	6,576,109
----------------------	-----------

**NET ASSETS,**

<b>BEGINNING OF YEAR</b>	<u>-</u>
--------------------------	----------

<b>END OF YEAR</b>	<u><b>\$ 6,576,109</b></u>
--------------------	----------------------------

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



***SOUTH CAROLINA EDUCATION LOTTERY  
STATEMENT OF CASH FLOWS  
For the year ended June 30, 2002***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from retailers	\$ 317,497,083
Cash payments to prize winners	(188,027,784)
Cash payments to suppliers for goods and services	(38,937,181)
Cash payments to employees for services	<u>(4,500,300)</u>
Net cash provided by operating activities	<u>86,031,818</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Payments to Education Lottery Account	<u>(70,250,000)</u>
Net cash used for noncapital financing activities	<u>(70,250,000)</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Interest paid	(277,066)
Purchase of property and equipment	<u>(7,450,837)</u>
Net cash used for financing activities	<u>(7,727,903)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received	57,842
Net paid for short-term and long-term debt	<u>(273,061)</u>
Net cash used for investing activities	<u>(215,219)</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

7,838,696

**CASH AND CASH EQUIVALENTS**

**BEGINNING OF YEAR**

-

**END OF YEAR**

**\$ 7,838,696**

**OPERATING ACTIVITIES**

Change in net assets before transfers to and due to the Education Lottery Account	\$ 87,721,403
Adjustments to reconcile income before transfers to and due to the Education Lottery Account to net cash provided by operating activities	
Depreciation	1,469,914
Changes in assets and liabilities	
Retailer accounts receivable	(19,873,261)
Inventory	(1,896,478)
Prepaid expenses and other assets	(295,205)
Accounts payable and accrued liabilities	6,401,449
Prizes payable	12,282,713
Deferred revenue	<u>221,283</u>
Net cash provided by operating activities	<b><u>\$ 86,031,818</u></b>

**NON-CASH INVESTING AND FINANCING ACTIVITIES**

Equipment purchases financed	<b><u>\$ 10,862,000</u></b>
------------------------------	-----------------------------

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

## ***SOUTH CAROLINA EDUCATION LOTTERY NOTES TO FINANCIAL 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.

The SCEL commenced the sale of instant game tickets on January 7, 2002. Sales of on-line games began March 7, 2002.

### **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 generally accepted accounting principles applicable to governmental proprietary activities in the United States of America. The SCEL applies all applicable GASB pronouncements and all applicable Financial Accounting Standards (FASB) pronouncements issued on or before November 30, 1989 when not in conflict with GASB pronouncements. In accordance with GASB Statement 20, the SCEL has elected not to implement FASB Statements 103 and after.

#### **Basis of accounting**

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

#### **Use of estimates**

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

#### **Revenue and accounts receivable recognition**

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

Revenue and accounts receivable for instant scratch games are recognized upon activation of ticket packs for sale by the retailers.

*(Continued)*

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

### **Commissions**

Retailers receive a commission of 7% on total sales.

### **Prizes**

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

### **Ticket inventories**

Inventories are carried at cost (as determined by the specific identification method) and consist of scratch tickets located in the 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.

### **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation. Depreciation on property and equipment 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.

*(Continued)*

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

**Fidelity fund - restricted assets**

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, 2002, no amount was 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.

**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, 2002 cash and cash equivalents were as follows:

	<u>A</u>	<u>B</u>	<u>C</u>	<u>Bank Balance</u>	<u>Carrying Value</u>
Demand deposits	<u>\$ 8,463,311</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 8,463,311	\$ 7,576,900
Deposits held by State Treasurer				<u>225,796</u>	<u>261,796</u>
Total cash and cash equivalents				<u>\$ 8,689,107</u>	<u>\$ 7,838,696</u>

**NOTE 4 - PROPERTY AND EQUIPMENT**

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

	<b><u>Balance</u></b> <b><u>June 30, 2001</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Balance</u></b> <b><u>June 30, 2002</u></b>
Property and equipment				
Machinery and equipment	\$ -	\$ 17,685,875	\$ -	\$ 17,685,875
Vehicles	-	47,826	-	47,826
Leasehold improvements	-	579,136	-	579,136
	-	18,312,837	-	18,312,837
Accumulated depreciation				
Machinery and equipment	-	(1,445,559)	-	(1,445,559)
Vehicles	-	(6,570)	-	(6,570)
Leasehold Improvements	-	(17,785)	-	(17,785)
	-	(1,469,914)	-	(1,469,914)
Total property and equipment, net	<b><u>\$ -</u></b>	<b><u>\$ 16,842,923</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 16,842,923</u></b>

**NOTE 5 - LONG-TERM DEBT AND COMMITMENTS**

In October 2001, the SCEL entered into a six year contract to provide amongst other things, services and equipment to operate their on-line lottery. The contract required an initial payment of \$5,287,938, which has been paid. The contract also calls for monthly administrative fees of \$450,000 for the life of the contract. Additional payments which have been imputed for the purchase of equipment of \$140,000 and \$122,000 per month will be made for months three through twenty-six and twenty-seven through sixty-two of the contract, respectively, with a lump sum payment of \$5,270,000 due February 2004. These additional payments have been imputed to include principal and interest at 8%. Title to and risk of loss for this equipment occurred upon installation and acceptance in March 2002.

At June 30, 2002, the future maturities of the imputed principal and interest payments on the equipment are as follows:

	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Payment</u></b>
2003	\$ 864,108	\$ 815,886	\$ 1,679,994
2004	6,275,056	602,944	6,878,000
2005	1,232,563	231,437	1,464,000
2006	1,334,864	129,136	1,464,000
2007	882,348	25,091	907,439
	<b><u>\$ 10,588,939</u></b>	<b><u>\$ 1,804,494</u></b>	<b><u>\$ 12,393,433</u></b>

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

	<b><u>Balance</u></b> <b><u>June 30, 2001</u></b>	<b><u>Proceeds</u></b>	<b><u>Payments</u></b>	<b><u>Balance</u></b> <b><u>June 30, 2002</u></b>
Long-term debt	<b><u>\$ -</u></b>	<b><u>\$ 16,323,179</u></b>	<b><u>\$ 5,734,240</u></b>	<b><u>\$ 10,588,939</u></b>

**NOTE 6 - ACCRUED COMPENSATED ABSENCES**

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

	<u>Balance</u> <u>June 30, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2002</u>
Accrued compensated absences	<u>\$ -</u>	<u>\$ 342,223</u>	<u>\$ 8,283</u>	<u>\$ 333,940</u>

**NOTE 7 - 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 on noncancellable leases with original terms of one year or more are scheduled as follows for the year ending June 30:

	<u>Operating</u> <u>leases</u>
2003	\$ 620,951
2004	575,372
2005	545,462
2006	545,541
2007	256,393
2008	2,722

Rental expenses under all operating leases including those on month-to-month terms, totaled approximately \$417,881 for the year ended June 30, 2002.

**NOTE 8 - 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 tickets and all other monies derived from the SCEL less operating and non-operating expenses. At June 30, 2002 a payable resulted from transfers due to the Education Lottery Account as follows:

Change in net assets subject to transfer	<u>\$ 87,721,403</u>
Amount invested in capital assets, net of related debt	
Property and equipment	(18,312,837)
Accumulated depreciation	<u>1,469,914</u>
	(16,842,923)
Long-term debt	<u>10,588,939</u>
	<u>(6,253,984)</u>
Amount collected for fidelity fund	<u>(322,125)</u>
Amount paid during the year	<u>(70,250,000)</u>
Amount payable to Education Lottery Account	<u><b>\$ 10,895,294</b></u>

Transfers related to the above payable of \$10,150,000 and \$745,294 were made to the Education Lottery Account in July 2002 and August 2002, respectively.

#### **NOTE 9 - 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.

	<b><u>SCRS</u></b>
Employee contributions	6% of salary
Employer contributions	7.55% of salary

The SCEL contributions to SCRS for the current year were \$359,533.

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, 2002.

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 10 - 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, 2002.

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

Charges for services	\$ 337,149,060
Operating grants and contributions	60,592
Less expenses	<u>249,488,249</u>
Net program revenue	87,721,403
Transfers out to state agencies/funds	<u>(81,145,294)</u>
Change in net assets	6,576,109
NET ASSETS - BEGINNING	<u>-</u>
NET ASSETS - ENDING	<u><b>\$ 6,576,109</b></u>





**Elliott Davis, LLC**  
**Advisors-CPAs-Consultants**

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

# ElliottDavis

Phone 803.256.0002  
Fax 803.254.4724

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

To the Commission  
of the *South Carolina Education Lottery*

We have audited the financial statements of the *South Carolina Education Lottery* (the SCEL), a component unit of the State of South Carolina, as of and for the year ended June 30, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the SCEL's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

*Elliott Davis L.L.C.*

September 13, 2002

***SOUTH CAROLINA EDUCATION LOTTERY***  
***SCHEDULE OF FINDINGS***  
***For the year ended June 30, 2002***

**SCHEDULE OF AUDITOR'S RESULTS**

We have issued an unqualified opinion, dated September 13, 2002, on the financial statements of the South Carolina Education Lottery as of and for the year ended June 30, 2002.

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