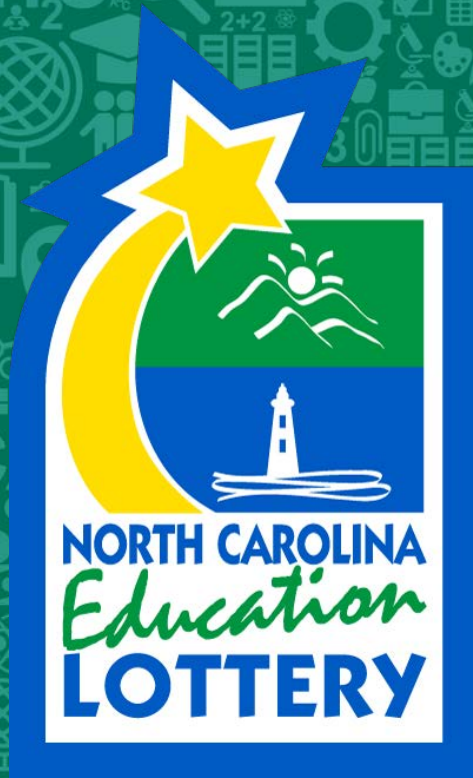


# NORTH CAROLINA EDUCATION LOTTERY POPULAR ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2014



## ABOUT THE POPULAR ANNUAL FINANCIAL REPORT

The North Carolina Education Lottery (NCEL) finance division is proud to present you its Popular Annual Financial Report (PAFR) for the fiscal year (FY) ended June 30, 2014. This report provides an overview of the NCEL's financial condition and a brief analysis of where the money comes from and where those dollars are spent.

Most of the information in this report is drawn from the financial information appearing in the NCEL's FY 2014 Comprehensive Annual Financial Report (CAFR). The CAFR is a more detailed and complete financial presentation prepared in conformance with Generally Accepted Accounting Principals (GAAP) and was audited by an Independent accounting firm, receiving an unqualified (clean) opinion. The financial data in this report also conforms with GAAP. The CAFR, PAFR and the NCEL's Annual Report are available for viewing on the NCEL's website at:

<http://www.nc-educationlottery.org/about.aspx>



# EXECUTIVE DIRECTOR'S NOTE

## N.C. Education Lottery sets new record for sales

For the eighth year in a row, the N.C. Education Lottery completed its fiscal year by setting a new record for lottery ticket sales. The fiscal year ended on June 30, 2014 with \$1.84 billion in sales, up 8.8 percent from the previous year.

Our continued success in growing sales demonstrates that North Carolinians enjoy playing the lottery, winning prizes, and helping to raise money for a good cause. That success is built on our lottery continuing to be a well-run and efficient sales and marketing organization.

I am also pleased to report that for the eighth year in a row the Education Lottery received a clean opinion in its annual financial audit by independent auditors. We know that the people of North Carolina expect their lottery to be accountable for every dollar it handles. This great record of clean audits shows our commitment to meeting that expectation.

Highlights of FY14 include:

- Surpassing \$11.4 billion in total sales since inception.

- Setting a new quarterly sales record of \$475 million in the last quarter of FY14, up \$12 million from the previous record set in fourth quarter of FY13.

- Achieving for the second year in a row more than \$1 billion in instant sales. The instant product continued to be the largest revenue source for the lottery, generating \$1.17 billion in sales. The lottery launched 46 new instant games during the year.

- Growing the membership of the Lucke-Zone, the lottery's players' club, to 485,270. Members can use the lottery's Lucke-Rewards program to enter non-winning instant tickets and all draw tickets for points to use in weekly and monthly drawings.

- Providing \$1 million for gambling addiction, education and treatment.



- **Alice Garland**  
Executive Director,  
NC Education Lottery

# COMMISSION CHAIRMAN'S NOTE

## Benefits of lottery help make North Carolina better

As chairman of the N.C. Education Lottery, I would like to report that record sales led to a new record in earnings for education in North Carolina, \$503.1 million, up 5 percent.

The lottery offers several important benefits to our state. First and foremost is the raising of money for a great cause, education. Lottery funds are benefiting education programs in every county in our state. They help pay for teachers' salaries, help counties build and repair schools, support the NC Pre-K program that provides an academic preschool for at-risk four-year-olds, and help students pay the costs of going to a state university or community college.

The economic benefits of the lottery, however, don't stop there. If you look at a dollar spent on the lottery, almost all of it, 95 cents on the dollar (\$1.7 billion in FY14), is going right back into the economy.

North Carolinians who win lottery prizes tell us they use their winnings in various ways. Prize money is used to pay bills, saving for retirement or college funds, buying houses or cars, taking vacations, and making charitable contributions.

The commissions paid to retailers play an important role in the local retail sector of the economy.

Here are some of the biggest economic benefits of the lottery from last year:

- Awarding \$1.12 billion in prizes to players. Of that, \$8.7 million was collected for state income taxes and \$1.3 million was collected for debts owed to state and local governments.

- Paying \$128.5 million in sales commissions to retailers, up \$10 million from the year before. As of June 30<sup>th</sup>, the number of lottery retailers in our state stood at 6,802.

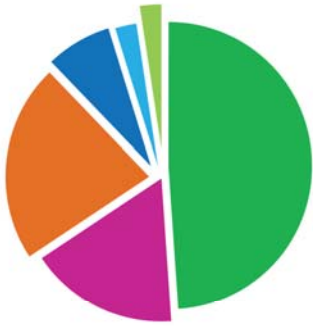
- \$15 million in advertising and \$3.6 million in marketing.



- **Keith Ballentine**  
Chairman,  
NC Education Lottery

# EDUCATION PROGRAMS RECEIVING LOTTERY DOLLARS

Lottery funds have always supported specific education initiatives in all North Carolina counties. Each year in the state budget, our legislature can adjust how lottery dollars are allocated. Changes for the fiscal year 2014 budget went into effect on July 1, 2013.



- 48.9%** Classroom Teachers
- 16.7%** Prekindergarten
- 22.2%** School Construction
- 7.4%** Need-Based College Scholarships
- 2.4%** UNC Need-Based Financial Aid
- 2.4%** Digital Learning

County	FY14	Cumulative
Alamance	6,846,106	11,571,176
Alexander	1,548,396	3,907,278
Alleghany	522,413	10,166,601
Anson	1,285,053	9,015,696
Ashe	1,212,849	5,905,879
Avery	799,458	15,576,826
Beaufort	2,115,905	8,285,367
Bertie	1,117,995	14,598,782
Bladen	1,764,051	28,070,330
Brunswick	4,082,236	58,272,012
Buncombe	8,618,638	32,520,360
Burke	4,120,184	69,842,648
Cabarrus	9,978,987	24,634,652
Caldwell	3,264,232	4,073,875
Camden	560,267	17,995,477
Carteret	2,659,816	6,626,880
Caswell	791,954	49,927,894
Catawba	7,165,515	19,071,167
Chatham	2,669,496	8,280,016
Cherokee	1,123,545	5,293,845
Chowan	667,372	3,280,468
Clay	431,315	39,660,640
Cleveland	4,915,715	24,222,779
Columbus	2,923,845	30,516,322
Craven	4,548,460	132,887,061
Cumberland	17,028,864	7,319,454
Currituck	1,115,503	10,365,854
Dare	1,481,828	51,543,289
Davidson	6,978,212	15,310,291
Davie	2,048,466	21,564,998
Duplin	3,135,650	71,069,245
Durham	9,812,040	20,865,212
Edgecombe	2,620,551	112,075,791
Forsyth	14,999,803	17,421,552
Franklin	2,392,444	75,780,031
Gaston	10,134,299	4,133,085
Gates	479,316	3,128,888
Graham	423,610	18,201,745
Granville	2,362,051	7,987,221
Greene	973,797	178,232,166
Guilford	24,534,625	19,929,580
Halifax	2,498,517	40,111,518
Harnett	5,733,863	15,894,857
Haywood	2,264,579	26,971,111
Henderson	3,947,517	9,157,401
Hertford	1,187,818	21,907,279
Hoke	3,064,928	1,616,182
Hyde	215,625	51,544,634
Iredell	7,219,372	8,182,198
Jackson	1,028,901	8,182,198

County	FY14	Cumulative
Johnston	9,075,850	65,857,591
Jones	508,235	3,935,649
Lee	3,229,612	23,921,366
Lenoir	2,875,020	22,066,319
Lincoln	3,279,116	23,876,456
Macon	1,400,859	10,476,723
Madison	752,559	5,519,619
Martin	1,149,463	8,897,531
Mcdowell	1,969,765	13,863,016
Mecklenbu	42,578,813	297,137,141
Mitchell	548,386	4,418,210
Montgome	1,417,809	11,423,062
Moore	3,290,293	21,871,501
Nash	4,515,468	35,864,950
New Hanov	8,647,354	58,888,138
Northampt	868,553	7,511,530
Onslow	8,939,680	55,445,638
Orange	5,452,777	38,781,742
Pamlico	455,737	3,646,100
Pasquotanl	1,849,868	13,193,874
Pender	2,704,274	17,419,174
Perquiman	541,867	4,120,235
Person	1,493,070	12,247,066
Pitt	7,843,828	55,860,570
Polk	757,706	6,037,596
Randolph	6,320,394	45,482,944
Richmond	2,382,936	19,076,699
Robeson	8,367,154	63,720,356
Rockingha	3,852,036	30,374,758
Rowan	5,585,530	44,144,383
Rutherford	2,816,710	22,203,629
Sampson	3,691,393	28,084,547
Scotland	2,203,382	17,423,187
Stanly	2,998,250	23,636,926
Stokes	2,020,699	16,656,521
Surry	3,422,870	26,265,559
Swain	712,124	5,006,317
Transylvan	980,652	7,233,901
Tyrrell	196,864	1,487,467
Union	10,671,495	77,441,219
Vance	2,098,120	16,354,855
Wake	41,462,189	275,103,715
Warren	879,562	6,197,622
Washingto	620,226	5,161,580
Watauga	1,454,920	10,690,609
Wayne	6,234,287	48,977,524
Wilkes	3,548,689	26,790,261
Wilson	3,632,634	26,627,880
Yadkin	1,739,934	13,845,341
Yancey	650,669	5,002,267



Debi LaVine and Emem Thompson help improve the academic future of four-year-olds.

“I feel that the North Carolina Education Lottery is really the MVP of the NC Pre-K program. The funds from the lottery help the teachers get the training they need, helps the students attend school and helps their parents get the best resources. It affects every part of what we do and touches the schools, the students, their families and the entire community.”

**- Emem Thompson**  
N.C. Pre-K program classroom teacher at the Lord of Life Preschool and Kindergarten Academy of Garner



# SALES

The gross lottery ticket sales for fiscal year 2014 totaled \$1.839 billion as compared to \$1.69 billion for fiscal year 2013 and \$1.597 billion in fiscal year 2012. This represents an increase of \$149 million from 2013 and \$242 million from 2012.

Gross instant ticket sales were \$1.17 billion for fiscal year 2014 compared with \$1.01 billion for fiscal year 2013 and \$960 million in fiscal year 2012, an increase of approximately \$158 million from fiscal year 2013 and approximately \$210 million from fiscal year 2012. The increase realized during fiscal year 2014 is attributable to several factors. The NCEL launched games with new features such as the “Green & Gold” with Back Scratch game. It was the first time that the NCEL released a game that offered an additional play area on the back of an Instant ticket. The game proved so popular that it sold through all orderable inventory in just 10 weeks, and had average weekly sales of over \$1.9 million. The NCEL also released games with different prize structures than had been seen in the past. “Hit \$500” featured a smaller top prize (\$500) than a normal \$5 Instant ticket but, offered significantly more Top Prizes (2,788 Top Prizes). Players responded very well to the game and it was the second fastest game to sell through orderable inventory in fiscal year 2014, in just 15 weeks. The NCEL also continued to introduce exciting licensed games. The “Caesars” game offered 20 second chance trips to Caesars Palace in Las Vegas. Players could also win a trip to Caesars Palace instantly on their ticket, 8 total trips offered this way. The trip included Airfare for two, a room at Caesars Palace for five days and four nights, transportation, and \$1,250 in spending cash. Players responded very well to this game as well, and it became one of the top sellers of the year.

Draw game sales were \$669 million for fiscal year 2014 compared to \$678 million for fiscal year 2013 and \$637 for fiscal year 2012, representing a \$9 million decrease from fiscal year 2013 and a \$32 million increase from fiscal year 2012. Draw game sales suffered from a lack of high jackpots in the multi-state game Powerball. The Powerball jackpot reached over \$500 million twice during the fiscal year 2013, which helped increase Powerball sales to \$197 million, from \$153 million the previous year. During fiscal year 2014, the highest Powerball jackpot was \$448 million, resulting in sales of \$149 million, a decrease of \$48 million from fiscal year 2013. The NCEL’s other multi-state game Mega Millions reached a top jackpot amount for fiscal year 2014 of \$636 million, which helped increase its sales to \$74 million from \$53 million in fiscal year 2013.

Sales information by game and region are shown on the table below.

## SALES BY REGION FY 2014

Region	Instant	Powerball	Mega Millions	Cash 5	Pick 4	Pick 3	TOTAL
Ashville	\$ 100,585,758	\$ 11,660,708	\$ 6,236,448	\$ 5,339,186	\$ 1,755,795	\$ 3,933,507	\$ 129,511,401
Greensboro	178,168,815	21,667,123	11,470,983	11,033,305	14,447,935	29,059,249	\$ 265,847,409
Charlotte	316,730,211	44,586,080	20,968,778	18,015,526	17,913,968	38,309,575	\$ 456,524,138
Raleigh	438,306,150	55,257,945	27,980,966	27,600,941	52,019,992	126,866,412	\$ 728,032,406
Greenville	136,467,640	15,814,784	7,989,043	8,588,076	27,054,324	62,814,530	\$ 258,728,396
Subscription	-	228,655	163,388	223,208	-	-	\$ 615,251
<b>Total</b>	<b>\$ 1,170,258,574</b>	<b>\$ 148,986,640</b>	<b>\$ 74,646,218</b>	<b>\$ 70,577,034</b>	<b>\$ 113,192,013</b>	<b>\$ 260,983,271</b>	<b>\$ 1,839,259,001</b>
<b>% of Sales</b>	<b>63.6%</b>	<b>8.1%</b>	<b>4.1%</b>	<b>3.8%</b>	<b>6.2%</b>	<b>14.2%</b>	<b>100.0%</b>

\*The EZ Match game is an additional add on to the Carolina Cash 5 game, sales for EZ Match have been included with Cash 5 in the chart.



# STATEMENT OF NET POSITION

The Statement of Net Position presents the NCEL's financial position from a long-term perspective. It reports all of the NCEL's assets and liabilities.

## Condensed Statement of Net Position (in thousands)

	FY 2014	FY 2013	FY 2012
<b>ASSETS</b>			
Total current assets	\$ 51,543	\$ 59,643	\$ 48,484
Noncurrent assets	56,351	51,605	47,337
<b>Total Assets</b>	<b>107,894</b>	<b>111,248</b>	<b>95,821</b>
<b>LIABILITIES</b>			
Total current liabilities	53,210	60,525	49,338
Noncurrent Liabilities	54,684	50,723	46,483
<b>Total Liabilities</b>	<b>107,894</b>	<b>111,248</b>	<b>95,821</b>
<b>NET ASSETS</b>			
Invested in capital asset	1,331	897	672
Unrestricted net assets	(1,331)	(897)	(672)
<b>Total Net Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

\*Readers wanting more detailed financial information should refer to the NCEL's FY 2013 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at: <http://www.nc-educationlottery.org/about.aspx>

A current asset is an asset which can either be converted to cash or used to pay current liabilities within 12 months. The NCEL's total current assets mainly consist of total cash, accounts receivable, investments in annuity contracts, and inventory.

A noncurrent or capital asset is an asset or property which can not easily converted into cash. The NCEL's noncurrent assets are mainly made up of long term investments in annuity contracts, prepaid items, furniture and equipment.

Total current liabilities are what the NCEL currently owes to its suppliers, winners and the state, all of which are short term debts to be paid within a year. The NCEL's total current liabilities are made up of accounts payable, accrued payroll, current annuity prizes, and due to other funds ("Due to Other Funds" represents the amount of net revenues for the fiscal year not yet transferred to the State as of June 30, 2014 but will be transferred during fiscal year 2015.)

Noncurrent liabilities are the NCEL's long term financial obligations that are not due in the present accounting year. The majority of the NCEL's noncurrent liabilities consist of long term annuity prizes and accrued time off.

As required in the Lottery Act, net revenues of the NCEL are transferred four times a year to the NC Education Lottery Fund at the Office of State Budget and Management. At year end, Net Revenues /Assets are zero for the NCEL. There are no changes in the Net Assets from year to year.

## Activity for Capital Assets for Year Ended June 30, 2014 (in thousands)

Category	Balance July 1, 2013	Increase	Decrease	Balance June 30, 2013
Capital assets, depreciable				
Furniture	\$ 46	\$ -	\$ -	\$ 46
Equipment	3,629	889	(142)	4,376
Motorized equipment	67	-	-	67
<b>Total capital assets, depreciable</b>	<b>3,742</b>	<b>889</b>	<b>(142)</b>	<b>4,489</b>
Less accumulated depreciation for				
Furniture	31	3	-	34
Equipment	2,746	436	(126)	3,056
Motorized equipment	68	-	-	68
<b>Total accumulated depreciation</b>	<b>2,845</b>	<b>439</b>	<b>(126)</b>	<b>3,158</b>
<b>Total capital assets, depreciable net</b>	<b>897</b>	<b>450</b>	<b>(16)</b>	<b>1,331</b>
Capital assets, net	\$ 897	\$ 450	\$ (16)	\$ 1,331

The majority of capital asset investments were during our first full year of operation in 2007. The investment in capital assets includes game equipment, data processing equipment, telephone equipment, software and fixtures. The capitalization of all items including equipment, computers, and furniture follows North Carolina's Office of State Controller's policies. Capital assets are reported at their cost, and are depreciated over their estimated useful lives.

# STATEMENT OF ACTIVITIES

This section reports the fiscal year's financial activities from a long-term perspective. It is designed to provide a summary of the financial health and stability of the NCEL. Information in this section should provide the reader with a general understanding of how the NCEL's resources are used.

### OPERATING REVENUES:

Operating revenues is income derived from the lottery's everyday activities, and mainly consists of ticket sales and communications fees collected from retailers.

Total gross lottery ticket sales for the fiscal year 2014 were approximately \$1.839 billion as compared to \$1.689 billion in fiscal year 2013. This represents an increase of almost \$150 million.

On some of the instant games players can scratch off a ticket and win another ticket of the same value. Those "free" tickets are referred to as prize tickets and their value is deducted from total sales.

The majority of Fees and Licenses represent a weekly retailer communication fee charged to active retailers for terminal satellite communications and an application fee for new retailers and changes in ownership.

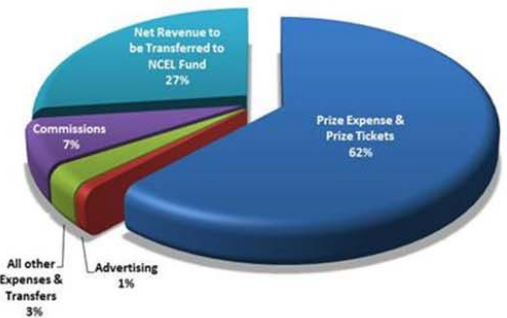
### OPERATING EXPENSES:

The following charts show the major components of NCEL operating expenses and transfers as a percentage of total revenues for the June 30, 2014 and 2013 fiscal years:

## Statement of Activities (in thousands)

	FY 2014	FY 2013	FY 2012
<b>Operating Revenues:</b>			
Gross Sales:	\$ 1,839,259	\$ 1,689,803	\$ 1,596,693
Less: Prize Tickets and Bad Debt	(48)	(90)	(236)
Fees and Licenses	5,425	5,296	5,381
<b>Total Operating Revenues</b>	<b>1,844,636</b>	<b>1,695,009</b>	<b>1,601,838</b>
<b>Operating Expenses:</b>			
Salaries, Wages, and Benefits	18,127	17,540	16,639
Lottery Prizes	1,135,052	1,024,437	961,556
Retailer Commissions	128,551	118,148	111,624
Retailer Incentive	825	781	609
Gaming Systems Services	30,343	27,262	26,031
Advertising	15,238	15,278	14,696
Marketing	3,602	3,540	2,512
Other Services	5,158	4,802	4,634
Furniture, Fixtures, and Equipment	1,323	1,307	762
Depreciation	439	346	457
Other General and Administrative Expenses	2,548	2,484	2,391
<b>Total Operating Expenses</b>	<b>1,341,206</b>	<b>1,215,925</b>	<b>1,141,911</b>
<b>Operating Income</b>	<b>503,430</b>	<b>479,084</b>	<b>459,927</b>
<b>Nonoperating Revenues (Expenses):</b>			
Investment Earnings and			
Other Miscellaneous Revenue (Expense)	669	417	523
Compulsive Gambling Contribution	(1,000)	(1,000)	(1,000)
Unclaimed Prizes to NC Education Lottery Fund	(14,043)	(11,381)	(11,083)
Net Revenues to the State of NC	(489,092)	(467,127)	(448,386)
Miscellaneous Nonoperating Expenses	36	7	19
<b>Total Nonoperating Revenues (Expense)</b>	<b>(503,430)</b>	<b>(479,084)</b>	<b>(459,927)</b>
Net Income	-	-	-
Net Assets	\$ -	\$ -	\$ -

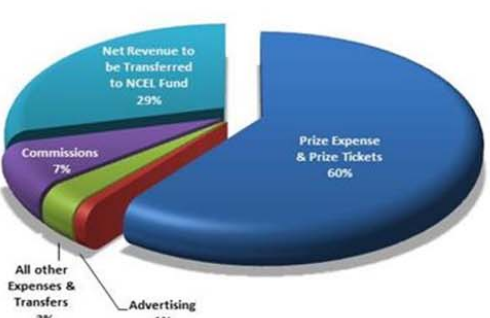
DISTRIBUTION OF REVENUES FY 2014



DISTRIBUTION OF REVENUES FY 2013



DISTRIBUTION OF REVENUES FY 2012





An operating expense is an expense that an organization incurs as a result of its normal business operations. In the lottery's case these expenses are all directly related to the production and sale of lottery tickets.

Section 18C-162, NC General Statutes stipulates no more than 8% of the total annual revenues shall be allocated for payment of expenses of the Lottery. Advertising expenses shall not exceed 1% of the total annual revenues.

Prizes, retailer commissions and gaming vendor charges all directly relate to sales. As expected, as sales have increased and so have these expenses. In fiscal year 2014 prizes, commissions and gaming vendor charges increased to \$1,293 million from \$1,169 million in 2013. The other expenses, which consist of advertising, salary and benefits, professional fees, rent, maintenance, bad debt, depreciation and transfers, have remained at 4% of Total Annual Revenues this year. Fiscal years 2014 and 2013 administrative expenses were \$47 million and \$46 million respectively.

The following graph shows the relationship between sales and expense for the NCEL.

**Operating Revenues vs. Expense**

**OPERATING REVENUES VS EXPENSE FY 2007 TO FY 2014**



**NONOPERATING REVENUES & EXPENSES:**

Nonoperating Revenues and Expenses are defined as revenues or expenses that are incurred by activities not related to the core operations of an organization. In the lottery's case, nonoperating items are any revenues or expenses incurred not directly associated with the sale of lottery tickets.

Nonoperating Revenues consist of investment earnings from the Short Term Investment Fund held at the State Treasurer's office, and Multi-State Lottery Association (MUSL) dividends received.

Nonoperating Expenses mainly consist of transfers from the NCEL to the State. These transfers consist of net revenues to the state, compulsive gambling treatment contributions and unclaimed prizes transferred to the North Carolina Education

Readers wanting more detailed financial information on any of the lottery's financial activities and results should refer to the NCEL's FY 2014 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at:

<http://www.nc-educationlottery.org/about.aspx>



## CONNECT & LEARN MORE

Information about the lottery's mission to raise money for education is available to you in many ways. You are invited to visit our website, contact our communications team, or connect with us through social media. We are here to provide available resources, schedule interviews with lottery officials, or arrange for presentations to civic groups, classes and associations.

**VAN DENTON, DIRECTOR OF COMMUNICATIONS**

919-301-3308 • [van.denton@lotterync.net](mailto:van.denton@lotterync.net)

[www.nc-educationlottery.org](http://www.nc-educationlottery.org)

## AWARDS & ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the North Carolina Education Lottery for its Popular Annual Financial Report for the fiscal year ended June 30, 2013. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. The North Carolina Education Lottery has received a Popular Award for the last 6 consecutive years (fiscal years ended 2008-2013.) We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

