



NORTH CAROLINA EDUCATION LOTTERY POPULAR ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2015



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, 2015. 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 2015 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>

NORTH CAROLINA EDUCATION LOTTERY

For the ninth year in a row, the N.C. Education Lottery completed its fiscal year by setting a record not only for lottery ticket sales, but also for its contribution to education programs in North Carolina.

The Education Lottery ended the fiscal year on June 30, 2015 with \$1.97 billion in sales and \$526 million in earnings. Since inception on March 30, 2006 through the end of FY15, the lottery surpassed \$13.4 billion in sales and exceeded \$3.9 billion in overall transfers to the state and education.

The instant product continued to be the largest revenue source, generating \$1.29 billion in sales. The lottery launched 50 new instant games during the year, including a \$20 game, \$200 Million Blowout, which offered 20 prizes from \$1 million to \$4 million plus a new "Win It All" feature for players to win all prizes on a ticket with one scratch. The lottery also launched its sixth draw game, All or Nothing, a \$2 game with a top prize of \$250,000 when a ticket matches all or the numbers or none of the numbers drawn.

Total prize money won was \$1.23 billion, or on average about \$3.4 million a day. During the year, prizes of \$1 million or more were won 55 times. Many winners put their money right back to work in the economy, by paying bills, buying new houses or cars, taking vacations, saving and investing the money for retirement or college, or donating to personal good causes.

Recruitment and retention of retail locations continued to support ticket sales. In FY15, retailers earned \$138.7 million in sales commissions and incentives and the number of retailers stood at 6,901 to finish the year.

More than 588,000 North Carolinians joined the lottery's Lucke-Zone, a website where they can get lottery news, ask questions about lottery games, and enter second-chance drawings and other promotions.

Along with the growth in participation, the lottery strengthened its programs to encourage responsible play. During the year, the Education Lottery became the 5th U.S. lottery to achieve one of the top certifications from the World Lottery Association for its responsible gaming program. The Level 3 certification attests that the Education Lottery has established the resources and programs to support top principles of responsible gaming governing the protection of players, cooperation with others interested in problem gambling, and advertising practices.

The State Lottery Act directs the lottery to increase and maximize the available revenues for education purposes. In FY15, a breakdown of lottery revenues showed 62 percent went to prizes, 27 percent for education programs that the lottery serves, 7 percent in retailer commissions. The remaining 4 percent of revenues included 1.5 percent to gaming vendors, 1 percent to advertising, and the rest for other administrative expenses.

The Education Lottery transfers its net assets on a quarterly basis to the Office of State Budget and Management to the North Carolina State Lottery Fund. The monies are then distributed as outlined in the FY15 budget approved by the General Assembly. The General Assembly made the following allocation of lottery dollars, distributing both the money raised during the fiscal year and surpluses from previous year that had not been allocated. The budget allocated:

- 44 percent of the net assets, or \$254.6 million, for teacher salaries in grades K-3;
- 19 percent, or \$113.3 million, for salaries of teacher assistants;
- 17 percent, or \$100 million, for the Public School Building Capital Fund which provides monies to North Carolina counties to build and repair schools;
- 13 percent, or \$75.5 million, to the N.C. Pre-K program to fund seats in the prekindergarten program for at-risk four-year-olds;
- 5 percent, or \$30.4 million, for N.C. Education Lottery Scholarships which are awarded based on financial need;
- 2 percent, \$10.7 million, to the UNC Need-Based Grant program, which provides financial aid based on need to students attending one of the 16 UNC system institutions.

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 2015 budget went into effect on July 1, 2014



- 44%** Classroom Teachers
- 19%** Teacher Assistants
- 13%** Prekindergarten
- 17%** School Construction
- 5%** Need-Based College Scholarships
- 2%** UNC Need-Based Financial Aid



- Kelly Bancroft, first grade teacher, Harnett

“I want students to remember that I made learning fun. We don’t sit in rows and doing worksheets, we have fun learning. The spark in little children’s eyes when they know they have learned something. I love when a child reads on their own for the first time and then looks at me and says, ‘I can read.’ What a joy!”

County	FY14	Cumulative
Alamance	8,879,269	56,265,419
Alexander	2,015,235	13,586,411
Alleghany	643,645	4,550,923
Anson	1,588,230	11,754,831
Ashe	1,478,046	10,493,742
Avery	926,739	6,832,618
Beaufort	2,712,937	18,289,763
Bertie	1,174,456	9,459,823
Bladen	2,086,444	16,685,226
Brunswick	5,032,570	33,102,900
Buncombe	11,074,368	69,346,380
Burke	5,214,449	37,734,809
Cabarrus	12,532,920	82,375,568
Caldwell	4,343,123	28,977,775
Camden	675,552	4,749,427
Carteret	3,226,667	21,222,144
Caswell	1,035,485	7,662,365
Catawba	8,846,726	58,774,620
Chatham	3,293,719	22,364,886
Cherokee	1,389,279	9,669,295
Chowan	895,459	6,189,304
Clay	577,171	3,857,639
Cleveland	5,965,429	45,626,069
Columbus	3,588,857	27,811,636
Craven	5,748,405	36,264,727
Cumberland	22,121,572	155,008,633
Currituck	1,332,400	8,651,854
Dare	1,962,318	12,328,172
Davidson	9,102,009	60,645,298
Davie	2,495,416	17,805,707
Duplin	4,007,779	25,572,777
Durham	13,102,515	84,171,760
Edgecombe	2,978,461	23,843,673
Forsyth	19,849,161	131,924,952
Franklin	3,255,201	20,676,753
Gaston	12,832,639	88,612,670
Gates	626,212	4,759,297
Graham	513,859	3,642,747
Granville	2,904,728	21,106,473
Greene	1,243,075	9,230,296
Guilford	29,529,972	207,762,138
Halifax	3,078,446	23,008,026
Harnett	7,518,182	47,629,700
Haywood	2,871,669	18,766,526
Henderson	5,092,752	32,063,863
Hertford	1,445,402	10,602,803
Hoke	3,864,597	25,771,876
Hyde	296,844	1,913,026
Iredell	9,179,807	60,724,441
Jackson	1,324,045	9,506,243

County	FY14	Cumulative
Johnston	11,928,140	77,785,731
Jones	614,464	4,550,113
Lee	4,196,288	28,117,654
Lenoir	3,743,292	25,809,611
Lincoln	4,194,295	28,070,751
Macon	1,807,027	12,283,750
Madison	900,913	6,420,532
Martin	1,463,879	10,361,410
McDowell	2,471,794	16,334,810
Mecklenburg	55,454,544	352,591,685
Mitchell	708,893	5,127,103
Montgomery	1,803,602	13,226,664
Moore	4,361,563	26,233,064
Nash	5,987,392	41,852,342
New Hanover	10,796,796	69,684,934
Northampton	1,045,044	8,556,574
Onslow	11,887,158	67,332,796
Orange	7,285,302	46,067,044
Pamlico	526,173	4,172,273
Pasquotank	2,344,152	15,538,026
Pender	3,429,085	20,848,259
Perquimans	716,504	4,836,739
Person	1,901,363	14,148,429
Pitt	9,862,766	65,723,336
Polk	919,370	6,956,966
Randolph	8,150,757	53,633,701
Richmond	3,170,383	22,247,082
Robeson	10,415,198	74,135,554
Rockingham	4,953,957	35,328,715
Rowan	7,492,485	51,636,868
Rutherford	3,542,140	25,745,769
Sampson	4,698,708	32,783,255
Scotland	2,713,261	20,136,448
Stanly	3,729,423	27,366,349
Stokes	2,522,863	19,179,384
Surry	4,363,102	30,628,661
Swain	898,693	5,905,010
Transylvania	1,270,798	8,504,699
Tyrrell	236,175	1,723,642
Union	14,216,606	91,657,825
Vance	2,699,204	19,054,059
Wake	55,889,408	330,993,122
Warren	1,000,072	7,197,694
Washington	772,909	5,934,489
Watauga	1,874,869	12,565,478
Wayne	8,015,955	56,993,479
Wilkes	4,394,274	31,184,535
Wilson	4,631,532	31,259,412
Yadkin	2,134,924	15,980,265
Yancey	837,921	5,840,188

SALES

The gross lottery ticket sales for fiscal year 2015 totaled \$1.97 billion as compared to \$1.84 billion for fiscal year 2014 and \$1.69 billion for fiscal year 2013. This represents an increase of \$130 million from 2014 and \$280 million from 2013.

Gross instant ticket sales were \$1.294 billion for fiscal year 2015 compared with \$1.17 billion for fiscal year 2014 and \$1.01 billion in fiscal year 2013, an increase of approximately \$124 million from fiscal year 2014 and approximately \$284 million from fiscal year 2013. The increase realized during fiscal year 2015 is attributable to several factors. The NCEL saw continued strong performance of games featuring “Back Scratch”, an additional play area on the back of the ticket, with the launch of the \$5 Break the Bank and \$5 Trucks and Bucks games. Break the Bank was one of the highest performing \$5 games of the year with nearly \$30 Million in sales. Trucks & Bucks also featured “Back Scratch”, as well as, the opportunity for players to win one of three four wheel drive trucks in a second chance drawing. Each winner had a choice of a Chevrolet Silverado, Ford F-150 or Dodge Ram. The game was very popular amongst players because of this one-of-a-kind prize opportunity. The NCEL also expanded the “Bucks” family of games to include all of the Holiday themed tickets this past year which included \$1 – Jingle Bucks, \$2 – Jolly Jingle Bucks, \$3 – Jingle Bingo Bucks, \$5 – Jumbo Jingle Bucks and \$10 – Millionaire Jingle Bucks Collectively, these holiday themed “Bucks” tickets became the best-selling holiday tickets ever for the NCEL.

Draw game sales were \$678 million for fiscal year 2015 compared to \$669 million for fiscal year 2014 and \$678 for fiscal year 2013, representing a \$9 million increase over fiscal year 2014 and no change from fiscal year 2013. Draw game sales suffered from a lack of high jackpots in the multi-state game Powerball. Since surpassing \$500 million twice in fiscal year 2013, the Powerball jackpot has broken the mark only once. This led to sales of \$130 million for fiscal year 2015, a decrease of \$19 million from fiscal year 2014 and of \$67 million from 2013. After reaching a top jackpot of \$636 million in fiscal year 2014, the NCEL’s other multi-state game, Mega Millions, reached a top jackpot amount for fiscal year 2015 of \$321 million. This resulted in sales of \$61 million, a decrease of \$13 million from sales of \$74 million in fiscal year 2014.

Sales information by game are shown on the table below.

SALES FY 2013 TO FY 2015



Game	FY 2015	FY 2014	FY 2013
Instant Games	1,294,037,685	1,170,270,045	1,011,943,189
Powerball	130,058,625	149,222,277	196,942,790
Mega Millions	61,314,087	74,809,896	53,665,710
Pick 3	278,083,184	260,983,272	258,868,248
Pick 4	122,886,664	113,192,013	103,902,116
Pick 5	64,928,960	70,809,067	64,480,563
All or Nothing	19,549,252	-	-
Monopoly MC	1,361,520	-	-
TOTAL SALES	1,972,219,976	1,839,286,570	1,689,802,616

*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 2015	FY 2014	FY 2013
ASSETS			
Total current assets	\$73,811	\$ 51,543	\$ 59,643
Noncurrent assets	59,206	56,351	51,605
Total Assets	133,017	107,894	111,248
Deferred Outflows	1,471	-	-
LIABILITIES			
Total current liabilities	70,200	53,210	60,525
Noncurrent Liabilities	59,589	54,684	50,723
Total Liabilities	107,894	107,894	111,248
Deferred Inflows	4,699	-	-
NET ASSETS			
Invested in capital asse	1,833	1,331	897
Unrestricted net assets	(1,833)	(1,331)	(897)
Total Net Assets	\$ -	\$ -	\$ -

*Readers wanting more detailed financial information should refer to the NCEL's FY 2015 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, 2015 but will be transferred during fiscal year 2016.)

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

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

Activity for Capital Assets for Year Ended June 30, 2015 (in thousands)

Category	Balance July 1, 2014	Increase	Decrease	Balance June 30, 2015
Capital assets, depreciable				
Furniture	\$ 46	\$ -	\$ -	\$ 46
Equipment	4,376	111	(142)	3,709
Motorized equipment	67	-	-	67
Computer software	-	983	-	983
Total capital assets, depreciable	4,489	1,094	(142)	4,805
Less accumulated depreciation for				
Furniture	34	3	-	37
Equipment	3,056	563	(753)	2,866
Motorized equipment	68	-	-	69
Computer software	-	-	-	-
Total accumulated depreciation	3,158	567	(753)	2,972
Total capital assets, depreciable net	1,331	527	(25)	1,833
Capital assets, net	\$1,331	\$ 527	\$ (25)	\$ 1,833

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.

Statement of Activities (in thousands)			
	FY 2015	FY 2014	FY 2013
Operating Revenues:			
Gross Sales:	\$ 1,972,220	\$ 1,839,259	\$ 1,689,803
Less: Prize Tickets and Bad Debt	(5)	(48)	(90)
Fees and Licenses	5,271	5,425	5,296
Total Operating Revenues	1,977,486	1,844,636	1,695,009
Operating Expenses:			
Salaries, Wages, and Benefits	18,738	18,127	17,540
Lottery Prizes	1,231,238	1,135,052	1,024,437
Retailer Commissions	137,767	128,551	118,148
Retailer Incentive	976	825	781
Gaming Systems Services	28,678	30,343	27,262
Advertising	19,098	15,238	15,278
Marketing	4,183	3,602	3,540
Other Services	5,272	5,158	4,802
Furniture, Fixtures, and Equipment	983	1,323	1,307
Depreciation	568	439	346
Other General and Administrative Expenses	2,952	2,548	2,484
Total Operating Expenses	1,450,453	1,341,206	1,215,925
Operating Income	527,033	503,430	479,084
Nonoperating Revenues (Expenses):			
Investment Earnings and			
Other Miscellaneous Revenue (Expense)	408	669	417
Compulsive Gambling Contribution	(1,000)	(1,000)	(1,000)
Unclaimed Prizes to NC Education Lottery Fund	(13,841)	(14,043)	(11,381)
Net Revenues to the State of NC	(512,586)	(489,092)	(467,127)
Miscellaneous Nonoperating Expenses	(14)	36	7
Total Nonoperating Revenues (Expense)	(527,033)	(503,430)	(479,084)
Net Income	-	-	-
Net Assets	\$ -	\$ -	\$ -

OPERATING REVENUES:

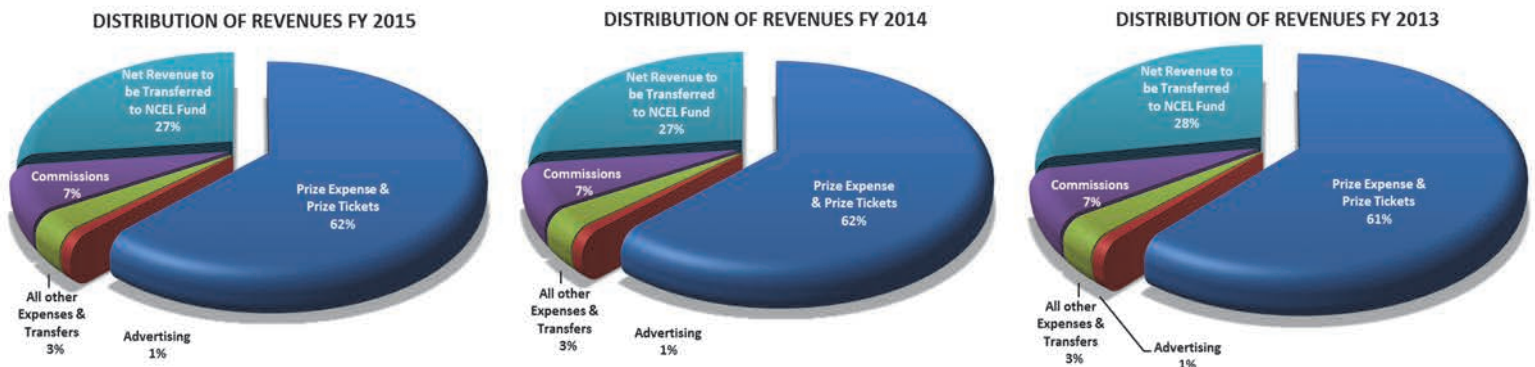
Operating revenues is income derived from the lottery's everyday activities, and mainly consists of ticket sales and communications fees collected from retailers.

Total gross lottery ticket sales for the fiscal year 2015 were approximately \$1.972 billion as compared to \$1.839 billion in fiscal year 2014. This represents an increase of around \$135 million.

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 Expense and transfers as a percentage of total revenues for the June 30, 2015 and 2014 fiscal years:

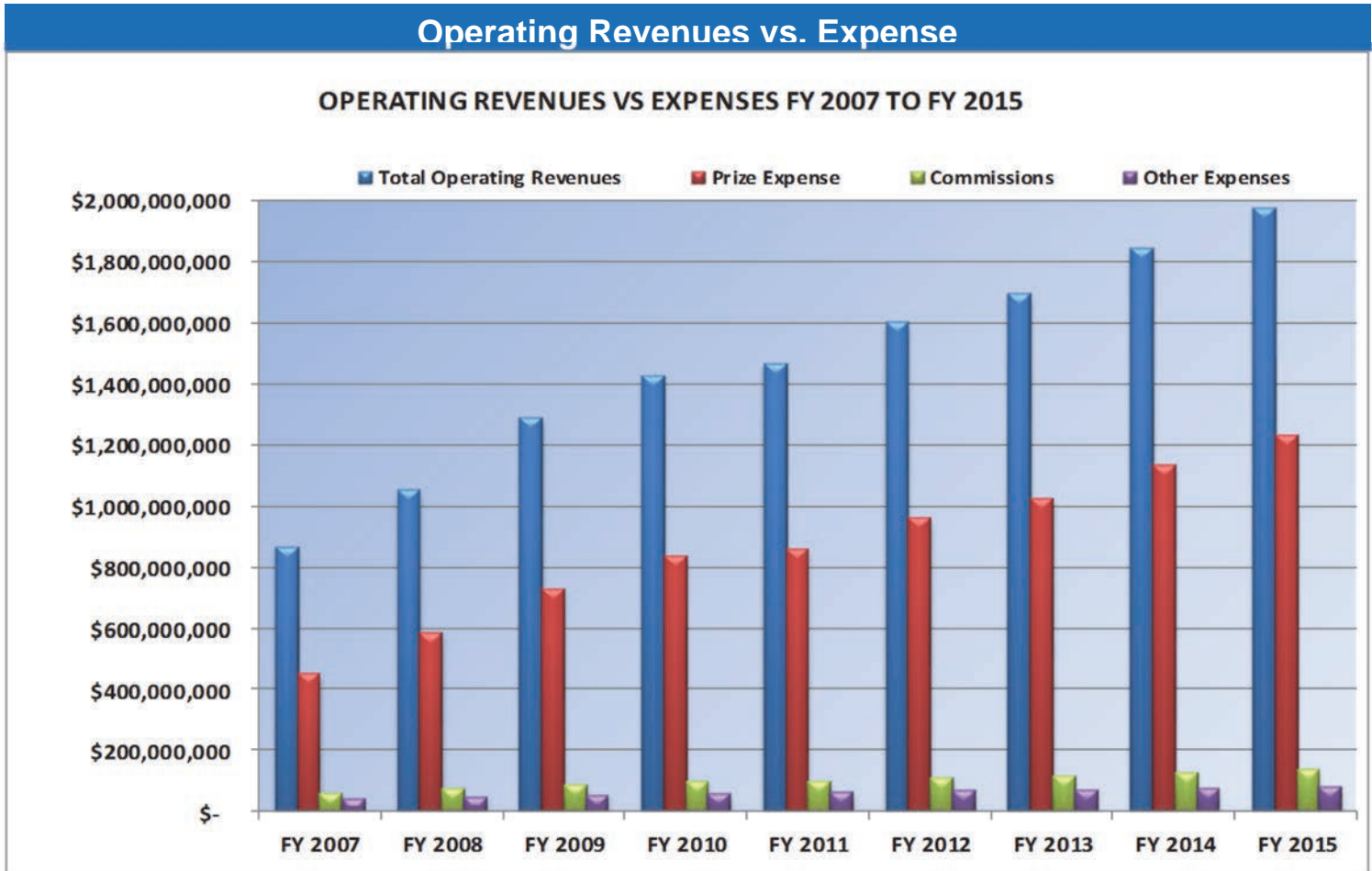


An operating expense is an expense that an organization incurs as a result of its normal business operations. In the lottery's case these expenses are all directly related to the production and sale of lottery tickets.

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 2015 prizes, commissions and gaming vendor charges increased to \$1,397 million from \$1,293 million in 2014. 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 2015 and 2014 administrative expenses were \$53 million and \$47 million respectively.

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



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 2015 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at:

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



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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

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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, 2014. 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 7 consecutive years (fiscal years ended 2008-2014.) We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

