

# NORTH CAROLINA EDUCATION LOTTERY

## POPULAR ANNUAL FINANCIAL REPORT

### FISCAL YEAR 2010



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#### 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, 2010. 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 2010 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>



# COMMISSION

## Commission Chair's Note

I am pleased to report that your North Carolina Education Lottery continued to show strong growth in its fourth full year of operations despite our state's tough economic times. The Education Lottery ended the year recording the highest sales and producing the biggest return ever. Sales rose almost 10 percent, up to \$1.4 billion, and we contributed \$419 million to education.

As we approach our fifth year anniversary, it is a good time to take a look at how the Education Lottery has become an institution in our state. Overall, 95 cents of every dollar spent on the lottery stays in North Carolina.

About 58 cents of every dollar is paid out to players who win prizes. In fiscal year 2010, the lottery paid out \$840 million in prizes, on average about \$2.3 million a day. We had some big winners too. Frank Griffin of Asheville became our third jackpot winner, winning \$141 million playing Powerball in February, and in May, Mike Manheim of Greensboro, became our fourth, taking home \$12 million playing our new jackpot game, Mega Millions. Some states with lotteries have never had a jackpot winner. Lucky North Carolina has already had four.

Seven cents of every dollar goes to our retailers. In FY10, that amounted to \$99.7 million in sales commissions to gas stations, convenience stores, grocery stores, and drug stores all across our state. North Carolina retailers can count on lottery sales as a reliable part of their business. We ended FY10 with 6,212 locations selling lottery tickets, a four percent increase from the year before.

But nothing is more important to us than increasing the amount of money we provide for education. Thirty cents of every dollar goes to the state, benefiting four specific education programs, including school construction, scholarships, More at Four, and teacher salaries.

The NCEL continues to get high marks for the way we handle the security of the games and the lottery's finances. For the second year in a row, the NCEL received a Certificate of Achievement for Excellence in Financial Reporting and an award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association of the United States and Canada. The NCEL now has received clean reviews in four of four financial audits and three of three security audits, plus our numerous and continuous internal audits.

After the year ended, we said good-bye to our first executive director, Tom Shaheen. Much of the success of the Education Lottery can be credited to Tom's leadership. He brought both a sense of fun and a sense of fair play to our lottery. Thanks to Tom, we've got a strong foundation to build on.

Robert Farris

## NCEL COMMISSION

The State Lottery Commission consists of nine members, five appointed by the governor and four by the N.C. General Assembly, of which two are recommended by the speaker of the N.C. House of Representatives, and two by the president pro tem of the N.C. Senate. Commissioners serve five-year terms and can only serve two successive terms. One member must have five years experience in law enforcement, one must be a certified public accountant, and one must have retail sales experience as an owner or manager of a sales company. Commission meetings are held once a quarter.



**Carla Archie**  
*Charlotte*  
**Senior counsel,**  
**Wells Fargo & Co.**



**Norwood Clark**  
*Raleigh*  
**CPA**



**Bill Dowdy**  
*Raleigh*  
**Retired,**  
**State Bureau of**  
**Investigation**



**Bridget-Anne Hampden**  
*Charlotte*  
**President and CEO,**  
**JHR & Associates**  
**LLC**



**Judge Marlene Hyatt**  
*Waynesville*  
**Retired,**  
**Superior Court**  
**Judge**



**Lawrence Spears**  
*Raleigh*  
**Owner and broker,**  
**Raleigh Investment**  
**Real Estate**



**Pamela Whitaker**  
*Greensboro*  
**President,**  
**Key Resources Inc.**



**Robert Farris Jr.,**  
**chairman**  
*Wilson*  
**Attorney, Farris and**  
**Farris, P.A.**

There is currently one vacant NCEL Commissioner position.



# SENIOR STAFF

## Acting Executive Director's Note

The record sales and return for education that the N.C. Education Lottery achieved in fiscal year 2010 serves as a tribute to the leadership of its first executive director, Tom Shaheen. Tom, the NCEL's first employee, got the lottery up and running in record time back in 2006 and led our first four and a half years of operations.

Tom's vision was that we have fun in this serious business of raising money for education in North Carolina, but that we keep concern for integrity and security ever present. Thanks to his leadership, talents and lottery savvy, we made this happen.

Tom was savvy about sales because he began his lottery career in sales. He understood the connection between ticket sales and prize payout for our instant games. He guided us patiently and purposely to increase prize payout, a strategy that increased overall sales and increased the return to education. In fiscal year 2010, sales topped out at more than \$1.4 billion and the return to education hit \$419 million.

Tom had a talent for marketing. He recognized the appeal a lottery ticket with North Carolina icon Ric Flair would have, negotiated a contract with Flair, and together they produced a hugely popular instant ticket. Flair appeared in a lottery commercial and attended marketing events at fairs and festivals. Players lined up to get Flair's autograph. Tom's intuition that this North Carolina icon would pay off for the lottery and for education proved solid.

As a leader, Tom taught us players should get the best value they could for every entertainment dollar they spend. The principle led to the design of extended play games and second chance drawings for non-winning tickets. Both increase a ticket's value. In FY 10, our second chance drawing winners did particularly well. World Series of Poker™ winner, Richard Taylor, one of 7,319 original entrants in the tournament, survived multiple rounds to win an additional \$31,647 as he finished as player No. 443. The Price is Right™ second chance winner, Crain Roten, won a boat as he competed in the non-broadcast version of the show in Las Vegas.

Finally, Tom's national leadership on lottery issues paid off for North Carolina. He was an architect of the plan for Powerball states and Mega Million states to begin cross-selling their games. Just four short months after Mega Millions began here, we had our first jackpot winner, Mike Manheim. After watching the draw, his wife Faye said, "Baby, I think we won." The Manheim's win was \$12 million. Sales from the additional drawings each week have boosted lottery revenues.

All our successes in FY10 would not have happened without the great support of our retailers, our staff, and our NCEL Commission. And Tom Shaheen was there for all the action. Shaheen has chosen to join a start-up operation, Linq3, but his fingerprints are indelibly marked on this organization.

Alice Garland

## Senior Staff

**Alice Garland**  
Acting Executive Director

**Deborah Doty,**  
\*DED, MIS and Gaming Systems

**Bill Jourdain**  
DED, Finance, Administration and Security

**Lou Ann Russell**  
DED, Marketing and Advertising

**Sam Hammett**  
DED, Sales

**Terri Avery-Fowler**  
Director, Sales

**Michelle Lassiter**  
Director, Finance

**Quan Kirk**  
Senior Director, Legal Services

**Margaret Spindola-Bode**  
Senior Director, Human Resources

**Tony Chung**  
Director, MIS

**Susan Singley**  
Director, Administration

**Penny Railey**  
Director, Marketing

**Nikki Howard**  
Director, Internal Auditor

**Joe Norman**  
Director, Gaming Systems

**Walter Ingram**  
Director, Sales Development

**Jerry Carter**  
Director, Security

**Van Denton**  
Director, Corporate Communications



million



# BENEFICIARIES

North Carolina Education Lottery (NCEL) has completed its fourth full year of operations. The NCEL finished the fiscal year with sales of \$1.421 billion and transfers of more than \$419 million, which surpassed the amount budgeted by the North Carolina General Assembly. Transfers from launch to the end of the FY10 were more than \$1.5 billion.

All of this is good news for the beneficiaries of lottery proceeds. GS§18C-164 prescribes how the beneficiary dollars will be spent. One hundred percent of the net proceeds go to education programs. The dollars are divided in the following manner: 50 percent to More at Four and class size reduction, 40 percent to school construction, and 10 percent to need-based college scholarships. By original statute, only these four programs receive lottery proceeds. However for FY11, due to difficult economic times, legislation was passed to use lottery funds to pay teachers salaries to avoid layoffs.

Dollars raised by the NCEL are dollars that do not have to be funded by state or local taxes. Lottery dollars have helped fill the gaps caused by this economic downturn.

The NCEL transfers proceeds on a quarterly basis to the Office of State Budget and Management. This office then disburses the dollars to the individual programs based on the statutory requirements.

## More At Four

The More at Four pre-kindergarten program serves at-risk four year olds. It is an award winning program that has been duplicated by other states. All 100 counties in North Carolina benefit from this program. In FY10, the NCEL funded 16,222 slots for four year olds.

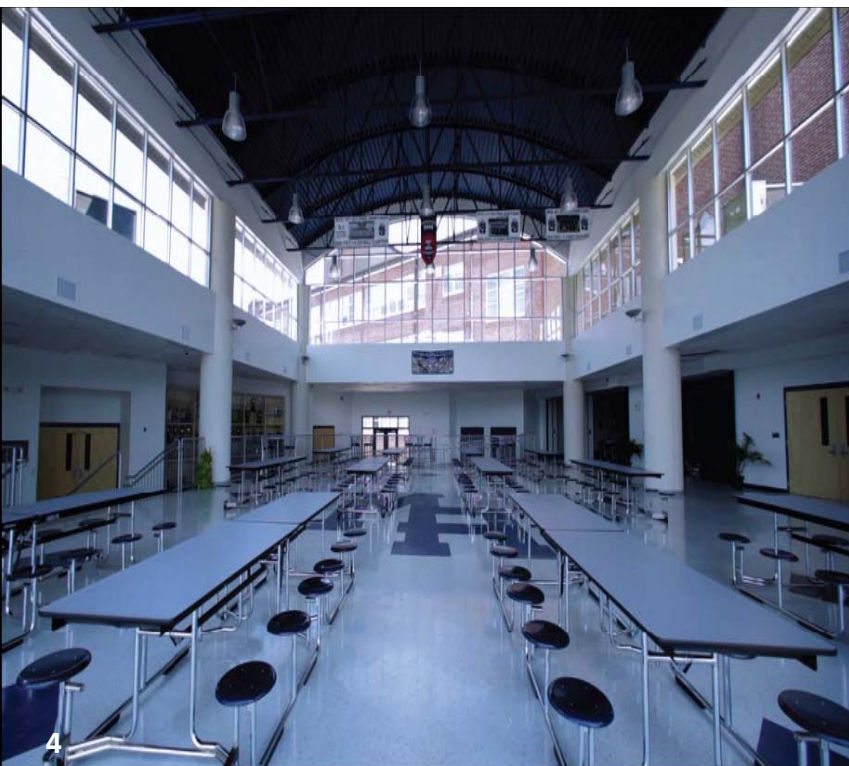


## Class-Size Reduction

The Governor and the Legislature set a goal of one teacher per 18 students in grades K-3. NCEL proceeds fund the teaching positions needed to maintain this standard. In FY10, lottery dollars funded 1,828 teaching positions, encompassing every county in the state. Grades K-3 were the only grades to not experience teacher cuts.

## School Construction

School construction dollars may be used by the counties for any capital project. Normally, dollars are allocated to the counties based on student population and average property tax. However, the Legislature used lottery proceeds that exceeded the budget to disburse construction dollars to all counties on the same basis. In FY10, counties initiated 297 construction projects. Since inception, the number of projects at the end of the fiscal year is 758. Schools have used the dollars for large projects like purchasing land, building schools, or building additions to schools; and for small projects like new gym floors, cafeteria expansion, auditorium renovation, bathroom renovation, new roofs, stadium repairs, and the list goes on. Counties may bank their dollars to amass sufficient funds for a large project, or they may spend the dollars as they are transferred to the capital accounts. Counties may also use the proceeds to pay down school bonds.



## Need-Based College Scholarships

For the 09/10 school year, 31,600 students received education lottery college scholarships to attend 113 different institutions of higher education. To receive an education lottery scholarship, the student must first qualify for the Pell Grant which is a federal grant available to students whose families cannot afford to pay for college. Students must be a North Carolina resident and attend an institution in North Carolina.



# COUNTY TOTALS

## FY 2010

Alamance	\$6,070,412	Currituck	931,589	Lee	2,923,344	Rockingham	3,751,172
Alexander	1,550,758	Dare	1,345,042	Lenoir	2,710,729	Rowan	5,641,365
Alleghany	518,323	Davidson	6,752,064	Lincoln	3,056,675	Rutherford	2,968,221
Anson	1,231,334	Davie	1,923,353	Macon	1,383,288	Sampson	3,602,026
Ashe	1,135,339	Duplin	2,631,444	Madison	717,256	Scotland	2,174,735
Avery	751,885	Durham	8,258,777	Martin	1,103,196	Stanly	2,976,812
Beaufort	2,046,965	Edgecombe	2,690,910	Mcdowell	1,837,682	Stokes	2,074,327
Bertie	1,060,337	Forsyth	13,372,851	Mecklenburg	34,668,029	Surry	3,269,903
Bladen	1,825,811	Franklin	2,089,976	Mitchell	591,385	Swain	654,803
Brunswick	3,607,302	Gaston	9,506,625	Montgomery	1,508,531	Transylvania	954,519
Buncombe	7,346,940	Gates	502,537	Moore	2,716,778	Tyrrell	178,206
Burke	4,319,942	Graham	398,820	Nash	4,502,245	Union	9,856,265
Cabarrus	8,410,641	Granville	2,237,173	New Hanover	7,225,378	Vance	2,102,694
Caldwell	3,348,070	Greene	1,022,427	Northampton	913,596	Wake	34,283,258
Camden	507,584	Guilford	21,718,581	Onslow	6,892,987	Warren	764,474
Carteret	2,295,556	Halifax	2,494,817	Orange	4,695,203	Washington	618,595
Caswell	826,944	Harnett	4,878,022	Pamlico	498,140	Watauga	1,360,277
Catawba	6,486,311	Haywood	2,101,285	Pasquotank	1,702,540	Wayne	5,989,714
Chatham	2,359,056	Henderson	3,476,333	Pender	2,245,677	Wilkes	3,365,011
Cherokee	1,066,548	Hertford	1,153,996	Perquimans	515,069	Wilson	3,217,694
Chowan	695,997	Hoke	2,764,560	Person	1,541,927	Yadkin	1,741,050
Clay	426,601	Hyde	206,998	Pitt	6,839,312	Yancey	671,982
Cleveland	4,924,132	Iredell	6,569,557	Polk	821,621	Unknown	123,969
Columbus	3,118,511	Jackson	1,042,924	Randolph	5,918,285	DPI Admin	5,754,489
Craven	3,820,760	Johnston	8,064,267	Richmond	2,322,952	<b>Total</b>	<b>400,929,982</b>
Cumberland	16,703,379	Jones	473,339	Robeson	7,918,895		

## Total to Date

Alamance	\$19,750,516	Currituck	3,073,184	Lee	10,911,879	Rockingham	14,410,100
Alexander	5,082,570	Dare	4,259,361	Lenoir	10,480,842	Rowan	20,466,325
Alleghany	1,845,031	Davidson	22,458,977	Lincoln	10,512,052	Rutherford	10,343,115
Anson	5,038,889	Davie	6,971,856	Macon	4,636,833	Sampson	13,151,438
Ashe	4,184,331	Duplin	9,687,886	Madison	2,333,660	Scotland	8,498,704
Avery	2,772,226	Durham	31,330,064	Martin	4,243,105	Stanly	11,162,718
Beaufort	6,891,421	Edgecombe	9,965,906	Mcdowell	6,179,641	Stokes	8,217,055
Bertie	3,957,018	Forsyth	49,373,870	Mecklenburg	129,466,167	Surry	12,572,381
Bladen	7,386,245	Franklin	7,614,149	Mitchell	2,086,534	Swain	2,197,864
Brunswick	12,042,645	Gaston	35,272,757	Montgomery	5,654,700	Transylvania	3,235,940
Buncombe	23,952,545	Gates	2,068,756	Moore	8,830,347	Tyrrell	700,883
Burke	15,532,758	Graham	1,416,901	Nash	16,559,098	Union	33,269,125
Cabarrus	30,521,326	Granville	8,467,658	New Hanover	24,995,914	Vance	7,759,618
Caldwell	10,777,779	Greene	3,922,820	Northampton	3,750,107	Wake	108,022,157
Camden	1,878,700	Guilford	79,565,897	Onslow	21,879,371	Warren	2,818,338
Carteret	7,582,054	Halifax	9,462,924	Orange	16,966,058	Washington	2,652,349
Caswell	3,258,874	Harnett	17,847,264	Pamlico	1,723,980	Watauga	4,583,720
Catawba	21,119,997	Haywood	6,674,054	Pasquotank	5,652,695	Wayne	23,302,106
Chatham	8,549,111	Henderson	11,198,702	Pender	7,320,118	Wilkes	12,706,160
Cherokee	3,765,605	Hertford	4,358,485	Perquimans	1,875,966	Wilson	12,187,784
Chowan	2,388,463	Hoke	9,725,972	Person	5,907,798	Yadkin	6,659,001
Clay	1,470,600	Hyde	744,189	Pitt	24,566,977	Yancey	2,316,038
Cleveland	19,356,788	Iredell	21,596,933	Polk	2,892,432	Unknown	348,182
Columbus	12,201,788	Jackson	3,719,322	Randolph	19,566,989	DPI Admin	25,151,382
Craven	12,538,924	Johnston	29,303,351	Richmond	9,441,971	<b>Total</b>	<b>1,434,020,278</b>
Cumberland	62,461,081	Jones	1,982,426	Robeson	30,481,612		





## MEGA MILLIONS JOINS POWERBALL

History was made with the addition of Mega Millions to the NCEL’s complement of games on January 31, 2010. The multistate game bears a strong resemblance to Powerball, with jackpots that can climb into the hundreds of millions and twice-weekly drawings. Before the introduction of Mega Millions, Powerball had been the sole jackpot game available in the Tar Heel State. North Carolina became one of 23 states to begin cross-selling tickets for the pair of multistate games in the fiscal year.

What better way to introduce the addition of a second “heavyweight” to the roster than to depict the giant jackpot games as sumo wrestlers? In television spots, actors painted blue (for Mega Millions) and red (for Powerball) were filmed facing off and gearing up to charge at one another. As they collide, a booming voiceover exclaims that four chances to win jackpot prizes each week is “mega-power fun.”

The cross-selling program has proven to be a winner for beneficiaries, players, and retailers alike. Combined sales of Mega Millions and Powerball were nearly \$15 million greater for FY10 than sales of Powerball alone in FY09. That translated into a 7% boost to retailer commissions compared to totals for the previous year. In turn, these elevated figures contributed to increased returns to education and the strength of local businesses.



Just months into the cross-sale era, the first jackpot-winning Mega Millions ticket in state history was sold in Greensboro for the May 28 drawing. Native North Carolinians Faye and Mike Manheim claimed their \$12 million prize at lottery headquarters in Raleigh. At a media event on July 7, Faye recounted what she said to her husband in the moments following the televised drawing: “Baby, I believe we won.”

Just shy of four months before the Manheims’ jackpot win, luck struck for a retired firefighter from Asheville – on a Powerball ticket worth a whopping \$141.4 million. While Frank Griffin’s good fortune started with a ticket for the Feb. 6 drawing, he and his wife Loretta decided their unexpected win would benefit the community for years to come. Thanks to the Griffins’ generosity, a state-of-the-art facility – with a price tag of more than half a million dollars – became possible for Enka High School in Candler. “For Enka softball, it’s a homerun,” said Frank Fraboni of WLOS-TV in Asheville. “The Powerball has snowballed into something special.”

Another Powerball jackpot winner has committed a portion of his windfall toward the greater good. Jeff Wilson of Kings Mountain won \$88.1 million in the June 20, 2009 Powerball drawing. The Wilson Family Foundation established a grant to fund a monitoring program for individuals convicted of alcohol-related crimes. “It will allow us to more widely employ a proven tool in holding defendants accountable and improving community safety,” said Mecklenburg Trial Court Administrator Todd Nuccio.





## INSTANT GAMES

Instant tickets continued to be the NCEL's largest revenue category for FY10 at 60 percent of total game sales. Instant sales of more than \$855 million posted a 7.1 percent increase over FY09 and helped drive a 9.9 percent increase in total sales. The category is at the heart of record returns to education in excess of \$419 million for FY10. While education was the biggest winner of all, 87 major prizes of \$100,000 to \$3 million were awarded to instant winners across the state throughout the year as well.

FY10 was a year of firsts for instant tickets and none were bigger than the October debut of "\$200 Million Extravaganza" – the herald of \$20 games in North Carolina. In addition to offering players a shot at five top prizes of \$3 million and ten chances to win \$1 million, the game featured the highest overall odds of winning and the largest total payout of any NCEL game to date. Its popularity among players netted more than \$221.4 million in sales, which in turn shifted instant game percentage shares at other price points for the year.

Tickets such as "Mega Bucks" led \$5 games to the largest share of annual instant ticket sales at 29 percent. The return of "Cash Spectacular" and the introduction of "\$500,000 Jackpot" pushed the \$10 echelon to a 21 percent stake. The \$20 instant ticket price point – represented entirely by "\$200 Million Extravaganza" – carved out 18 percent of sales on its own. The category was rounded out by \$1, \$2 and \$3 games which amounted to 32 percent of instant tickets sold.

The unveiling of "Woouoooo!" – the first lottery ticket anywhere to feature the likeness of pro wrestler Ric Flair – headlined as the year's most famous first. True to the achievements of the legendary grappler from North Carolina, the \$5 game was also a top performer with net sales of more than \$15.5 million. Other standout games on the performance index included the \$1 game "Stocking Stuffer" and the \$3 game "Match & Win" which yielded sales of more than \$5.9 million and \$10.2 million respectively.

Online became the sole mode of entry for second-chance drawings in FY10. In November, "Super Monopoly" ushered North Carolina players into an era of playable online games that represented additional entries into a second-chance drawing for a single non-winning ticket. Other branded games that attracted second-chance entries were reissues of "Mustang Fever" and "Harley-Davidson" as well as first runs of "The Price is Right" and "World Series of Poker." Second-chance drawings via online entry proved very popular with players; more than 1.2 million such entries were made.







## CAROLINA PICK 3

Carolina Pick 3 is once again giving Powerball stiff competition for the number one slot in on-line game sales. Carolina Pick 3 sales topped out at \$222,777,592. This was a 6 percent increase over FY09 and a 51 percent increase over FY08. Carolina Pick 3 sales now represent roughly 16 percent of total sales.



Triple numbers, a perennial player favorite, hit eight times during the year. The NCEL sees a spike in sales following every triple digit drawing, as well as more tickets reaching the liability limit of \$3 million. The Dec. 25, 2009 evening drawing resulted in a 5-5-5 combination and paid out a record-setting \$2,283,000.

Carolina Pick 3 and Carolina Pick 4 players have a different style of playing from the other three online games. Carolina Pick 3 players quick pick their numbers only six percent of the time, Carolina Pick 4 players 11 percent of the time and Carolina Cash 5 players use quick pick 65 percent of the time. As for jackpot-style games, Powerball players quick pick 73 percent of the time and Mega Millions players quick pick 78 percent of their tickets.



WRAL-TV in Raleigh is the official lottery draw station. The nightly draw is televised live from the studio. The mid-day draw is taped and available to players to view on the web shortly after the draw. Our statewide drawing station network includes WITN-TV in Greenville, WILM-TV in Wilmington, WXLV-TV in Winston-Salem and WYCW-TV in Western North Carolina.





## CAROLINA PICK 4

The first full year of Carolina Pick 4 resulted in \$57,370,252 in sales, accounting for roughly 4% of total sales in FY10. This figure is in line with the partial year sales from FY09, which were \$15,793,159 in the two and a half months after the game launched.

Carolina Pick 4 is a four-digit game where players pick a number between 0-0-0-0 and 9-9-9-9. Players have their choice of playing four different ways (Exact, Any, 50/50 or Combo) and can win from \$100 up to \$5,000 in cash prizes. It is not unusual to have twenty players a week win at the highest level of \$5,000.

The NCEL paid out 1,081 \$5000 top prizes to "Carolina Pick 4" winners in FY10. A total of \$27,684,600 was paid out to "Carolina Pick 4" players, which is an average of \$532,396 per week.





## CAROLINA CASH 5

### CAROLINA CASH 5

Overall Carolina Cash 5 sales showed a slight increase over FY09, adding \$861,950 for a grand total of \$60,873,168 in FY10. Carolina Cash 5 represented four percent of total sales for the NCEL this year, dropping one percent from FY09.

One hundred and six players won the top prize in FY10 with 57 of those winning \$100,000 or more. The top prize was shared by multiple winners 16 times. Mark Hamlin of Charlotte won the largest top prize of \$688,283 in the Oct. 29, 2009 drawing. The top prize rolled 11 times to reach this amount, showing that Carolina Cash 5 gets exciting fast. The average top prize won in FY10 was \$160,934.

Carolina Cash 5 drawings occur nightly in concurrence with the Carolina Pick 4 and the nightly Carolina Pick 3 drawings.



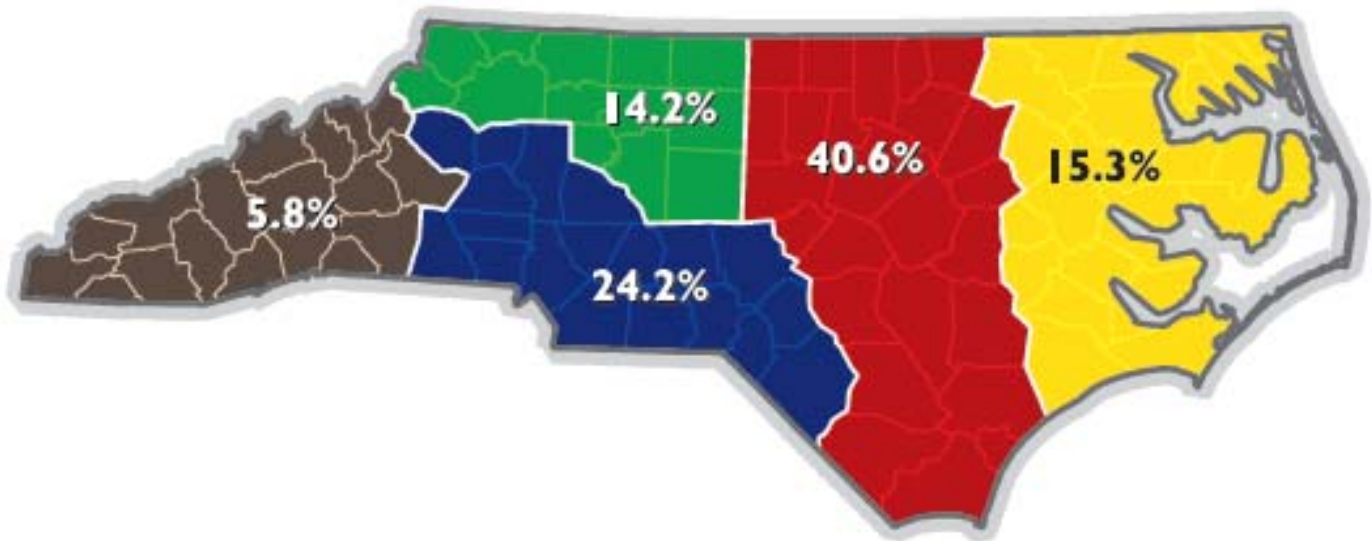


# SALES

## SALES BY REGION AND GAME

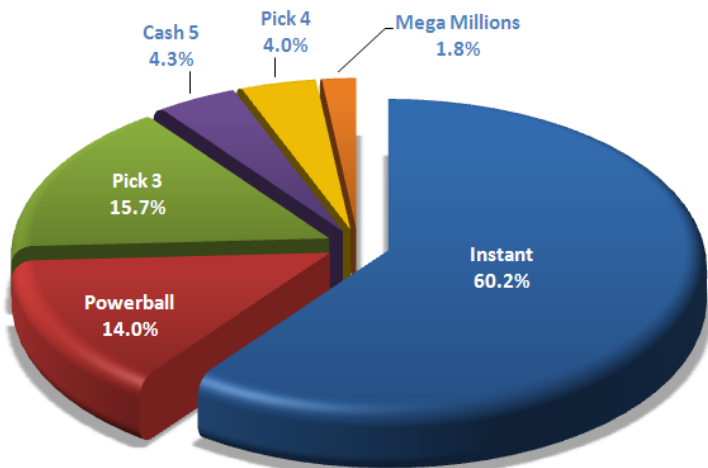
### SALES BY REGION FY 2010

Region	Instant	Powerball	Mega Millions	Cash 5	Pick 4	Pick 3	Total
Ashville	\$ 59,446,430	\$ 13,624,430	\$ 1,660,284	\$ 3,493,330	\$ 1,061,218	\$ 3,275,735	\$ 82,561,427
Greensboro	125,137,857	30,966,901	4,189,172	9,728,641	7,302,045	24,008,148	201,332,764
Charlotte	223,129,941	58,978,795	7,339,630	15,454,995	9,169,792	29,920,696	343,993,849
Raleigh	331,587,068	74,043,944	9,911,967	23,796,767	26,531,611	110,591,203	576,462,560
Greenville	116,264,771	21,142,647	2,868,250	8,399,435	13,305,587	54,981,811	216,962,500
<b>Total</b>	<b>\$ 855,566,067</b>	<b>\$ 198,756,717</b>	<b>\$ 25,969,303</b>	<b>\$ 60,873,168</b>	<b>\$ 57,370,252</b>	<b>\$ 222,777,592</b>	<b>\$ 1,421,313,099</b>
<b>% of Sales</b>	<b>60%</b>	<b>14%</b>	<b>2%</b>	<b>4%</b>	<b>4%</b>	<b>16%</b>	<b>100%</b>



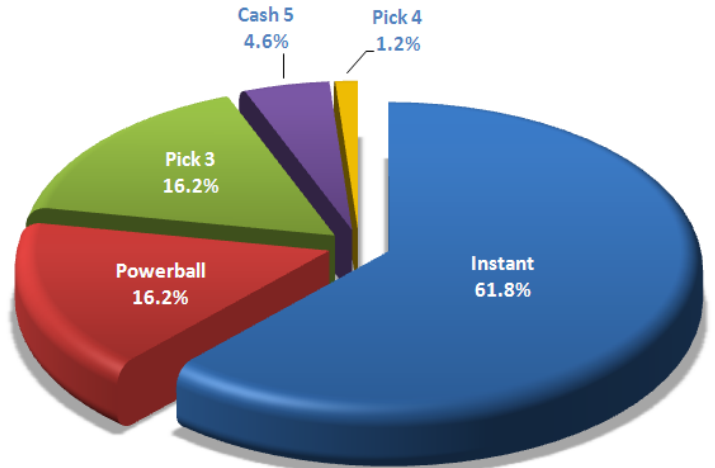
### SALES BY GAME FY 2010 & 2009

SALES BY GAME FY 2010



Mega Millions game was launched in Jan '10

SALES BY GAME FY 2009



Pick 4 game was launched in Apr '09

## STATEMENT OF NET ASSETS:

The Statement of Net Assets 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 Assets (in thousands)

	FY 2010	FY 2009
<b>ASSETS</b>		
Total current assets	\$ 55,881	\$ 62,068
Noncurrent assets	26,246	13,728
<b>Total Assets</b>	<b>82,127</b>	<b>75,796</b>
<b>LIABILITIES</b>		
Total current liabilities	56,092	62,147
Noncurrent Liabilities	26,035	13,649
<b>Total Liabilities</b>	<b>82,127</b>	<b>75,796</b>
<b>NET ASSETS</b>		
Invested in capital assets	1,239	1,310
Unrestricted net assets	(1,239)	(1,310)
<b>Total Net Assets</b>	<b>\$ -</b>	<b>\$ -</b>

\*Readers wanting more detailed financial information should refer to the NCEL's FY 2010 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at: <http://www.nc-educationlottery.org/about.aspx>

The decrease in current assets resulted from a decrease in the State Treasurer's Security Lending Collateral.

Current liabilities consist primarily of trade payables to vendors, instant ticket prize liability, Powerball and Mega Millions low-tier liability and obligations under State Treasurer's Lending Agreements. In addition Current liabilities consist of "Due to Other Funds" which represents the amount of net revenues for the fiscal year not yet transferred to the State as of June 30, 2010 but will be transferred during fiscal year 2011. The remainder is due to other state agencies for services provided to the NCEL.

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.

The NCEL's investment in capital assets, net of accumulated depreciation in 2010 was \$1.2 million which is approximately \$71,000 lower than 2009. 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.

### Activity for Capital Assets for Year Ended June 30, 2010 (in thousands)

Category	Balance July 1, 2009	Increase	Decrease	Balance June 30, 2010
Capital assets, depreciable				
Furniture	\$ 29	\$ -	\$ -	\$ 29
Equipment	2,606	529	(482)	2,653
Motorized equipment	67	-	-	67
<b>Total capital assets, depreciable</b>	<b>2,702</b>	<b>529</b>	<b>(482)</b>	<b>2,749</b>
Less accumulated depreciation for				
Furniture	18	5	-	23
Equipment	1,336	564	(465)	1,435
Motorized equipment	38	14	-	52
<b>Total accumulated depreciation</b>	<b>1,392</b>	<b>583</b>	<b>(465)</b>	<b>1,510</b>
<b>Total capital assets, depreciable net</b>	<b>1,310</b>	<b>(54)</b>	<b>(17)</b>	<b>1,239</b>
Capital assets, net	\$ 1,310	\$ (54)	\$ (17)	\$ 1,239

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 2010	FY 2009
<b>Operating Revenues:</b>		
Gross Sales:	\$ 1,421,313	\$ 1,293,111
Less: Prize Tickets and Bad Debt	(1,714)	(9,671)
Fees and Licenses	4,859	4,663
<b>Total Operating Revenues</b>	<b>1,424,458</b>	<b>1,288,103</b>
<b>Operating Expenses:</b>		
Salaries, Wages, and Benefits	15,299	14,694
Lottery Prizes	835,302	731,690
Retailer Commissions	99,340	90,366
Gaming Systems Services	22,639	20,599
Advertising	11,792	11,172
Marketing	2,239	1,751
Other Services	3,555	2,975
Furniture, Fixtures, and Equipment	376	249
Depreciation	583	544
Other General and Administrative Expenses	2,764	2,750
<b>Total Operating Expenses</b>	<b>993,889</b>	<b>876,790</b>
<b>Operating Income</b>	<b>430,569</b>	<b>411,313</b>
<b>Nonoperating Revenues (Expenses):</b>		
Investment Earnings and Other Miscellaneous Revenue (Expense)	2,699	4,251
Compulsive Gambling Contribution	(1,000)	(1,000)
Unclaimed Prizes to NC Education Lottery Fund	(14,894)	(19,901)
Net Revenues to the State of NC	(417,311)	(394,028)
Miscellaneous Nonoperating Expenses	(63)	(635)
<b>Total Nonoperating Revenues (Expense)</b>	<b>(430,569)</b>	<b>(343,485)</b>
Net Income	-	-
Net Assets	\$ -	\$ -

## OPERATING REVENUES:

Total gross lottery ticket sales for the fiscal year 2010 were approximately \$1.421 billion as compared to \$1.293 billion in fiscal year 2009. This represents an increase of over \$128.2 million.

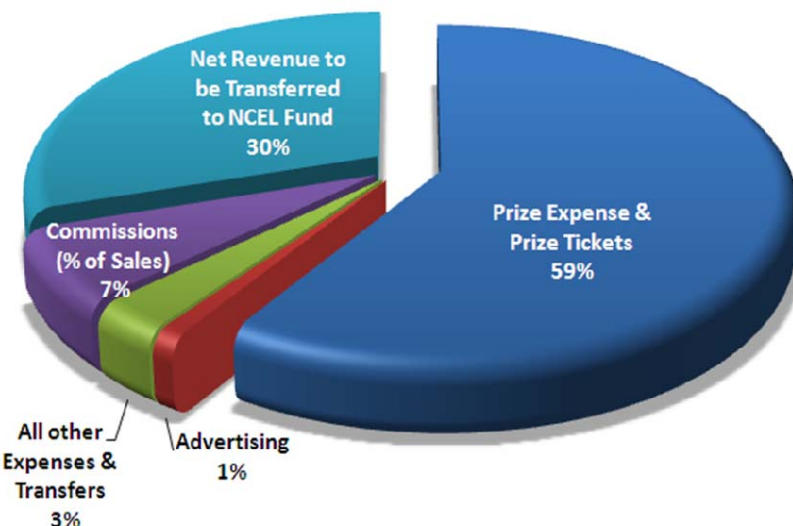
On some of our instant games players can scratch off a ticket and win another ticket of the same value. Those "free" tickets are referred to as prize tickets and their value is deducted from total sales.

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.

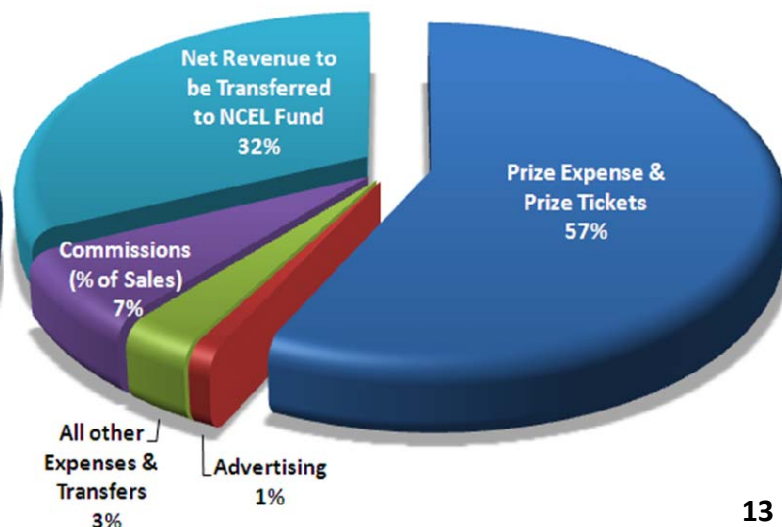
## OPERATING EXPENSES:

The following chart shows the major components of NCEL operating expenses and transfers as a percentage of total revenues for the June 30, 2010 and 2009 fiscal years:

ALLOCATION OF EXPENSES FY 2010



ALLOCATION OF EXPENSES FY 2009

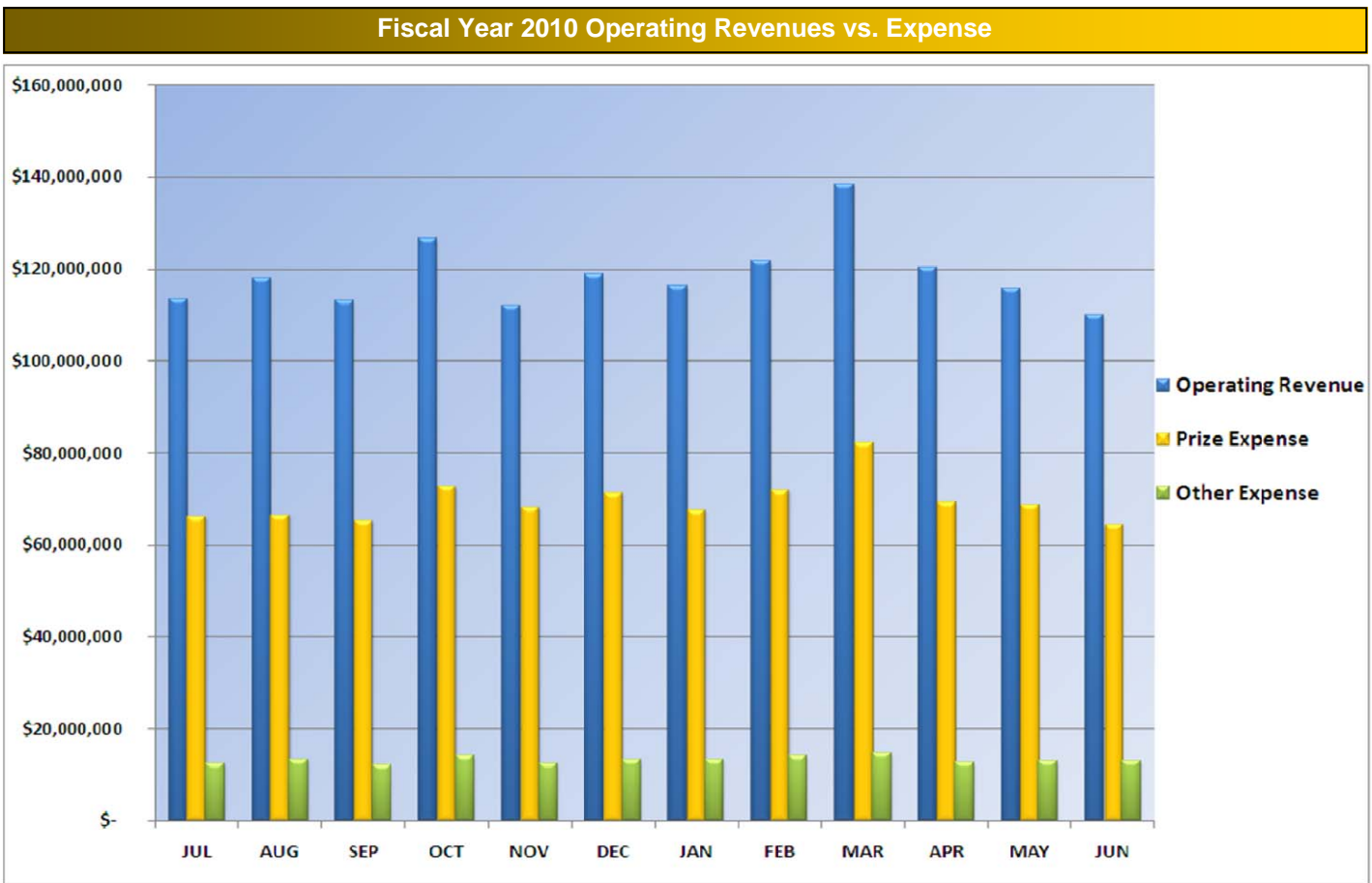


## STATEMENT OF ACTIVITIES CONTINUED:

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 2010, prizes, commissions and gaming vendor charges increased to \$957 million from \$843million in 2009. 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 2010 and 2009 administrative expenses were \$37 million and \$34 million respectively.

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



### NONOPERATING REVENUE AND EXPENSE:

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 Lottery Fund.

Readers wanting more detailed financial information on any of the lottery's financial activities and results should refer to the NCEL's FY 2010 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at: <http://www.nc-educationlottery.org/about.aspx>



# CONTACT INFORMATION

Any request for information about this report should be sent to the Public Information Officer at the North Carolina Education Lottery, 2100 Yonkers Road, Raleigh, North Carolina 27604.

For more information please see our website at <http://www.nc-educationlottery.org>

The screenshot shows the North Carolina Education Lottery website interface. At the top, there is a navigation menu with links for Home, About Us, Contact, News, Events, Winners, Winning Numbers, Top Prizes Remaining, Video Center, Vendors, and Employment. Below this is a secondary menu with links for Where The Money Goes, Games, How To Claim, FAQs, and Retailer Information. The main content area features a large banner for a \$750,000 Top Prize Winner, John Bowlin of Lincolnton, who won the Jumbo Bucks game. To the left of this banner are sections for 'Latest Results' and 'Latest News'. The 'Latest Results' section displays winning numbers for several games: Carolina Pick 3 (684), Carolina Pick 4 (212), Carolina Pick 5 (6854), Carolina Cash 5 (2462134), and Mega Millions (1173850524 x2). The 'Latest News' section reports that the Mega Millions jackpot reaches \$200 million. Below these sections are video thumbnails for 'Watch the Latest Video Drawings' and 'Nearly \$1.66 Billion Raised For Education!'. On the right side of the website, there are several vertical promotional banners, including 'Find a retailer near you RETAILER LOCATOR!', 'Receive Email/SMS LOTTERY UPDATES!', 'Watch the Latest VIDEO DRAWINGS', 'PLAY RESPONSIBLY', 'Caution! LOTTERY SCAMS', 'ENTER HERE', 'HARLEY-DAVIDSON SECOND CHANCE DRAWING SITE', and 'WORLD SERIES POKER SECOND CHANCE ENTRY SITE'. At the bottom of the website, there is a footer with links for Legal Disclaimer, Privacy Policy, NC OpenBook, Code of Ethics, and Site Requirements, along with social media icons for Winning Numbers, Follow Us, and Find Us.

Also, follow us on facebook and twitter



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, 2009. 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.

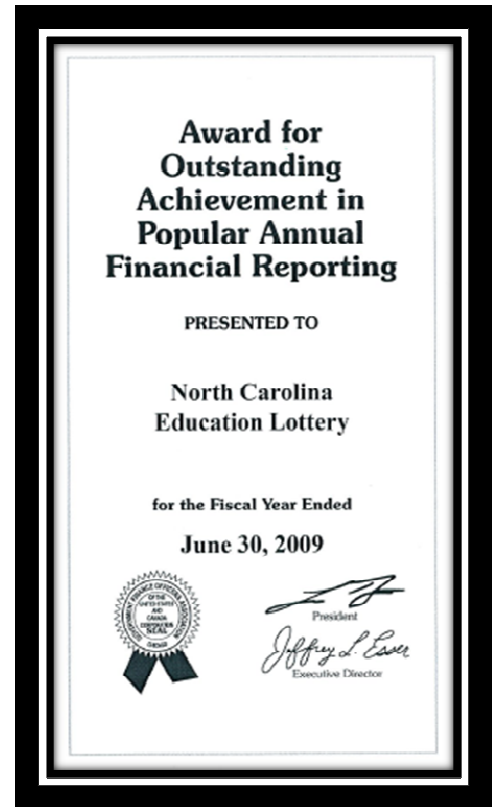
In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.



2100 Yonkers Road, Raleigh NC 27604

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**NCEL FINANCIAL AND RETAIL ACCOUNTING STAFF**