



# NORTH CAROLINA EDUCATION LOTTERY

POPULAR ANNUAL FINANCIAL REPORT  
FISCAL YEAR 2012



# ABOUT THE POPULAR ANNUAL FINANCIAL

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, 2012. 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 2012 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

Often, when I am speaking to a Kiwanis or Rotary Club about the Education Lottery, I will look over the crowd and ask this question: Would you like to invest in a company that gives you a return of 29 percent?

Heads start nodding in the crowd. And then I see looks of surprise when I say that's the return the Education Lottery makes for North Carolina. For every dollar spent on the lottery last year, we earned a profit of 29 cents. That profit went to a great cause – education.

Still, you won't see the Education Lottery on any media's list of top North Carolina companies. I guess it's hard to classify us. Are we a business? Or are we a state agency?

Yes. We're a North Carolina institution. But we're a state agency that does the best it can to work every day like a business. Our business, our mission, is sales. Our job is to maximize the sales of lottery tickets to raise money for education.

If you were to rank the lottery by its sales, it would weigh in at almost \$1.59 billion. That's similar in size to Snyder's-Lance of Charlotte.

Snyder's-Lance makes great snacks. Customers buy their products for the good taste. Our product is prizes. Customers buy our products to win prizes. In our last fiscal year, we paid out \$961 million in prizes. On average, that's about \$2.6 million a day.

One way we maximize our return for education is keeping a lean organization. We have a workforce of about 237 employees. Think about that a minute. \$1.59 billion in sales. Only 237 employees.

Last year, we spent about 4 percent of our revenue on administrative costs, including the costs of our gaming system, our advertising and marketing and our salaries, benefits and operations of our six offices.

Our sales folks work with more than 6,700 retail partners. That's how many places in North Carolina where you can buy a lottery ticket. Some of our best partners are convenience stores, but you also find lottery tickets now at your local Food Lion, Harris Teeter, Rite-Aid, and even BJ Wholesale Clubs.

Retailers earn a commission of seven cents for every \$1 they collect in ticket sales. Last year, sales commissions added up to \$111.6 million. That's a good piece of North Carolina's retail economy. We've built the lottery during one of the toughest economic times in recent state history and have increased our sales and commissions every year. Retailers can count on the lottery to bring customers into their stores.

During those tough economic times, we've also increased our return for education every year. Last year, we transferred \$457 million to the state.

When folks feel lucky and have an extra dollar or two, we hope they will give the lottery a try. We work hard to make our games fun and entertaining and to keep them honest and fair. We hope people only play for fun. And while everyone doesn't play the lottery, everyone does get to share in the benefits it provides to education and our state.

Alice Garland



A plan to use lottery dollars to help plan, build and pay for the new Greene County Intermediate

# Lottery dollars support key education programs

A report by the Fiscal Research Division of the N.C. General Assembly provides a breakdown on the use of lottery dollars between July 1, 2011 and June 30, 2012 and shows how the money flowed to every county in the state.



## \$220,643,188

for **TEACHERS' SALARIES IN GRADES K-3**

The lottery provides funds to every county in the state to help pay the salaries of teachers in grades K-3 with the goal of keeping class sizes as low as possible in these grades.



## \$108,102,356

for **SCHOOL CONSTRUCTION PROJECTS**

Money raised by the lottery for school construction meet needs that otherwise would have to be paid for with local property taxes. Counties decide how to spend the money.



## \$63,135,708

for **THE N.C. PREKINDERGARTEN PROGRAM**

The N.C. Pre-K Program serves four-year-olds at risk of falling behind their peers. Students are placed in an academic preschool program to prepare them for kindergarten.



## \$32,852,215

for **NEED-BASED COLLEGE SCHOLARSHIPS**

Lottery Scholarships go to students who qualify for federal Pell Grants. The scholarships are used for tuition, fees, room and board, books and supplies.



## \$10,744,733

for **UNC NEED-BASED FINANCIAL AID**

Lottery funds supply grants to students attending UNC system schools. The grants are based on financial need.

COUNTY	FY12	CUMULATIVE
Alamance	\$6,759,097	\$33,393,151
Alexander	\$1,627,824	\$8,374,921
Alleghany	\$480,081	\$2,877,078
Anson	\$1,247,702	\$7,576,708
Ashe	\$1,150,148	\$6,605,450
Avery	\$736,924	\$4,326,688
Beaufort	\$2,189,022	\$11,291,030
Bertie	\$1,006,569	\$6,134,157
Bladen	\$1,731,583	\$11,040,799
Brunswick	\$3,881,604	\$19,926,823
Buncombe	\$8,216,222	\$40,507,351
Burke	\$4,138,027	\$24,171,276
Cabarrus	\$9,682,386	\$49,797,716
Caldwell	\$3,498,494	\$17,836,890
Camden	\$545,728	\$2,963,503
Carteret	\$2,477,318	\$12,567,235
Caswell	\$794,157	\$4,978,796
Catawba	\$7,057,442	\$35,332,541
Chatham	\$2,572,345	\$13,748,074
Cherokee	\$1,077,430	\$5,978,883
Chowan	\$743,122	\$3,889,097
Clay	\$459,955	\$2,380,972
Cleveland	\$4,973,873	\$29,604,507
Columbus	\$2,924,474	\$18,360,133
Craven	\$4,440,872	\$21,291,321
Cumberland	\$17,519,989	\$97,981,647
Currituck	\$1,009,449	\$5,108,781
Dare	\$1,473,310	\$7,306,802
Davidson	\$7,348,634	\$37,174,278
Davie	\$2,054,080	\$11,184,723
Duplin	\$2,861,466	\$15,435,935
Durham	\$9,620,048	\$50,624,054
Edgecombe	\$2,650,506	\$15,495,232
Forsyth	\$15,592,425	\$80,516,691
Franklin	\$2,455,713	\$12,477,053
Gaston	\$9,821,105	\$55,231,664
Gates	\$501,177	\$3,115,212
Graham	\$412,319	\$2,257,574
Granville	\$2,372,309	\$13,347,665
Greene	\$986,640	\$6,018,231
Guilford	\$23,491,616	\$127,656,715
Halifax	\$2,580,242	\$14,761,330
Harnett	\$5,506,121	\$28,752,889
Haywood	\$2,264,075	\$11,266,051
Henderson	\$3,836,252	\$18,963,535
Hertford	\$1,150,914	\$6,756,461
Hoke	\$2,999,854	\$15,852,309
Hyde	\$213,817	\$1,178,319
Iredell	\$7,489,588	\$36,444,593
Jackson	\$1,062,209	\$6,003,521

COUNTY	FY12	CUMULATIVE
Johnston	\$9,090,444	\$47,469,969
Jones	\$439,599	\$2,932,416
Lee	\$3,230,793	\$17,364,269
Lenoir	\$2,875,399	\$16,274,139
Lincoln	\$3,250,116	\$17,118,256
Macon	\$1,392,037	\$7,560,011
Madison	\$777,817	\$3,972,642
Martin	\$1,141,554	\$6,586,634
McDowell	\$1,855,957	\$9,952,278
Mecklenburg	\$40,726,276	\$210,900,664
Mitchell	\$595,074	\$3,289,536
Montgomery	\$1,383,387	\$8,581,236
Moore	\$3,251,170	\$15,196,753
Nash	\$4,826,222	\$26,434,181
New Hanover	\$7,998,663	\$41,299,512
Northampton	\$894,419	\$5,694,767
Onslow	\$7,786,318	\$37,574,340
Orange	\$5,200,736	\$27,472,006
Pamlico	\$480,698	\$2,694,855
Pasquotank	\$1,826,881	\$9,410,604
Pender	\$2,393,173	\$12,150,384
Perquimans	\$533,588	\$3,009,970
Person	\$1,557,544	\$9,118,329
Pitt	\$7,517,099	\$39,824,061
Polk	\$740,501	\$4,502,367
Randolph	\$6,402,193	\$32,528,023
Richmond	\$2,406,283	\$14,323,317
Robeson	\$7,997,634	\$46,941,022
Rockingham	\$3,929,139	\$22,437,023
Rowan	\$5,965,100	\$32,523,844
Rutherford	\$2,894,266	\$16,354,252
Sampson	\$3,625,569	\$20,604,639
Scotland	\$2,166,464	\$12,984,811
Stanly	\$3,081,722	\$17,523,790
Stokes	\$2,095,997	\$12,529,083
Surry	\$3,355,014	\$19,382,025
Swain	\$653,537	\$3,573,639
Transylvania	\$976,172	\$5,229,941
Tyrrell	\$192,365	\$1,087,401
Union	\$10,842,250	\$55,332,105
Vance	\$2,090,566	\$12,087,141
Wake	\$40,809,915	\$189,435,291
Warren	\$824,541	\$4,494,632
Washington	\$575,506	\$3,912,735
Watauga	\$1,417,310	\$7,525,161
Wayne	\$6,332,860	\$36,250,116
Wilkes	\$3,402,099	\$19,698,180
Wilson	\$3,527,417	\$19,349,432
Yadkin	\$1,762,746	\$10,284,453
Yancey	\$667,428	\$3,674,774



PHOTO COURTESY OF MOSELEY ARCHITECTS

... School helped open the first new county school in 21 years.







## SALES:

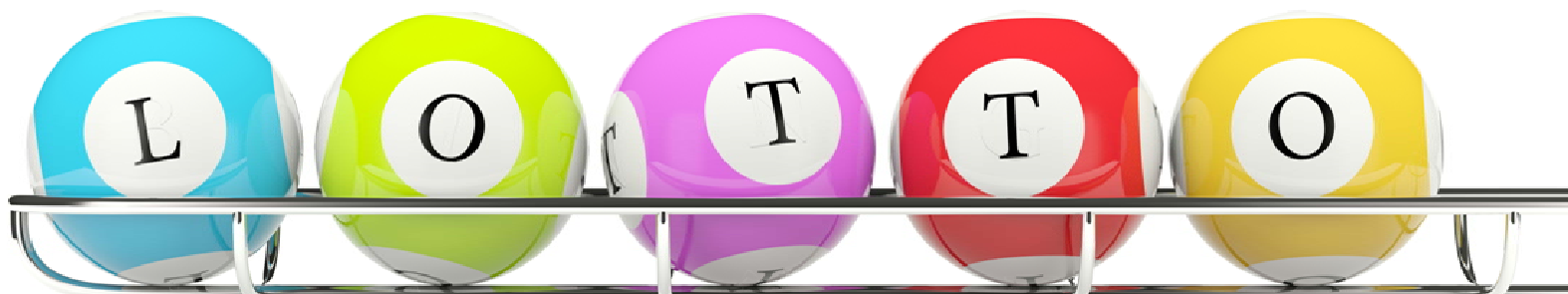
Gross instant ticket sales were \$960 million for fiscal year 2012 compared with \$862 million for fiscal year 2011 and \$856 million in fiscal year 2010, an increase of \$98 million from fiscal year 2011 and \$104 million from fiscal year 2010. The increase realized during fiscal year 2012 is attributable to several factors. The NCEL continued with its second \$20 instant scratch-off mega game, \$200,000 a Year for Life, with a prize payout of 75%, which generated over \$62 million in sales during fiscal year 2012. In addition the NCEL launched its third \$20 instant scratch-off mega game, \$4 Million Cash Blowout, which generated over \$66 million in sales. The NCEL also launched its "Taxes Paid" family of tickets, with games available at three price points from \$5 and below, which combined generated sales of over \$28 million.

The NCEL released several very successful licensed games during the year. The NASCAR Ultimate Fan Instant Scratch-Off was introduced and provided players the chance to win a grand prize trip package, including VIP access to a race of their choice. The NCEL launched its Wheel of Fortune Instant Scratch-Off licensed game, which awarded players the opportunity to travel to Hollywood and play in an un-televised version of the popular game show. In addition, other licensed instant games were released such as "The Three Stooges" and "Bass Pro Shop \$25,000 Cash Adventure" which also proved to be very popular.

On-line sales were \$637 million for fiscal year 2012 compared to \$599 million for fiscal year 2011 and \$566 for fiscal year 2010, representing a \$38 million increase from fiscal year 2011 and a \$71 million increase from fiscal year 2010. On-line sales benefited from high jackpots in the multi state games Mega Millions and Powerball. The Mega Millions jackpot reached a record \$640 million, with total sales of \$85.6 million, compared to \$72.6 million during fiscal year 2011. The Powerball jackpot reached over \$200 million five times during the fiscal year, which helped increase Powerball sales to \$153 million, from \$138 million the previous year. The Carolina Cash 5 top prize exceeded half a million dollars seven times during the fiscal year, resulting in increased on-line sales. The additional daily Carolina Pick 4 draw was in place for the entire fiscal year, resulting in an increase of \$26 million from the previous fiscal year.

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

SALES BY REGION FY 2012							
Region	 Instant	 Powerball	 Mega Millions	 Cash 5	 Pick 4	 Pick 3	TOTAL
Ashville	\$ 76,325,205	\$ 11,461,256	\$ 6,518,930	\$ 4,090,396	\$ 1,493,400	\$ 3,656,876	\$ 103,546,063
Greensboro	147,117,901	23,686,872	13,783,525	9,441,808	11,824,200	27,590,291	\$ 233,444,597
Charlotte	251,205,095	46,004,553	23,855,843	14,425,407	13,850,177	33,438,106	\$ 382,779,181
Raleigh	360,232,270	56,718,522	32,173,998	22,662,976	42,129,813	121,558,363	\$ 635,475,942
Greenville	125,074,860	16,050,691	9,231,761	7,351,318	22,230,608	61,508,008	\$ 241,447,246
<b>Total</b>	<b>\$ 959,955,331</b>	<b>\$ 153,921,894</b>	<b>\$ 85,564,057</b>	<b>\$ 57,971,905</b>	<b>\$ 91,528,197</b>	<b>\$ 247,751,644</b>	<b>\$ 1,596,693,028</b>
<b>% of Sales</b>	<b>60.1%</b>	<b>9.7%</b>	<b>5.4%</b>	<b>3.6%</b>	<b>5.7%</b>	<b>15.5%</b>	<b>100.0%</b>



# 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 2012	FY 2011
<b>ASSETS</b>		
Total current assets	\$ 48,484	\$ 30,345
Noncurrent assets	47,337	36,586
<b>Total Assets</b>	<b>95,821</b>	<b>66,931</b>
<b>LIABILITIES</b>		
Total current liabilities	49,338	30,217
Noncurrent Liabilities	46,483	36,714
<b>Total Liabilities</b>	<b>95,821</b>	<b>66,931</b>
<b>NET ASSETS</b>		
Invested in capital assets	672	819
Unrestricted net assets	(672)	(819)
<b>Total Net Assets</b>	<b>\$ -</b>	<b>\$ -</b>

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 fixed 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, 2012 but will be transferred during fiscal year 2013.)

\*Readers wanting more detailed financial information should refer to the NCEL's FY 2012 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at: <http://www.nc-educationlottery.org/about.aspx>

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, 2012 (in thousands)

Category	Balance July 1, 2011	Increase	Decrease	Balance June 30, 2012
Capital assets, depreciable				
Furniture	\$ 29	\$ -	\$ -	\$ 29
Equipment	2,804	310	(38)	3,076
Motorized equipment	67	-	-	67
<b>Total capital assets, depreciable</b>	<b>2,900</b>	<b>310</b>	<b>(38)</b>	<b>3,172</b>
Less accumulated depreciation for				
Furniture	27	2	-	29
Equipment	1,991	450	(38)	2,403
Motorized equipment	63	5	-	68
<b>Total accumulated depreciation</b>	<b>2,081</b>	<b>457</b>	<b>(38)</b>	<b>2,500</b>
<b>Total capital assets, depreciable net</b>	<b>819</b>	<b>(147)</b>	<b>-</b>	<b>672</b>
Capital assets, net	\$ 819	\$ (147)	\$ -	\$ 672

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 2012	FY 2011
<b>Operating Revenues:</b>		
Gross Sales:	\$ 1,596,693	\$ 1,461,106
Less: Prize Tickets and Bad Debt	(236)	(1,527)
Fees and Licenses	5,381	5,061
<b>Total Operating Revenues</b>	<b>1,601,838</b>	<b>1,464,640</b>
<b>Operating Expenses:</b>		
Salaries, Wages, and Benefits	16,639	15,824
Lottery Prizes	961,556	862,996
Retailer Commissions	111,624	102,127
Retailer Incentive	609	592
Gaming Systems Services	26,031	23,482
Advertising	14,696	13,760
Marketing	2,512	2,358
Other Services	4,634	3,427
Furniture, Fixtures, and Equipment	762	933
Depreciation	457	624
Other General and Administrative Expenses	2,391	2,387
<b>Total Operating Expenses</b>	<b>1,141,911</b>	<b>1,028,510</b>
<b>Operating Income</b>	<b>459,927</b>	<b>436,130</b>
<b>Nonoperating Revenues (Expenses):</b>		
Investment Earnings and		
Other Miscellaneous Revenue (Expense)	523	1,175
Compulsive Gambling Contribution	(1,000)	(1,000)
Interest and Unclaimed Prizes to Fed Medicaid Program	-	(9,370)
Unclaimed Prizes to NC Education Lottery Fund	(11,083)	(8,623)
Net Revenues to the State of NC	(448,386)	(418,248)
Miscellaneous Nonoperating Expenses	19	(64)
<b>Total Nonoperating Revenues (Expense)</b>	<b>(459,927)</b>	<b>(430,569)</b>
Net Income	-	-
Net Assets	\$ -	\$ -

## OPERATING REVENUES:

Total gross lottery ticket sales for the fiscal year 2012 were approximately \$1.597 billion as compared to \$1.461 billion in fiscal year 2011. This represents an increase of almost \$136 million.

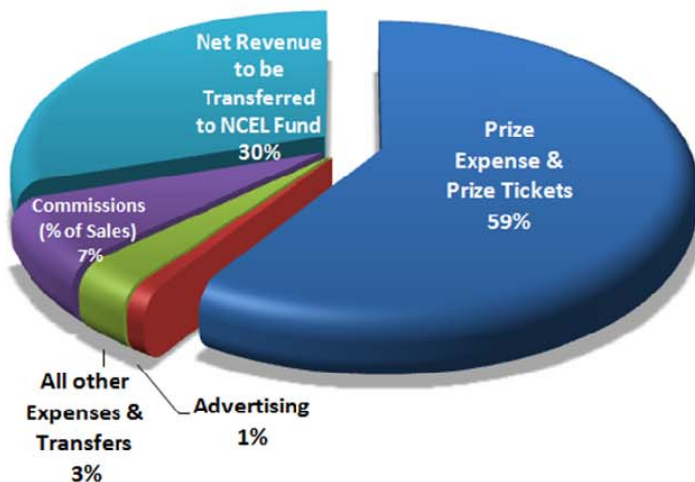
On some of our instant games players can scratch off a ticket and win another ticket of the same value. Those "free" tickets are referred to as prize tickets and their value is deducted from total sales.

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

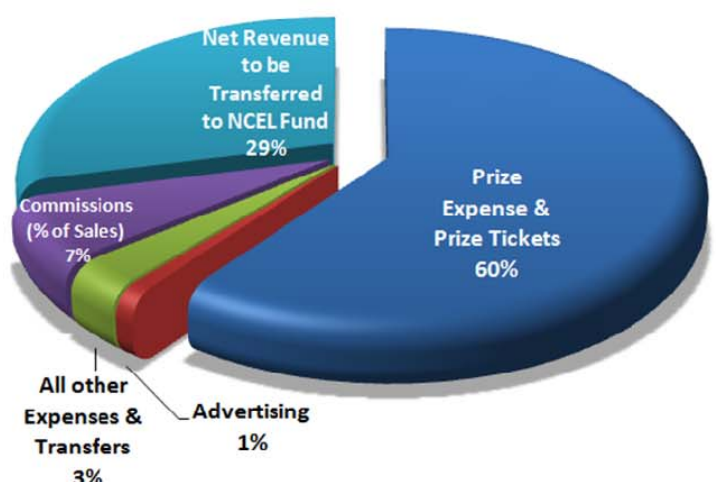
## OPERATING EXPENSES:

The following chart shows the major components of NCEL operating expenses and transfers as a percentage of total revenues for the June 30, 2012 and 2011 fiscal years:

ALLOCATION OF EXPENSES FY 2011



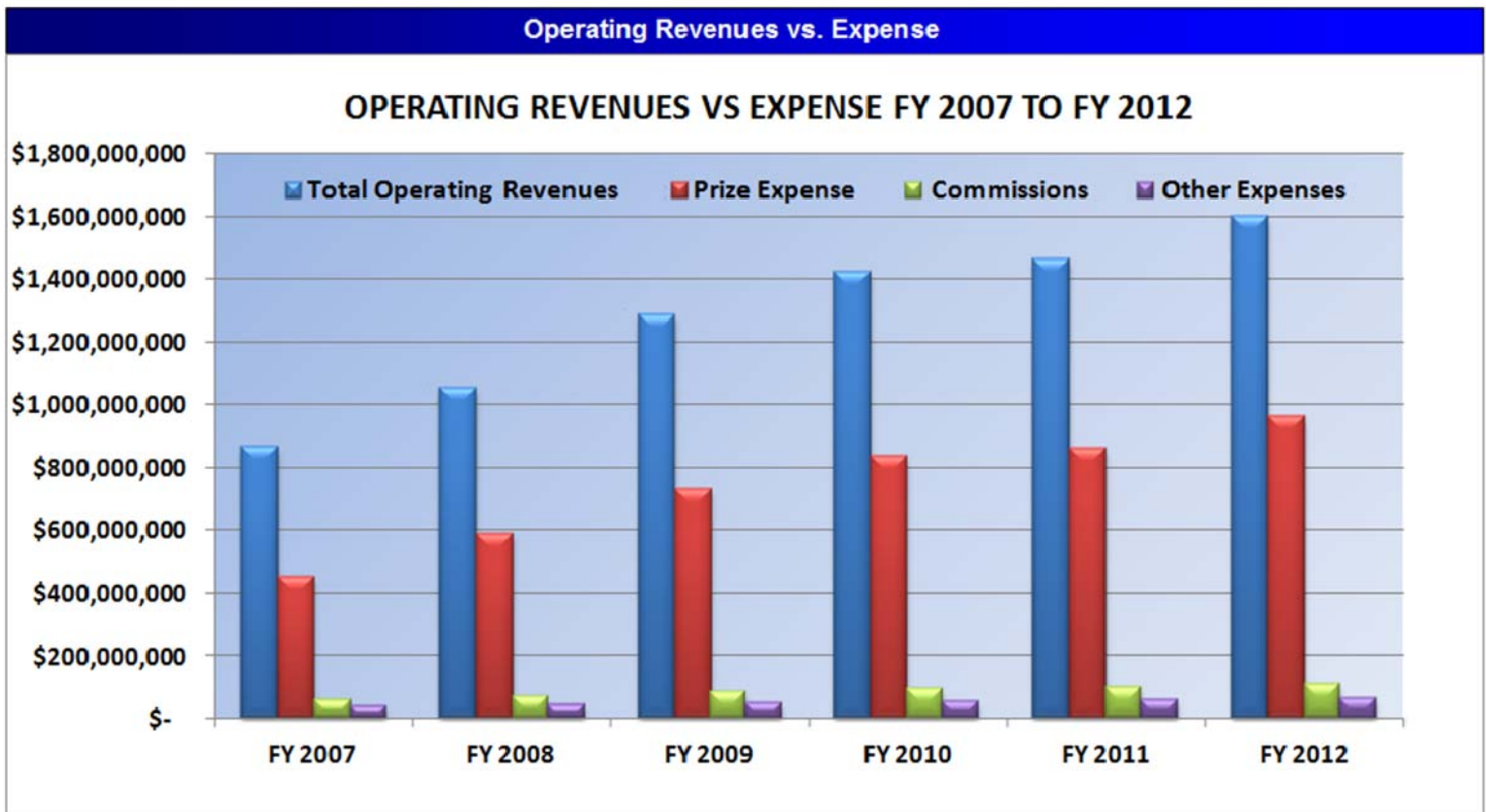
ALLOCATION OF EXPENSES FY 2012



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 2012, prizes, commissions and gaming vendor charges increased to \$1,099 million from \$988 million in 2011. 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 2012 and 2011 administrative expenses were \$43 million and \$39 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 2011 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at: <http://www.nc-educationlottery.org/about.aspx>



2100 Yonkers Road  
Raleigh, NC 27604



## 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, 2011. 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.

