



NC Education  
**Lottery**<sup>™</sup>

# Popular Annual Financial Report

## Fiscal Year Ended June 30, 2017



### 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, 2017. This report provided an overview of the NCEL's financial condition and a brief analysis of where the money comes from and where the dollars are spent.

Most of the information in this report is drawn from the financial information appearing on the NCEL's FY2017 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 to the GAAP. The CAFR, PAFR, and the NCEL's Annual Report are available for viewing on the NCEL's website at [https://www.nclottery.com/CorporateSocialResponsibility\\_Integrity](https://www.nclottery.com/CorporateSocialResponsibility_Integrity)

# NC Education Lottery

The Education Lottery transfers its net assets on a monthly basis to the Office of State Budget and Management to the NC State Lottery Fund. The monies were distributed in fiscal year 2017 as outlined in the budget approved by the General Assembly.

The General Assembly made the following allocation of lottery dollars in its fiscal year 2017 budget to education programs:

- \$372.3 million to non-instructional support personnel
- \$100 million for the Public School Building Capital Fund which provides monies to North Carolina counties to build and repair schools
- \$78.3 million, to the N.C. Pre-K program to fund seats in the pre-kindergarten program for at-risk four-year-olds
- \$30.4 million, for N.C. Education Lottery Scholarships which are awarded based on financial need to students attending a state university or community college
- \$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

For the 11th year in a row, the N.C. Education Lottery finished its fiscal year by setting a new record for lottery ticket sales, recording \$2.43 billion in sales in fiscal year 2017. From those sales, the Education Lottery raised \$622.5 million for education programs in North Carolina.

The year marked two other significant milestones. In March 2017, the lottery completed a conversion to a new operating system for sales and games, upgrading to the newest technology in the lottery industry. The conversion completed a year-long effort by the lottery and its gaming vendors to install a new operating system and instant ticket services.

In May, the lottery rebranded with a new look and logo. The lottery's new logo kept the familiar mountains to the sea scene, graced with a shooting star, but evolved into a dreamy look with its first tagline, "Dream a little." The new brand captures the essence of the lottery being in the business of possibilities, offering joy and thrill to winners of prizes and raising money for education that helps to fulfill the dreams of students and educators.

Instant tickets, or scratch-offs, continued to be the lottery's most popular product, generating \$1.69 billion in sales, or 69.6 percent of revenue. The lottery launched 53 new instant games during the year, including its second \$30 game, Extreme Millions, which offered four \$10 million prizes, 22 \$1 million prizes, and four additional \$1 million prizes that could be won in second-chance drawings.

Lottery players were awarded \$1.54 billion in prize money. During the year, prizes of \$1 million or more were won 59 times, including one prize of \$10 million; two \$1,000 a Day for Life top prizes in the Lucky For Life game that were worth at least \$7.2 million; and a record Carolina Cash 5 jackpot of \$1.7 million. 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.

The lottery ended the year with 6,863 retail locations across North Carolina. Retailers earned \$170.5 million in sales commissions and incentives.

As the lottery completed FY17, total sales since the inception of the lottery stood at \$18.28 billion and the amount of money raised for education at \$5.23 billion.

To get a sense of the lottery's popularity, consider what happens every day across the state. Last year, the lottery averaged \$6.6 million a day in lottery ticket sales, \$4.2 million in prizes, and \$1.7 million a day raised for education. More than 830,000 North Carolinians have joined the lottery's Player's Club, a loyalty program where they can get lottery news, ask questions about lottery games, and enter second-chance drawings and other promotions.

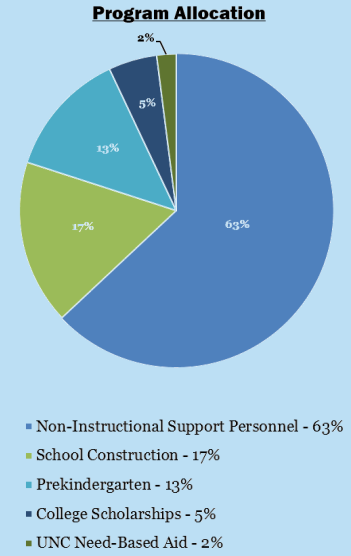
The lottery again received "a clean opinion" from independent auditors in its annual financial audit and has met that standard, the highest available, in all of its annual financial audits. The lottery also continued to be a leader in the U.S. lottery industry on responsible gaming. Alice Garland, the executive director of the lottery became the first lottery or gaming industry professional to receive from the National Council on Problem Gambling its Don Hulen Award for Advocacy. The award recognized Garland's leadership in expanding responsible gaming efforts across the United States.

The State Lottery Act directs the lottery to increase and maximize the available revenues for education purposes. In FY17, a breakdown of lottery revenues showed 63.4 percent went to prizes, 25.6 percent for education programs that the lottery serves, 7 percent in retailer commissions. The remaining 4 percent of revenues went to administrative expenses.

Lottery's revenues exceeded projections and unallocated funds were placed in reserve funds. The General Assembly also directed that \$2.1 million in earnings go to the N.C. Alcohol Law Enforcement and \$1 million to the N.C. Problem Gambling Program.

# Education Programs Receiving Lottery Dollars

County	FY17	Cumulative	County	FY17	Cumulative
Alamance County	8,959,149	73,309,429	Johnston County	12,421,498	101,207,697
Alexander County	1,956,875	17,312,367	Jones County	583,545	5,683,107
Alleghany County	679,115	5,825,994	Lee County	4,245,849	36,154,545
Anson County	1,561,944	14,737,507	Lenoir County	3,612,354	32,759,577
Ashe County	1,450,597	13,283,412	Lincoln County	4,339,681	36,340,447
Avery County	941,011	8,597,107	Macon County	1,735,049	15,592,010
Beaufort County	2,779,156	23,577,066	Madison County	946,598	8,212,648
Bertie County	1,023,164	11,504,360	Martin County	1,357,948	13,024,291
Bladen County	2,106,162	20,741,806	McDowell County	2,524,594	21,200,257
Brunswick County	5,148,781	42,917,516	Mecklenburg County	54,941,116	456,561,173
Buncombe County	10,940,844	90,114,893	Mitchell County	715,765	6,508,857
Burke County	5,274,882	47,829,238	Montgomery County	1,870,782	16,789,398
Cabarrus County	13,421,424	107,535,231	Moore County	4,404,761	34,592,289
Caldwell County	4,513,045	37,513,850	Nash-Rocky Mount	5,867,072	52,972,882
Camden County	728,776	6,160,446	New Hanover County	10,855,870	90,301,826
Carteret County	3,393,246	27,678,350	Northampton County	942,301	10,323,109
Caswell County	1,083,408	9,692,828	Onslow County	11,170,238	88,534,061
Catawba County	9,093,701	76,096,167	Orange County	7,260,127	59,847,300
Chatham County	3,478,272	28,961,560	Pamlico County	568,140	5,260,388
Cherokee County	1,483,344	12,470,464	Pasquotank County	2,282,697	19,855,668
Chowan County	858,225	7,864,782	Pender County	3,628,883	27,703,121
Clay County	562,876	4,945,168	Perquimans County	673,392	6,137,639
Cleveland County	6,184,588	57,397,127	Person County	1,927,463	17,792,798
Columbus County	3,703,444	34,870,802	Pitt County	9,774,307	84,386,968
Craven County	5,488,163	46,658,000	Polk County	957,515	8,800,152
Cumberland County	21,620,272	196,263,201	Randolph County	8,402,288	69,571,013
Currituck County	1,444,405	11,343,161	Richmond County	3,109,419	28,173,805
Dare County	1,965,064	16,069,411	Robeson County	9,986,706	93,279,459
Davidson County	9,250,713	78,193,520	Rockingham County	4,950,643	44,723,602
Davie County	2,588,628	22,759,568	Rowan-Salisbury	7,447,146	65,863,742
Duplin County	3,892,605	32,976,251	Rutherford County	3,610,257	32,651,196
Durham County	12,618,971	108,087,472	Sampson County	4,657,524	41,688,383
Edgecombe County	3,005,020	29,592,560	Scotland County	2,723,866	25,289,856
Forsyth County	20,279,994	170,168,001	Stanly County	3,818,308	34,686,972
Franklin County	3,219,813	26,792,490	Stokes County	2,622,015	24,228,218
Gaston County	13,212,845	113,569,983	Surry County	4,370,729	38,962,744
Gates County	637,688	5,972,155	Swain County	889,903	7,652,893
Graham County	537,617	4,674,144	Transylvania County	1,351,941	11,077,869
Granville County	2,960,481	26,760,819	Tyrrell County	242,170	2,183,186
Greene County	1,281,592	11,698,731	Union County	15,377,410	120,551,797
Guilford County	30,858,222	266,386,819	Vance County	2,547,029	23,849,746
Halifax County	2,863,796	28,552,956	Wake County	57,148,834	438,216,374
Harnett County	7,698,303	62,146,533	Warren County	1,003,358	9,107,624
Haywood County	2,829,786	24,221,797	Washington County	738,833	7,357,569
Henderson County	5,207,722	41,905,808	Watauga County	1,851,044	16,065,776
Hertford County	1,387,358	13,304,050	Wayne County	7,905,297	72,076,760
Hoke County	3,771,751	32,998,606	Wilkes County	4,415,496	39,654,687
Hyde County	290,640	2,452,507	Wilson County	4,516,794	39,843,318
Iredell County	9,896,470	79,398,403	Yadkin County	2,231,919	20,214,660
Jackson County	1,400,283	12,178,738	Yancey County	838,474	7,438,820





# Sales

## Gross lottery ticket sales

The gross lottery ticket sales for fiscal year 2017 totaled \$2.428 billion as compared to \$2.384 billion for fiscal year 2016 and \$1.972 billion for fiscal year 2015. This depicts an increase of \$44 million from 2016 and \$412 million from 2015.



## Instant Ticket Sales

Gross instant ticket sales were \$1.695 billion for fiscal year 2017 compared with \$1.617 billion for fiscal year 2016 and \$1.294 billion for fiscal year 2015, an increase of approximately \$78 million from fiscal year 2016 and approximately \$401 million from fiscal year 2015. The increase realized during fiscal year 2017 is attributable to several factors. In July, the “Bonus” family of games launched and combined for a total of \$121 million in sales during fiscal year 2017. Just in time for football season in August, the first “Carolina Panthers” scratch-off game debuted and was such a hot seller, with total sales of \$22 million, that the game merited a reorder. In September, the “Platinum Payout” family of games launched and combined for a total of \$108 million in sales during fiscal year 2017. The NCEL’s first \$30 scratch-off, “Ultimate Millions,” which launched in fiscal year 2016 continued to deliver, with a sales total of \$178 million. In December, the second \$30 scratch-off, “Extreme Millions,” launched and totaled sales of \$157 million. The NCEL saw continued strong performance of games featuring “Back Scratch,” an additional play area on the back of the ticket, with the December launch of the \$5 scratch-off “Mega Fortune”— totaling sales of \$28 million during the fiscal year. In February, another family of the popular multiplier scratch-off games was introduced with the launch of “5X The Cash!,” “10X The Cash!,” “20X The Cash!,” and “50X The Cash!” combining for sales of \$104 million in the final two quarters of fiscal year 2017. In April, the “Taxes Paid” family of games launched and combined for a total of \$54 million in the final quarter. Additionally, scratch-off games achieved robust growth at the following price points: \$1, \$5, and \$30.

## Draw Game Sales

Draw game sales were \$732 million for fiscal year 2017 compared to \$766 million for fiscal year 2016 and \$678 million for fiscal year 2015, representing a \$34 million decrease over fiscal year 2016 and a \$54 million increase over fiscal year 2015. In fiscal year 2016, draw game sales benefitted from a record-setting \$1.5 billion jackpot in the multi-state game Powerball. The largest Powerball jackpot in fiscal year 2017 was \$478 million during July. Powerball had sales of \$146 million compared to \$207 million the previous year, a decrease of nearly \$61 million. Mega Millions, the NCEL’s other multi-state game, reached a top jackpot amount for fiscal year 2016 of \$540 million during July, after reaching a top jackpot of \$390 million in fiscal year 2015. This resulted in sales of \$53 million during fiscal year 2017, a decrease of nearly \$4 million from sales of \$57 million in fiscal year 2016.



Game	FY 2017	FY 2016	FY 2015
Instant Tickets	1,695,232,342	1,617,456,944	1,294,037,685
Powerball	148,510,627	208,736,913	130,058,625
Mega Millions	54,332,136	57,859,391	61,314,087
Pick 3	306,018,460	286,014,567	278,083,184
Pick 4	135,797,947	125,975,768	122,886,664
Cash 5*	68,275,475	62,010,371	64,928,960
All or Nothing	-	12,651,658	19,549,252
Lucky for Life	19,904,592	12,885,532	-
Monopoly MC	-	-	1,361,520
<b>Total Sales</b>	<b>2,428,071,579</b>	<b>2,383,591,144</b>	<b>1,972,219,976</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

Condensed Statement of Net Position (in thousands)			
	FY 2017	FY 2016	FY2015
<b>ASSETS</b>			
Total current assets	100,151	128,400	73,811
Non-current assets	65,402	58,678	57,373
Capital assets, Dep. (net)	2,068	1,546	1,833
<b>Total Assets</b>	<b>167,621</b>	<b>188,624</b>	<b>133,017</b>
Deferred Outflows	6,614	1,327	1,471
<b>LIABILITIES</b>			
Total current liabilities	96,461	124,272	70,200
Non-current liabilities	77,167	64,704	59,589
<b>Total Liabilities</b>	<b>173,628</b>	<b>188,976</b>	<b>129,789</b>
Deferred Inflows	607	975	4,699
<b>NET ASSETS</b>			
Invested in capital assets	2,068	1,546	1,833
Unrestricted net assets	(2,068)	(1,546)	(1,833)
<b>Total Net Assets</b>	<b>-</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 non-current or capital asset is an asset or property which cannot easily be converted into cash. The NCEL's non-current assets are mainly made up on 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 fund ("Due to Other Funds" represents the amount of net revenues for the fiscal year not yet transferred to the State as of June 30, 2017 but will be transferred during fiscal year 2018).

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

Activity for Capital Assets for Year Ended June 30, 2017 (in thousands)				
	Balance July 1, 2016	Increase	Decrease	Balance June 30, 2017
Capital assets, depreciable				
Furniture	46	20	-	66
Equipment	4,053	1,044	-	5,097
Motorized equipment	80	-	-	80
Computer software	1,010	-	-	1,010
<b>Total capital assets, depreciable</b>	<b>5,189</b>	<b>1,064</b>	<b>-</b>	<b>6,253</b>
Less accumulated depreciation for				
Furniture	40	3	-	43
Equipment	3,415	410	-	3,825
Motorized equipment	72	3	-	75
Computer software	116	126	-	242
<b>Total accumulated depreciation</b>	<b>3,643</b>	<b>542</b>	<b>-</b>	<b>4,185</b>
<b>Total capital asset, depreciable net</b>	<b>1,546</b>	<b>522</b>	<b>-</b>	<b>2,068</b>
Capital assets, net	1,546	522	-	2,068

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 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.

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.

Readers wanting more detailed financial information should refer to the NCEL's FY 2017 Comprehensive Annual Financial Report (CAFR) available on the North Carolina Education Lottery's website at : [https://www.ncлотtery.com/CorporateSocialResponsibility\\_Integrity](https://www.ncлотtery.com/CorporateSocialResponsibility_Integrity)

# 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 North Carolina Education Lottery. Information in this section should provide the reader with a general understanding of how the NCEL's resources are used.

## Operating Revenues

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

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

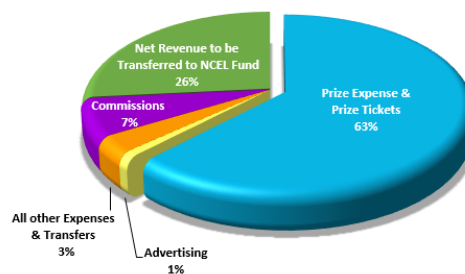
## Operating Expenses

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.

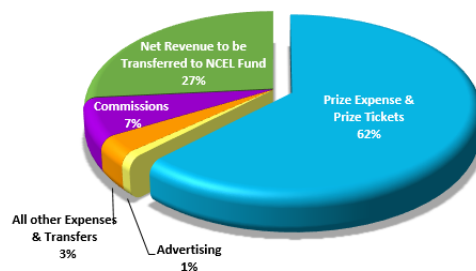
The following charts show the major components of the NCEL operating expense and transfers as a percentage of total revenues for the June 30, 2017, 2016, and 2015 fiscal years:

Statement of Activities (in thousands)			
	FY 2017	FY 2016	FY 2015
<b>Operating Revenues:</b>			
Gross Sales:	2,428,071	2,383,591	1,972,220
Less: Prize Tickets and Bad Debt	(536)	24	(5)
Fees and Licenses	5,308	5,361	5,271
<b>Total Operating Revenues</b>	<b>2,432,843</b>	<b>2,388,976</b>	<b>1,977,486</b>
<b>Operating Expenses:</b>			
Salaries, Wages, and Benefits	21,299	19,739	18,738
Lottery Prizes	1,543,158	1,491,031	1,231,238
Retailer Commissions	169,439	166,437	137,767
Retailer Incentive	1,020	1,154	976
Gaming Systems Services	40,326	40,640	28,678
Advertising	20,110	19,973	19,098
Marketing	4,129	3,981	4,183
Other Services	4,869	5,141	4,304
Furniture, Fixtures, and Equipment	774	1,494	983
Depreciation	542	671	568
Other General and Administrative Expenses	2,855	2,539	2,952
<b>Total Operating Expenses</b>	<b>1,808,521</b>	<b>1,752,800</b>	<b>1,449,485</b>
<b>Operating Income</b>	<b>624,322</b>	<b>636,176</b>	<b>528,001</b>
<b>Non-operating Revenues (Expenses):</b>			
Investment Earnings and Other Miscellaneous Revenue (Expense)	1,106	1,190	408
Compulsive Gambling Contribution	(1,000)	(1,000)	(1,000)
ALE Gaming Enforcement	(2,100)	(2,100)	(968)
Unclaimed Prizes to NC Education Lottery Fund	(17,526)	(13,696)	(13,841)
Net Revenues to the State of NC	(604,979)	(620,572)	(512,586)
Miscellaneous Non-operating Expenses	177	2	(14)
<b>Total Non-operating Revenue (Expense)</b>	<b>(624,322)</b>	<b>(636,176)</b>	<b>(528,001)</b>
Net Income	-	-	-
Net Assets	-	-	-

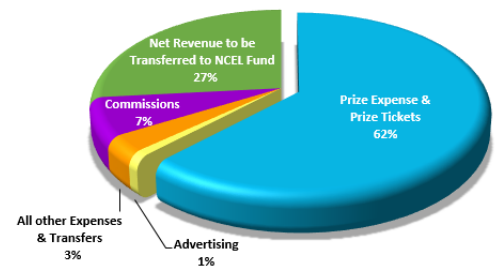
DISTRIBUTION OF REVENUES FY 2017



DISTRIBUTION OF REVENUES FY 2016



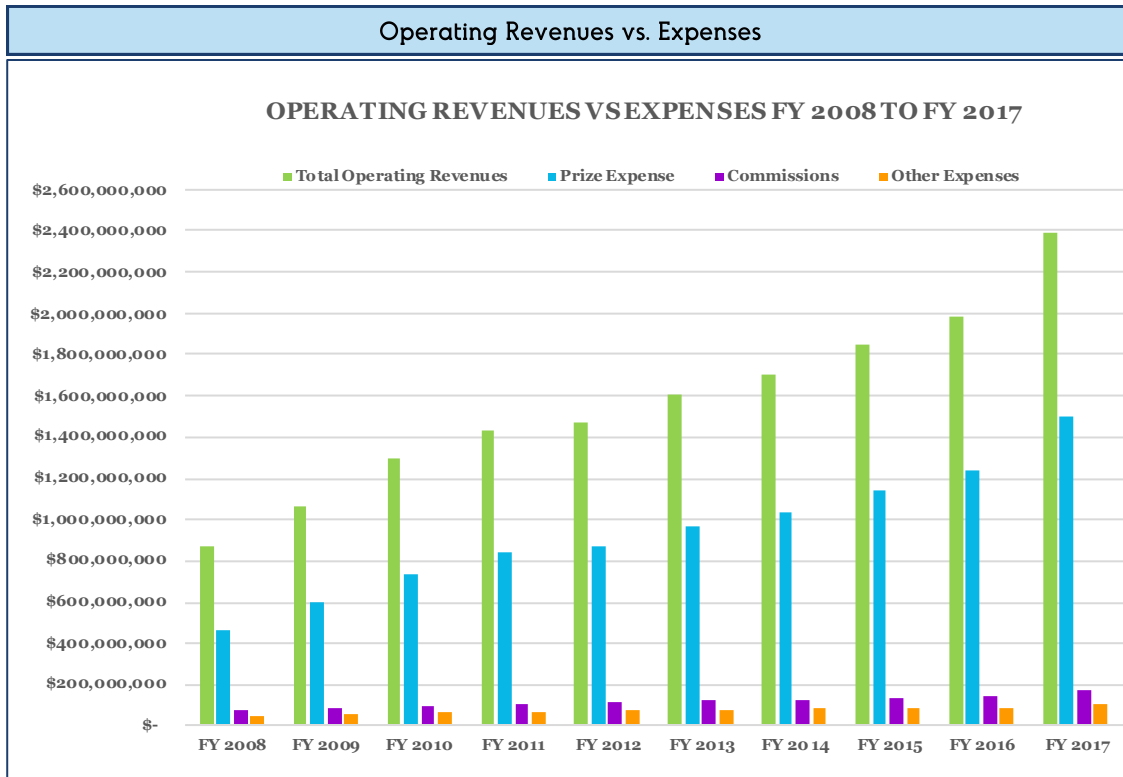
DISTRIBUTION OF REVENUES FY 2015



# Statement of Activities

Prizes, retailer commissions, and gaming vendor charges all directly relate to sales. As expected, as sales have increased so have these expenses. In fiscal year 2017, prizes, commissions, and gaming vendor chargers totaled \$1,752 million as compared to \$1,698 million and \$1,398 million for fiscal years 2016 and 2015, respectively. The other expenses, which consist of advertising, salary and benefits, professional fees, rent, maintenance, bad debt, depreciation, and transfers, have remained at four percent of Total Annual Revenues this year. Fiscal years 2017 and 2016 administrative expenses were \$56 million and \$55 million respectively.

Section 18C-162, NC General Statute stipulates no more than eight percent of the total annual revenues shall be allocated for payment of expenses of the lottery. Advertising expenses shall not exceed one percent of the total annual revenues.



## Non-operating Revenues and Expenses

Non-operating revenues and expenses are defined as those that are incurred by activities not related to the core operations of an organization. In the lottery's case, non-operating items are any revenues or expenses incurred not directly associated with the sale of lottery tickets.

Non-operating 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.

Non-operating 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 FY2017 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at [https://www.nclottery.com/CorporateSocialResponsibility\\_Integrity](https://www.nclottery.com/CorporateSocialResponsibility_Integrity)



2728 Capital Boulevard, 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

robert.denton@lotterync.net

www.nclottery.com

## Awards & Acknowledgements

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, 2016. 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 confirm 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 eight consecutive years (fiscal years ended 2008–2016). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

75 Copies of this public document were printed at a cost of \$375.83 or \$5.01 per copy.



Government Finance Officers Association

### Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

**North Carolina Education Lottery**

For its Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

*Jeffrey R. Egan*  
Executive Director/CEO