

Popular Annual Financial Report

FISCAL YEAR ENDED JUNE 30, 2022

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, 2022. This report provides 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 FY 2022 Annual Comprehensive Financial Report (ACFR). The ACFR 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 ACFR, PAFR and the NCEL's Annual Report are available for viewing on the NCEL's website at www.nclottery.com/about.aspx

NC Education Lottery

The Lottery transferred its net profits monthly to the Office of State Budget and Management and the funds go into the North Carolina State Lottery Fund. The funds then were distributed as outlined in the state budget. The General Assembly reports the following allocation of money raised by the lottery in FY22:

- \$385.9 million to noninstructional support personnel;
- \$100 million for the Public School Building Capital Fund, which provides monies to North Carolina counties to build and repair schools;
- \$145.2 million to the Needs-Based Public School Capital Fund, which provides financial assistance to low-wealth counties to build new schools;
- \$30 million to a new Public School Repair and Renovation Fund, which provided \$300,000 grants to each of the state's 100 counties to repair and renovate schools and expand classrooms;
- \$78.2 million to the N.C. Pre-K program to fund seats in the prekindergarten 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;
- \$21.4 million to support school transportation for each of the state's school systems.

N.C. Education Lottery reports record sales of \$3.88 billion, raising \$929.8 million for education.

For the 16th year in a row, the N.C. Education Lottery set a new record for lottery ticket sales in fiscal year 2021-2022.

Ticket sales exceeded \$3.88 billion, up 2.15% year-over-year. The Lottery continued its record of increasing sales every year of its operations. From those sales, the Lottery raised \$929.8 million for education, down 0.75 %, or \$7 million.

Scratch-off tickets consistently remain the Lottery's most popular product, setting a new record of \$2.65 billion in sales, or 68% of revenue. The Lottery launched 52 new scratch-off games during the year.

During the year, one draw game, Lucky For Life, began daily drawings for a chance to win the top prize of \$1,000 a Day for Life. A second draw game, Powerball, began holding a third drawing each week on Mondays for jackpots starting at \$20 million.

During the year, Lottery players received \$2.54 billion in prize money including 78 prizes of \$1 million or more. The biggest wins occurred with two \$200X the Cash scratch-off tickets each valued at \$5 million.

The record ticket sales demonstrated again how much North Carolinians enjoy playing lottery games. Last year, the Lottery averaged \$10.6 million a day in ticket sales, \$6.9 million a day in prizes, and \$2.5 million a day raised for education. The Lottery ended the fiscal year with 7,075 retail locations across the state. Those retailers earned \$267.9 million in sales commissions and incentives.

At end of fiscal year, sales since the inception of the Lottery in 2006 totaled \$34.4 billion, and the amount of money raised for education climbed to \$9.2 billion.

In its annual financial audit, the Lottery received an "unqualified opinion" from independent auditors as it has in all prior annual financial audits.

The Lottery attained recertification at the Sustaining Level – the highest level possible – in the Responsible Gambling Verification Program of the National Council on Problem Gambling and the National Association of State and Provincial Lotteries. It also won a national award from the National Council of Problem Gambling for a responsible gaming newsletter.

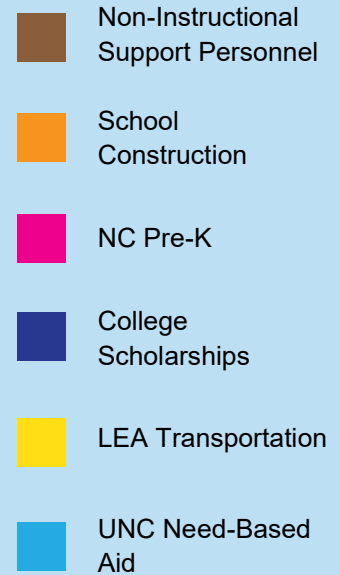
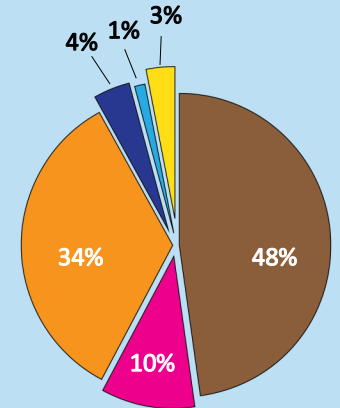
The State Lottery Act directs the lottery to increase and maximize the available revenues for education purposes. In the 2021-22 fiscal year, a breakdown of revenues showed 65.4% went to prizes, 23.9% for education programs, 6.9% in retailer commissions, and the remaining 3.8% to administrative expenses. Administrative expenses came in \$14 million less than budgeted, a savings that went to education programs.

The N.C. General Assembly allocates lottery revenues that exceed projections to the Needs-Based Public School Capital Fund. With that decision, \$127.8 million in additional monies raised in fiscal year 2021-22 went to the fund. The General Assembly also directed transfers of \$2.1 million in profits to the N.C. Alcohol Law Enforcement and \$1 million to the N.C. Problem Gambling Program.

Education Programs Receiving Lottery Dollars

County	FY22	Cumulative	County	FY22	Cumulative
Alamance County	9,865,003	120,781,292	Johnston County	14,331,902	171,360,838
Alexander County	3,561,248	28,707,914	Jones County	877,900	23,642,166
Alleghany County	1,005,127	9,622,990	Lee County	4,769,410	58,705,273
Anson County	10,642,607	45,768,873	Lenoir County	3,850,925	51,156,064
Ashe County	18,689,062	52,310,270	Lincoln County	5,031,345	60,030,189
Avery County	1,143,793	13,509,721	Macon County	2,166,345	25,113,152
Beaufort County	3,030,501	37,932,874	Madison County	1,234,510	13,354,146
Bertie County	1,195,049	17,085,272	Martin County	1,442,350	24,632,286
Bladen County	19,171,772	63,034,147	McDowell County	2,768,011	48,225,635
Brunswick County	5,923,673	71,002,029	Mecklenburg County	61,825,121	763,112,974
Buncombe County	11,706,607	147,686,076	Mitchell County	17,996,004	42,139,429
Burke County	5,112,775	73,560,979	Montgomery County	4,816,861	29,327,407
Cabarrus County	15,661,180	183,003,567	Moore County	5,027,789	58,513,523
Caldwell County	4,996,280	74,093,497	Nash-Rocky Mount	5,709,392	89,558,926
Camden County	28,838,690	50,192,861	New Hanover County	11,565,666	146,795,101
Carteret County	5,568,199	57,102,782	Northampton County	41,023,668	69,726,627
Caswell County	1,268,082	29,892,400	Onslow County	12,166,998	148,105,111
Catawba County	30,599,031	152,354,650	Orange County	8,381,988	99,729,389
Chatham County	4,262,968	48,568,169	Pamlico County	876,645	8,532,698
Cherokee County	1,630,942	34,378,291	Pasquotank County	2,558,102	31,724,809
Chowan County	26,103,382	52,378,622	Pender County	4,496,713	48,449,812
Clay County	32,836,298	49,919,545	Perquimans County	959,108	9,821,896
Cleveland County	13,491,646	109,666,698	Person County	2,179,860	27,729,233
Columbus County	3,726,465	66,998,463	Pitt County	10,188,814	135,235,028
Craven County	5,947,643	75,366,111	Polk County	2,577,381	15,297,655
Cumberland County	23,033,643	308,405,563	Randolph County	8,333,736	111,421,695
Currituck County	1,921,652	19,692,627	Richmond County	3,285,143	43,752,984
Dare County	2,563,799	27,290,471	Robeson County	34,892,402	182,218,155
Davidson County	9,787,745	126,007,850	Rockingham County	4,958,531	69,264,862
Davie County	2,962,312	36,495,419	Rowan-Salisbury	7,555,415	103,770,397
Duplin County	4,421,815	53,786,285	Rutherford County	3,727,288	64,915,737
Durham County	13,864,847	175,742,437	Sampson County	5,895,241	66,642,217
Edgecombe County	3,126,599	45,109,244	Scotland County	3,926,408	40,161,700
Forsyth County	21,847,587	277,881,138	Stanly County	4,087,115	54,149,967
Franklin County	3,600,079	43,750,919	Stokes County	2,757,839	37,427,515
Gaston County	14,931,764	184,074,686	Surry County	6,048,276	62,320,469
Gates County	2,729,184	13,473,930	Swain County	1,170,506	16,824,122
Graham County	805,936	10,976,378	Transylvania County	1,979,369	19,422,134
Granville County	3,288,020	42,450,849	Tyrrell County	1,053,688	4,793,886
Greene County	1,522,963	18,396,100	Union County	16,438,091	201,841,491
Guilford County	33,042,666	429,866,638	Vance County	2,718,762	36,621,650
Halifax County	34,282,118	74,149,037	Wake County	64,119,489	758,023,336
Harnett County	7,965,640	111,711,211	Warren County	25,168,922	38,105,722
Haywood County	3,183,409	39,111,849	Washington County	40,852,396	51,110,653
Henderson County	5,766,265	69,444,325	Watauga County	2,391,812	26,714,912
Hertford County	1,560,448	35,034,854	Wayne County	16,514,767	134,655,498
Hoke County	34,130,843	92,635,338	Wilkes County	4,397,527	61,443,711
Hyde County	555,403	4,153,927	Wilson County	4,660,181	76,394,957
Iredell County	11,292,674	132,163,301	Yadkin County	3,902,344	32,978,377
Jackson County	1,746,950	19,747,209	Yancey County	7,852,854	18,919,164

Program Allocation



Sales

The gross lottery ticket sales for fiscal year 2022 totaled \$3.887 billion as compared to \$3.805 billion for fiscal year 2021 and \$3.016 billion for fiscal year 2020. This represents an increase of \$82 million from 2021 and \$871 million from 2020.

Instant Ticket Sales

Gross instant ticket sales were \$2.650 billion for fiscal year 2022 compared with \$2.561 billion for fiscal year 2021 and \$2.089 billion for fiscal year 2020, an increase of approximately \$89 million from fiscal year 2021 and approximately \$561 million from fiscal year 2020. The increase in instant ticket sales in fiscal year 2022 was driven by growth at the \$20+ price points, which experienced a 16% increase over the previous year. Players continued to migrate towards higher price point instant games with the exception of the \$3 price point, which grew 6% in fiscal year 2022. Fiscal year 2022 was the first year that included more than one game launch of a \$25+ price point game, \$25 – Spectacular Riches in October 2021 and \$30 – 200X the Cash. Those two launches, and the success of those games, were the primary driver of the higher price point growth last year. The \$20 and \$5 price point composed 21% of the sales each, representing the first time that the \$5 price point didn't make up the majority of sales in more than 5 years. Similar to fiscal year 2021, fiscal year 2022 saw three different price points (\$5, \$10 and \$20) eclipse the \$500 million sales mark. The \$30 price point came up just short of the \$500 million threshold with sales of \$491 million.

Draw Game Sales

Draw game sales were \$1.237 billion for fiscal year 2022 compared to \$1.245 billion for fiscal year 2021, representing a \$8 million decrease compared to fiscal year 2021. Even though sales declined slightly, this was the second consecutive year that Draw Game sales exceeded \$1 billion. Two multi-state game changes saw positive results. Powerball added a Monday drawing in August resulting in three weekly drawings. This change, in addition to two jackpot runs that resulted in jackpots of over \$600 million, contributed to 30% year over year growth. Lucky for Life also changed the draw frequency for the game in July 2021, moving from two drawings per week to daily drawings. This change proved to be very successful and resulted in 64% growth year over year. Both Fast Play and Keno had modest growth at 1.0% and 0.7%, respectively.

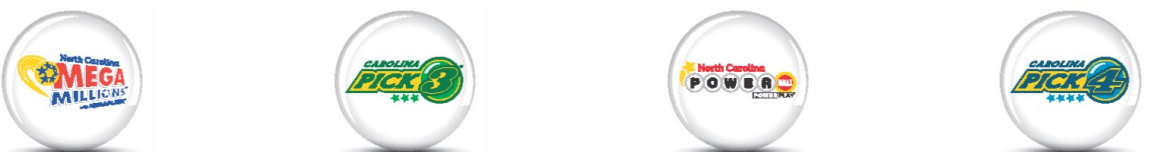
The other in-state Draw Games, Cash 5, Pick 3 and Pick 4 all experienced year over year declines. Pick 3 and Pick 4 declined by 2.2% and 2.5%, respectively. The two games continue to make up the majority of draw game sales despite these declines. Pick 3 and Pick 4 accounted for 57% of Draw and Fast Play Game sales in fiscal year 2022.

The sales of draw games via the Online Play channel continued to grow year over year. Sales of the four draw games offered online, Powerball, Mega Millions, Cash 5, and Lucky for Life grew by 26% year over year to \$82 million or 20% of total sales for those particular games. This represents a 3-percentage point increase year over year of sales share coming from the Online Play channel. 241,000 players made a purchase via Online Play in fiscal year 2022, which was a 3% growth rate over fiscal year 2021. 94,000 new players made a deposit and purchase through the Online Play channel last year.



Game	FY 2022	FY 2021	FY 2020
Instant Tickets	2,649,696,702	2,560,821,887	2,089,212,972
Powerball	180,352,701	138,361,797	101,326,600
Mega Millions	83,459,044	118,863,047	75,349,730
Pick 3	487,398,367	498,616,646	400,507,614
Pick 4	221,997,153	227,755,867	185,154,744
Cash 5*	74,691,197	90,513,576	78,014,721
Lucky for Life	40,812,158	24,916,530	20,362,570
KENO	81,216,166	80,641,758	66,276,603
Fast Play	65,502,961	64,861,261	-
Bonus Cash Raffle Promo	1,924,204		
Total Sales	3,887,050,652	3,805,352,369	3,016,205,554

*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 2022	FY 2021	FY 2020
ASSETS			
Total current assets	158,860	242,461	57,873
Non-current assets	77,335	85,976	79,825
Capital assets, Dep. (net)	1,894	2,470	2,541
Total Assets	238,089	330,907	140,239
Deferred Outflows	14,637	10,281	8,080
LIABILITIES			
Total current liabilities	167,659	249,129	64,189
Non-current liabilities	113,653	123,928	117,256
Total Liabilities	281,312	373,057	181,446
Deferred Inflows	16,112	12,829	11,571
NET POSITIONS			
Invested in capital assets	1,894	2,470	2,541
Restricted net positions	4	32	36
Unrestricted net positions	(46,596)	(47,200)	(47,275)
Total Net Positions	(44,698)	(44,698)	(44,698)

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, 2022 but will be transferred during fiscal year 2023).

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, 2022 (in thousands)				
	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2021
Capital assets, depreciable				
Furniture	49	-	-	49
Equipment	5,344	257	388	5,475
Motorized equipment	80	-	-	80
Computer software	1010	-	-	1010
Total capital assets, depreciable	6,483	257	388	6,614
Less accumulated depreciation for				
Furniture	29	-	-	29
Equipment	3,620	335	16	3,301
Motorized equipment	80	-	-	80
Computer software	860	126	-	734
Total accumulated depreciation	4,589	461	16	4,144
Total capital asset, depreciable net	1,894	(204)	372	2,470
Capital assets, net	1,894	(204)	372	2,470

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 Positions from year to year.

Readers wanting more detailed financial information should refer to the NCEL's FY 2022 Annual Comprehensive Financial Report (ACFR) available on the North Carolina Education Lottery's website at : 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.

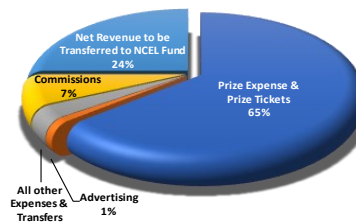
Operating Expenses

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.

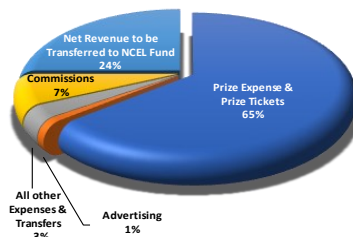
The following charts show the major components of the NCEL operating expense and transfers as a percentage of total revenues for the June 30, 2022, 2021, and 2020 fiscal years:

Statement of Activities (in thousands)			
	FY 2022	FY 2021	FY 2020
Operating Revenues:			
Gross Sales:	3,887,051	3,805,352	3,016,205
Less: Prize Tickets and Bad Debt	(47)	(26)	(2)
Fees and Licenses	5,417	5,298	5,399
Total Operating Revenues	3,892,421	3,810,624	3,021,602
Operating Expenses:			
Salaries, Wages, and Benefits	25,271	27,929	25,478
Lottery Prizes	2,543,961	2,462,425	1,957,588
Retailer Commissions	266,200	261,688	209,187
Retailer Incentive	1,708	1,432	1,256
Gaming Systems Services	72,872	70,789	53,883
Advertising	30,177	28,748	21,729
Marketing	3,780	2,837	4,535
Other Services	9,258	9,240	10,948
Furniture, Fixtures, and Equipment	2,046	1,409	1,469
Depreciation	461	529	527
Other General and Administrative Expenses	4,136	4,873	4,121
Total Operating Expenses	2,959,870	2,871,899	2,290,721
Operating Income	932,551	938,725	730,881
Non-operating Revenues (Expenses):			
Investment Earnings and Other Miscellaneous Revenue (Expense)	213	360	1,156
Compulsive Gambling Contribution	(1,000)	(1,000)	(1,000)
ALE Gaming Enforcement	(2,100)	(2,100)	(2,100)
Inter-Agency Transfer In	-	4,000	-
Nonoperating Expense	-	(4,000)	-
Unclaimed Prizes to NC Education Lottery Fund	(20,030)	(24,247)	(13,617)
Net Revenues to the State of NC	(909,803)	(912,572)	(715,782)
Miscellaneous Non-operating Expenses	(28)	370	462
Noncapital Contributions	197	464	-
Total Non-operating Revenue (Expense)	(932,551)	(938,725)	(730,881)
Change in Net Position	-	-	-
Net Position, Beginning July 1	(44,698)	(44,698)	(44,698)
Net Position, Ending June 30	(44,698)	(44,698)	(44,698)

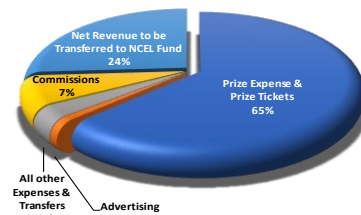
DISTRIBUTION OF REVENUES FY 2022



DISTRIBUTION OF REVENUES FY 2021



DISTRIBUTION OF REVENUES FY 2020

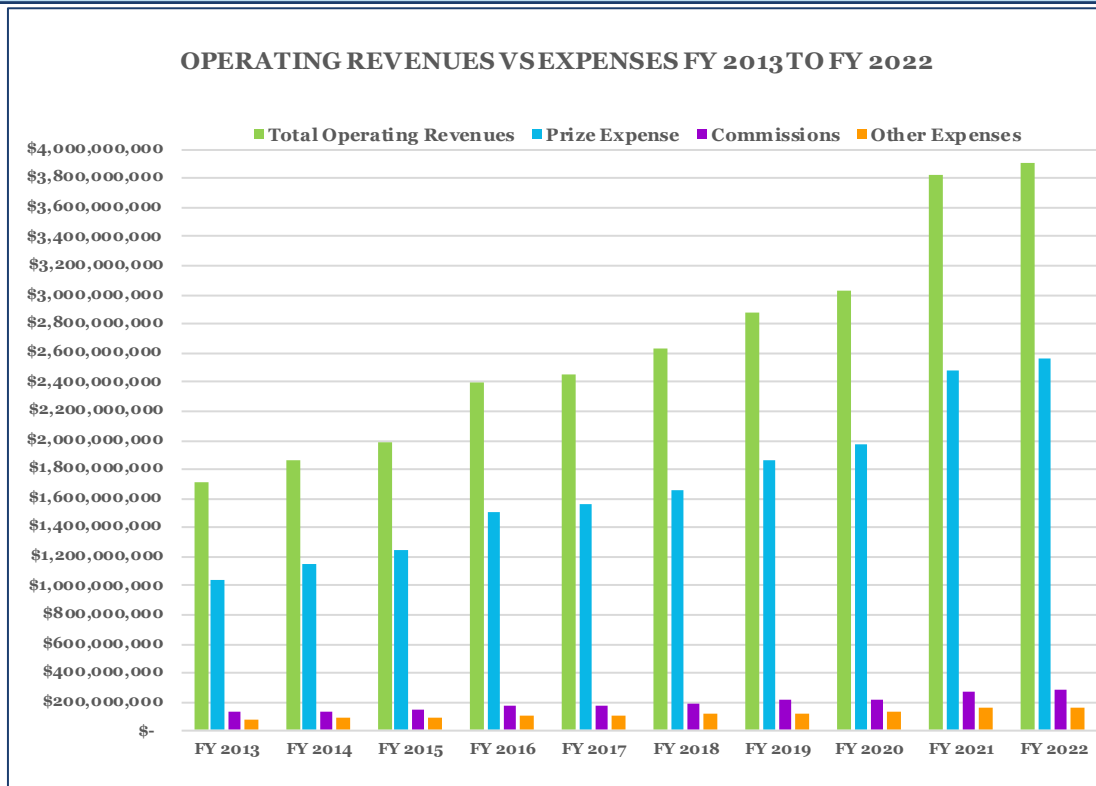


Statement of Activities

Prizes, commissions, and gaming vendor charges all directly relate to sales. As expected, as sales have increased so have these expenses. In fiscal year 2022, total gaming expenses, which consist of prizes, retailer commissions, and gaming vendor charges (gaming system services), totaled \$2,883 million as compared to \$2,795 million and \$2,221 million for fiscal years 2021 and 2020, respectively. Other operating expenses, which consist of advertising and marketing, salary and benefits, professional fees, rent, maintenance, depreciation, and general administrative expenses decreased slightly to \$76.8 million in fiscal year 2022, as compared with \$77 million and \$70.1 million for fiscal years 2021 and 2020, respectively. Other operating expenses represented 2.0%, 2.0%, and 2.3% of total operating revenues in fiscal years 2022, 2021, and 2020, 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.

Operating Revenues vs. Expenses



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 FY2022 Annual Comprehensive Financial Report (ACFR) available on the NCEL's website at https://www.nclottery.com/CorporateSocialResponsibility_Integrity



2728 Capital Boulevard, Raleigh, NC

Connect and 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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www.nclottery.com



Awards and 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, 2021. 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 fourteen consecutive years (fiscal years ended 2008–2021). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.



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, 2021

Christopher P. Morrell

Executive Director/CEO