

NORTH CAROLINA EDUCATION LOTTERY

POPULAR ANNUAL FINANCIAL REPORT FISCAL YEAR 2009



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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, 2009. 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 2009 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 Chair's Note



I was pleased to accept the appointment as Chairman from Governor Easley mid-year due to the departure of the previous chairman. The North Carolina Education Lottery (NCEL) completed our 2009 fiscal year in excellent shape. Sales increased 20 percent over fiscal year 2008. This increase in sales allowed the NCEL to return over \$410 million to the education programs in North Carolina supported by the lottery. This was \$25 million more than had been budgeted by the

Commission. It was also an increase of 17 percent over fiscal year 2008.


On April 17, the Commission added Carolina Pick 4 to the array of games offered. Carolina Pick 3 sales and our other games remained strong even with this addition.

The Commission asked that the Legislature make a few changes to the Lottery Act, NCGS Section 18C. We needed some modifications to streamline operations and to implement some cost saving improvements. H205 (Lottery Act Changes) passed the House by a vote of 110 to 4 and the Senate unanimously. Legislators cited the efficient and productive operations of our lottery as the major reason for supporting our legislative requests.

Once again our Executive Director Tom Shaheen and his staff have earned clean financial and clean security audits, both without significant negative findings. This was recognized by two outside awards: one from the Government Finance Officers Association of the United States and Canada, a non-industry group which presented the NCEL with its Certificate of Achievement for Excellence in Financial Reporting for our comprehensive annual financial report. Our second award was from an industry group, the North American Association of State & Provincial Lotteries Standards Initiative, under the Best Practice Quality Assurance of Product Development in the Lottery Industry for Acceptance Testing.

Our Commissioners share a wealth of expertise in diverse fields and apply it to our business. I thank them for their efforts, support and leadership. It is a pleasure to continue to work with an organization dedicated to operating with expertise, dedication, integrity and security. Our staff remains focused on increasing sales in these difficult times in order to maximize the return to education with no adverse issues.

The NCEL Commission looks forward to another outstanding year in FY 2010.



Executive Director's Note



Although the lottery is serious business, I've always felt at the same time it should be fun. This year was fun for North Carolina. We added a new game, tried some new promotions, and gave away some great prizes. Along with the fun goes a lot of work and the North Carolina Education Lottery (NCEL) staff certainly had their share of work this year.

Our efforts resulted in total sales topping \$3 billion since inception; quarterly transfers hitting all time highs; final FY09 transfer exceeding our budgeted return by \$25 million; and the number of retailers hitting the 6000 mark. Sales for the year topped \$1.293 billion. Transfers were over \$410 million.

Along the way we gave away Ford F-150 trucks in a Carolina Cash 5 promotion. We sent five North Carolina players to Hollywood to participate in the Deal or No Deal game. We had five second-chance drawings associated with the \$130 Million Blockbuster game to pick ten finalists for the grand prize drawing of \$50,000 a year for life. We gave away Harley-Davidson® Fat Bob motorcycles both on the Harley-Davidson® ticket and as a prize in a second-chance drawing. And we added Carolina Pick 4 to our game offerings, bringing the NCEL to a full complement of basic games.

But the most exciting and fun happening was Jeff Wilson of Kings Mountain winning the Powerball jackpot of \$88 million. Jeff is a young man who is attending graduate school. His father bought tickets and let each member of the family choose one. Jeff chose the ticket that turned out to be the jackpot winner.

I would like to commend our retailers for their dedication to and efforts in promoting and selling lottery games. They came up with new ways to engage players and keep the games interesting. Players showed their interest by breaking previous sales records and their enthusiasm by entering second-chance drawings at record numbers.

The NCEL Commission provided guidance and oversight and gave freely of their time. This Commission serves as non-compensated appointed volunteers. The staff stayed energized bringing in new retailers, promoting games, greeting big winners, and implementing new games. This was a very positive year for everyone associated with the lottery. We look forward to outperforming this past year in FY10 knowing it will be a challenging task.



NCEL COMMISSION & STAFF

NCEL Commission Pictured Left to Right:

CARLA ARCHIE
PERSONNEL COMMITTEE
CHAIRWOMAN

WILLIAM DOWDY
AUDIT COMMITTEE MEMBER

ROBERT FARRIS JR.
COMMISSION CHAIRMAN
AUDIT COMMITTEE MEMBER

LAWRENCE SPEARS
PERSONNEL COMMITTEE MEMBER

PAMELA WHITAKER
FINANCE COMMITTEE MEMBER

Not Pictured:

MAX COGBURN
AUDIT COMMITTEE CHAIRMAN

NORWOOD CLARK JR.
FINANCE COMMITTEE MEMBER

BRIDGET-ANNE HAMPDEN
FINANCE COMMITTEE CHAIRWOMAN



NCEL Senior Staff:

Tom Shaheen
Executive Director

Margaret Spindola-Bode
Director, Human Resources

Nikki Howard
Internal Auditor

Sam Hammett
Deputy Executive Director, Sales

Terri Avery
Director, Sales

Deborah Doty
Deputy Executive Director,
MIS and Gaming Systems

Alice Garland
Deputy Executive Director,
Legislative and Corporate Comm.

Lou Ann Russell
Director, Gaming Systems
Marketing and Advertising

Fenita Shepard
Deputy Executive Director,
Legal and Security

Jerry Carter
Director, Security

Quan Kirk
Director, Legal Services

Tony Chung
Director, MIS

Joe Norman
Director, Gaming Systems

Jim Knight
Director, Finance

Penny Railey
Director, Marketing

Pamela Walker
Director, Corporate
Communications

Walter Ingram
Director, Sales Development

Bill Enlow
Interim Deputy Executive Director,
Finance and Administration



NCEL BENEFICIARIES

The NCEL has completed its third full year of operations. The NCEL finished the fiscal year with sales of \$1.293 billion and transfers of more than \$410 million, which surpassed the amount budgeted by the NCEL Commission. Transfers from launch to date at the end of the fiscal year were over \$1.136 billion.

All of this is good news for the beneficiaries of lottery proceeds. As outlined in the North Carolina Lottery Act, the North Carolina Legislature has the authority to determine how the education lottery net proceeds will be spent. They have not changed the initial four programs designated to receive funds in the 2005 lottery act. One hundred percent of the net proceeds go to education programs. The dollars are divided in the following manner: 50 percent go to More at Four and class size reduction, 40 percent to school construction, and 10 percent to need based college scholarships.

Dollars raised by the NCEL are dollars that do not have to be funded by state or local taxes. The NCEL transfers proceeds four times a year to the Office of State Budget and Management. This office then distributes the dollars to the individual programs based on 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 benefit from this program. In FY09, the NCEL funded 16,687 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 reduce class size. In FY09, 2,031 teaching positions were funded. Every county received these teaching position dollars.



School Construction:

School construction dollars may be used by the counties for any capital project. Dollars are allocated to the counties based on student population and average property tax. In FY09, counties initiated 223 construction projects. Since inception, the number of projects at the end of the fiscal year comes to 458. 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 renovations, bathroom renovations, new roofs, stadium repairs, and the list goes on. Counties may bank their dollars in order to amass significant funds for a larger 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 08/09 school year, 30,178 students received education lottery college scholarships to attend 113 different institutions of higher education. In order 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 residents of North Carolina and attend an institution in North Carolina.



NCEL COUNTY TOTALS

FY 2009

Alamance	\$5,941,803	Currituck	927,501	Lee	2,848,527	Rockingham	3,728,543
Alexander	1,537,566	Dare	1,278,598	Lenoir	2,744,248	Rowan	5,461,048
Alleghany	517,918	Davidson	6,557,642	Lincoln	3,035,919	Rutherford	2,914,919
Anson	1,263,159	Davie	1,914,193	Macon	1,371,620	Sampson	3,433,043
Ashe	1,151,482	Duplin	2,580,862	Madison	693,784	Scotland	2,160,838
Avery	770,282	Durham	8,340,622	Martin	1,096,134	Stanly	2,926,403
Beaufort	1,997,143	Edgecombe	2,704,583	Mcdowell	1,826,870	Stokes	2,064,777
Bertie	1,039,220	Forsyth	12,965,293	Mecklenburg	33,586,120	Surry	3,215,699
Bladen	1,847,343	Franklin	2,006,565	Mitchell	596,612	Swain	617,482
Brunswick	3,644,794	Gaston	9,238,103	Montgomery	1,511,942	Transylvania	936,850
Buncombe	7,099,651	Gates	515,144	Moore	2,667,648	Tyrrell	167,356
Burke	4,310,496	Graham	411,639	Nash	4,366,224	Union	9,592,852
Cabarrus	8,222,794	Granville	2,230,819	New Hanover	6,986,930	Vance	2,062,546
Caldwell	3,252,500	Greene	1,018,462	Northampton	950,902	Wake	32,690,375
Camden	497,117	Guilford	21,217,790	Onslow	6,839,356	Warren	774,965
Carteret	2,220,092	Halifax	2,538,577	Orange	4,464,078	Washington	651,443
Caswell	888,780	Harnett	4,698,164	Pamlico	460,541	Watauga	1,303,218
Catawba	6,426,817	Haywood	2,059,372	Pasquotank	1,602,857	Wayne	5,916,927
Chatham	2,347,879	Henderson	3,309,485	Pender	2,187,945	Wilkes	3,388,518
Cherokee	1,092,355	Hertford	1,074,566	Perquimans	607,417	Wilson	3,192,465
Chowan	648,971	Hoke	2,750,457	Person	1,531,965	Yadkin	1,716,984
Clay	413,738	Hyde	195,972	Pitt	6,707,129	Yancey	630,394
Cleveland	4,872,224	Iredell	6,510,537	Polk	786,586	Unknown	113,178
Columbus	3,115,814	Jackson	1,020,719	Randolph	5,786,287	DPI Admin	3,959,982
Craven	3,738,451	Johnston	7,672,255	Richmond	2,287,716	Total	390,572,219
Cumberland	16,354,374	Jones	475,431	Robeson	7,979,943		

Total to Date

Alamance	\$13,680,105	Currituck	2,141,595	Lee	7,988,535	Rockingham	10,658,928
Alexander	3,531,812	Dare	2,914,319	Lenoir	7,770,113	Rowan	14,824,960
Alleghany	1,326,708	Davidson	15,706,913	Lincoln	7,455,378	Rutherford	7,374,893
Anson	3,807,555	Davie	5,048,502	Macon	3,253,545	Sampson	9,549,412
Ashe	3,048,992	Duplin	7,056,442	Madison	1,616,403	Scotland	6,323,968
Avery	2,020,341	Durham	23,071,287	Martin	3,139,908	Stanly	8,185,905
Beaufort	4,844,456	Edgecombe	7,274,996	Mcdowell	4,341,959	Stokes	6,142,729
Bertie	2,896,681	Forsyth	36,001,018	Mecklenburg	94,798,138	Surry	9,302,478
Bladen	5,560,435	Franklin	5,524,173	Mitchell	1,495,149	Swain	1,543,061
Brunswick	8,435,343	Gaston	25,766,132	Montgomery	4,146,169	Transylvania	2,281,421
Buncombe	16,605,606	Gates	1,566,220	Moore	6,113,569	Tyrrell	522,677
Burke	11,212,816	Graham	1,018,080	Nash	12,056,852	Union	23,412,861
Cabarrus	22,110,685	Granville	6,230,485	New Hanover	17,770,537	Vance	5,656,923
Caldwell	7,429,710	Greene	2,900,393	Northampton	2,836,511	Wake	73,738,899
Camden	1,371,116	Guilford	57,847,316	Onslow	14,986,384	Warren	2,053,865
Carteret	5,286,499	Halifax	6,968,107	Orange	12,270,855	Washington	2,033,754
Caswell	2,431,930	Harnett	12,969,242	Pamlico	1,225,841	Watauga	3,223,443
Catawba	14,633,686	Haywood	4,572,769	Pasquotank	3,950,156	Wayne	17,312,391
Chatham	6,190,055	Henderson	7,722,368	Pender	5,074,441	Wilkes	9,341,150
Cherokee	2,699,057	Hertford	3,204,489	Perquimans	1,360,897	Wilson	8,970,091
Chowan	1,692,466	Hoke	6,961,413	Person	4,365,872	Yadkin	4,917,951
Clay	1,044,000	Hyde	537,191	Pitt	17,727,665	Yancey	1,644,056
Cleveland	14,432,656	Iredell	15,027,376	Polk	2,070,811	Unknown	224,213
Columbus	9,083,277	Jackson	2,676,398	Randolph	13,648,704	DPI Admin	19,396,893
Craven	8,718,164	Johnston	21,239,084	Richmond	7,119,020	Total	1,033,090,296
Cumberland	45,757,703	Jones	1,509,088	Robeson	22,562,717		



NCEL GAMES

Instant Scratch-off Tickets:



FY 09 was the first full year of increased prize payouts for instant tickets and it proved that paying more in prizes delivers a big payoff in sales. Instant ticket sales increased 26 percent from FY 08 which had the benefit of the increased payouts for five months. More impressively, sales increased 62% from FY 07 when payouts were at the initial lower rate. Instant ticket sales have now jumped to 62% of total sales. In FY 07, they were 56% of total sales. For FY 09, instant ticket sales were \$798,676,404. This played a major role in the NCEL's increase of over \$25 million over budget to education.

The \$5 and \$10 price points on instant tickets represented the greatest percentage of sales: 26.5% and 33.0% respectively. "\$200,000 Jackpot", "Megabucks", "Totally Topaz 7's" and "Dazzlin' Diamond 7's" were the most popular \$5 tickets. "\$130 Million Blockbuster", "Lifetime Riches" and "\$100 Million Cash Spectacular" were the most popular \$10 tickets.

Instant ticket sales were enhanced by several exciting second chance drawings. The "Deal or No Deal™" ticket included a drawing for five players to go to Hollywood for a chance to play a non-broadcast version of the game with Howie Mandel. Players entered 159,236 tickets in the second chance draw.

The "\$130 Million Blockbuster" ticket included five preliminary draws to pick ten finalists for the grand prize drawing of \$50,000 a year for life. By the end of the fiscal year, eight of the ten finalists had been drawn. We received a total of 937,500 entries for the five draws. After the close of the fiscal year, we conducted the grand prize drawing at WRAL studios and showed at a special television audience across the state. Darlene MacQuaide won \$50,000 a year for life. The other finalists won a one-time prize ranging from \$1,000 up to \$25,000.

The "Harley-Davidson®" ticket had six Fat Bob® motorcycles on the ticket and the opportunity to win a Fat Bob® in one of three second chance drawings. North Carolina is definitely motorcycle country based on the popularity of this ticket year after year. Players entered 525,000 tickets in these draws. As an added feature, players could submit any \$5 non-winning instant scratch-off ticket prior to this game launch and be entered into a draw for a 10th Fat Bob® motorcycle. We awarded this Fat Bob® motorcycle at a special televised half time show at the Charlotte Bobcats vs. LA Lakers basketball game.

Another popular ticket was the "Monopoly™" ticket with a tagline of "scratch and go directly to fun." This ticket was North Carolina's first foray into tickets patterned after board games. It turned out to be the number one seller for \$3 tickets.



Powerball:

How exciting is winning \$88.1 million? According to Jeff Wilson, extremely! Wilson's win was truly the luck of the draw. His father purchased Powerball tickets at the Petro Express on Cleveland Avenue in Kings Mountain and let each of his adult children pick a ticket. Jeff picked the winning ticket but plans on sharing with his family.

Wilson elected to take the lump sum cash payment of \$42.4 million, which after taxes is worth approximately \$28.8 million as opposed to \$88.1 million over 30 years. "I didn't believe my dad when he told me I had won and I think I'm still in disbelief," Jeff said. When asked what he thought may be his first purchase he said, "Maybe a house or a car." Jeff added that the money will also be helpful for graduate school.

Jeff was the second Powerball jackpot winner in North Carolina since inception. Jackie Austin won \$74.5 million in FY 07.

In addition to Jeff, there were 265 big winners in FY 09 ranging from \$10,000 to \$1 million. Two hundred twenty six winners matched four out of five white balls and the Powerball to win \$10,000 to \$50,000. Of those, 74 paid an additional dollar to Power Play and had their \$10,000 win multiplied by a factor of 2, 3, 4, or 5. Thirty-nine winners matched all five white balls to win \$200,000 to \$1 million. Of these, 18 Power Played and had their winnings multiplied.

The Powerball game matrix changed in January, 2009. White balls now range from number 1 to 59 while the Powerball ranges from 1 to 39. In addition to the matrix change, any player who Power Plays and picks the five white ball numbers correctly automatically wins \$1 million, regardless of the multiplier number.

Powerball sales in FY 09 were \$209,746,679. This represents a 10% decrease from FY 08. Powerball sales are now 16% of total sales. Adding to sales were several large jackpots: September 24, 2008 the jackpot hit \$176 million and May 27, 2009 it hit \$222 million.



Carolina Pick 3:



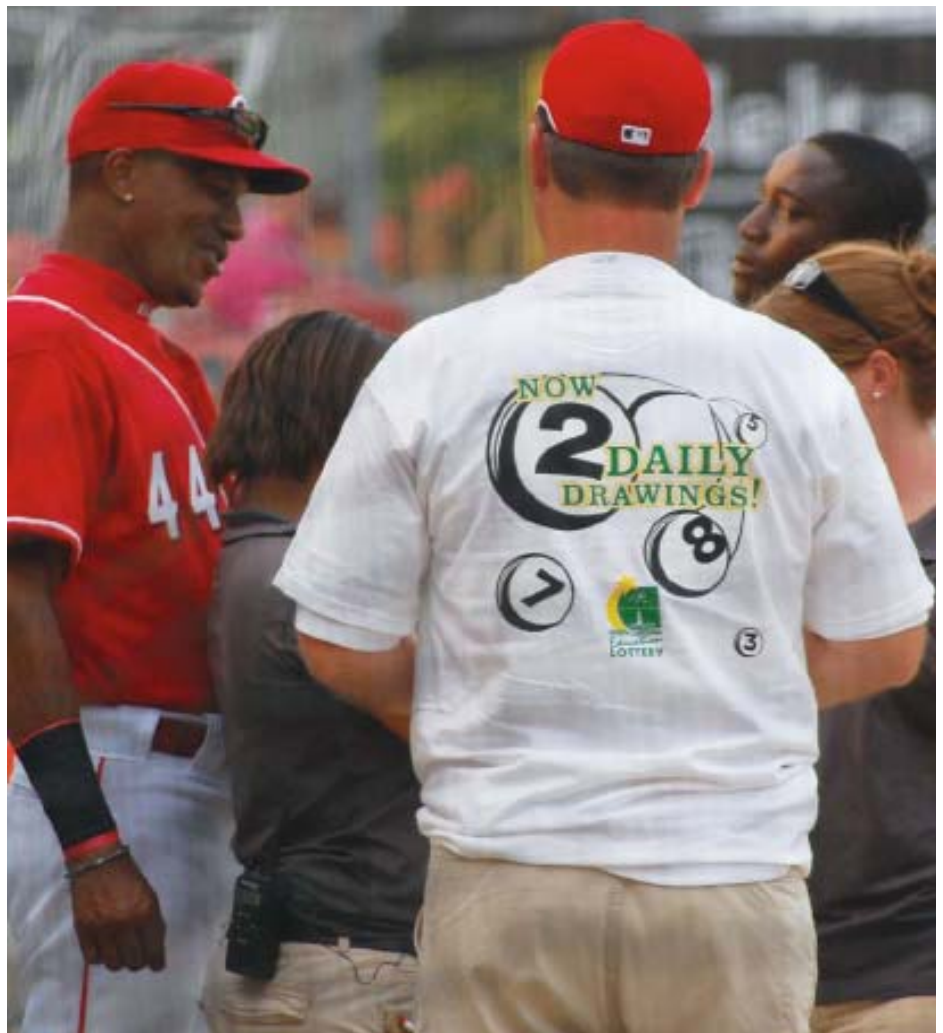
Carolina Pick 3 is giving Powerball stiff competition for the number two slot in game sales. Carolina Pick 3 sales topped out at \$209,746,679. This was an impressive 42% increase over FY 08. Carolina Pick 3 sales now represent 16% of total sales.

The mid-day draw that was added in the fourth quarter of FY 08 proved to be as popular as players said it would be. The second daily draw is holding strong and appears to have enhanced the evening draw.

Triple numbers, a perennial player favorite, hit three times during the year. Players love to play triple numbers. Each time after they hit, we see a spike in sales.

When we added Carolina Pick 4 in April, we also added the "combo" option to Carolina Pick 3. This is a play that allows players to play every combination of a 3-digit number in exact order on a single ticket.

Carolina Pick 3 and Carolina Pick 4 players have a different style of playing from the other two online games. Carolina Pick 3 players quick pick their numbers only 8% of the time and Carolina Pick 4 players 14% of the time, where Carolina Cash 5 players use quick pick 62% of the time and Powerball players 71% of the time.



Carolina Pick 4:



You asked for it... You got it. Players began asking for Carolina Pick 4 soon after the NCEL was up and running, so we felt it fitting to use that slogan to let players know we were listening. This was the final game to bring the NCEL's game offerings to a basic complete set. We kicked off Carolina Pick 4 on April 17 at 5am and conducted the first drawing that evening.

Carolina Pick 4 is a 4-digit game where players pick a number between 0-0-0-0 and 9-9-9-9. They can play Exact, Any, 50/50, or Combo. They can win from \$100 to \$5,000.

In just two and a half months, Carolina Pick 4 sales were \$15,793,159. This represents one percent of Total sales for the year. It is not unusual to have twenty players a week win the highest level of \$5,000.

We began with an evening draw for Carolina Pick 4 that occurs at the same time as the other evening draws. In conjunction with the addition of this game, WRAL-TV, our official lottery drawing station, moved the draw to a studio that allows for multiple backgrounds, giving us the flexibility to create awareness about new marketing



NCEL GAMES

Carolina Cash 5:



“Get Truckin’” was the message to Carolina Cash 5 players as the NCEL gave away five Ford F-150’s in a promotion. Players purchased a \$5 Carolina Cash 5 ticket and submitted 352,000 entries over 5 draws. These trucks proved to be very popular with our players. We delivered the trucks at the store where the player purchased the ticket. We also provided each winner with a \$1,000 gas card.

Overall Carolina Cash 5 sales experienced a slight increase over FY 08. Sales finished at \$60,011,218 and represented 5% of total sales for the NCEL.







Eighty-nine players won the top prize in FY 09 with 54 of those winning \$100,000 or more. The top prize was shared by multiple winners 12 times. George Baker of Hickory won the largest top prize of \$587,361. The top prize rolled 11 times to reach this amount, showing that Carolina Cash 5 gets exciting fast. The average top prize won in FY 09 was \$179,013.

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









NCEL SALES

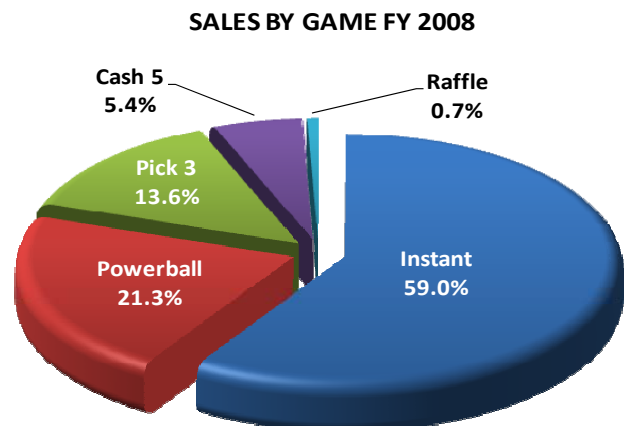
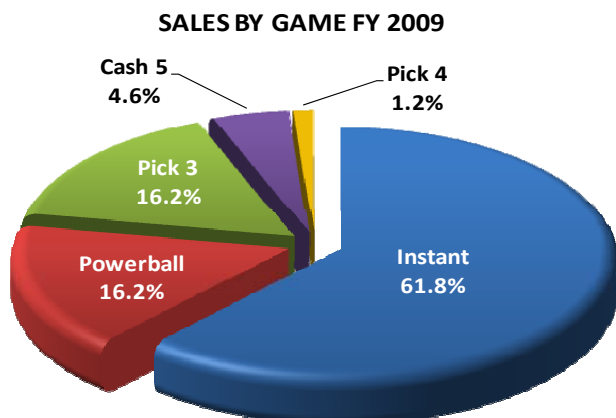
Sales by Region and Game:

Sales by Region FY 2009						
Region	 Instant	 Powerball	 Cash 5	 Pick 4	 Pick 3	 Total
Ashville	\$ 58,155,026	\$ 13,801,764	\$ 3,350,043	\$ 330,572	\$ 3,468,004	\$ 79,105,409
Greensboro	122,450,110	33,079,265	9,310,507	1,992,050	23,445,266	190,277,197
Charlotte	210,757,308	60,717,044	14,639,041	2,535,625	28,700,976	317,349,994
Raleigh	302,573,717	79,253,975	23,898,420	7,444,190	104,838,616	518,008,918
Greenville	104,740,243	22,894,631	8,813,207	3,490,723	48,430,905	188,369,709
Total	\$ 798,676,404	\$ 209,746,679	\$ 60,011,218	\$ 15,793,159	\$ 208,883,766	\$ 1,293,111,226
% of Sales	61.8%	16.2%	4.6%	1.2%	16.2%	100.0%

Total Sales before adjustments for bad debt write off and damaged tickets.

Sales by Region FY 2008						
Region	 Instant	 Powerball	 Cash 5	 Pick 3	 Raffle	 Total
Ashville	\$ 50,132,761	\$ 15,502,057	\$ 3,256,854	\$ 2,906,485	\$ 354,260	\$ 72,152,417
Greensboro	97,955,265	36,545,601	8,977,179	16,933,130	1,188,860	161,600,035
Charlotte	174,580,209	65,242,481	14,143,607	21,363,648	1,975,840	277,305,785
Raleigh	233,830,070	87,104,298	23,710,199	73,044,717	3,175,040	420,864,324
Greenville	79,381,810	24,860,737	8,428,410	32,910,324	675,240	146,256,521
Total	\$ 635,880,115	\$ 229,255,174	\$ 58,516,249	\$ 147,158,304	\$ 7,369,240	\$ 1,078,179,082
% of Sales	59.0%	21.3%	5.4%	13.6%	0.7%	100.0%

Sales by Game FY 09 & 08:



Pick 4 game was launched in Apr '09
No Raffles were held in FY '09

NCEL FINANCIALS

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 2009	FY 2008
ASSETS		
Total current assets	\$ 60,968	\$ 79,443
Capital assets, depreciable (net)	1,310	1,487
Total Assets	62,278	80,930
LIABILITIES		
Total current liabilities	61,047	79,835
Noncurrent Liabilities	1,231	1,095
Total Liabilities	62,278	80,930
NET ASSETS		
Invested in capital assets	1,310	1,487
Unrestricted net assets	(1,310)	(1,487)
Total Net Assets	\$ -	\$ -

*Readers wanting more detailed financial information should refer to the NCEL's FY 2009 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 transfers to the State Education Fund before the end of the fiscal year.

Current liabilities consist primarily of trade payables to vendors, instant ticket prize liability, Powerball 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 NC Education Fund as of June 30, 2009 but will be transferred during fiscal year 2010. 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 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. Equipment expenditures for 2009 include Carolina Pick 4 draw machines and an upgraded telephone system. 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, 2009 (in thousands)

Category	Balance July 1, 2008	Increase	Decrease	Balance June 30, 2009
Capital assets, depreciable				
Furniture	\$ 29	\$ -	\$ -	\$ 29
Equipment	2,239	367	-	2,606
Motorized equipment	67	-	-	67
Total capital assets, depreciable	2,335	367	-	2,702
Less accumulated depreciation for				
Furniture	11	7	-	18
Equipment	813	523	-	1,336
Motorized equipment	24	14	-	38
Total accumulated depreciation	848	544	-	1,392
Total capital assets, depreciable net	1,487	(177)	-	1,310
Capital assets, net	\$ 1,487	\$ (177)	\$ -	\$ 1,310

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 2009	FY 2008
Operating Revenues:		
Gross Sales:	\$ 1,293,020	\$ 1,078,082
Less: Prize Tickets	(9,580)	(29,733)
Fees and Licenses	4,663	4,782
Total Operating Revenues	1,288,103	1,053,131
Operating Expenses:		
Salaries, Wages, and Benefits	14,694	13,793
Lottery Prizes	731,690	588,485
Retailer Commissions	90,366	75,371
Gaming Systems Services	20,599	17,286
Advertising	11,172	8,619
Marketing	1,751	1,220
Other Services	2,975	2,576
Furniture, Fixtures, and Equipment	249	240
Depreciation	544	382
Other General and Administrative Expenses	2,750	1,674
Total Operating Expenses	876,790	709,646
Operating Income	411,313	343,485
Nonoperating Revenues (Expenses):		
Investment Earnings and		
Other Miscellaneous Revenue (Expense)	4,251	8,897
Compulsive Gambling Contribution	(1,000)	(1,000)
Unclaimed Prizes to NC Education Lottery Fund	(19,901)	(16,789)
Net Revenues to NC Education Lottery Fund	(394,028)	(331,521)
Miscellaneous Nonoperating Expenses	(635)	(3,072)
Total Nonoperating Revenues (Expense)	(411,313)	(343,485)
Net Income	-	-
Net Assets	\$ -	\$ -

Operating Revenues

Total gross lottery ticket sales for the fiscal year 2009 were approximately \$1.293 billion as compared to \$1.078 billion in fiscal year 2008. This represents an increase of over \$214.9 million.

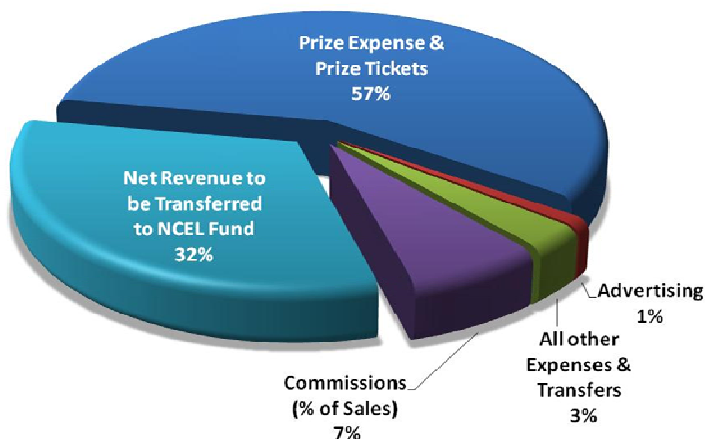
On some of our instant games players can scratch off a ticket and win another ticket of the same value. Those "free" tickets are referred to as prize tickets and their value is deducted from total sales.

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.

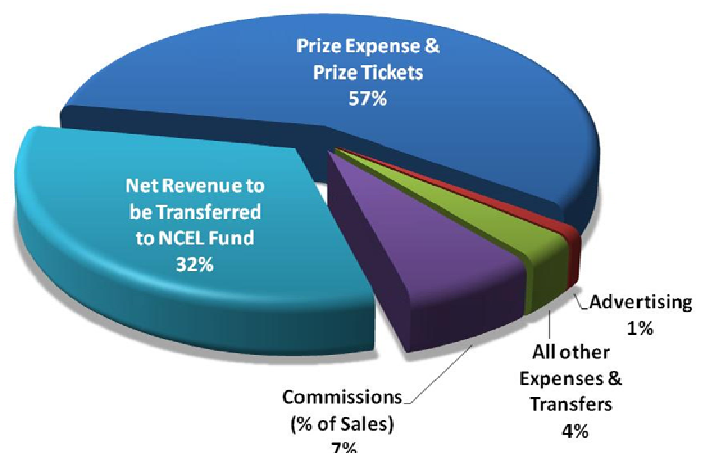
Operating Expenses

The following chart shows the major components of NCEL operating expenses and transfers as a percentage of total revenues for the June 30, 2009 and 2008 fiscal years:

ALLOCATION OF EXPENSES FY 2009



ALLOCATION OF EXPENSES FY 2008



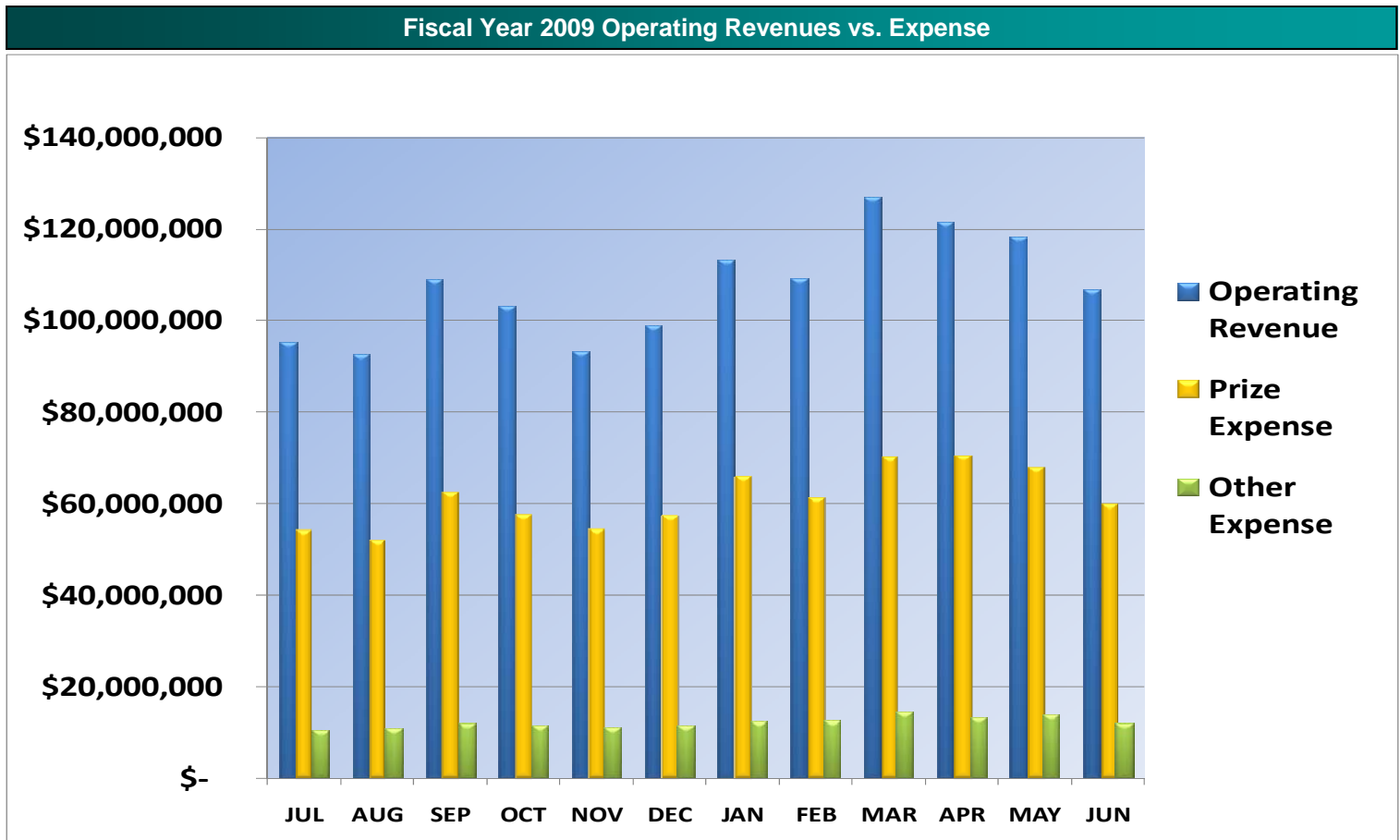
Commissions percentage is calculated based on the percent of Sales (all others calculated based on percentage of Revenue) therefore may not add to 100%.

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 2009, prizes, commissions and gaming vendor charges increased to \$843 million from \$681 million in 2008. The other expenses, which consist of advertising, salary and benefits, professional fees, rent, maintenance, bad debt, depreciation and transfers, have decreased to 4% of Total Annual Revenues this year. Fiscal years 2009 and 2008 administrative expenses were \$56 million and \$50 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.

The allocable share of the expenses arising from State Treasurer's Securities Lending Collateral program transactions, totaling \$635 and \$3,072 for the years ended June 30, 2009 and 2008, respectively, are also included as non-operating expense.

Readers wanting more detailed financial information on any of the lottery's financial activities and results should refer to the NCEL's FY 2009 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at: <http://www.nc-educationlottery.org/about.aspx>

NCEL 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 homepage. At the top, there is a navigation menu with links for Home, About Us, Contact, News, Events, and Winners. Below this is a secondary menu with links for Winning Numbers, Top Prizes Remaining, Video Center, and Vendors. The main content area features a large banner for the Carolina Cash 5 game, celebrating a winner, Mark Hamlin, with a top prize of \$688,283. Below the banner, there are sections for Winning Numbers (listing results for Dec 3, 2009 for Carolina Pick 3, Carolina Pick 4, and Carolina Cash 5, and for Dec 2, 2009 for Power Play) and Latest News (announcing a \$100,000 winner, Jennifer Foley). The right sidebar contains several promotional buttons: Find a retailer near you RETAILER LOCATOR!, Receive Email/SMS LOTTERY UPDATES!, Watch the Latest Draws! VIDEO REPLAY, PLAY RESPONSIBLY, Caution! LOTTERY SCAMS, ENTER NON-WINNING MUSTANG FEVER TICKETS HERE!, ENTER NON-WINNING WORLD SERIES OF POKER TICKETS HERE!, and SUPER MONOPOLY ENTER HERE FOR SECOND CHANCE DRAWINGS!. At the bottom, there is an advertisement for Universal Studios and a footer with social media links and a legal disclaimer.

Also, follow us on facebook and twitter





NCEL FINANCIAL ACCOUNTING STAFF



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20 copies of this public document were printed at a cost of \$125.00 or \$6.25 per copy

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, 2008. 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.

