



# NORTH CAROLINA EDUCATION LOTTERY

## POPULAR ANNUAL FINANCIAL REPORT

### FISCAL YEAR ENDED JUNE 30, 2013



# 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, 2013. 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 2013 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



Every two years, the N.C. Education Lottery gets put to the test as independent auditors conduct a performance audit comparing our operations in key areas to those of our peers. I'm pleased to report that in the latest test, completed in February 2013, the auditors described the lottery's ongoing overall performance as exceptional.

In fact, the audit reported that the N.C. Education Lottery was one of only three U.S. lotteries to achieve growth in earnings every year from 2007 through 2012. It also cited the lottery's "prudent cost-benefit approach" to increasing sales and earnings for the state.

Here are three achievements cited by the performance audit that I believe any head of a \$1.6 billion business in North Carolina could be proud of:

- Growing sales 60 percent from fiscal year 2008 through fiscal year 2012.
- Seeing a 48 percent increase in sales per retailer.
- Achieving a 27 percent increase in productivity of lottery employees.

The performance audit also underscored the importance of advertising to the lottery's mission of raising money for good causes. It found that the Education Lottery had the lowest per capita spending on advertising of its peers but the second highest return of investment in advertising. To me those findings say we are getting a good bang for our bucks with our advertising dollars.

As you read our Annual Report this year, I hope it conveys to you a sense of what a complicated undertaking that a lottery can be. We are a sales organization with over 6,800 retailers that need to be serviced by our sales staff either in the field or on the phone. We are a collections agency, collecting about \$30 million a week in revenues from our retailers through a sweep of their bank accounts. We pursue insufficient fund accounts and have a 99.97% collection rate.

We are a prize award agency, paying out on average \$2.6 million a day. We are a regulatory body, licensing new retailers and administering retail contracts. We are a security firm, protecting our games and drawings from fraud and ensuring fair and honest games to our players. We are a software company that tests new games and programs before tickets go on sale.

We are a gaming venture launching 45 new instant games a year, adding features to our draw games, and studying players to determine what new games to offer. We are an advertising and marketing firm running a statewide ad campaign year round and sponsoring fairs, festivals, and sporting events from the Dixie Classic Fair to a NASCAR race.

So with all of that going on day in and day out all year long, I'm glad to share such positive results from the performance audit with you. It shows that North Carolina has the efficient, well-run lottery that it deserves.

**Alice Garland**



Lottery dollars were used help plan and pay for the Greene County

# EDUCATION PROGRAMS RECEIVING LOTTERY DOLLARS

Lottery funds have always supported specific education initiatives in all North Carolina counties. Each year in the state budget, our legislature can adjust how lottery dollars are allocated. Changes for the fiscal year 2014 budget went into effect on July 1, 2013.



- 45.8%** Teachers in Grades K-3
- 15.7%** Prekindergarten Program
- 20.8%** School Construction
- 6.3%** Need-Based College Scholarships
- 2.2%** UNC Need-Based Financial Aid
- 6.8%** UNC Need-Based Financial Aid Reserve
- 2.4%** Digital Learning

*"Receiving the NCEL scholarship will help me cross the finish line in a lifelong goal. This 33-year-old mother of two is so thankful for this chance you have given me."*

*- Leah Cameron, a math and secondary education major at UNC-Charlotte who hopes to become, a high school athletic director one day.*



...y Intermediate School, the first new school in the county in 21 years.

County	FY13	Cumulative	County	FY13	Cumulative
Alamance	7,146,893	40,540,044	Johnston	9,311,772	56,781,741
Alexander	1,647,859	10,022,780	Jones	494,998	3,427,414
Alleghany	507,787	3,384,865	Lee	3,327,485	20,691,754
Anson	1,304,840	8,881,548	Lenoir	2,917,160	19,191,299
Ashe	1,197,397	7,802,847	Lincoln	3,479,084	20,597,340
Avery	779,733	5,106,421	Macon	1,515,853	9,075,864
Beaufort	2,169,891	13,460,921	Madison	794,418	4,767,060
Bertie	1,033,215	7,167,372	Martin	1,161,434	7,748,068
Bladen	1,793,932	12,834,731	Mcdowell	1,940,973	11,893,251
Brunswick	4,061,271	23,988,094	Mecklenburg	43,657,664	254,558,328
Buncombe	9,146,023	49,653,374	Mitchell	580,288	3,869,824
Burke	4,228,900	28,400,176	Montgomery	1,424,017	10,005,253
Cabarrus	10,065,945	59,863,661	Moore	3,384,455	18,581,208
Caldwell	3,533,530	21,370,420	Nash	4,915,301	31,349,482
Camden	550,105	3,513,608	New Hanover	8,941,272	50,240,784
Carteret	2,768,426	15,335,661	Northampton	948,210	6,642,977
Caswell	856,130	5,834,926	Onslow	8,931,618	46,505,958
Catawba	7,429,838	42,762,379	Orange	5,856,959	33,328,965
Chatham	2,653,597	16,401,671	Pamlico	495,508	3,190,363
Cherokee	1,177,588	7,156,471	Pasquotank	1,933,402	11,344,006
Chowan	737,376	4,626,473	Pender	2,564,516	14,714,900
Clay	468,181	2,849,153	Perquimans	568,398	3,578,368
Cleveland	5,140,418	34,744,925	Person	1,635,667	10,753,996
Columbus	2,938,801	21,298,934	Pitt	8,192,681	48,016,742
Craven	4,676,541	25,967,862	Polk	777,523	5,279,890
Cumberland	17,876,550	115,858,197	Randolph	6,634,527	39,162,550
Currituck	1,095,170	6,203,951	Richmond	2,370,446	16,693,763
Dare	1,577,224	8,884,026	Robeson	8,412,180	55,353,202
Davidson	7,390,799	44,565,077	Rockingham	4,085,699	26,522,722
Davie	2,077,102	13,261,825	Rowan	6,035,009	38,558,853
Duplin	2,993,413	18,429,348	Rutherford	3,032,667	19,386,919
Durham	10,633,151	61,257,205	Sampson	3,788,515	24,393,154
Edgecombe	2,749,429	18,244,661	Scotland	2,234,994	15,219,805
Forsyth	16,559,297	97,075,988	Stanly	3,114,886	20,638,676
Franklin	2,552,055	15,029,108	Stokes	2,106,739	14,635,822
Gaston	10,414,068	65,645,732	Surry	3,460,664	22,842,689
Gates	538,557	3,653,769	Swain	720,554	4,294,193
Graham	447,704	2,705,278	Transylvania	1,023,308	6,253,249
Granville	2,492,029	15,839,694	Tyrrell	203,202	1,290,603
Greene	995,193	7,013,424	Union	11,437,619	66,769,724
Guilford	26,040,826	153,697,541	Vance	2,169,594	14,256,735
Halifax	2,669,733	17,431,063	Wake	44,206,235	233,641,526
Harnett	5,624,766	34,377,655	Warren	823,428	5,318,060
Haywood	2,364,227	13,630,278	Washington	628,619	4,541,354
Henderson	4,060,059	23,023,594	Watauga	1,710,528	9,235,689
Hertford	1,213,122	7,969,583	Wayne	6,493,121	42,743,237
Hoke	2,990,042	18,842,351	Wilkes	3,543,392	23,241,572
Hyde	222,238	1,400,557	Wilson	3,645,814	22,995,246
Iredell	7,880,669	44,325,262	Yadkin	1,820,954	12,105,407
Jackson	1,149,776	7,153,297	Yancey	676,824	4,351,598

# SALES







The gross lottery ticket sales for fiscal year 2013 totaled \$1.69 billion as compared to \$1.597 billion for fiscal year 2012 and \$1.461 billion in fiscal year 2011. This represents an increase of \$93 million from 2012 and \$229 million from 2011.

Gross instant ticket sales were \$1.01 billion for fiscal year 2013 compared with \$960 million for fiscal year 2012 and \$862 million in fiscal year 2011, an increase of approximately \$50 million from fiscal year 2012 and approximately \$148 million from fiscal year 2011. The increase realized during fiscal year 2013 is attributable to several factors. The NCEL continued with its third \$20 instant scratch-off mega game, \$4 Million Cash Blowout, with a prize payout of 75%, which generated over \$63 million in sales during fiscal year 2013. In addition the NCEL launched its fourth \$20 instant scratch-off mega game, \$4 Million Gold Bullion, which generated over \$54 million in sales. The NCEL also launched its "A Week for Life" family of tickets, with games available at four price points from \$10 and below, which combined generated sales of over \$121 million. The NCEL released several very successful licensed games during the year. The Star Trek Instant Scratch-Off was introduced and provided players the chance to win a grand prize trip package, including VIP access to the Star Trek convention in Las Vegas. The NCEL launched its suite of Instant Monopoly Scratch-Off licensed games, with Monopoly games at four price points under \$10 resulting in over \$40 million in sales. In addition, other licensed instant games released such as "Bejeweled Money Multiplier" also proved to be very popular.

Draw game sales were \$678 million for fiscal year 2013 compared to \$637 million for fiscal year 2012 and \$599 for fiscal year 2011, representing a \$41 million increase from fiscal year 2012 and a \$79 million increase from fiscal year 2011. Draw game sales benefited from high jackpots in the multi-state game Powerball. The Powerball jackpot reached over \$500 million twice during the fiscal year, which helped increase Powerball sales to \$197 million, from \$153 million the previous year. The Carolina Cash 5 top prize exceeded half a million dollars eight times during the fiscal year and reached over \$1 million once, resulting in increased draw sales. The Carolina Pick 4 game also had increased sales from the previous year. Carolina Pick 4 sales were over \$103.9 million compared to \$91.5 million the previous year.

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

## SALES BY REGION FY 2013

Region	 Instant	 Powerball	 Mega Millions	 Cash 5	 Pick 4	 Pick 3	TOTAL
Ashville	\$ 83,705,569	\$ 14,773,964	\$ 4,330,659	\$ 4,664,429	\$ 1,610,628	\$ 3,731,969	\$ 112,817,218
Greensboro	156,874,323	29,264,762	8,535,577	10,437,805	13,264,976	29,160,494	\$ 247,537,936
Charlotte	266,348,740	58,041,336	14,270,968	16,101,176	16,190,035	36,506,872	\$ 407,459,127
Raleigh	379,173,624	73,865,042	20,488,566	25,215,782	47,714,315	126,167,533	\$ 672,624,862
Greenville	125,840,933	20,997,686	6,039,940	8,061,371	25,122,168	63,301,383	\$ 249,363,481
<b>Total</b>	<b>\$ 1,011,943,189</b>	<b>\$ 196,942,790</b>	<b>\$ 53,665,710</b>	<b>\$ 64,480,563</b>	<b>\$ 103,902,120</b>	<b>\$ 258,868,250</b>	<b>\$ 1,689,802,622</b>
% of Sales	59.9%	11.7%	3.2%	3.8%	6.1%	15.3%	100.0%



# 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.

## Condensed Statement of Net Position (in thousands)

	FY 2013	FY 2012	FY 2011
<b>ASSETS</b>			
Total current assets	\$ 59,643	\$ 48,484	\$ 30,345
Noncurrent assets	51,605	47,337	36,586
<b>Total Assets</b>	<b>111,248</b>	<b>95,821</b>	<b>66,931</b>
<b>LIABILITIES</b>			
Total current liabilities	60,525	49,338	30,217
Noncurrent Liabilities	50,723	46,483	36,714
<b>Total Liabilities</b>	<b>111,248</b>	<b>95,821</b>	<b>66,931</b>
<b>NET ASSETS</b>			
Invested in capital asset	897	672	819
Unrestricted net assets	(897)	(672)	(819)
<b>Total Net Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

\*Readers wanting more detailed financial information should refer to the NCEL's FY 2013 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at: <http://www.nc-educationlottery.org/about.aspx>

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 capital 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, 2013 but will be transferred during fiscal year 2014.)

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, 2013 (in thousands)

Category	Balance July 1, 2012	Increase	Decrease	Balance June 30, 2013
Capital assets, depreciable				
Furniture	\$ 29	\$ -	\$ -	\$ 46
Equipment	3,076	310	-	3,629
Motorized equipment	67	-	-	67
<b>Total capital assets, depreciable</b>	<b>3,172</b>	<b>310</b>	<b>-</b>	<b>3,742</b>
Less accumulated depreciation for				
Furniture	29	2	-	31
Equipment	2,403	343	-	2,746
Motorized equipment	68	-	-	68
<b>Total accumulated depreciation</b>	<b>2,500</b>	<b>345</b>	<b>-</b>	<b>2,845</b>
<b>Total capital assets, depreciable net</b>	<b>672</b>	<b>225</b>	<b>-</b>	<b>897</b>
<b>Capital assets, net</b>	<b>\$ 672</b>	<b>\$ 225</b>	<b>\$ -</b>	<b>\$ 897</b>

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.

### OPERATING REVENUES:

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

Total gross lottery ticket sales for the fiscal year 2013 were approximately \$1.689 billion as compared to \$1.596 billion in fiscal year 2012. This represents an increase of almost \$93 million.

On some of the 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.

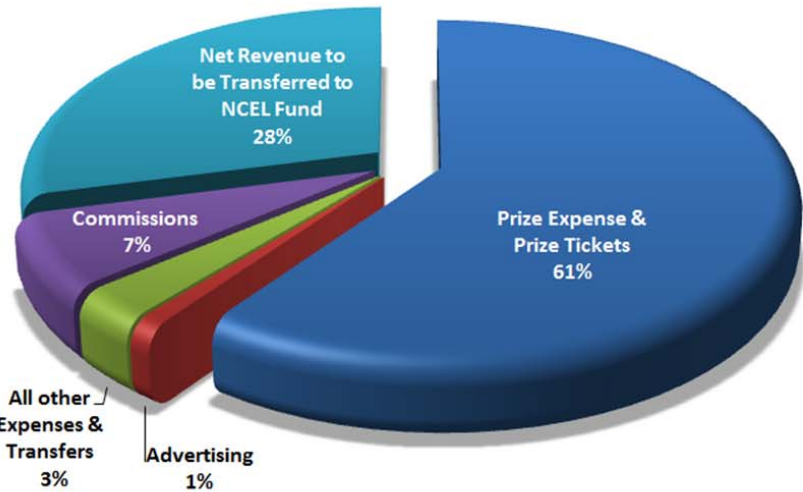
### OPERATING EXPENSES:

The following charts show the major components of NCEL operating expenses and transfers as a percentage of total revenues for the June 30, 2013 and 2012 fiscal years:

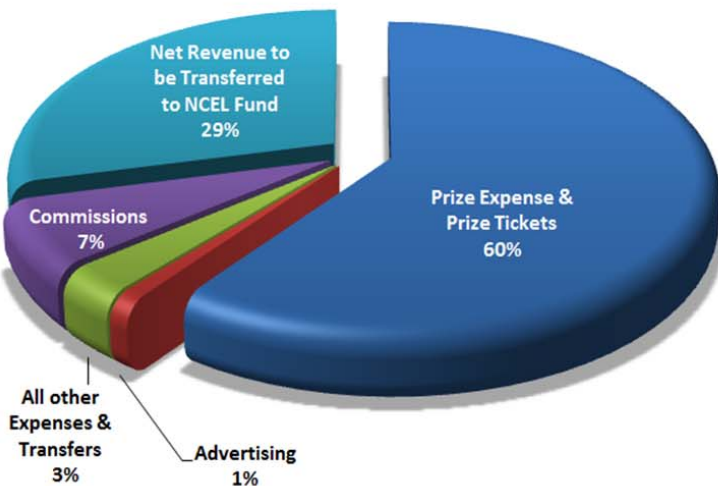
## Statement of Activities (in thousands)

	FY 2013	FY 2012	FY 2011
<b>Operating Revenues:</b>			
Gross Sales:	\$ 1,689,803	\$ 1,596,693	\$ 1,461,106
Less: Prize Tickets and Bad Debt	(90)	(236)	(1,527)
Fees and Licenses	5,296	5,381	5,061
<b>Total Operating Revenues</b>	<b>1,695,009</b>	<b>1,601,838</b>	<b>1,464,640</b>
<b>Operating Expenses:</b>			
Salaries, Wages, and Benefits	17,540	16,639	15,824
Lottery Prizes	1,024,437	961,556	862,996
Retailer Commissions	118,148	111,624	102,127
Retailer Incentive	781	609	592
Gaming Systems Services	27,262	26,031	23,482
Advertising	15,278	14,696	13,760
Marketing	3,540	2,512	2,358
Other Services	4,802	4,634	3,427
Furniture, Fixtures, and Equipment	1,307	762	933
Depreciation	346	457	624
Other General and Administrative Expenses	2,484	2,391	2,387
<b>Total Operating Expenses</b>	<b>1,215,925</b>	<b>1,141,911</b>	<b>1,028,510</b>
<b>Operating Income</b>	<b>479,084</b>	<b>459,927</b>	<b>436,130</b>
<b>Nonoperating Revenues (Expenses):</b>			
Investment Earnings and			
Other Miscellaneous Revenue (Expense)	417	523	1,175
Compulsive Gambling Contribution	(1,000)	(1,000)	(1,000)
Unclaimed Prizes to NC Education Lottery Fund	(11,381)	(11,083)	(8,623)
Net Revenues to the State of NC	(467,127)	(448,386)	(418,248)
Miscellaneous Nonoperating Expenses	7	19	(64)
<b>Total Nonoperating Revenues (Expense)</b>	<b>(479,084)</b>	<b>(459,927)</b>	<b>(430,569)</b>
Net Income	-	-	-
Net Assets	\$ -	\$ -	\$ -

DISTRIBUTION OF REVENUES FY 2013



DISTRIBUTION OF REVENUES FY 2012

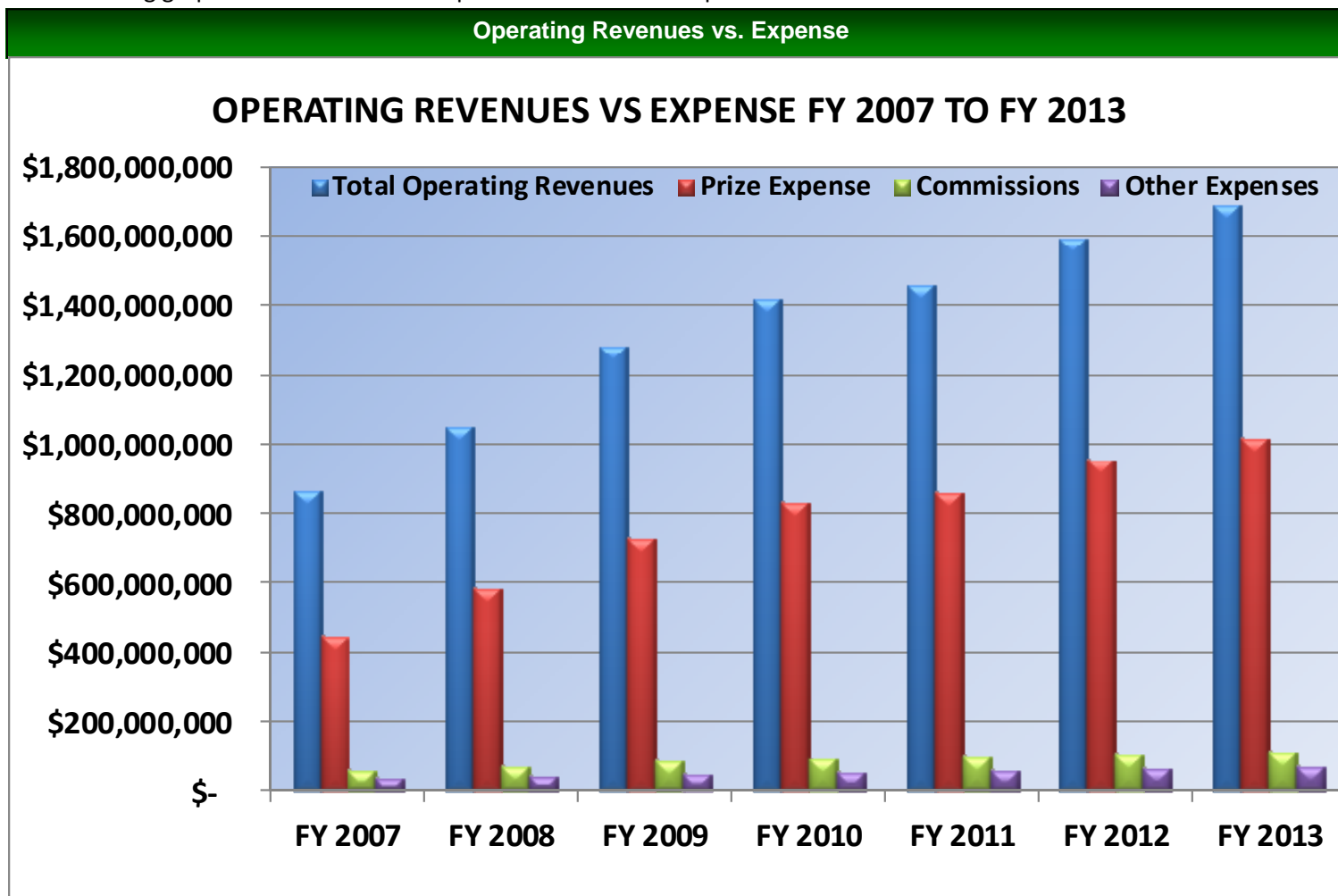


An operating expense is an expense that an organization incurs as a result of its normal business operations. In the lottery's case these expenses are all directly related to the production and sale of lottery tickets.

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 2013 prizes, commissions and gaming vendor charges increased to \$1,169 million from \$1,099 million in 2012. 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 2013 and 2012 administrative expenses were \$46 million and \$43 million respectively.

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



### NONOPERATING REVENUES & EXPENSES:

Nonoperating Revenues and Expenses are defined as revenues or expenses that are incurred by activities not related to the core operations of an organization. In the lottery's case, nonoperating items are any revenues or expenses incurred not directly associated with the sale of lottery tickets.

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

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**

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[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, 2012. 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. The North Carolina Education Lottery has received a Popular Award for the last 5 consecutive years (fiscal years ended 2008-2012.) We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

