

NC EDUCATION LOTTERY

POPULAR ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2018

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, 2018. 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 2018 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 www.nclottery.com/about.aspx

NC Education Lottery

The Lottery transferred its net profits monthly to the Office of State Budget and Management and into the North Carolina State Lottery Fund. Funds then were distributed as outlined in the state budget.

The General Assembly reports the following lottery expenditures for FY18:

- \$383.8 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;
- \$30 million to the new Needs-Based Public School Capital Fund
- \$78.2 million, to the N.C. Pre-K program to fund seats in the prekindergarten program for at-risk four-year-olds;
- \$27.9 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.
- \$43.3 million for LEA Transportation for the state's school systems.

For the 12th year in a row, the N.C. Education Lottery finished the 2017-18 fiscal year by setting a new record for lottery ticket sales, recording \$2.6 billion in sales. From those sales, the Lottery raised \$670.3 million for education programs in North Carolina.

Instant tickets, or scratch-offs, continued to be the Lottery's most popular product, generating \$1.78 billion in sales, or 68.4% of revenue. The Lottery launched 58 new instant games during the year. In October, the Lottery began a new draw game called Carolina Keno that offers chances to win prizes in drawings every five minutes. The new game is played in social settings such as restaurant, bars, and stores with spaces where people gather for food and drink. Typically, people play Keno with their friends, buying tickets as they socialize and watch nearby TV monitors for the winning numbers in the drawings.

During the year, Lottery players received \$1.65 billion in prize money. The biggest wins were four \$10 million top prizes in scratch-off games.

To get a sense of the Lottery's popularity, consider what happens every day across the state. Last year, the Lottery averaged \$7.1 million a day in ticket sales, \$4.5 million in prizes, and \$1.8 million a day raised for education. The Lottery ended the fiscal year with 7,021 retail locations across North Carolina, and retailers earned \$182.8 million in sales commissions and incentives. Total sales since the inception of the Lottery in 2006 stood at \$20.8 billion, and the amount of money raised for education at \$5.8 billion.

In March 2018, the Lottery's executive director, Alice Garland, retired and the N.C. Education Lottery Commission named Mark Michalko, a 30-year gaming industry veteran with both U.S. lottery and international gaming experience, as the new executive director. Michalko became the Lottery's third executive director.

The Lottery continued to be a leader in the U.S. lottery industry on responsible gaming, and received a "clean opinion" from independent auditors in its most recent, (and all prior) financial audit(s). The Lottery's commitment to build the best practices in responsible gaming into all of its operations won it the highest level of responsible gaming certification recognized internationally. The Level 4 accreditation, awarded by the World Lottery Association in December, attests that the Lottery has implemented responsible gaming practices into its day-to-day operations and is committed to continuous improvement of them. The principles govern the protection of lottery players, cooperation with stakeholders, advertising practices and the monitoring of game activities.

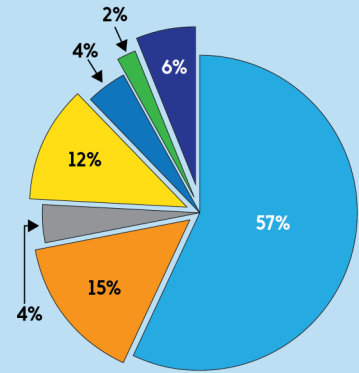
The State Lottery Act directs the lottery to increase and maximize the available revenues for education purposes. In the 2017-18 fiscal year, a breakdown of revenues showed 63.1% went to prizes, 25.7% for education programs, 7% in retailer commissions, and the remaining 4.2% to administrative expenses.

Lottery revenues that exceed projections and unallocated funds are placed in reserve funds. The N.C. General Assembly used the FY18 earnings and some of those additional revenues in its FY18 budget allocations. 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	FY18	Cumulative	County	FY18	Cumulative
Alamance County	9,343,796	82,653,225	Johnston County	13,650,028	114,857,726
Alexander County	1,999,134	19,311,501	Jones County	15,560,461	21,243,567
Alleghany County	680,169	6,506,164	Lee County	4,444,906	40,599,451
Anson County	1,588,005	16,325,512	Lenoir County	3,767,301	36,526,878
Ashe County	1,565,345	14,848,757	Lincoln County	4,573,502	40,913,948
Avery County	1,026,657	9,623,763	Macon County	1,864,026	17,456,036
Beaufort County	2,952,296	26,529,361	Madison County	1,055,944	9,268,593
Bertie County	1,233,333	12,737,693	Martin County	1,479,708	14,504,000
Bladen County	2,221,057	22,962,862	McDowell County	2,636,038	23,836,295
Brunswick County	5,648,906	48,566,422	Mecklenburg County	61,925,096	518,486,269
Buncombe County	11,831,104	101,945,997	Mitchell County	780,725	7,289,582
Burke County	5,377,529	53,206,768	Montgomery County	1,990,587	18,779,985
Cabarrus County	14,980,312	122,515,543	Moore County	4,723,349	39,315,638
Caldwell County	4,738,604	42,252,455	Nash-Rocky Mount	6,161,935	59,134,817
Camden County	2,981,977	9,142,423	New Hanover County	11,577,698	101,879,524
Carteret County	3,602,128	31,280,478	Northampton County	988,151	11,311,260
Caswell County	1,184,497	10,877,325	Onslow County	11,841,837	100,375,898
Catawba County	9,564,884	85,661,051	Orange County	7,889,187	67,736,487
Chatham County	3,845,261	32,806,821	Pamlico County	616,914	5,877,302
Cherokee County	1,511,063	13,981,527	Pasquotank County	2,410,808	22,266,476
Chowan County	907,478	8,772,260	Pender County	4,034,219	31,737,340
Clay County	10,745,988	15,691,156	Perquimans County	710,527	6,848,165
Cleveland County	6,412,633	63,809,760	Person County	2,033,650	19,826,449
Columbus County	3,930,201	38,801,004	Pitt County	10,372,779	94,759,748
Craven County	5,844,764	52,502,764	Polk County	982,119	9,782,271
Cumberland County	22,643,634	218,906,836	Randolph County	8,718,713	78,289,725
Currituck County	1,611,662	12,954,823	Richmond County	3,199,976	31,373,781
Dare County	2,102,327	18,171,738	Robeson County	10,608,460	103,887,919
Davidson County	9,644,391	87,837,911	Rockingham County	5,122,002	49,845,604
Davie County	2,725,033	25,484,601	Rowan-Salisbury	7,879,654	73,743,395
Duplin County	4,141,505	37,117,756	Rutherford County	3,754,529	36,405,725
Durham County	13,842,017	121,929,489	Sampson County	4,876,631	46,565,014
Edgecombe County	3,131,462	32,724,021	Scotland County	2,880,330	28,170,186
Forsyth County	21,937,023	192,105,024	Stanly County	3,908,988	38,595,960
Franklin County	3,428,139	30,220,628	Stokes County	2,762,478	26,990,696
Gaston County	13,835,016	127,404,999	Surry County	4,522,337	43,485,081
Gates County	3,088,735	9,060,890	Swain County	964,075	8,616,968
Graham County	570,001	5,244,145	Transylvania County	1,467,563	12,545,433
Granville County	3,148,478	29,909,297	Tyrrell County	262,596	2,445,782
Greene County	1,361,586	13,060,316	Union County	16,643,552	137,195,349
Guilford County	33,229,912	299,616,731	Vance County	2,584,419	26,434,166
Halifax County	2,978,991	31,531,947	Wake County	65,040,830	503,257,204
Harnett County	8,335,947	70,482,480	Warren County	1,065,907	10,173,531
Haywood County	2,996,929	27,218,725	Washington County	800,145	8,157,714
Henderson County	5,471,546	47,377,354	Watauga County	2,022,978	18,088,754
Hertford County	1,508,650	14,812,700	Wayne County	8,261,947	80,338,706
Hoke County	3,921,818	36,920,424	Wilkes County	4,582,128	44,236,815
Hyde County	316,531	2,769,038	Wilson County	4,736,833	44,580,152
Iredell County	10,465,213	89,863,616	Yadkin County	2,310,939	22,525,600
Jackson County	1,513,335	13,692,073	Yancey County	936,595	8,375,416

Program Allocation



- Non-Instructional Support Personnel
- School Construction
- Prekindergarten
- College Scholarships
- LEA Transportation
- UNC Need-Based Aid
- Public School Capital Fund

Sales

The gross lottery ticket sales for fiscal year 2018 totaled \$2.605 billion as compared to \$2.428 billion for fiscal year 2017 and \$2.384 billion for fiscal year 2016. This represents an increase of \$177 million from 2017 and \$221 million from 2016.



Instant Ticket Sales

Gross instant ticket sales were \$1.783 billion for fiscal year 2018 compared with \$1.695 billion for fiscal year 2017 and \$1.617 billion for fiscal year 2016, an increase of approximately \$88 million from fiscal year 2017 and approximately \$166 million from fiscal year 2016. The increase realized during fiscal year 2018 is attributable to several factors. The increase in instant ticket sales in 2018 was driven by growth at the \$10 and \$20 price points, which experienced a 40% and 18% increases over the previous year, respectively. The introduction of the first oversized ticket, The Big Money Super Ticket™, was a big reason for this growth, contributing over \$60 million in sales. The \$20 game that had the biggest impact on sales was 100X the Cash. This top performing \$20 game accounted for over \$62 million in sales in just 5 months following the launch in February. Despite the great performance of the Super Ticket and 100X the Cash, neither one was the best performing game of the year. That distinction went to the \$30 game, Extreme Millions, which contributed over \$239 million in sales for the year. Family of games continued to play an important role in the instant game portfolio with the introduction of 4 new families, “Frenzy”, “Diamond Dazzler”, “X the Cash” and “7’s”. All of these families combined to produce over \$474 million in total sales in 2018.

Draw Game Sales

Draw game sales were \$823 million for fiscal year 2018 compared to \$732 million for fiscal year 2017 and \$766 million for fiscal year 2016, representing a \$91 million increase over fiscal year 2017 and a \$57 million increase over fiscal year 2016. This growth was balanced amongst most of the draw game portfolio, as Pick 3, Pick 4, Powerball, and Mega Millions all experienced year over year growth. The most significant growth came from Mega Millions, the multi-state jackpot game that benefited from an increase in ticket price from \$1 to \$2. Mega Millions was up \$24 million over 2017 with sales for the year of \$79 million. Powerball sales also grew year over year. Sales for the year were \$169 million, which was \$20 million higher than 2017. The two numbers games, Pick 3 and Pick 4 continued their trend of steady growth with year over year increases of 4% and 7% respectively. Combined the two games accounted for \$462 million in sales in 2018, which was \$20 million higher than the previous year.



Game	FY 2018	FY 2017	FY 2016
Instant Tickets	1,782,807,408	1,695,232,342	1,617,456,944
Powerball	168,683,983	148,510,627	208,736,913
Mega Millions	78,565,795	54,332,136	57,859,391
Pick 3	317,137,941	306,018,460	286,014,567
Pick 4	145,064,522	135,797,947	125,975,768
Cash 5*	65,357,742	68,275,475	62,010,371
All or Nothing	-	-	12,651,658
Lucky for Life	19,176,084	19,904,592	12,885,532
KENO	28,519,473	-	-
Total Sales	2,605,313,020	2,428,071,579	2,383,591,144

*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 2018	FY 2017	FY2016
ASSETS			
Total current assets	70,053	100,151	128,400
Non-current assets	71,938	65,402	58,678
Capital assets, Dep. (net)	2,063	2,068	1,546
Total Assets	144,054	167,621	188,624
Deferred Outflows	6,743	6,614	1,327
LIABILITIES			
Total current liabilities	69,830	96,461	124,272
Non-current liabilities	114,129	77,167	64,704
Total Liabilities	183,959	173,628	188,976
Deferred Inflows	11,536	607	975
NET ASSETS			
Invested in capital assets	2,063	2,068	1,546
Restricted net assets	108	-	-
Unrestricted net assets	(46,869)	(2,068)	(1,546)
Total Net Assets	(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, 2018 but will be transferred during fiscal year 2019.

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, 2018 (in thousands)				
	Balance July 1, 2017	Increase	Decrease	Balance June 30, 2018
Capital assets, depreciable				
Furniture	66	-	(17)	49
Equipment	5,097	5,464	(6,315)	4,246
Motorized equipment	80	-	-	80
Computer software	1,010	-	-	1,010
Total capital assets, depreciable	6,253	5,464	(6,332)	5,385
Less accumulated depreciation for				
Furniture	43	-	(15)	28
Equipment	3,825	391	(1,354)	2,862
Motorized equipment	75	3	-	78
Computer software	242	126	(14)	354
Total accumulated depreciation	4,185	520	(1,383)	3,322
Total capital asset, depreciable net	2,068	4,944	(4,949)	2,063
Capital assets, net	2,068	4,944	(4,949)	2,063

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 2018 Comprehensive Annual Financial Report (CAFR) 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.

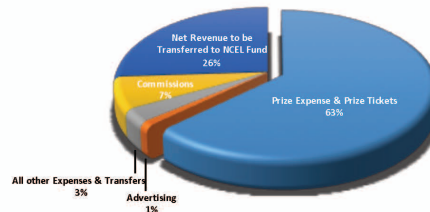
Operating Expenses

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.

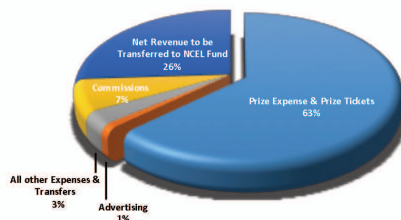
The following charts show the major components of the NCEL operating expense and transfers as a percentage of total revenues for the June 30, 2018, 2017, and 2016 fiscal years:

Statement of Activities (in thousands)			
	FY 2018	FY 2017	FY 2016
Operating Revenues:			
Gross Sales:	2,605,313	2,428,071	2,383,591
Less: Prize Tickets and Bad Debt	(294)	(536)	24
Fees and Licenses	5,399	5,308	5,361
Total Operating Revenues	2,610,418	2,432,843	2,388,976
Operating Expenses:			
Salaries, Wages, and Benefits	22,403	21,299	19,739
Lottery Prizes	1,647,828	1,543,158	1,491,031
Retailer Commissions	181,571	169,439	166,437
Retailer Incentive	1,253	1,020	1,154
Gaming Systems Services	44,257	40,326	40,640
Advertising	24,661	20,110	19,973
Marketing	4,953	4,129	3,981
Other Services	6,109	4,869	5,141
Furniture, Fixtures, and Equipment	705	774	1,494
Depreciation	520	542	671
Other General and Administrative Expenses	3,554	2,855	2,539
Total Operating Expenses	1,937,814	1,808,521	1,752,800
Operating Income	672,604	624,322	636,176
Non-operating Revenues (Expenses):			
Investment Earnings and Other Miscellaneous Revenue (Expense)	1,282	1,106	1,190
Compulsive Gambling Contribution	(1,000)	(1,000)	(1,000)
ALE Gaming Enforcement	(2,100)	(2,100)	(2,100)
Unclaimed Prizes to NC Education Lottery Fund	(15,989)	(17,526)	(13,696)
Net Revenues to the State of NC	(659,481)	(604,979)	(620,572)
Miscellaneous Non-operating Expenses	(524)	177	2
Total Non-operating Revenue (Expense)	(677,812)	(624,322)	(636,176)
Change in Net Position	(5,208)	-	-
Net Position, Beginning July 1	-	-	-
Cumulative Effect from Change in Accounting Principle	(39,490)	-	-
Net Position, Beginning July 1 (Restated)	(39,490)	-	-
Net Position, Ending June 30	(44,698)	-	-

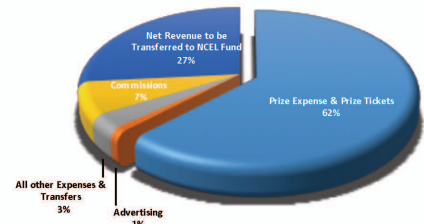
DISTRIBUTION OF REVENUES FY 2018



DISTRIBUTION OF REVENUES FY 2017



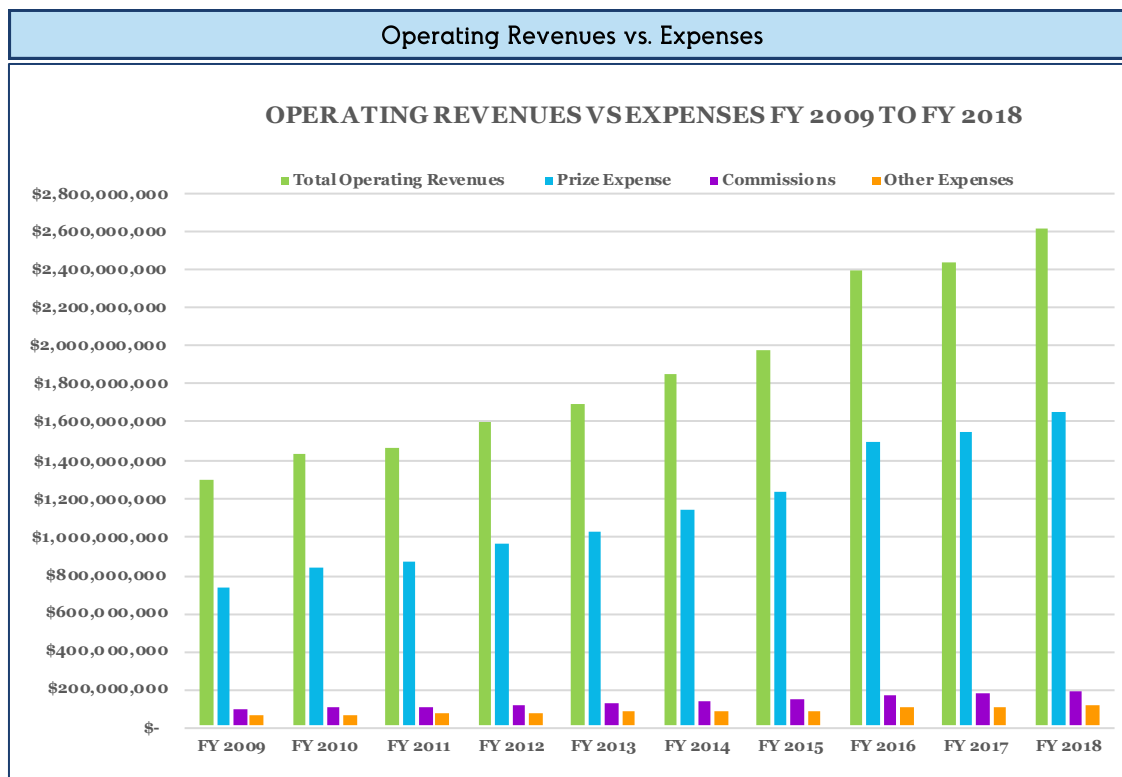
DISTRIBUTION OF REVENUES FY 2016



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 2018, prizes, commissions, and gaming vendor chargers totaled \$1,874 million as compared to \$1,754 million and \$1,698 million for fiscal years 2017 and 2016, 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 2018 and 2017 administrative expenses were \$62.9 million and \$55.6 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.



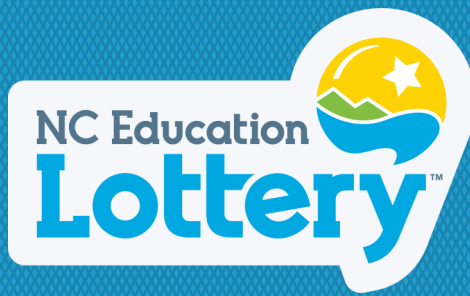
Non-operating Revenues and Expenses

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 FY2018 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at 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

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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, 2017. 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 nine consecutive years (fiscal years ended 2008–2017). 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, 2017

Christopher P. Morill

Executive Director/CEO

75 Copies of this public document were printed at a cost of \$375.00 or \$5.00 per copy.