



Popular Annual Financial Report

FISCAL YEAR ENDED JUNE 30, 2020

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, 2020. 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 2020 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 Reports are available for viewing on the NCEL's website at www.nceducationlottery.com/CorporateSocialResponsibility_Integrity.

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 allocation of money raised by the lottery in FY20:

- \$385.9 million to non-instructional support personnel;
- \$100 million for the Public School Building Capital Fund which provides monies to North Carolina counties to build and repair schools;
- \$73.2 million to the Needs-Based Public School Capital Fund, which provides financial assistance to low-wealth counties to build new schools;
- \$78.2 million, to the N.C. Pre-K program to fund seats in the prekindergarten program for at-risk four-year-olds;
- \$23.3 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.

Education Lottery sets new records for ticket sales and money raised for education.

For the 14th year in a row, the N.C. Education Lottery set a new record for lottery ticket sales in fiscal year 2019-20, and set a new record for money raised for education programs in North Carolina.

Ticket sales exceeded \$3 billion for the first time ever, climbing to \$3.02 billion. Sales increased 5.5 percent, up from \$2.86 billion last year. The lottery continued its record of increasing sales every year of its operations.

From those sales, the Lottery also set a new record for the amount of money raised for the state, raising \$729 million, up 3 percent, or an additional \$20.2 million.

Scratch-off tickets continued to be the Lottery's most popular product, generating \$2.09 billion in sales, or 69% of revenue. Scratch-off sales also set a record, exceeding \$2 billion for the first time ever. The Lottery launched 54 new scratch-off games during the year.

In October, the Education Lottery started a first-of-its kind game in the state called The "BIG SPIN." The new game begins with a scratch-off ticket and ends with a "BIG SPIN" that includes a chance to win up to \$500,000 with the spin of a prize wheel. Then, in November, the lottery expanded its Carolina Keno game statewide to more than 7,000 retail locations.

During the year, Lottery players received \$1.95 billion in prize money including 61 prizes of \$1 million or more. The biggest prizes won were two \$10 million prizes – the largest scratch-off prizes offered in the state – in the \$300,000,000 Supreme Riches game.

The record ticket sales demonstrated again how much North Carolinian enjoy playing lottery games. Last year, the Lottery averaged \$8.2 million a day in ticket sales, \$5.3 million in prizes, and \$2 million a day raised for education. The Lottery ended the fiscal year with 7,015 retail locations across the state. Those retailers earned \$210.4 million in sales commissions and incentives.

Total sales since the inception of the Lottery in 2006 stood at \$26.7 billion, and the amount of money raised for education climbed to \$7.3 billion.

The Lottery again received an "unmodified opinion" from independent auditors in its most recent, (and all prior) financial audit(s).

The Lottery currently holds the highest level of responsible gaming certification recognized internationally. The Level 4 accreditation, awarded by the World Lottery Association, 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.

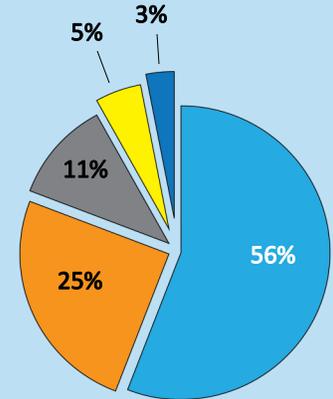
As part of a commitment to continuous improvement, the Education Lottery began in January 2020 a new program called Play Smart designed to give those who choose to buy lottery tickets the resources and tools they need to make smart decisions before they play. With Play Smart, the Education Lottery became the first U.S. lottery to start an original player-focused responsible gaming and prevention program centered on the education, encouragement and empowerment of lottery players.

The N.C. General Assembly allocates lottery revenues that exceed projections to the Needs-Based Public School Capital Fund. With that decision, \$27.6 million in additional monies raised in fiscal year 2019-20 will go 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	FY20	Cumulative	County	FY20	Cumulative
Alamance County	9,346,859	101,258,793	Johnston County	13,993,385	142,534,032
Alexander County	1,912,213	23,195,060	Jones County	501,803	22,254,779
Alleghany County	703,115	7,869,192	Lee County	4,381,692	49,415,846
Anson County	1,224,774	33,912,233	Lenoir County	3,558,869	43,669,575
Ashe County	1,238,103	32,382,884	Lincoln County	4,712,299	50,181,794
Avery County	917,557	11,502,282	Macon County	1,841,062	21,105,743
Beaufort County	2,777,307	32,139,927	Madison County	936,079	11,161,186
Bertie County	1,091,624	14,953,984	Martin County	1,124,629	22,186,075
Bladen County	2,017,029	27,053,363	McDowell County	2,193,115	43,286,252
Brunswick County	5,461,295	59,442,098	Mecklenburg County	60,576,695	638,614,318
Buncombe County	11,163,148	124,387,129	Mitchell County	612,102	23,537,548
Burke County	5,146,857	63,554,977	Montgomery County	1,895,710	22,611,374
Cabarrus County	14,744,131	151,790,422	Moore County	4,682,945	48,612,701
Caldwell County	3,811,327	65,028,101	Nash-Rocky Mount	4,802,509	79,074,011
Camden County	10,740,283	20,594,249	New Hanover County	11,083,271	124,038,389
Carteret County	3,599,685	38,434,741	Northampton County	15,727,864	27,925,750
Caswell County	922,961	27,779,597	Onslow County	11,775,801	123,828,403
Catawba County	9,217,173	104,124,632	Orange County	7,779,749	83,234,774
Chatham County	3,773,740	40,365,373	Pamlico County	615,848	7,077,329
Cherokee County	1,161,547	31,387,994	Pasquotank County	2,312,407	26,893,011
Chowan County	882,461	10,494,127	Pender County	4,013,742	39,667,488
Clay County	469,171	16,628,415	Perquimans County	664,657	8,185,927
Cleveland County	6,235,285	76,171,991	Person County	1,890,827	23,629,525
Columbus County	3,102,087	60,218,348	Pitt County	10,123,227	114,963,108
Craven County	5,648,870	63,736,522	Polk County	981,674	11,726,239
Cumberland County	21,953,102	262,696,687	Randolph County	8,203,300	94,800,157
Currituck County	1,585,582	16,104,223	Richmond County	3,003,406	37,414,048
Dare County	2,135,658	22,442,089	Robeson County	9,656,456	123,369,599
Davidson County	9,314,754	106,588,937	Rockingham County	4,752,868	59,480,284
Davie County	2,666,211	30,808,788	Rowan-Salisbury	7,493,830	88,772,764
Duplin County	4,044,183	45,168,724	Rutherford County	18,150,224	58,183,709
Durham County	12,834,758	147,929,280	Sampson County	4,709,467	55,970,492
Edgecombe County	3,348,072	39,045,688	Scotland County	2,739,006	33,638,888
Forsyth County	21,217,388	234,558,123	Stanly County	3,804,678	46,197,783
Franklin County	3,285,728	36,806,335	Stokes County	2,545,257	32,134,147
Gaston County	13,461,420	154,396,314	Surry County	4,326,555	52,225,310
Gates County	579,797	10,189,238	Swain County	780,681	14,920,121
Graham County	3,666,653	9,444,261	Transylvania County	1,625,980	15,714,365
Granville County	3,058,474	36,124,107	Tyrrell County	226,926	3,535,514
Greene County	1,261,536	15,624,685	Union County	15,878,862	168,940,993
Guilford County	32,021,414	363,541,560	Vance County	2,531,976	31,421,166
Halifax County	2,745,564	37,108,179	Wake County	62,860,840	628,784,296
Harnett County	8,103,610	86,609,375	Warren County	905,232	12,038,751
Haywood County	2,909,423	33,033,271	Washington County	750,819	9,715,293
Henderson County	5,434,456	58,184,688	Watauga County	2,031,529	22,163,404
Hertford County	16,185,371	32,367,839	Wayne County	8,089,532	96,483,589
Hoke County	4,028,445	44,934,243	Wilkes County	4,243,131	52,857,644
Hyde County	269,630	3,335,633	Wilson County	18,920,472	67,953,575
Iredell County	10,155,749	110,176,392	Yadkin County	2,170,361	26,904,604
Jackson County	1,411,256	16,548,626	Yancey County	898,656	10,168,893

Program Allocation



- School Workers
- School Construction
- NC Pre-K
- Financial Aid, Scholarships, Grants
- School Transportation

Sales

The gross lottery ticket sales for fiscal year 2020 totaled \$3.016 billion as compared to \$2.860 billion for fiscal year 2019 and \$2.605 billion for fiscal year 2018. This represents an increase of \$157 million from 2019 and \$255 million from 2018.



Instant Ticket Sales

Gross instant ticket sales were \$2.089 billion for fiscal year 2020 compared with \$1.909 billion for fiscal year 2019 and \$1.783 billion for fiscal year 2018, an increase of approximately \$180 million from fiscal year 2019 and approximately \$306 million from fiscal year 2018. The increase in instant ticket sales in fiscal year 2020 was driven by growth at the \$5, \$10 and \$20 price points, which combined, experienced 12% increases over the previous year. The introduction of the first \$25 game, Extreme Cash in March, was also a significant contributor to the instant ticket growth. The first-of-its-kind \$25 game featured prizes that started at \$40 and resulted in sales of \$88 million in the four months that it was on sale in FY20. The best-selling game of the year was the \$30 game \$300 Million Supreme Riches, which accounted for \$192 million in sales. The \$5 price point was the top selling price point in FY20 accounting for \$452 million in sales with a growth rate of 15% year over year. This growth can be attributed to a strong lineup of games throughout the year led by the Big Spin, \$500 Loaded and 20X the Cash.

Draw Game Sales

Draw game sales were \$927 million for fiscal year 2019 compared to \$951 million for fiscal year 2018, representing a \$24 million decrease compared to fiscal year 2019 and a \$98 million increase over fiscal year 2018. The decline in sales was driven by the multi-state jackpot games, Mega Millions and Powerball. Combined these two games were down 41% year over year. This loss can be attributed to lower than average jackpots for both games. Mega Millions loss was due to the high performance the previous year which included a record setting \$1.5 billion jackpot. Our in-state rolling jackpot game, Cash 5 grew at a healthy rate of 6% year over year due to a full year of sales following a game change that was made back in November of 2018.



Game	FY 2020	FY 2019	FY 2018
Instant Tickets	2,089,212,972	1,908,861,531	1,782,807,408
Powerball	101,326,600	158,736,625	168,683,983
Mega Millions	75,349,730	142,092,878	78,565,795
Pick 3	400,507,614	352,111,247	317,137,941
Pick 4	185,154,744	161,554,924	145,064,522
Cash 5*	78,014,721	73,282,850	65,357,742
Lucky for Life	20,362,570	20,493,314	19,176,084
KENO	66,276,603	42,491,370	28,519,473
Total Sales	3,016,205,554	2,859,624,739	2,605,313,020

*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 2020	FY 2019	FY 2018
ASSETS			
Total current assets	57,873	58,420	70,053
Non-current assets	79,825	77,017	71,938
Capital assets, Dep. (net)	2,541	3,000	2,063
Total Assets	140,239	135,437	144,054
Deferred Outflows	8,080	7,861	6,743
LIABILITIES			
Total current liabilities	64,189	62,234	69,830
Non-current liabilities	117,256	110,885	114,129
Total Liabilities	181,446	173,119	183,959
Deferred Inflows	11,571	14,877	11,536
NET ASSETS			
Invested in capital assets	2,541	3,000	2,063
Restricted net assets	36	127	108
Unrestricted net assets	(47,275)	(47,825)	(46,869)
Total Net Assets	(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, 2020 but will be transferred during fiscal year 2021.

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, 2020 (in thousands)				
	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2019
Capital assets, depreciable				
Furniture	49	-	-	49
Equipment	5016	758	800	5,058
Motorized equipment	80	-	-	80
Computer software	1010	-	-	1,010
Total capital assets, depreciable	6,155	758	800	6,197
Less accumulated depreciation for				
Furniture	29	-	-	29
Equipment	2,897	400	110	2,607
Motorized equipment	81	-	-	81
Computer software	607	127	-	480
Total accumulated depreciation	3,614	527	110	3,197
Total capital asset, depreciable net	2,541	231	690	3,000
Capital assets, net	2,541	231	690	3,000

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 2020 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.

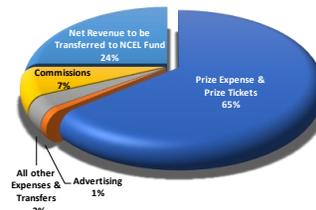
Operating Expenses

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.

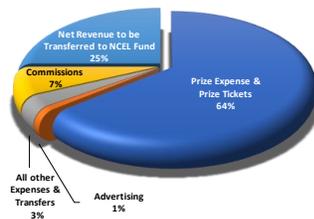
The following charts show the major components of the NCEL operating expense and transfers as a percentage of total revenues for the June 30, 2020, 2019, and 2018 fiscal years:

Statement of Activities (in thousands)			
	FY 2020	FY 2019	FY 2018
Operating Revenues:			
Gross Sales:	3,016,205	2,859,624	2,605,313
Less: Prize Tickets and Bad Debt	(2)	(14)	(294)
Fees and Licenses	5,399	5,335	5,399
Total Operating Revenues	3,021,602	2,864,945	2,610,418
Operating Expenses:			
Salaries, Wages, and Benefits	25,478	22,259	22,403
Lottery Prizes	1,957,588	1,845,287	1,647,828
Retailer Commissions	209,187	198,924	181,571
Retailer Incentive	1,256	1,120	1,253
Gaming Systems Services	53,883	45,586	44,257
Advertising	21,729	25,367	24,661
Marketing	4,535	4,448	4,953
Other Services	10,948	5,388	6,109
Furniture, Fixtures, and Equipment	1,469	944	705
Depreciation	527	564	520
Other General and Administrative Expenses	4,121	4,018	3,554
Total Operating Expenses	2,290,721	2,153,905	1,937,814
Operating Income	730,881	711,040	672,604
Non-operating Revenues (Expenses):			
Investment Earnings and Other Miscellaneous Revenue (Expense)	1,156	1,450	1,282
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	(13,617)	(16,206)	(15,989)
Net Revenues to the State of NC	(715,782)	(692,989)	(659,481)
Miscellaneous Non-operating Expenses	462	(195)	(524)
Total Non-operating Revenue (Expense)	(730,881)	(711,040)	(677,812)
Change in Net Position	-	-	(5,208)
Net Position, Beginning July 1	(44,698)	(44,698)	-
Cumulative Effect from Change in Accounting Principle	-	-	(39,490)
Net Position, Beginning July 1 (Restated)	-	-	(39,490)
Net Position, Ending June 30	(44,698)	(44,698)	(44,698)

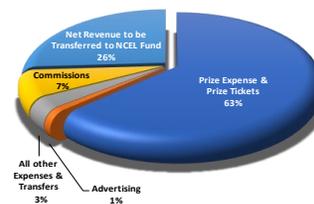
DISTRIBUTION OF REVENUES FY 2020



DISTRIBUTION OF REVENUES FY 2019



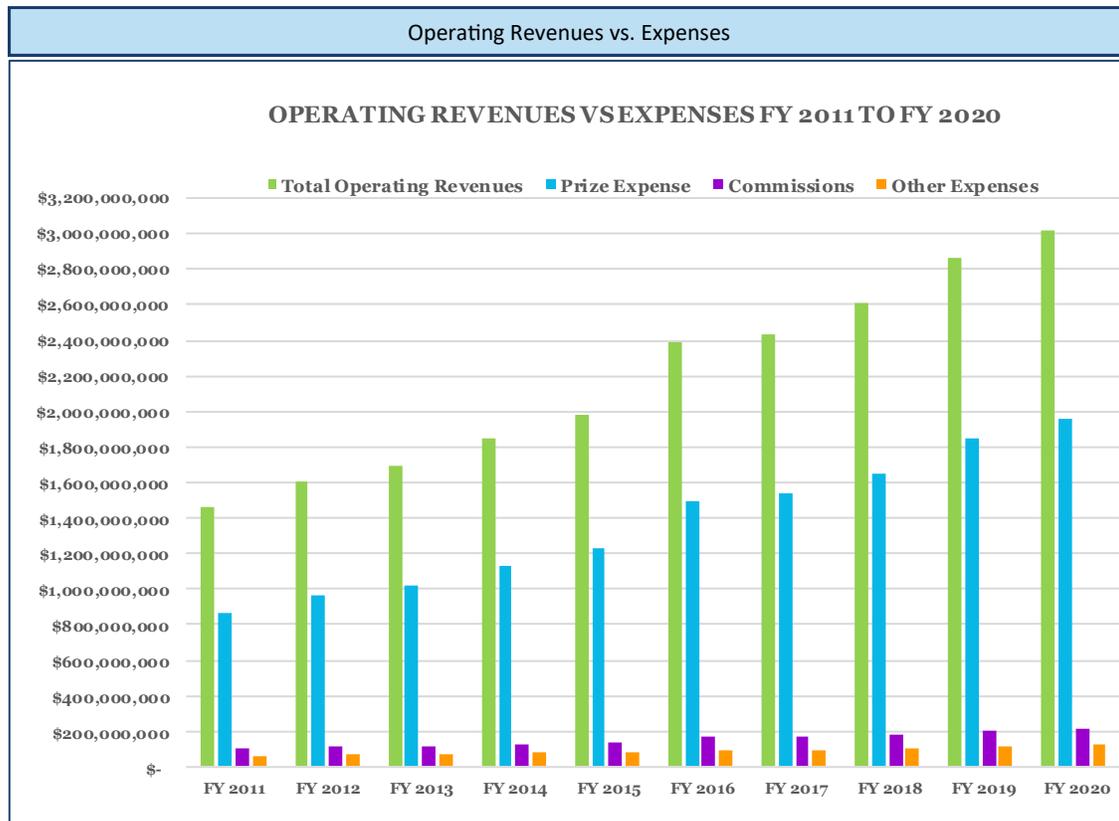
DISTRIBUTION OF REVENUES FY 2018



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 2020, prizes, commissions, and gaming vendor chargers totaled \$2,226 million as compared to \$2,090 million and \$1,874 million for fiscal years 2019 and 2018, respectively. Other operating expenses, which consist of advertising and marketing, salary and benefits, professional fees, rent, maintenance, depreciation, and general administrative expenses increased to \$70.1 million in fiscal year 2020, as compared with \$64.1 million and \$64.2 million for fiscal years 2019 and 2018, 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 FY2020 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at https://www.nc lottery.com/CorporateSocialResponsibility_Integrity



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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.

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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, 2019. 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 twelve consecutive years (fiscal years ended 2008–2019). 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, 2019

Christopher P. Morill

Executive Director/CEO