



NC EDUCATION LOTTERY  
**POPULAR ANNUAL  
FINANCIAL REPORT**  
FISCAL YEAR ENDED JUNE 30, 2019

**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, 2019. 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 2019 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](http://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.

General Assembly made the following allocation of money raised by the lottery in FY19:

- \$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;
- \$141.7 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;
- \$30.4 million, for N.C. Education Lottery Scholarships which are awarded based on financial need to students attending a state university or community college;
- \$10.7 million, to the UNC Need-Based Grant program, which provides financial aid based on need to students attending one of the 16 UNC system institutions.
- \$21.4 million for LEA Transportation for the state's school systems.

For the 13th year in a row, the N.C. Education Lottery finished the 2018-19 fiscal year by setting a new record for lottery ticket sales, recording \$2.86 billion in sales. From those sales, the Lottery also set a new record for earnings for the state, raising \$709.2 million for education programs in North Carolina.

Instant tickets, or scratch-offs, continued to be the Lottery's most popular product, generating \$1.91 billion in sales, or 66.8% of revenue. The Lottery launched 57 new instant games during the year.

During the year, Lottery players received \$1.84 billion in prize money including 66 prizes of \$1 million or more. The biggest win occurred in June when a North Carolina Powerball player won a \$344 million jackpot. It was the largest jackpot ever won in the state and the seventh time that a North Carolinian won either the Powerball or Mega Millions jackpot.

Ticket sales show that lottery games remain popular in the state. Last year, the Lottery averaged \$7.8 million a day in ticket sales, \$5 million in prizes, and \$1.9 million a day raised for education. The Lottery ended the fiscal year with 7,049 retail locations across North Carolina, and retailers earned \$198.9 million in sales commissions and incentives. Total sales since the inception of the Lottery in 2006 stood at \$23.7 billion, and the amount of money raised for education at \$6.6 billion.

The Lottery again received an "unmodified opinion" from independent auditors in its most recent, (and all prior) financial audit(s). In May, the Lottery received the results of its latest Performance Audit, conducted by Delehanty Consulting LLC. The biennial audit, which reviewed operations through June 30, 2018, described the lottery's performance as exceptional. It reported that the N.C. Education Lottery was the only one of the 45 lotteries operating at that time in the United States to increase ticket sales every year of its operations and the only one to increase operating income per capital from traditional lotteries products every year of its existence except for one.

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.

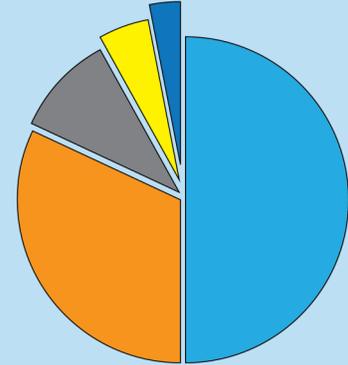
The State Lottery Act directs the lottery to increase and maximize the available revenues for education purposes. In the 2018-19 fiscal year, a breakdown of revenues showed 64.4% went to prizes, 24.7% for education programs, 7% in retailer commissions, and the remaining 3.9% to administrative expenses.

Lottery revenues that exceed projections and unallocated funds are placed in a reserve fund. The N.C. General Assembly used the FY19 earnings and some of those unallocated revenues in the reserve fund in its FY19 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	FY19	Cumulative	County	FY19	Cumulative
Alamance County	9,258,709	91,911,934	Johnston County	13,682,922	128,540,647
Alexander County	1,971,347	21,282,847	Jones County	509,409	21,752,976
Alleghany County	659,913	7,166,077	Lee County	4,434,702	45,034,154
Anson County	16,361,947	32,687,459	Lenoir County	3,583,828	40,110,706
Ashe County	16,296,024	31,144,781	Lincoln County	4,555,547	45,469,495
Avery County	960,962	10,584,725	Macon County	1,808,645	19,264,681
Beaufort County	2,833,259	29,362,620	Madison County	956,514	10,225,106
Bertie County	1,124,667	13,862,360	Martin County	6,557,446	21,061,446
Bladen County	2,073,472	25,036,334	McDowell County	17,256,842	41,093,136
Brunswick County	5,414,382	53,980,803	Mecklenburg County	59,551,354	578,037,623
Buncombe County	11,277,985	113,223,981	Mitchell County	15,635,864	22,925,446
Burke County	5,201,352	58,408,120	Montgomery County	1,935,679	20,715,664
Cabarrus County	14,530,748	137,046,291	Moore County	4,614,118	43,929,755
Caldwell County	18,964,320	61,216,775	Nash-Rocky Mount	15,136,686	74,271,502
Camden County	711,543	9,853,966	New Hanover County	11,075,594	112,955,119
Carteret County	3,554,579	34,835,056	Northampton County	886,626	12,197,886
Caswell County	15,979,311	26,856,637	Onslow County	11,676,704	112,052,602
Catawba County	9,246,408	94,907,459	Orange County	7,718,537	75,455,024
Chatham County	3,784,812	36,591,633	Pamlico County	584,179	6,461,481
Cherokee County	16,244,920	30,226,447	Pasquotank County	2,314,128	24,580,604
Chowan County	839,406	9,611,666	Pender County	3,916,406	35,653,746
Clay County	468,087	16,159,243	Perquimans County	673,104	7,521,270
Cleveland County	6,126,946	69,936,706	Person County	1,912,250	21,738,698
Columbus County	18,315,257	57,116,261	Pitt County	10,080,133	104,839,881
Craven County	5,584,887	58,087,652	Polk County	962,294	10,744,565
Cumberland County	21,836,749	240,743,585	Randolph County	8,307,131	86,596,857
Currituck County	1,563,818	14,518,641	Richmond County	3,036,861	34,410,642
Dare County	2,134,693	20,306,431	Robeson County	9,825,223	113,713,143
Davidson County	9,436,271	97,274,183	Rockingham County	4,881,811	54,727,416
Davie County	2,657,976	28,142,577	Rowan-Salisbury	7,535,539	81,278,934
Duplin County	4,006,785	41,124,541	Rutherford County	3,627,761	40,033,486
Durham County	13,165,032	135,094,521	Sampson County	4,696,010	51,261,024
Edgecombe County	2,973,594	35,697,615	Scotland County	2,729,696	30,899,882
Forsyth County	21,235,711	213,340,735	Stanly County	3,797,144	42,393,104
Franklin County	3,299,979	33,520,608	Stokes County	2,598,193	29,588,890
Gaston County	13,529,896	140,934,895	Surry County	4,413,674	47,898,755
Gates County	548,551	9,609,441	Swain County	5,522,472	14,139,440
Graham County	533,463	5,777,608	Transylvania County	1,542,952	14,088,385
Granville County	3,156,336	33,065,633	Tyrrell County	862,807	3,308,589
Greene County	1,302,833	14,363,150	Union County	15,866,782	153,062,132
Guilford County	31,903,415	331,520,146	Vance County	2,455,025	28,889,190
Halifax County	2,830,668	34,362,615	Wake County	62,666,251	565,923,456
Harnett County	8,023,285	78,505,765	Warren County	959,987	11,133,518
Haywood County	2,905,122	30,123,848	Washington County	806,760	8,964,474
Henderson County	5,372,879	52,750,232	Watauga County	2,043,121	20,131,876
Hertford County	1,369,768	16,182,468	Wayne County	8,055,350	88,394,057
Hoke County	3,985,374	40,905,798	Wilkes County	4,377,698	48,614,513
Hyde County	296,965	3,066,004	Wilson County	4,452,951	49,033,103
Iredell County	10,157,027	100,020,643	Yadkin County	2,208,644	24,734,243
Jackson County	1,445,297	15,137,370	Yancey County	894,821	9,270,237

## Program Allocation



**50%** School Workers

**32%** School Construction

**10%** Pre-Kindergarten

**5%** Financial Aid, Scholarships, Grants

**3%** School Transportation

# Sales

The gross lottery ticket sales for fiscal year 2019 totaled \$2.860 billion as compared to \$2.605 billion for fiscal year 2018 and \$2.428 billion for fiscal year 2017. This represents an increase of \$255 million from 2018 and \$432 million from 2017.



## Instant Ticket Sales

Gross instant ticket sales were \$1.909 billion for fiscal year 2019 compared with \$1.783 billion for fiscal year 2018 and \$1.695 billion for fiscal year 2017, an increase of approximately \$126 million from fiscal year 2018 and approximately \$214 million from fiscal year 2017. The increase in instant ticket sales in 2019 was driven by growth at the \$20 and \$30 price points, which experienced 10% and 39% increases over the previous year. The introduction of the first new \$30 game, \$10 Million Colossal Cash, in 18 months was the main contributor to this growth. A second \$30 game, \$300 Million Supreme Riches, was also launched in April when a previous \$30 game was removed from the market. These two \$30 game launches resulted in a record sales year for that price point, generating over \$370 million in sales. Three new \$20 games were also introduced last year, including the first ever Playbook that included 5 games in a booklet for \$20. The best selling game of the year was the \$30 game \$10 Million Colossal Cash, which accounted for \$214 million in sales. Family of games continued to play an important role in the instant game portfolio with the introduction of 4 new families, "Hit", "Back Scratch", "X the Cash" and "Loaded". All these families combined produced over \$588 million in total sales in 2019, which represented 31% of total instant ticket sales for the year.

## Draw Game Sales

Draw game sales were \$951 million for fiscal year 2019 compared to \$829 million for fiscal year 2018 and \$737 million for fiscal year 2017, representing a \$122 million increase over fiscal year 2018 and a \$214 million increase over fiscal year 2017. This growth was balanced amongst most of the draw game portfolio, as Pick 3, Pick 4, Cash 5, Lucky for Life 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 the highest jackpot in the game's history of \$1.58 billion in October of 2018. Mega Millions was up \$62 million or 77% over 2018 with sales for the year of \$142 million. Pick 3 and Pick 4 each grew at a rate of 11% year over year, which was significantly higher than previous years. Combined the two games accounted for \$513 million in sales in 2019, which was \$51 million higher than the previous year. Cash 5 benefitted from a game change in November, and ended the year up 9% over the previous year with sales of \$73 million.



Game	FY 2019	FY 2018	FY 2017
Instant Tickets	1,908,861,531	1,782,807,408	1,695,232,342
Powerball	158,736,625	168,683,983	148,510,627
Mega Millions	142,092,878	78,565,795	54,332,136
Pick 3	352,111,247	317,137,941	306,018,460
Pick 4	161,554,924	145,064,522	135,797,947
Cash 5*	73,282,850	65,357,742	68,275,475
All or Nothing	-	-	-
Lucky for Life	20,493,314	19,176,084	19,904,592
KENO	42,491,370	28,519,473	-
<b>Total Sales</b>	<b>2,859,624,739</b>	<b>2,605,313,020</b>	<b>2,428,071,579</b>

\*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 2019	FY 2018	FY 2017
<b>ASSETS</b>			
Total current assets	58,420	70,053	100,151
Non-current assets	77,017	71,938	65,402
Capital assets, Dep. (net)	3,000	2,063	2,068
<b>Total Assets</b>	<b>135,437</b>	<b>144,054</b>	<b>167,621</b>
Deferred Outflows	7,861	6,743	6,614
<b>LIABILITIES</b>			
Total current liabilities	62,234	69,830	96,461
Non-current liabilities	110,885	114,129	77,167
<b>Total Liabilities</b>	<b>173,119</b>	<b>183,959</b>	<b>173,628</b>
Deferred Inflows	14,877	11,536	607
<b>NET ASSETS</b>			
Invested in capital assets	3,000	2,063	2,068
Restricted net assets	127	108	-
Unrestricted net assets	(47,825)	(46,869)	(2,068)
<b>Total Net Assets</b>	<b>(44,698)</b>	<b>(44,698)</b>	<b>-</b>

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, 2019 but will be transferred during fiscal year 2020.

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, 2019 (in thousands)				
	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2018
Capital assets, depreciable				
Furniture	49	-	-	49
Equipment	5,058	2,185	1,373	4,246
Motorized equipment	80	-	-	80
Computer software	1,010	-	-	1,010
<b>Total capital assets, depreciable</b>	<b>6,197</b>	<b>2,185</b>	<b>1,373</b>	<b>5,385</b>
Less accumulated depreciation for				
Furniture	29	-	-	29
Equipment	2,607	435	689	2,861
Motorized equipment	81	3	-	78
Computer software	480	126	-	354
<b>Total accumulated depreciation</b>	<b>3,197</b>	<b>564</b>	<b>689</b>	<b>3,322</b>
<b>Total capital asset, depreciable net</b>	<b>3,000</b>	<b>1,621</b>	<b>684</b>	<b>2,063</b>
Capital assets, net	3,000	1,621	684	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 2019 Comprehensive Annual Financial Report (CAFR) available on the North Carolina Education Lottery's website at : [https://www.ncлотtery.com/CorporateSocialResponsibility\\_Integrity](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, 2019, 2018, and 2017 fiscal years:

Statement of Activities (in thousands)			
	FY 2019	FY 2018	FY 2017
<b>Operating Revenues:</b>			
Gross Sales:	2,859,624	2,605,313	2,428,071
Less: Prize Tickets and Bad Debt	(14)	(294)	(536)
Fees and Licenses	5,335	5,399	5,308
<b>Total Operating Revenues</b>	<b>2,864,945</b>	<b>2,610,418</b>	<b>2,432,843</b>
<b>Operating Expenses:</b>			
Salaries, Wages, and Benefits	22,259	22,403	21,299
Lottery Prizes	1,845,287	1,647,828	1,543,158
Retailer Commissions	198,924	181,571	169,439
Retailer Incentive	1,120	1,253	1,020
Gaming Systems Services	45,586	44,257	40,326
Advertising	25,367	24,661	20,110
Marketing	4,448	4,953	4,129
Other Services	5,388	6,109	4,869
Furniture, Fixtures, and Equipment	944	705	774
Depreciation	564	520	542
Other General and Administrative Expenses	4,018	3,554	2,855
<b>Total Operating Expenses</b>	<b>2,153,905</b>	<b>1,937,814</b>	<b>1,808,521</b>
<b>Operating Income</b>	<b>711,040</b>	<b>672,604</b>	<b>624,322</b>
<b>Non-operating Revenues (Expenses):</b>			
Investment Earnings and Other Miscellaneous Revenue (Expense)	1,450	1,282	1,106
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	(16,206)	(15,989)	(17,526)
Net Revenues to the State of NC	(692,989)	(659,481)	(604,979)
Miscellaneous Non-operating Expenses	(195)	(524)	177
<b>Total Non-operating Revenue (Expense)</b>	<b>(711,040)</b>	<b>(677,812)</b>	<b>(624,322)</b>
<b>Change in Net Position</b>	<b>-</b>	<b>(5,208)</b>	<b>-</b>
<b>Net Position, Beginning July 1</b>	<b>(44,698)</b>	<b>-</b>	<b>-</b>
<b>Cumulative Effect from Change in Accounting Principle</b>	<b>-</b>	<b>(39,490)</b>	<b>-</b>
<b>Net Position, Beginning July 1 (Restated)</b>	<b>-</b>	<b>(39,490)</b>	<b>-</b>
<b>Net Position, Ending June 30</b>	<b>(44,698)</b>	<b>(44,698)</b>	<b>-</b>

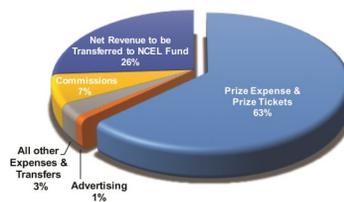
DISTRIBUTION OF REVENUES FY 2019



DISTRIBUTION OF REVENUES FY 2018



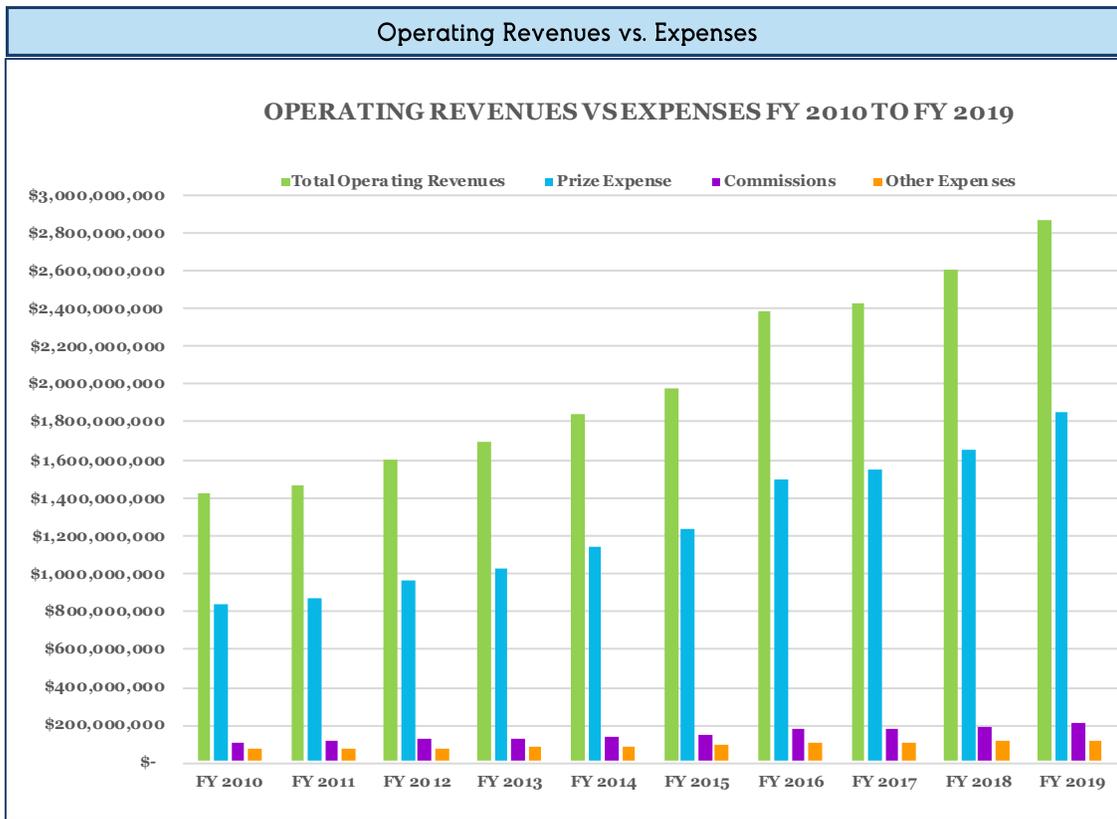
DISTRIBUTION OF REVENUES FY 2017



# 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 2019, prizes, commissions, and gaming vendor chargers totaled \$2,090 million as compared to \$1,874 million and \$1,754 million for fiscal years 2018 and 2017, 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 2019 and 2018 administrative expenses were \$64.1 million and \$64.2 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 FY2019 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at [https://www.nc lottery.com/CorporateSocialResponsibility\\_Integrity](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.

**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, 2018. 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 ten consecutive years (fiscal years ended 2008–2018). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

250 Copies of this public document were printed at a cost of \$356.77 or \$1.43 per copy.



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, 2018**

*Christopher P. Morrell*

Executive Director/CEO