

NORTH CAROLINA EDUCATION LOTTERY

A MAJOR ENTERPRISE FUND OF THE PRIMARY GOVERNMENT OF
THE STATE OF NORTH CAROLINA



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 & JUNE 30, 2013

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COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2014 & JUNE 30, 2013



W. KEITH BALLENTINE
COMMISSION CHAIRMAN

ALICE GARLAND
EXECUTIVE DIRECTOR

Prepared by the North Carolina Education Lottery Finance Division

This report was prepared by the
North Carolina Education Lottery Finance Division

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For the Fiscal Years Ended June 30, 2014 & June 30, 2013

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INTRODUCTORY SECTION



W. Keith Ballentine
Commission Chairman



Alice Garland
Executive Director

September 23, 2014

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Citizens of North Carolina

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the North Carolina Education Lottery (NCEL) for the fiscal years ended June 30, 2014 & June 30, 2013. The finance department of the NCEL prepared this report to provide a comprehensive overview of our financial statements. Lottery management assumes the responsibility for the accuracy and completeness of this report. To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, the changes in financial position, and cash flows of the NCEL. All disclosures necessary to gain an understanding of the NCEL's financial activities have been included.

The NCEL is an enterprise fund within the State of North Carolina and its financial statements are included in the State's Comprehensive Annual Financial Report. This report only presents the activities of the NCEL.

Within the financial section of this CAFR, the Lottery's Management Discussion and Analysis (MD&A) provides a detailed narrative of activities that occurred over this fiscal year. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with the MD&A.

The enabling legislation of the Lottery requires an annual financial audit of the Lottery by the North Carolina Office of the State Auditor (OSA), or by an independent public accounting firm. The independent firm of Cherry Bekaert LLP was contracted by OSA to conduct this audit. The financial statements have been audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The report of independent auditor on the Lottery's financial statements is included in the financial section of this report.

Profile of North Carolina Education Lottery

The North Carolina Education Lottery was created with the enactment of House Bill 1023 effective August 31, 2005. On March 30, 2006, the NCEL began selling instant scratch-off tickets. The sales kick-off occurred less than four months after the first NCEL employee came on board and was the fastest start up of any lottery at that time in the country. Soon after the initial scratch-off games, the NCEL offered Powerball tickets for sale beginning on May 30, 2006. Following the successful introduction of Powerball in North Carolina, the NCEL offered two more online games. Carolina Pick 3 began on October 6, 2006 and on October 27, 2006 sales of Carolina Cash 5 commenced. On March 31, 2008 a second daily Pick 3 draw was added, and Pick 4 sales commenced on April 17, 2009. Sales of the multi-state draw game Mega Millions began on January 31, 2010.

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A brief description of the games offered by the NCEL is provided below.

Instant Tickets: Instant tickets are games that are played by scratching the latex covering off a play area and learning instantly if the ticket is a winner, without having to wait for the results of a drawing. There are several ways to win on an instant ticket such as matching like symbols, dollar amounts, letters, or your symbol matches a key symbol. The instant tickets offer a wide variety of themes and ticket prices ranging from one to twenty dollars.

Powerball: Players select 5 numbers ranging from 1 to 59 lotto numbers, and 1 additional number ranging from 1 to 35 designated as the “Powerball.” To win the jackpot, players need to match all five lotto numbers and the Powerball. Jackpot prizes start at \$40 million, which increase in the event that no one matches all the numbers. There are also nine secondary prizes ranging from \$4 to \$1,000,000. For an additional dollar, players can “Power Play” and have the opportunity to increase their winnings, except for the jackpot, by up to four times. If a player matches the 5 lotto numbers and power plays the ticket, they automatically win \$2 million.

Mega Millions: Players select 5 numbers ranging from 1 to 56 lotto numbers, and 1 additional number ranging from 1 to 46 designated as the “Mega Ball.” To win the jackpot, players need to match all five lotto numbers and the Mega Ball. Jackpot prizes start at \$12 million, which increase in the event that no one matches all the numbers. There are also eight secondary prizes ranging from \$2 to \$250,000. For an additional dollar, players can “Megaplay” and have the opportunity to increase their winnings, except for the jackpot, by up to four times. If a player matches the 5 lotto numbers and Megaplays the ticket, they automatically win \$1 million.

Carolina Cash 5: Players select 1 set of 5 numbers ranging from 1 to 39. Players win prizes by matching from two to five numbers, and must match all five numbers drawn to win the jackpot. Drawings are held daily with jackpot amounts starting at \$50,000, which increase for subsequent drawings if no one matches all five numbers. On March 30th 2014, an EZ match add-on was created for the Carolina Cash 5 game. The feature prints an instant “EZ” match number with a corresponding prize amount. If the EZ match number matches any of pick 5 numbers, the player wins the corresponding prize instantly.

Carolina Pick 4: Players select a four digit number from 0000 to 9999 and choose if the numbers need to match the drawn number exactly or in any combination. Drawings for this game are conducted midday and evening daily. This game offers the opportunity to win a top prize of \$5,000 for each winning combination matching in the exact order drawn.

Carolina Pick 3: Players select a three digit number from 000 to 999 and choose if the numbers need to match the drawn number exactly or in any combination. Drawings for this game are conducted midday and evening daily. This game offers the opportunity to win a top prize of \$500 for each winning combination matching in the exact order drawn.

Millionaire Raffle: Tickets for these games are automatically printed from a terminal in sequential order as tickets are sold around the state. As a result if a player buys more than one ticket at a time, the tickets may not be in consecutive order. No additional tickets are sold after the predetermined amount of tickets is purchased. For players to win they must match their numbers exactly to the number drawn.

The NCEL continued with activities to attract different players throughout the fiscal year. The campaign to promote “X The Cash” family of tickets, with games available at the price points of \$1, \$2, \$5, and \$10 were very popular. “\$4,000,000 Multiplier Spectacular” was North Carolina’s sixth \$20 game, which had a 75% payout also proved to be a big hit. A greater selection of branded game offerings relied on expanded support for product launches, second chance drawings and winner events.

The NCEL continued sharing and receiving information with players through social media channels to advance broader marketing, advertising and communications objectives. Twitter followers received instant updates about where winning tickets were recently sold while players commented, asked questions, and watched videos of big winners share the details of their good fortune on Facebook.

These efforts have allowed the Lottery to surpass a billion dollars in sales for the seventh consecutive fiscal year, and the ability to transfer over \$3.3 billion to education since operations began.

Relevant Financial Policies

Accounting System and Policies

As an enterprise fund of the State of North Carolina, the NCEL operates as a business within the state government. The NCEL uses the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) and governmental accounting standards board (GASB) pronouncements.

Budgetary Controls

Budgetary control for the NCEL is addressed through its enabling legislation, which provides a framework for operating and administrative expenses. A comprehensive annual budget is prepared in conjunction with the North Carolina Office of State Budget and Management. While the NCEL does not have a legislatively appropriated budget, the operating budget is submitted to the Lottery Commission for approval. The NCEL's net revenue is included in the State's budget and is submitted to the Governor and Legislature.

Internal Controls

An internal control structure has been set up to ensure that the accounting system allows compilation of accurate and timely financial information and that assets are protected from loss, theft, or misuse. The internal controls are designed to provide reasonable assurance that these objectives are met. Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements.

The Lottery has segregated responsibilities to enhance controls over accounting procedures relative to personnel and payroll; purchasing and accounts payable; sales and accounts receivable; and the general ledger. Management personnel maintain oversight and approval authority over all areas of operation. The NCEL has internal auditors that review processes on an ongoing basis, and report their findings to the Lottery commission. The Lottery's independent auditors review significant and relevant areas annually and issue a report to the Office of the State Auditor.

An independent security firm conducts a comprehensive study and evaluation of all aspects of security in the operation of the Lottery. The following measures have been implemented to ensure the integrity of the Lottery:

- Restricted access to office and warehouse areas to certain lottery personnel
- Specialized security staff
- Secured facilities and gaming equipment
- Background checks conducted on retailers, contractors and lottery employees
- Lottery tickets with special inks, dyes and security codes
- Strict security procedures for game drawings
- Lottery draw balls are weighed and measured to ensure that they comply with standards by the Weights and Measures Division of the North Carolina Department of Agriculture

- Drawings are held in secure drawing rooms which are monitored 24 hours a day, the actual drawings are witnessed by an independent CPA firm, videotaped by primary, backup and security cameras and are reviewed each day
- An independent firm is contracted to complete an annual SOC 1 audit on the gaming vendor's systems to ensure the systems have full integrity. A SOC 1 Report (Service Organization Controls Report) is a report on Controls at a Service Organization which are relevant to user entities' internal control over financial reporting.

Debt Administration

Payments awarded to Powerball and Mega Millions jackpot winners are satisfied through securities purchased by the Multi-State Lottery Association (MUSL). MUSL purchases U.S. government obligations to fund jackpot prizes, which are held in irrevocable trust or securities clearing accounts. Therefore, the NCEL does not record a liability for jackpot awards which are payable in installments from funds provided by MUSL.

Annuities

Payments awarded to instant game annuity winners are funded through insurance company annuities purchased by the NCEL. The NCEL reports a liability for long term annuity winners. The liability for the prizes is offset by investments in annuity contracts, which fund the long term installment prizes.

Cash Management

Cash from retailers is collected on a weekly basis through an electronic funds transfer system and is deposited into an account with the North Carolina State Treasurer's Office. Idle funds are invested in the State Treasurer's Short-Term Investment Fund (STIF), and interest earnings are received by the NCEL on a monthly basis.

The NCEL is also responsible for collecting federal and state income taxes, and any debts owed to the state or local agencies from prize winners.

Major Initiatives

The NCEL continues to work on new ways to attract players and increase sales to expand net revenues for education in North Carolina. To this end the NCEL has developed a strategic plan. The NCEL used a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis to develop the four goals needed to carryout the mission of the organization: To operate the lottery with the highest degree of integrity and security to maximize net revenues for the education programs identified by the legislature. The four main goals are as follows:

- Maximize net revenues for defined education programs in North Carolina
- Maintain an organizational culture of high trust and total participation
- Continue to build public confidence and trust
- Continue to achieve diversity internally and externally.

The NCEL has developed specific action steps and a time frame, whose successful completion lead to accomplishing the four goals. This strategic plan has served the NCEL for the previous four years. We revisit the plan bi-annually to determine whether action steps need to be added, removed, or altered. The ultimate test of the strategic plan is whether we meet our sales target for the year with security and integrity.

Local Economy, From the North Carolina Department of Commerce:

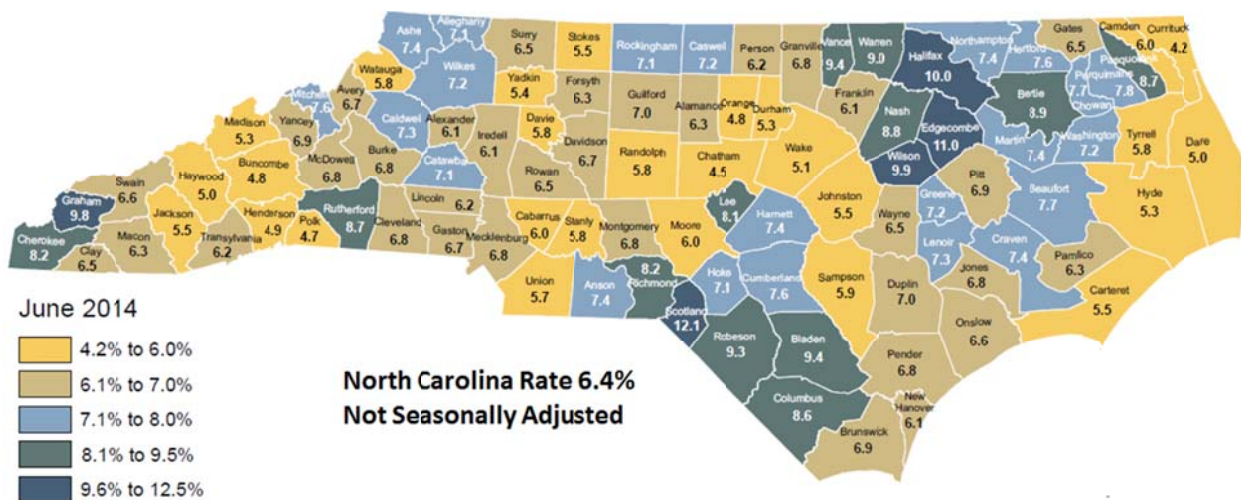
The beginning of the last recession was December 2007 and ended June 2009. Based on this designation, the national recession officially lasted 18 months. However, North Carolina, like the rest of the nation, is still dealing with a prolonged period of high unemployment and slow job growth.

While the recession officially began in December 2007, North Carolina’s seasonally adjusted Total Nonfarm employment peaked in February 2008 at 4,174,500. The state experienced 24 months of continuous decline until it reached its lowest level of Total Nonfarm employment in February 2010 when employment reached 3,839,200.

Between the peak in employment in February 2008 and the low of February 2010, North Carolina lost 335,300 jobs a decrease of 8 percent. All major industrial sectors experienced job declines with the exception of Education & Health Services and Government, which experienced modest gains of 5,900 jobs and 3,900 jobs, respectively. The largest job losses were experienced in Manufacturing (98,700), Trade, Transportation & Utilities (74,000), Construction (71,900) and Professional & Business Services (37,000).

Based on employment estimates, North Carolina’s economy has gained 300,600 jobs since the low in February 2010, and employment in the Private sector has risen by 312,500. The following graphic depicts the county and state unemployment rate at the end of the 2014 fiscal year.

**NORTH CAROLINA UNEMPLOYMENT RATES BY COUNTY
(SEASONALLY UNADJUSTED), JUNE 2014**



NOTE: PREPARED BY NORTH CAROLINA DEPARTMENT OF COMMERCE, LABOR AND ECONOMIC ANALYSIS DIVISION, JULY 2014.

The impacts of the recent recession are still being felt and significant economic challenges confronting the state will continue for the foreseeable future. Existing economic development efforts and programs designed to help address recession related issues, such as the heightened unemployment rate, job losses in key statewide industries, and real housing sales are increasingly important. Still, North Carolina must not lose sight of its long-term economic strengths, challenges and opportunities. The long-term impacts resulting from solutions created to deal with short-term problems should be strongly considered before any decisions are made. While the overall impacts of the recession are unquestionably damaging to North Carolinians, it provides North Carolina with the opportunity to realign resources and programs. The State has the potential to exit the economic crisis stronger and in a more competitive position, both nationally and globally.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. This was the sixth year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The NCEL is committed to providing the most thorough and relevant financial information possible in conformity with the highest standards of accountability to the public. The preparation of this report would not be possible without the efficient and dedicated efforts of the entire Lottery finance team.

Respectfully submitted,



Alice Garland
Executive Director



William T. Jourdain
Deputy Executive Director
Finance, Administration & Security



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**North Carolina
Education Lottery**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

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COMMISSION

W. KEITH BALLENTINE, CHAIRMAN

DOUGLAS BAKER

COURTNEY CROWDER

ABRAHAM DAOUD

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DAVID KIRBY

CHRIS SHEW

JODY TYSON

ALICE UNDERHILL

NORTH CAROLINA EDUCATION LOTTERY

SENIOR STAFF

ALICE GARLAND
EXECUTIVE DIRECTOR

DEPUTY EXECUTIVE DIRECTORS

TONY CHUNG
MIS AND GAMING SYSTEMS

WILLIAM JOURDAIN
FINANCE, ADMINISTRATION AND SECURITY

TERRI AVERY
SALES

FRANK SUAREZ
MARKETING AND ADVERTISING

DIRECTORS

STACY ASKEW
ADMINISTRATION

REGINALD BARNES
SALES-WEST

VAN DENTON
CORPORATE
COMMUNICATIONS

JAIME KING FUQUAY
GOVERNMENT AFFAIRS

WALTER INGRAM
SALES DEVELOPMENT

CARYL JAMES
HUMAN RESOURCES

QUAN KIRK
GENERAL COUNSEL

MICHELLE LASSITER
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MOE MCKNIGHT
SECURITY

JOSEPH NORMAN
GAMING SYSTEMS

DANIEL ROSE
SALES-EAST

SUSAN SINGLEY
ADVERTISING

RANDY SPIELMAN
PRODUCT DEVELOPMENT

MIKE SUGGS
INTERNAL AUDIT

GEORGE WALKER
MIS

TAMARA WIGGS
MARKETING

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FINANCIAL SECTION



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Report of Independent Auditor

To the Commissioners
North Carolina Education Lottery
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying statements of net position of the North Carolina Education Lottery (“NCEL”), a major enterprise fund of the State of North Carolina, as of and for the years ended June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows, and the notes to the financial statements, which collectively comprise the NCEL’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the NCEL as of June 30, 2014 and 2013, and the respective changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the NCEL and do not purport to, and do not, present fairly the financial position of the state of North Carolina, as of and for the years ended June 30, 2014 and 2013, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

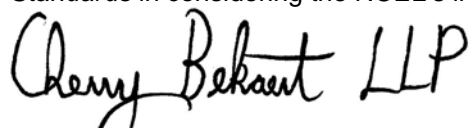
Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the NCEL's financial statements. The Introductory and Statistical Sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2014, on our consideration of the NCEL's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NCEL's internal control over financial reporting and compliance.



Raleigh, North Carolina
September 23, 2014

*MANAGEMENT'S DISCUSSION AND
ANALYSIS*



NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014 and 2013

The following is a discussion and analysis of the financial performance of the North Carolina Lottery Commission [aka, North Carolina Education Lottery (NCEL)] for the fiscal years ended June 30, 2014, 2013 and 2012 and should be read in conjunction with the financial statements, including the footnotes. This report consists of three parts: management's discussion and analysis, the basic financial statements and the notes to the financial statements. Included below and on the following pages are the financial highlights, summary of contributions to the State, and summary results of operations for the fiscal years ended June 30, 2014, 2013 and 2012.

Financial Highlights

For fiscal year 2014, gross ticket sales totaled \$1.84 billion representing a \$149.5 million increase over fiscal year 2013. Total operating income was \$503 million, which represented an increase of \$24.4 million over fiscal year 2013. Other significant financial highlights included the following:

- North Carolina General Statute Section 18C-164 (a) requires the NCEL to transfer net proceeds from operations and any prior year surplus to the State of North Carolina at least four times a year. In fiscal year 2014, the sum total of these cash transfers was \$525.8 million, the largest annual total for cash transfers in NCEL's history. Total cash transfers for fiscal years 2013 and 2012 were \$461.4 million and \$456.8 million, respectively.
- Awarded \$1 million or more to an NCEL player for the 172nd time.
- Provided customer service to our 6,777 retailers on a regular basis.
- Released 46 new instant scratch-off games into the marketplace generating gross instant ticket sales of \$1.17 billion.

Overview of the Financial Statements

This financial report is designed to inform the public and other interested parties of the financial results of the NCEL and show its accountability in meeting the legislated mandate to generate funds to further the goal of providing enhanced educational opportunities. Accordingly, the focus of the financial statements is to determine funds available for payment to the State's Education Lottery Fund. It is important to note that most financial statement balances have a direct or indirect relationship to revenue. As lottery sales increase, the amount paid to the State's Education Lottery Fund also increases. Similarly, increases in revenues generally result in direct increases to cost of sales including, but not limited to, prize expense, retailer commission expense and gaming system vendor charges.

The NCEL is a major enterprise fund of the primary government of the State of North Carolina. The financial statements were prepared on the accrual basis of accounting in a manner similar to a private business entity. The principal operating revenues of the NCEL are sales of lottery products, by contracted retailers, to the general playing public. Operating expenses include the cost of prizes, retailer commissions, gaming system vendor charges, personnel, and other administrative expenses.

Included in this report are the Statements of Net Position as of June 30, 2014 and 2013, the Statements of Revenues, Expenses, and Changes in Net Position for the periods ended June 30, 2014 and 2013, and the Statements of Cash Flows for the periods ended June 30, 2014 and 2013.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014 and 2013

The NCEL transfers its net revenues to the Office of State Budget and Management (OSBM) for credit to the Education Lottery Fund. Education Lottery funds are distributed by OSBM based on the budgeted distribution of lottery net revenue as recommended by the General Assembly.

Total Assets

Total assets at the end of fiscal year 2014 were \$108 million compared to \$111 million at the end of fiscal year 2013, representing a decrease of \$3 million.

Current assets decreased from \$60 million in 2013 to \$52 million in 2014, representing a decrease of \$8 million. This reduction resulted from a decrease in Pooled Cash due to fiscal year 2014 and 2013 surplus earnings held to be dispersed in the subsequent fiscal year. In addition, there was a decrease in the State Treasurer's Securities Lending Collateral. More detailed information can be found in Note 2D in the financial statements. The decrease was partially offset by an increase in accounts receivable in 2014 from 2013. This primarily represents amounts due from retailers for ticket sales less commissions and prizes paid by the retailers. The increase is essentially due to the timing of the end of the accounting week for billing and collections from our retailers at fiscal year end. Electronic Funds Transfer is used to collect receivables weekly from retailer bank accounts that are set up in trust for the NCEL.

Current assets were also affected by a \$450 thousand increase in investments in annuity contracts, and a \$274 thousand increase in prepaid items.

The Short Term Investment portfolio has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and may withdraw cash at any time without prior notice or penalty. All deposits are combined with other state agencies and invested by the State Treasurer until needed to cover disbursements. Investments are limited to those authorized for the State's General Fund, pursuant to NC General Statute 147-69.1. Interest earned of \$669 thousand on these balances is recorded as non-operating revenue. Earnings on the accounts are credited on a monthly basis. The allocable share of the revenues arising from State Treasurer's Securities Lending Collateral program transactions are also included as non-operating revenue.

The NCEL's investment in capital assets, net of accumulated depreciation in 2014 was \$1.3 million which is approximately \$434 thousand higher than 2013. 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 the Office of the State Controller's (OSC) policy. The NCEL defines capital assets as assets with an initial unit cost of \$5,000 or greater and an estimated useful life of two or more years. Capital assets are carried at cost less accumulated depreciation.

Additional information on the NCEL's capital assets can be found in Notes 2F and 5D to the financial statements.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

The activity for capital assets for the year ended June 30, 2014 was (in thousands):

<u>Category</u>	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Capital assets, depreciable				
Furniture	\$ 46	\$ -	\$ -	\$ 46
Equipment	3,629	889	(142)	4,376
Motorized equipment	67	-	-	67
Total capital assets, depreciable	<u>3,742</u>	<u>889</u>	<u>(142)</u>	<u>4,489</u>
Less accumulated depreciation for:				
Furniture	31	3	-	34
Equipment	2,746	436	(126)	3,056
Motorized equipment	68	-	-	68
Total accumulated depreciation	<u>2,845</u>	<u>439</u>	<u>(126)</u>	<u>3,158</u>
Total capital assets, depreciable, net	<u>897</u>	<u>450</u>	<u>(16)</u>	<u>1,331</u>
Capital assets, net	<u>\$ 897</u>	<u>\$ 450</u>	<u>\$ (16)</u>	<u>\$ 1,331</u>

Total Liabilities

Total current liabilities for the NCEL were \$53 million in 2014 decreasing by \$7 million from 2013. The decrease in current liabilities mainly resulted from decreases in due to the State and the obligations under State Treasurer's security lending collateral agreements. The decrease in due to the State can be attributed to the timing of transactions encountered in the normal course of business. The decrease in the obligations under State Treasurer's security lending collateral is directly related to the NCEL having less cash on hand at year-end. Current liabilities also consist of prize awards payable, and other payables.

Noncurrent liabilities are Accrued Paid Time Off or Compensated Absences. A liability is recorded to reflect the balances for unpaid Paid Time Off (PTO) earned, which is provided to employees for use whenever vacation, sick leave, personal leave or bereavement leave is requested and approved. Current and noncurrent liability for Accrued Paid Time Off is shown below in thousands.

<u>Beginning</u>	<u>Earned</u>	<u>Used</u>	<u>Ending</u>	<u>Current Liability</u>	<u>Long Term Portion</u>
<u>\$ 1,348</u>	<u>\$ 1,542</u>	<u>\$ 1,626</u>	<u>\$ 1,264</u>	<u>\$ 294</u>	<u>\$ 970</u>

Noncurrent liabilities also includes the present value of the annuity contracts that fund the long term installment prizes that are due to NCEL annuity prize winners that will be paid after June 30, 2015.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014 and 2013

Net Position and Changes in Net Position

As required in the North Carolina State Lottery Act, net revenues of the NCEL are transferred quarterly to the NC Education Lottery Fund at the Office of State Budget and Management. At year end, net position is zero for the NCEL. There are no changes in the net position from year to year.

Condensed Statement of Net Position (in thousands)

	2014	2013	2012
ASSETS			
Total Current Assets	\$ 51,543	\$ 59,643	\$ 48,484
Noncurrent Assets	55,020	50,708	46,665
Capital Assets	1,331	897	672
Total Assets	107,894	111,248	95,821
LIABILITIES			
Total Current Liabilities	53,210	60,525	49,338
Noncurrent Liabilities	54,684	50,723	46,483
Total Liabilities	107,894	111,248	95,821
NET POSITION			
Net Investment in Capital Assets	1,331	897	672
Unrestricted	(1,331)	(897)	(672)
Total Net Position	\$ -	\$ -	\$ -

Current liabilities consist of "Due to the State" in the amount of \$4.628 million. Of this amount, \$4.565 million represents the remaining amount of the "Net Revenues" and "50% of Unclaimed Prizes" for Fiscal Year 2014 not yet transferred to the State of North Carolina as of June 30, 2014. These funds will be transferred to the State during Fiscal Year 2015. The remainder is due to other state agencies for services provided to the NCEL. Additional information on "Due to the State" is found in Note 6C to the financial statements.

Revenues

Operating revenues consist of gross sales (net of bad debt), fees and licenses.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014 and 2013

Sales

The gross lottery ticket sales for fiscal year 2014 totaled \$1.839 billion as compared to \$1.69 billion for fiscal year 2013 and \$1.597 billion in fiscal year 2012. This represents an increase of \$149 million from 2013 and \$242 million from 2012.

Gross instant ticket sales were \$1.17 billion for fiscal year 2014 compared with \$1.01 billion for fiscal year 2013 and \$960 million in fiscal year 2012, an increase of approximately \$158 million from fiscal year 2013 and approximately \$210 million from fiscal year 2012. The increase realized during fiscal year 2014 is attributable to several factors. The NCEL launched games with new features such as our "Green & Gold" with Back Scratch game. It was the first time that the NCEL released a game that offered an additional play area on the back of an Instant ticket. The game proved so popular that it had sold through all orderable inventory in just 10 weeks, and had average weekly sales of over \$1.9 million. The NCEL also released games with different prize structures than had been seen in the past. "Hit \$500" featured a smaller top prize (\$500) than a normal \$5 Instant ticket but, offered significantly more Top Prizes (2,788 Top Prizes). Players responded very well to the game and it was the second fastest game to sell through orderable inventory in fiscal year 2014, in just 15 weeks. The NCEL also continued to introduce exciting licensed games. The "Caesars" game offered 20 second chance trips to Caesars Palace in Las Vegas. Players could also win a trip to Caesars Palace instantly on their ticket, 8 total trips offered this way. The trip included Airfare for two, a room at Caesars Palace for five days and four nights, transportation, and \$1,250 in spending cash. Players responded very well to this game as well, and it became one of the top sellers of the year.

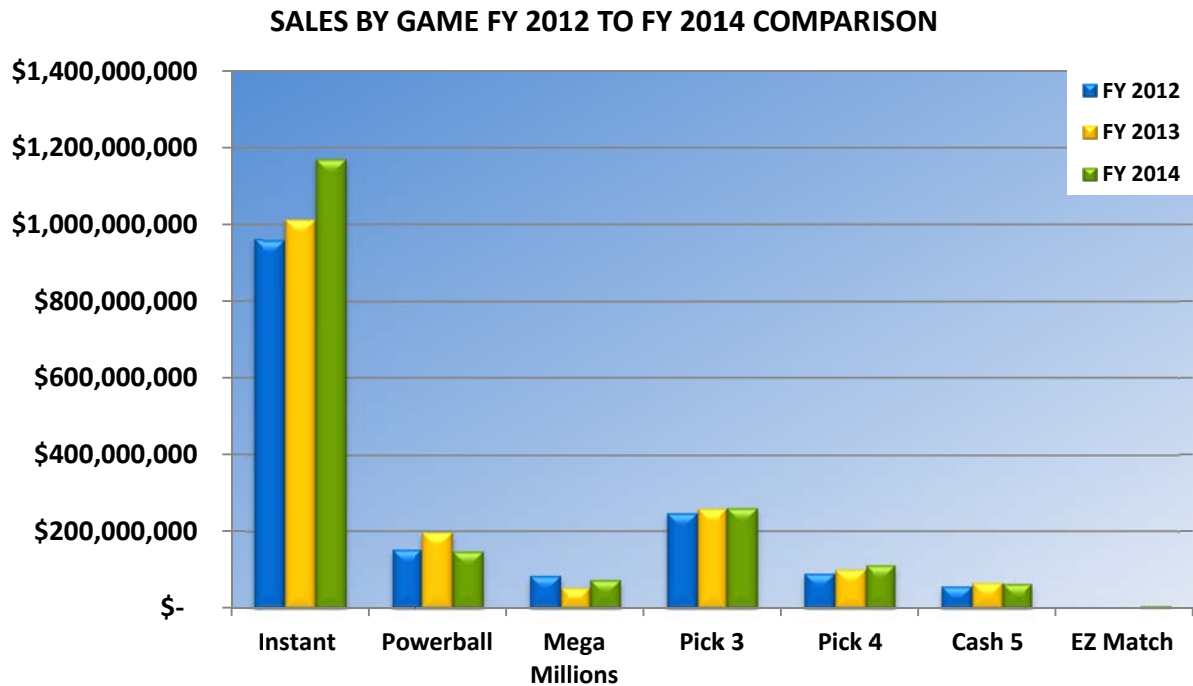
Draw game sales were \$669 million for fiscal year 2014 compared to \$678 million for fiscal year 2013 and \$637 for fiscal year 2012, representing a \$9 million decrease from fiscal year 2013 and a \$32 million increase from fiscal year 2012. Draw game sales suffered from a lack of high jackpots in the multi-state game Powerball. The Powerball jackpot reached over \$500 million twice during the fiscal year 2013, which helped increase Powerball sales to \$197 million, from \$153 million the previous year. During fiscal year 2014, the highest Powerball jackpot was \$448 million, resulting in sales of \$149 million, a decrease of \$48 million from fiscal year 2013. The NCEL's other multi-state game Mega Millions reached a top jackpot amount for fiscal year 2014 of \$636 million, which helped increase its sales to \$74 million from \$53 million in fiscal year 2013.

The Carolina Cash 5 top prize exceeded half a million dollars eight times during the fiscal year and reached a height of \$866 thousand. In addition on March 30th, EZ match was launched as an add-on to a Pick 5 ticket. For an additional dollar, this new feature prints an instant "EZ" match number with a corresponding prize amount. If the EZ match number matches any of pick 5 numbers, the player wins the corresponding prize instantly. The EZ match feature generated over \$6 million in sales over the course of just three months.

The Carolina Pick 4 game also had increased sales from the previous year. Carolina Pick 4 sales were over \$113.1 million compared to \$103.9 million the previous year, and \$91.5 million in fiscal year 2012.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2014 and 2013

The following chart depicts the distribution of sales by product for the fiscal years ended June 30, 2014, 2013 and 2012.



EZ Match sales started on March 30th, and had total sales to the end of the year of \$6.2 million.

Non-operating Revenues mainly consist of investment earnings on Short Term Investment Fund (STIF) accounts and security lending transactions, and Multi-State Lottery Association (MUSL) dividends received.

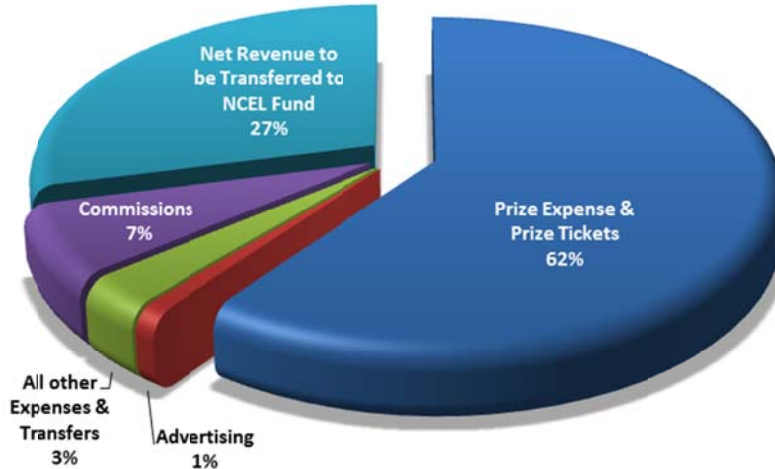
Expenses

Section 18C-162, NC General Statute stipulates that 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.

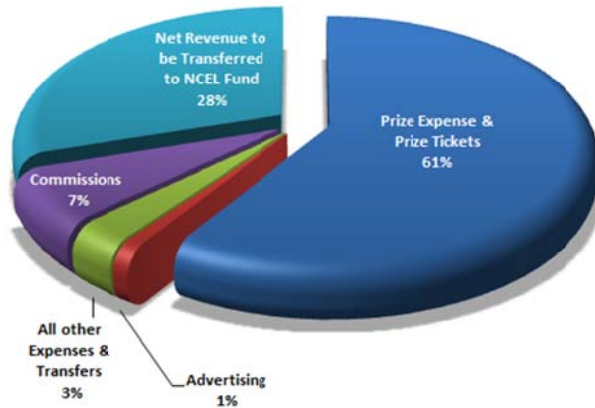
NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2014 and 2013

The following charts show the major components of NCEL operating expenses and transfers as a percentage of total revenues for the fiscal years ended June 30, 2014, 2013 and 2012.

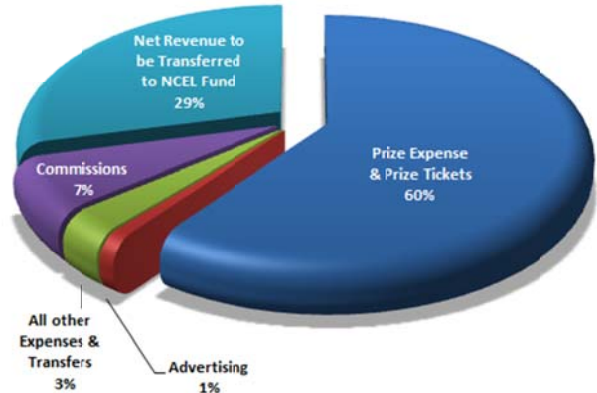
DISTRIBUTION OF REVENUES FY 2014



DISTRIBUTION OF REVENUES FY 2013



DISTRIBUTION OF REVENUES FY 2012



Prizes, commissions and gaming vendor charges all directly relate to sales. As expected, as sales have increased so have these expenses. In fiscal year 2014 total gaming expenses which consist of prizes, retailer commissions and gaming vendor charges (gaming system services), totaled \$1,294 million as compared to \$1,170 million and \$1,099 million for fiscal years 2013 and 2012, respectively. Other operating expenses, which consist of advertising and marketing, salary and benefits, professional fees, rent, maintenance, depreciation and general administrative expenses increased to \$47.3 million in fiscal year 2014, as compared with \$46.1 million and \$42.7 million for fiscal years 2013 and 2012, respectively. Other operating expenses represented 2.6%, 2.7% and 2.6% of total operating revenues in fiscal years 2014, 2013 and 2012, respectively.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

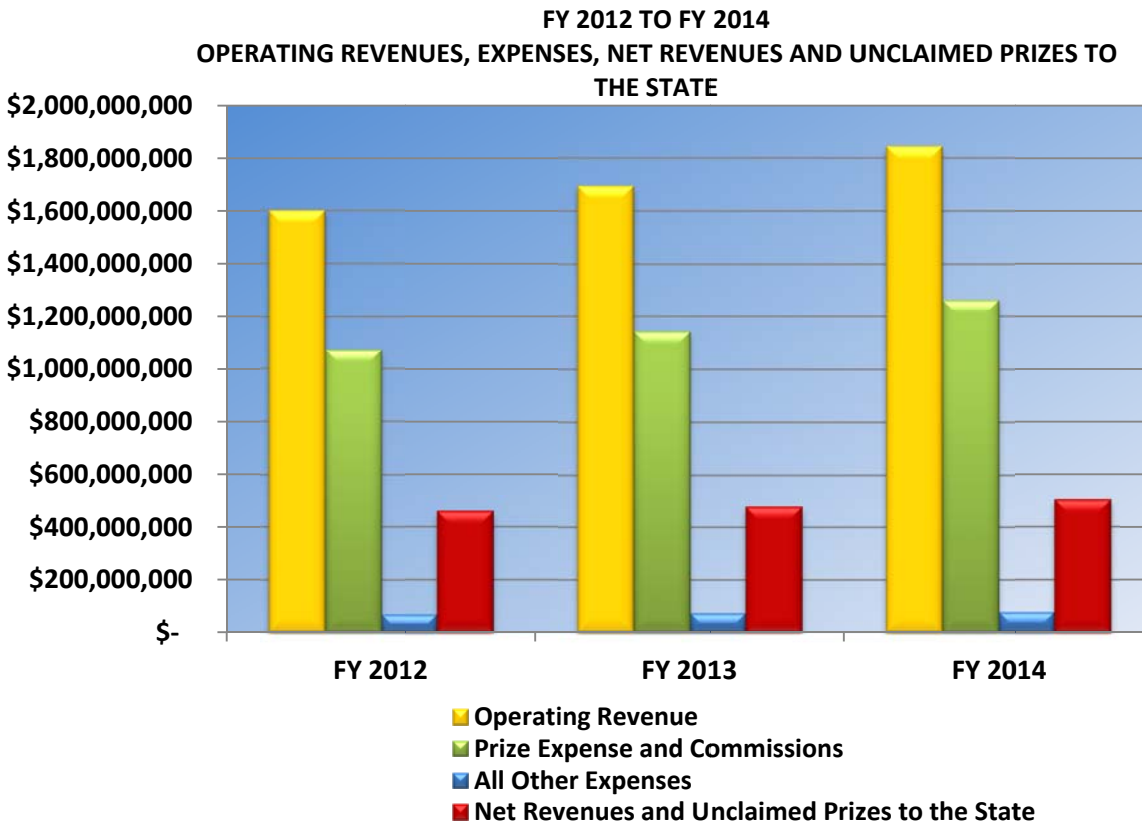
June 30, 2014 and 2013

Condensed Statement of Revenues, Expenses and Changes in Net Position (in thousands)

	2014	2013	2012
Operating Revenues:			
Gross Sales:	\$ 1,839,259	\$ 1,689,803	\$ 1,596,693
Less: Prize Tickets	-	-	(181)
Less: Sales/Service Bad Debt	(48)	(90)	(55)
Fees and Licenses	5,425	5,296	5,381
Total Operating Revenues	1,844,636	1,695,009	1,601,838
Operating Expenses:			
Gaming Expenses:			
Lottery Prizes	1,135,052	1,024,437	961,556
Retailer Commissions	128,551	118,148	111,624
Gaming Systems Services	30,343	27,262	26,031
Total Gaming Expenses	1,293,946	1,169,847	1,099,211
Other Operating Expenses	47,260	46,078	42,700
Total Operating Expenses	1,341,206	1,215,925	1,141,911
Operating Income	503,430	479,084	459,927
Nonoperating Revenues (Expenses):			
Investment Earnings, Nonoperating Revenue (Expense) and Compulsive Gambling Contribution	(295)	(576)	(458)
Net Revenues and Unclaimed prizes to the State	(503,135)	(478,508)	(459,469)
Total Nonoperating Revenue (Expenses)	(503,430)	(479,084)	(459,927)
Change in Net Position	-	-	-
Net Position Beginning July 1	-	-	-
Net Position Ending June 30	\$ -	\$ -	\$ -

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2014 and 2013

From fiscal year 2012 to fiscal year 2014, the NCEL has achieved annual increases in revenues and transfers to the State. The following graph depicts these trends.



Budget and Economic Outlook

On August 12, 2014, the NCEL Commission approved the Fiscal Year 2015 budget for the NCEL to provide a projected \$521 million to the State’s Education Lottery Fund. This projected budget is a 12.8% increase over the fiscal year 2014 budget that reflected a \$462 million transfer to the State’s Education Lottery Fund. The NCEL will continue to monitor the current economic conditions in the State, and its impact upon lottery ticket sales. As per the General Assembly Fiscal Research Division: “The national economy continues to strengthen, yet the pace remains stubbornly below average. The economy continues down the path of slow, steady growth. Little change in this scenario is expected over the next twelve months.” Also “The State’s economic conditions have mirrored the national slow, steady growth scenario. Current economic projections for the rest of the fiscal year and into the next suggest revenues should continue to track close to expectations.” Therefore, the NCEL has constructed an increasing budget and sales forecast for the upcoming fiscal year.

A focus of the NCEL Commission is to ensure sound operations. The existence of this focus is apparent in the opinions issued by external audit firms. For the eighth consecutive year, the State Auditor contracted with an outside CPA firm to conduct the fiscal year financial audit, which resulted in an unmodified opinion.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

Requests for Information

Any request for information about this report should be sent to the Public Information Officer at the North Carolina Education Lottery, 2100 Yonkers Road, Raleigh, North Carolina 27604.

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BASIC FINANCIAL STATEMENTS



NORTH CAROLINA EDUCATION LOTTERY

Statements of Net Position (in thousands)
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash	\$ 155	\$ 99
Pooled Cash	21,002	32,386
Receivables:		
Accounts Receivable	22,069	17,774
Interest Receivable	26	18
Investment in Annuity Contracts	4,604	4,154
Prepaid Items	655	381
State Treasurer's Security Lending Collateral	3,032	4,831
Total Current Assets	<u>51,543</u>	<u>59,643</u>
Noncurrent Assets:		
Investment in Annuity Contracts	53,714	49,666
Prepaid Items	1,306	1,042
Capital Assets, Depreciable (Net):		
Furniture and Equipment	4,489	3,742
Accumulated Depreciation	<u>(3,158)</u>	<u>(2,845)</u>
Total Capital Assets, Depreciable (Net)	<u>1,331</u>	<u>897</u>
Total Assets	<u>107,894</u>	<u>111,248</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	40,499	23,572
Accrued Payroll	415	431
Annuity Prize Award Payable - Current	4,604	4,154
Accrued Paid Time Off - Current	294	291
Due to the State	4,628	27,317
Obligations Under State Treasurer's Security Lending Agreements	<u>2,770</u>	<u>4,760</u>
Total Current Liabilities	<u>53,210</u>	<u>60,525</u>
Noncurrent Liabilities:		
Annuity Prize Award Payable	53,714	49,666
Accrued Paid Time Off	<u>970</u>	<u>1,057</u>
Total Liabilities	<u>107,894</u>	<u>111,248</u>
NET POSITION		
Net Investment in Capital Assets	1,331	897
Unrestricted	<u>(1,331)</u>	<u>(897)</u>
Total Net Position	<u>\$ -</u>	<u>\$ -</u>

See Notes to the Financial Statements.

NORTH CAROLINA EDUCATION LOTTERY

Statements of Revenues, Expenses and Changes in Net Position (in thousands)

Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues:		
Gross Sales:	\$ 1,839,259	\$ 1,689,803
Less: Sales/Service Bad Debt	(48)	(90)
Fees and Licenses	5,425	5,296
Total Operating Revenues	1,844,636	1,695,009
Operating Expenses:		
Salaries, Wages, and Benefits	18,127	17,540
Lottery Prizes	1,135,052	1,024,437
Retailer Commissions	128,551	118,148
Retailer Incentive	825	781
Gaming Systems Services	30,343	27,262
Advertising	15,238	15,278
Marketing	3,602	3,540
Other Services	5,158	4,802
Furniture, Fixtures, and Equipment	1,323	1,307
Depreciation	439	345
Other General and Administrative Expenses	2,548	2,485
Total Operating Expenses	1,341,206	1,215,925
Operating Income	503,430	479,084
Nonoperating Revenues (Expenses):		
Investment Earnings	669	417
Compulsive Gambling Contribution	(1,000)	(1,000)
Unclaimed Prizes to NC Education Lottery Fund	(14,043)	(11,381)
Net Revenues to the State of NC	(489,092)	(467,127)
Miscellaneous Nonoperating Revenues (Expenses)	36	7
Total Nonoperating Expenses	(503,430)	(479,084)
Change in Net Position	-	-
Net Position Beginning, July 1	-	-
Net Position Ending, June 30	\$ -	\$ -

See Notes to the Financial Statements.

NORTH CAROLINA EDUCATION LOTTERY

Statements of Cash Flows (in thousands)

Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,711,791	\$ 1,573,884
Payments to Employees and Fringe Benefits	(18,227)	(17,401)
Payments for Prizes, Benefits and Claims	(1,120,520)	(1,032,548)
Payments to Vendors and Suppliers	(57,182)	(55,480)
Other Receipts	50	25
	515,912	468,480
Net Cash Flows Provided by Operating Activities		
CASH USED FOR NONCAPITAL FINANCING ACTIVITIES		
Transfers to State	(525,824)	(461,367)
Transfers to Other State Agencies	(1,000)	(1,000)
	(526,824)	(462,367)
Total Cash Used for Noncapital Financing Activities		
CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(874)	(570)
	(874)	(570)
Total Cash Used for Capital and Related Financing Activities		
CASH PROVIDED FROM INVESTING ACTIVITIES		
Investment Earnings	458	442
	458	442
Total Cash Provided from Investing Activities		
Net Increase/(Decrease) in Cash and Cash Equivalents	(11,328)	5,985
Cash and Cash Equivalents at Beginning of Year	32,485	26,500
Cash and Cash Equivalents at End of Year	\$ 21,157	\$ 32,485
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 503,430	\$ 479,084
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation Expense	439	345
Other Nonoperating Income	49	26
(Increase) Decrease in Assets:		
Accounts Receivable	(4,295)	(2,977)
Inventories	-	4
Prepaid Items	(538)	160
Increase (Decrease) in Liabilities:		
Accounts Payable	16,927	(8,039)
Accrued Payroll and Related Liabilities	(16)	19
Other Liabilities	(84)	(142)
	16,927	(8,039)
	(16)	19
	(84)	(142)
Total Cash Provided by Operating Activities	\$ 515,912	\$ 468,480
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through the Assumption of a Liability	\$ 2,699	\$ 6,425
Change in Fair Value of Investments	190	22

See Notes to the Financial Statements.

NOTES TO FINANCIAL STATEMENTS

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NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 1 - ORGANIZATION

The North Carolina State Lottery Commission [aka, North Carolina Education Lottery (NCEL)] was created with the enactment of House Bill 1023, effective August 31, 2005, as an independent, self-supporting, and revenue-raising agency of the State of North Carolina (the State). The NCEL commenced operations on March 30, 2006 with the sale of instant scratch-off tickets. In March 2006, the NCEL joined the Multi-State Lottery Association (MUSL) composed of a group of U.S. lotteries that combine jointly to sell POWERBALL lottery tickets. POWERBALL sales began on May 30, 2006. Additional draw games were introduced as follows:

- Carolina Pick 3 on October 6, 2006
- Carolina Cash 5 on October 27, 2006
- Carolina Pick 3 second daily draw (Monday through Saturday) on March 31, 2008
- Carolina Pick 4 on April 17, 2009
- Mega Millions on January 31, 2010
- Carolina Pick 4 second daily draw and Carolina Pick 3 second Sunday draw on February 27, 2011
- EZ Match on March 30, 2014.

The purpose of the NCEL is to generate funds to further the goal of providing enhanced educational opportunities, support school construction, and fund college and university scholarships. The operations of the NCEL are overseen by a nine member commission, five of whom are appointed by the Governor and four of whom are appointed by the General Assembly.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity:

For financial reporting purposes, the North Carolina Education Lottery is a major enterprise fund of the primary government of the State of North Carolina and is reported as such in the *Comprehensive Annual Financial Report* (CAFR) of the State. These financial statements for the NCEL are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

B. Basis of Presentation:

The financial statements are prepared on the accrual basis of accounting in a manner similar to a private enterprise. The NCEL elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Accounting Principles Board (APB) opinions. GASB Statement No. 62 incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, and 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The guidance generally has been taken "as-is" from the original FASB and AICPA pronouncements, except a few provisions that have been modified where necessary to relate specifically to the governmental environment.

As an enterprise fund, the NCEL is accounted for using the "economic resources" measurement focus. This means that all the assets and liabilities related to its operations are included on its statement of net position, and its operating statement includes all revenues (increases) and expenses (decreases) in net position. The NCEL distinguishes operating from non-operating revenues and expenses. Operating revenues and expenses generally relate to the NCEL's primary ongoing operations of selling lottery tickets and redeeming prizes; all revenues and expenses not meeting this definition are reported as non-operating. The principal operating revenues of the NCEL are for the sales of lottery products. The significant operating expenses include the cost of prizes, commissions, gaming system vendor charges, personnel, advertising and other administrative expenses.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash and Cash Equivalents:

Cash and cash equivalents include regional office deposited operating funds, imprest funds, and deposits held by the State Treasurer in the State Treasurer's Short Term Investment portfolio. The Short Term Investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and also may withdraw cash at any time without prior notice or penalty.

D. State Treasurer's Securities Lending Collateral:

While the NCEL does not directly engage in securities lending transactions, it deposits certain funds with the State Treasurer's Short Term Investment Fund which participates in securities lending activities. Based on the State Treasurer's allocation of these transactions, the NCEL recognizes its allocable share of the assets and liabilities related to these transactions on the accompanying financial statements as "State Treasurer's Securities Lending Collateral" and "Obligations Under State Treasurer's Securities Lending Agreements." The NCEL's allocable share of these assets and liabilities is based on the NCEL's year-end deposit balance per the State Treasurer's records.

Based on the authority provided in General Statute 147-69.3(e), the State Treasurer lends securities from its investment pool to brokers-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. The Treasurer's custodian lent U.S. government and agency securities, FNMA's, corporate bonds and notes for collateral. The Treasurer's custodian is permitted to receive cash, U.S. government and agency securities, or irrevocable letters of credit as collateral for the securities lent.

The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower.

Additional details on the State Treasurer's securities lending program are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

E. Allowance for Doubtful Accounts:

An allowance for doubtful accounts has not been established because there are no indications of significant delinquencies from the collection of retailer accounts as of June 30, 2014 and 2013.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Capital Assets:

The NCEL defines capital assets as assets with an initial unit cost of \$5,000 or greater and an estimated useful life of two or more years. This definition conforms to the policy of the NC Office of State Controller. Depreciation is computed using the straight-line method over the estimated lives of the assets. The NCEL uses the half year convention. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation will be removed from the books and any resulting gain or loss reflected in operations of the period of disposal. Capital assets are carried at cost less accumulated depreciation. The estimated useful lives by general category are as follows:

<u>Category</u>	<u>Years</u>
Equipment	5-7
Furniture	5
Computers and Software	3-5

G. Game Revenue Recognition:

For the NCEL's draw games, POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, EZ Match and raffles offered, revenue is recognized at the time of sale on a daily basis. For instant games, revenue is recognized at the time a pack of tickets is settled (See Note 3A.1).

H. Lottery Prize Expense Recognition:

For POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, EZ Match and for raffles, prize expense is recorded at 50 percent of sales on a daily basis. For instant games, prize expense is accrued based on the final production prize structure percentage provided by the gaming vendor for each game and recorded daily on the value of packs settled. For the instant games with prize tickets, the final prize structure percentage used is adjusted to eliminate the value of the prize tickets. Prize expense for merchandise prizes is recognized as prizes are fulfilled.

I. Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

NOTE 3 – REVENUE

A. Operating Revenue:

1. Game Revenue:

Instant packs are settled using the following methodology:

- Manually by the retailer initiating a settlement transaction via the gaming terminal.
- Automatically by the gaming system - twenty one (21) days after pack activation.
- Automatically by the gaming system - once the fifth (5th) pack in a specific game is activated by a retailer, the oldest active pack is settled.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 3 – REVENUE (continued)

Operating revenues are reduced by the value of prize tickets validated during a period.

Game Revenue	2014	2013
Instant	\$ 1,170,248	\$ 1,011,943
Draw	669,017	677,860
Bad debt write off	(48)	(83)
Damaged tickets, sales services	(6)	(7)
Total	\$ 1,839,211	\$ 1,689,713

2. Fees and Licenses:

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. Total Fees and Licenses for fiscal year 2014 and 2013 were \$5,425 and \$5,296, respectively.

B. Non-operating Revenue:

The cash accounts of the NCEL are Short Term Investment Fund (STIF) Accounts which are interest bearing accounts held with the NC State Treasurer. Investments are limited to those authorized for the State's General Fund, pursuant to NC General Statute 147-69.1. The investment earnings earned on these accounts and the related security lending collateral transactions is \$669 and \$417 for the years ended June 30, 2014 and 2013, respectively.

The NCEL also has miscellaneous non-operating revenue related to dividends received from MUSL which were \$49 and \$26 for the years ended June 30, 2014 and 2013, respectively. The remaining miscellaneous non-operating revenue consisted of sales of surplus property.

NOTE 4 – EXPENSES

A. Operating Expenses:

1. Lottery Prize Expense:

Prize Expense	2014	2013
Instant	\$ 794,282	\$ 685,202
Draw	326,727	327,854
50% of unclaimed prizes	14,043	11,381
Total	\$ 1,135,052	\$ 1,024,437

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 4 – EXPENSES (continued)

2. Retailer Commissions:

Commissions	2014	2013
Instant	\$ 81,799	\$ 70,735
Draw	46,752	47,413
Total	\$ 128,551	\$ 118,148

3. Retailer Incentives:

In fiscal year 2010, the State Lottery Commission approved a retailer incentive program where retailers would receive compensation for selling a top/second tier prize in the Multi-State games POWERBALL and Mega Millions and a top tier prize in Carolina Cash 5. As of December 2011, the retailer incentive program was expanded to include instant ticket prizes of over \$1 million as well. The total payments issued for the retailer incentive program for fiscal years 2014 and 2013 were \$825 and \$781, respectively.

4. Other Services:

The principal expenses included are: security services, background checks, communications, legal services, travel, financial audit services, network support, and costs for temporary employees. The Other category under Other Services also includes payments issued to Alcohol and Law Enforcement (ALE) in the amount of \$1,000 in fiscal year 2014 and \$948 in fiscal year 2013.

	2014	2013
Security services	\$ 17	\$ 12
Background checks	1,157	1,016
Communications, including wiring	1,231	1,201
Legal services	21	158
Travel	192	149
Other	2,540	2,266
Total	\$ 5,158	\$ 4,802

5. Furniture, Fixtures, and Equipment:

To operate a lottery, numerous items of equipment, furniture, and ticket dispensers are required. Most of these items were one time purchases to be replaced as needed at various points in the future. These items were also below our threshold for capitalization (See Note 2F) and therefore expensed. The total expenses for fiscal years 2014 and 2013 were \$1,323 and \$1,307, respectively.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 4 – EXPENSES (continued)

6. Leases – Buildings, Offices and Other Equipment:

The NCEL has entered into various operating leases through the North Carolina State Department of Administration for building and office facilities. These leases are for initial terms of seven to ten years.

Projected lease payments for these facilities are:

<u>Year Ending</u>	<u>Amount</u>
2015	\$ 1,176
2016	1,164
2017	277
2018	229
2019	164
2020-2024	196
<u>Total</u>	<u>\$ 3,206</u>

The total space rental costs for the fiscal years 2014 and 2013 were \$1,145 and \$1,096, respectively. The NCEL also has several contracts for various equipment leases including instant ticket vending machines (ITVM's).

B. Non-operating Expenses:

The allocable share of the expenses arising from State Treasurer's Securities Lending Collateral program transactions, totaling \$13 and \$18 for the years ended June 30, 2014 and 2013, respectively, are included as non-operating expense. For the years ended June 30, 2014 and 2013, the remaining non-operating expenses consist of other miscellaneous non-operating items.

C. Transfers Out:

There were three significant transfers from the NCEL. One million dollars was transferred to the NC Department of Health and Human Services for a gambling addiction education and treatment program as stipulated in the North Carolina State Lottery Act for the years ended June 30, 2014 and 2013 (See Note 7D).

The second transfer was \$14,043 and \$11,381 for the years ended June 30, 2014 and 2013, respectively, from unclaimed prizes during the year. The North Carolina State Lottery Act requires the NCEL to transfer "Fifty percent (50%)" of unclaimed prizes to the NC Education Lottery Fund each year (See Note 7C).

The third transfer was in compliance with the North Carolina State Lottery Act. This Act requires all "Net Revenues" of the NCEL to be transferred to the NC Education Lottery Fund for the educational purposes set forth in the legislation. "Net Revenues" were \$489,092 for fiscal year 2014 compared with \$467,127 for fiscal year 2013 (see Note 12). However, \$525,823 was transferred to the NC Education Lottery Fund for fiscal year 2014 compared with \$439,875 for fiscal year 2013. The balances remaining (\$4,565 and \$27,253 for fiscal years 2014 and 2013) were recorded as a payable to the State for both fiscal years and were transferred subsequent to fiscal year end. NC General Statute 18C-162 states: "The funds remaining in the North Carolina State Lottery Fund after receipt of all revenues to the Lottery Fund and after accrual of all obligations of the Commission for prizes and expenses shall be considered to be the net revenues of the North Carolina State Lottery Fund."

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 5 – ASSETS

A. Cash:

The cash and cash equivalents balances at June 30, 2014 and 2013 include no undeposited receipts on hand.

Unless specifically exempt, the NCEL is required by North Carolina General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. Except as noted above, all NCEL funds are deposited with the State Treasurer. The NCEL has no deposit policy concerning credit risk, as all deposits are held by the State Treasurer.

At June 30, 2014 and 2013, respectively, \$21,002 and \$32,386 of the amounts shown on the Statement of Net Position as cash and cash equivalents represents the NCEL's equity position in the State Treasurer's Short Term Investment Fund. The Short Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.3 and 1.6 years, as of June 30, 2014 and 2013, respectively. Assets and shares of the Short Term Investment Fund are valued at amortized cost, which approximates fair value.

Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Accounts Receivable:

Accounts Receivable primarily represents amounts due from retailers ticket sales less commissions and prizes paid by the retailers. Electronic Funds Transfer is used to collect receivables weekly from retailer bank accounts that were set up in trust for the NCEL.

C. Investments in Annuity Contracts:

Investments in Annuity Contracts represent the present value of the contracts that fund the long term installment prizes contracted through insurance company annuities (See Note 7B). The current and long term balances are \$4,604 and \$53,714 for fiscal year 2014 and \$4,154 and \$49,666 for fiscal year 2013, respectively.

The policies of the NCEL only allow for direct purchase of annuity contracts from which the proceeds are used to fund long term installment prizes. As the NCEL is not pursuing other forms of investments, they are not currently anticipated under the policy. As a means of limiting exposure to interest rate risk, the policy only allows for direct purchase of annuity contracts which future value payments are pre-negotiated with the providers of the contracts. These contracts are not subject to foreign currency risk because the provider is required by contract to pay the full annuities. Accordingly, the NCEL does not have a policy regarding foreign currency risk since investments in products subject to this risk are not applicable to the NCEL.

The policy of the NCEL restricts direct purchase of annuity contracts to those with companies that hold minimum ratings as follows: AA by Fitch, Aa by Moody's or AA by Standard & Poor's. As of June 30, 2014, and June 30, 2013 all annuities carried a rating of Aa/AA.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 5 – ASSETS (continued)

Maturities for investments in annuity contracts are as follows:

<u>Maturities</u>	<u>2014</u>	<u>2013</u>
Less than 1 year	\$ 4,604	\$ 4,154
1 to 5 years	18,416	20,640
6 to 10 years	18,416	20,640
More than 10 years	16,882	8,386
Total	<u>\$ 58,318</u>	<u>\$ 53,820</u>

D. Capital Assets:

The activity for capital assets for the year ended June 30, 2014 was:

<u>Category</u>	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Capital assets, depreciable				
Furniture	\$ 46	\$ -	\$ -	\$ 46
Equipment	3,629	889	(142)	4,376
Motorized equipment	67	-	-	67
Total capital assets, depreciable	<u>3,742</u>	<u>889</u>	<u>(142)</u>	<u>4,489</u>
Less accumulated depreciation for:				
Furniture	31	3	-	34
Equipment	2,746	436	(126)	3,056
Motorized equipment	68	-	-	68
Total accumulated depreciation	<u>2,845</u>	<u>439</u>	<u>(126)</u>	<u>3,158</u>
Total capital assets, depreciable, net	<u>897</u>	<u>450</u>	<u>(16)</u>	<u>1,331</u>
Capital assets, net	<u>\$ 897</u>	<u>\$ 450</u>	<u>\$ (16)</u>	<u>\$ 1,331</u>

The activity for capital assets for the year ended June 30, 2013 was:

<u>Category</u>	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
Capital assets, depreciable				
Furniture	\$ 29	\$ 17	\$ -	\$ 46
Equipment	3,076	553	-	3,629
Motorized equipment	67	-	-	67
Total capital assets, depreciable	<u>3,172</u>	<u>570</u>	<u>-</u>	<u>3,742</u>
Less accumulated depreciation for:				
Furniture	29	2	-	31
Equipment	2,403	343	-	2,746
Motorized equipment	68	-	-	68
Total accumulated depreciation	<u>2,500</u>	<u>345</u>	<u>-</u>	<u>2,845</u>
Total capital assets, depreciable, net	<u>672</u>	<u>225</u>	<u>-</u>	<u>897</u>
Capital assets, net	<u>\$ 672</u>	<u>\$ 225</u>	<u>\$ -</u>	<u>\$ 897</u>

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 5 – ASSETS (continued)

Equipment expenditures for 2014 and 2013 included replacements of aged instant ticket dispensers and computer server equipment.

NOTE 6 – LIABILITIES

A. Accounts Payable:

This primarily represents trade payables to vendors, prize liabilities, and multi-state game low-tier liability. At year end, June 30, 2014 and 2013, the balances were:

<u>Account Type</u>	<u>2014</u>	<u>2013</u>
Trade payables to vendors and other	\$ 6,066	\$ 4,074
Instant prize liability	3,734	8,518
Prize liability – unused unclaimed prizes	28,292	7,976
Multi state games low-tier liability	2,287	2,843
Prize liability – breakage	120	161
Total Accounts Payable	<u>\$ 40,499</u>	<u>\$ 23,572</u>

B. Annuity Prize Awards Payable:

Annuity prize awards payable represents the present value of the contracts that fund the long term installment prizes that are due to NCEL annuity prize winners (See Note 7B). The current and long term balances are \$4,604 and \$53,714 for fiscal year 2014 and \$4,154 and \$49,666 for fiscal year 2013, respectively.

Annuity activity for both short and long term accounts during fiscal year 2014 are as follows:

	<u>Beginning Balance</u>	<u>Purchases</u>	<u>Annuity Appreciation</u>	<u>Annuity Disbursements</u>	<u>Reclass to Short Term</u>	<u>Ending Balance</u>
Short Term	\$ 4,154	\$ -	\$ -	\$ (4,128)	\$ 4,578	\$ 4,604
Long Term	49,666	6,104	2,522	-	(4,578)	53,714
Total	<u>\$ 53,820</u>	<u>\$ 6,104</u>	<u>\$ 2,522</u>	<u>\$ (4,128)</u>	<u>\$ -</u>	<u>\$ 58,318</u>

Annual activity for both short and long term accounts during fiscal year 2013 are as follows:

	<u>Beginning Balance</u>	<u>Purchases</u>	<u>Annuity Appreciation</u>	<u>Annuity Disbursements</u>	<u>Reclass to Short Term</u>	<u>Ending Balance</u>
Short Term	\$ 3,750	\$ -	\$ -	\$ (3,750)	\$ 4,154	\$ 4,154
Long Term	45,417	7,188	1,215	-	(4,154)	49,666
Total	<u>\$ 49,167</u>	<u>\$ 7,188</u>	<u>\$ 1,215</u>	<u>\$ (3,750)</u>	<u>\$ -</u>	<u>\$ 53,820</u>

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 6 – LIABILITIES (continued)

C. Due to the State:

As explained in Note 4C, \$4,565 and \$27,253 for the years ended June 30, 2014 and 2013, respectively, represent the amounts of the "Net Revenues" for the year not yet transferred to the State as of June 30, but will be transferred to the State subsequent to fiscal year-end. The remainder is due to other state agencies for services provided to the NCEL.

D. Accrued Paid Time Off:

Paid time off (PTO) is provided to employees for use whenever vacation, sick leave, personal leave or bereavement leave is requested and approved. Under this policy, every calendar year, on January 1st, a specific amount of PTO will be credited to Directors' and above PTO accounts. All other employees' PTO accounts will be credited on a monthly basis as earned. Employees must be employed at least one year to receive pay for accrued leave balances. Directors and above will be paid out accrued leave balances upon separation provided they have attained a minimum of six (6) months of service on the date of separation.

Activity for the year ended June 30, 2014:

<u>Beginning</u>	<u>Earned</u>	<u>Used</u>	<u>Ending</u>	<u>Current Liability</u>	<u>Long Term Portion</u>
\$ 1,348	\$ 1,542	\$ 1,626	\$ 1,264	\$ 294	\$ 970

Activity for the year ended June 30, 2013:

<u>Beginning</u>	<u>Earned</u>	<u>Used</u>	<u>Ending</u>	<u>Current Liability</u>	<u>Long Term Portion</u>
\$ 1,228	\$ 1,666	\$ 1,546	\$ 1,348	\$ 291	\$ 1,057

NOTE 7 – OTHER IMPORTANT ITEMS

A. Deposits with Multi-State Lottery Association (MUSL):

MUSL is a voluntary association created for the purpose of administering joint, multi-jurisdictional lottery games, such as POWERBALL and Mega Millions. As of June 30, 2014, MUSL included 34 state lotteries, the District of Columbia and the U.S. Virgin Islands. The chief executive officer of each member lottery serves on the MUSL board of directors.

As a member of MUSL, the NCEL is required to contribute to various prize reserve funds maintained by MUSL. These contributions are included in the 50% prize expense calculated on POWERBALL and Mega Millions sales. The net amount of the 50% prize expense less the amount required to pay low-tier prizes within the State is paid to MUSL. This payment is to cover the NCEL's share of current jackpot prizes based on the NCEL's percent of sales for each drawing and the NCEL's share of the prize reserve fund. The prize reserve fund serves as a contingency reserve to protect all MUSL members including the NCEL from unforeseen prize liabilities. All prize reserve funds remitted, and the related interest earnings, will be returned to the NCEL upon leaving MUSL, less any portion of unanticipated prize claims which may have been paid from the fund. As of June 30, 2014 and 2013, the NCEL had been credited with \$9,682 and \$9,992, respectively, in the MUSL prize reserve funds.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 7 – OTHER IMPORTANT ITEMS (continued)

B. Annuity Installment Prizes:

The NCEL funds long term installment prizes through the purchase of insurance company annuities. The contract holders will fund the future value of the installment prize awards over the life of the prize awarded to the player. The NCEL currently holds contracts with Met Life Insurance Company and Prudential Life Insurance Company to provide these future prize installment payments. The future value of the annuity prizes awarded as of June 30, 2014 and 2013 were \$72,872 and \$67,982, respectively.

C. Unclaimed Prizes:

As of June 30, 2014 and 2013, the NCEL had unclaimed prizes from both online and instant games. The first POWERBALL draw after the NCEL started selling tickets was on May 31, 2006, and therefore, the NCEL began recognizing unclaimed prizes on November 27, 2006 (180 days after the first draw). The first Carolina Pick 3 unclaimed prizes were recorded on April 4, 2007 and the first unclaimed prizes for Carolina Cash 5 were recorded on April 25, 2007. Unclaimed prizes for Carolina Pick 4 were recorded on November 14, 2009. Unclaimed prizes for Mega Millions were recorded on August 1, 2010. Unclaimed prizes for EZ Match have not been recorded since the first draw occurred less than 180 days from the end of the fiscal year. The NCEL closed sixty-six instant games during fiscal year 2014 resulting in \$18,080 in unclaimed prizes. In 2013, the NCEL closed forty-nine instant games resulting in \$11,435 in unclaimed prizes.

<u>Game Type</u>	<u>2014</u>	<u>2013</u>
Instant	\$ 18,080	\$ 11,435
Powerball	3,142	5,025
Mega Millions	1,517	1,723
Carolina Cash 5	2,057	1,434
Carolina Pick 4	1,404	1,410
Carolina Pick 3	1,884	1,735
Total unclaimed prizes	<u>\$ 28,084</u>	<u>\$ 22,762</u>

D. Compulsive Gambling Contribution:

The North Carolina General Statute states that, the NCEL must make “a transfer of \$1,000 annually to the Department of Health and Human Services (DHHS) for gambling addiction education and treatment programs.” (See Note 4C)

E. Limitations on Operating and Advertising Expenses:

As established in North Carolina General Statute 18C-162(a)(3); “No more than eight percent (8%) of the total annual revenues, as described in this Chapter, shall be allocated for payment of expenses of the Lottery. Advertising expenses shall not exceed one percent (1%) of the total annual revenues.” The one percent for advertising expenses is included in the eight percent maximum for Lottery expenses. Total annual revenues include proceeds from the sale of lottery tickets, interest earned by the NCEL, and all other funds credited to the Lottery from any source.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2014 and 2013

NOTE 8 – RISK MANAGEMENT

The NCEL is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The NCEL participates in the State’s Risk Management Program for property, liability, crime and automobile coverage, and pays an annual premium for this coverage. The Lottery has not experienced any losses during the year ended June 30, 2014.

The types of coverage, limits, and deductibles, as of June 30, 2014, are described below (the following chart is not shown in thousands).

Coverage Type	Limits (\$)	Deductible (\$)	Comments
Public officers and employee liability	1,000,000 /10,000,000	The first 150,000 /1,000,000 per person are paid by the Commission.	State is self-insured up to \$1,000,000; excess up to \$10,000,000 is with a private insurer.
All risk – property contents	5,601,618	5,000	
Auto – liability	1,000,000 per person/10,000,000 per accident		
Hired Auto - Physical Damage	30,000 50,000 if GVW > 10,000 lbs.	50 100	Comp. deductible Collision deductible
Theft, disappearance, destruction	250,000	2,500	Inside premises
Theft, disappearance, destruction	50,000	2,500	Outside premises
Computer fraud	5,000,000	75,000	+10% over \$75,000
Employee dishonesty	5,000,000	75,000	+10% over \$75,000
Forgery and alteration	100,000	2,500	
Robbery and safe burglary – money/securities	500,000	1,000	

Employees and retirees are provided health care coverage by the State of North Carolina’s Comprehensive Major Medical Plan. This employee benefit plan is funded by employer and employee contributions.

The North Carolina Workers’ Compensation Program provides benefits to workers injured on the job. All employees of the State are included in the program. When an employee is injured, the NCEL’s primary responsibility is to arrange for and provide the necessary treatment for work related injury. The State is self-insured for workers’ compensation. A third-party administrator processes workers’ compensation claims. State agencies, including the NCEL, contribute to a fund administered by the Office of the State Controller to cover their workers’ compensation claims. The third party administrator receives a per case administration fee and draws down State funds to make medical and indemnity payments on behalf of the State in accordance with the North Carolina Workers’ Compensation Act.

Term life insurance of \$25 to \$50 is provided to eligible employees. This self-insured death benefit program is administered by the North Carolina Department of the State Treasurer and funded via employer contributions. The employer contribution rate was .16% of covered payroll for the current fiscal year.

Additional details on State-administered risk management programs are disclosed in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page <http://www.osc.nc.gov/> and clicking on “Reports” or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2014 and 2013

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS

A. Retirement Plan:

Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System (TSERS) and is automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations.

For the years ending June 30, 2014, 2013 and 2012, respectively, the NCEL had a total payroll of \$13,706, \$13,139, and \$12,839, of which \$13,706, \$13,139 and \$12,839 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the years ended June 30, 2014, 2013 and 2012, were \$2,013, \$1,883 and \$1,725, respectively. Required employer contribution rates for the years ended June 30, 2014, 2013 and 2012, were 8.69%, 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The NCEL made 100% of its annual required contributions as mandated by Senate Bill 58. The contribution amounts for the years ended June 30, 2014, 2013, and 2012, were \$1,191, \$1,094 and \$955, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports", or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Supplemental Retirement Income Plan:

IRC Section 401(k) Plan – All full-time employees are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan participants. The Plan is provided by Prudential Retirement, administered by the NC Department of the State Treasurer and sponsored by the State of North Carolina. The effective date of participation was January 30, 2006. The voluntary contributions by employees amounted to \$123, \$138 and \$170 for the years ended June 30, 2014, 2013 and 2012, respectively.

C. Deferred Compensation Plan:

IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Plan's Board of Trustees. The Board, a part of the North Carolina Department of State Treasurer, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. The effective date of participation was January 30, 2006. The voluntary contributions by employees amounted to \$47, \$58 and \$85, for the years ended June 30, 2014, 2013 and 2012, respectively.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long Term Disability Beneficiaries and Retirees:

The NCEL participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides post-employment health insurance to eligible former employees. Eligible former employees include long term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in the retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

The General Statute states that a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. The General Statute states that the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year 2014, the NCEL contributed 5.4% of the covered payroll under the Teachers' and State Employees' Retirement System. Required contribution rates for the years ended June 30, 2013 and 2012, were 5.3% and 5.0%, respectively. The NCEL made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$740, \$696, and \$642, respectively.

The NCEL assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports", or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Long Term Disability:

The NCEL participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short term and long term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statute, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2014, the NCEL made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2014, 2013 and 2012, were .44%, .44% and .52%, respectively. The NCEL made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$60, \$58, and \$66, respectively. The NCEL assumes no liability for long term disability benefits under the Plan other than its contribution.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Additional detailed information about the DIPNC is disclosed in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page <http://www.osc.nc.gov/> and clicking on “Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

NOTE 11 – LITIGATION

As of June 30, 2014, the NCEL is not, nor anticipates being, a party to any litigation.

NOTE 12 - ALLOCATION OF TOTAL NET REVENUES/TRANSFERS TO NC EDUCATION LOTTERY FUND

	<u>2014</u>		
Lottery Ticket Sales	\$ 1,839,211		
Fees and Licenses	5,425		
Investment Earnings and Other Revenues	705		
Total Annual Revenue	<u>1,845,341</u>		
Prize Expense	(1,135,052)	62%	Of Total Annual Revenue
Advertising	(15,238)	1%	Of Total Annual Revenue
All Other Expenses and Transfers	(63,365)		
Total Section 18C-162.a.3	<u>(78,603)</u>	4%	Of Total Annual Revenue
Commissions (per 18C-142)	(128,551)	7%	Of Lottery Ticket Sales
Unclaimed Prizes to The State of North Carolina	14,043		
Net Revenues to The State of North Carolina	489,092		
Total Revenues to The State of North Carolina	<u>\$ 503,135</u>	27%	Of Total Annual Revenue

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 12 - ALLOCATION OF TOTAL NET REVENUES/TRANSFERS TO NC EDUCATION LOTTERY FUND (continued)

	<u>2013</u>		
Lottery Ticket Sales	\$ 1,689,713		
Fees and Licenses	5,296		
Investment Earnings and Other Revenues	424		
Total Annual Revenue	<u>1,695,433</u>		
Prize Expense	(1,024,437)	61%	Of Total Annual Revenue
Advertising	(15,278)	1%	Of Total Annual Revenue
All Other Expenses and Transfers	(59,062)		
Total Section 18C-162.a.3	<u>(74,340)</u>	4%	Of Total Annual Revenue
Commissions (per 18C-142)	(118,148)	7%	Of Lottery Ticket Sales
Unclaimed Prizes to The State of North Carolina	11,381		
Net Revenues to The State of North Carolina	467,127		
Total Revenues to The State of North Carolina	<u>\$ 478,508</u>	28%	Of Total Annual Revenue

In accordance with Section § 18C-162 of the North Carolina State Lottery Act: Allocation of revenues.

- (a) The Commission shall allocate revenues to the North Carolina State Lottery Fund in order to increase and maximize the available revenues for education purposes, and to the extent practicable, shall adhere to the following guidelines:
- (1) At least fifty percent (50%) of the total annual revenues, as described in this Chapter, shall be returned to the public in the form of prizes.
 - (2) At least thirty-five percent (35%) of the total annual revenues, as described in this Chapter, shall be transferred as provided in G.S. 18C-164.
 - (3) No more than eight percent (8%) of the total annual revenues, as described in this Chapter, shall be allocated for payment of expenses of the Lottery. Advertising expenses shall not exceed one percent (1%) of the total annual revenues.
 - (4) No more than seven percent (7%) of the face value of tickets or shares, as described in this Chapter shall be allocated for compensation paid to lottery game retailers.
- (b) To the extent that the expenses of the Commission are less than eight percent (8%) of total annual revenues, the Commission may allocate any surplus funds:
- (1) To increase prize payments; or
 - (2) To the benefit of the public purposes as described in this chapter.
- (c) Unclaimed prize money shall be held separate and apart from the other revenues and allocated as follows:
- (1) Fifty percent (50%) to enhance prizes under subdivision (a) (1) of this section.
 - (2) Fifty percent (50%) to the Education Lottery Fund to be allocated in accordance with G.S. 18C-164(c).(2005-344, s. 1; 2005-276, s. 31.1(r); 2007-323, s.5.2(c).)

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2014 and 2013

NOTE 12 - ALLOCATION OF TOTAL ANNUAL REVENUES/TRANSFERS TO NC EDUCATION LOTTERY FUND (continued)

Additionally, in accordance with Section § 18C-142 of the North Carolina State Lottery Act, Compensation for lottery game retailers, "The amount of compensation paid to lottery game retailers for their sales of lottery tickets or shares shall be seven percent (7%) of the retail price of the tickets or shares sold for each lottery game."

§ 18C-161. Types of income to the North Carolina State Lottery Fund.

- (1) All proceeds from the sale of lottery tickets or shares.
- (2) The funds for initial start-up costs provided by the State.
- (3) All other funds credited or appropriated to the Commission from any sources.
- (4) Interest earned by the North Carolina Lottery Fund.

The NCEL transferred \$525.8 million to the NC Education Lottery Fund for fiscal year 2014 compared with \$461.4 million for fiscal year 2013. As explained in Note 4C, \$4.6 million and \$27.3 million for fiscal years ended June 30, 2014 and 2013, respectively, were the amounts of the "Net Revenues" and "50% of Unclaimed Prizes" that were transferred to the State subsequent to the end of the respective fiscal year.

NOTE 13 – CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2014, the NCEL implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

Statement No. 65, Items Previously Reported as Assets and Liabilities,
Statement No. 66, Technical Corrections–2012 (an amendment of GASB Statements No. 10 and No. 62),
Statement No. 67, Financial Reporting for Pension Plans (an amendment of GASB Statement No. 25), and
Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees.

Statements No. 65, No. 66, No. 67 and No. 70 did not result in any significant changes to the financial statements.

NOTE 14 – SUBSEQUENT EVENTS

The Commission of the NCEL has evaluated all subsequent events for potential recognition and disclosure through September 23, 2014, the date these financial statements will be available.

STATISTICAL SECTION



STATISTICAL SECTION

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STATISTICAL SECTION

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- Educational Attainment
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Sources: Unless otherwise noted, the information provided is derived from the comprehensive annual financial report for the relevant year.

Introduction to Statistical Section

The following statistical section is provided to help the reader understand both the financial results of the NCEL and the environment in which the NCEL operates. For this purpose comparative financial information has been provided along with demographic information on the State of North Carolina.

While reading the statistical section please keep the following notes in mind:

- The NCEL began operations during fiscal year 2006, however there were only three months of operations during that fiscal year. Therefore, comparative information for fiscal year 2006 or prior has not been included for revenue, sales, expense, and demographic schedules.
- The NCEL's fiscal year begins on July 1st and ends on June 30th of the following calendar year. Fiscal year 2014 information begins on July 1st 2013 and concludes as of June 30th 2014. Total fiscal year and monthly information is included in this analysis.
- The NCEL does not have any material outstanding debts, therefore debt schedule or debt ratio information is not provided.

North Carolina Education Lottery Statistics

Capital Assets Since Inception (in thousands):

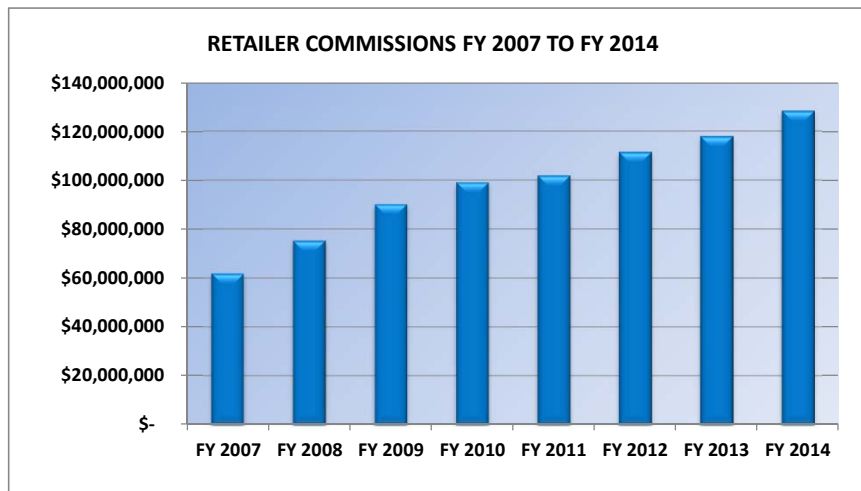
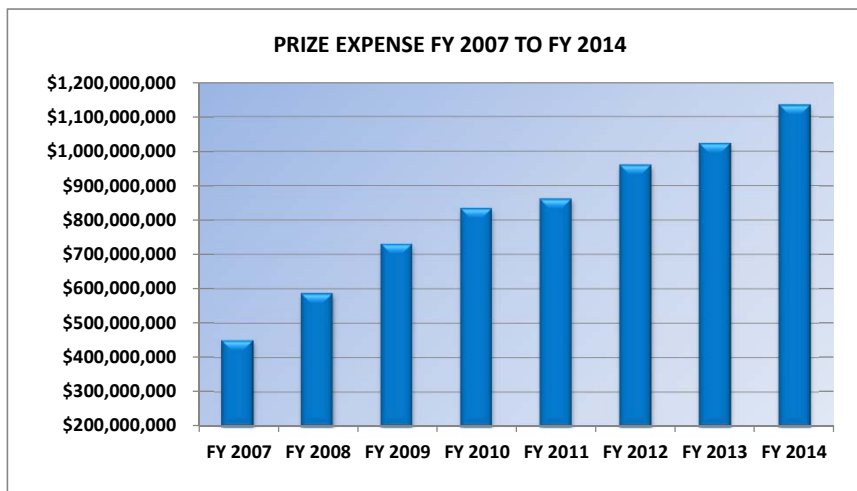
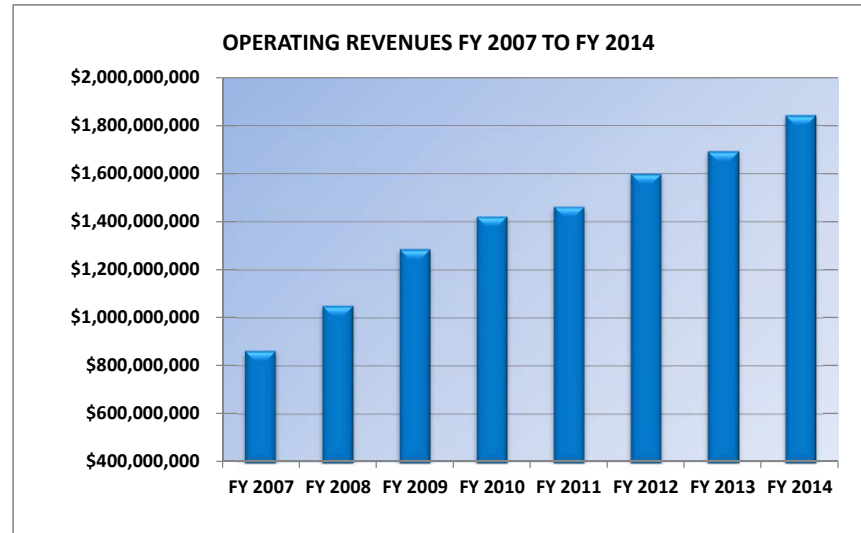
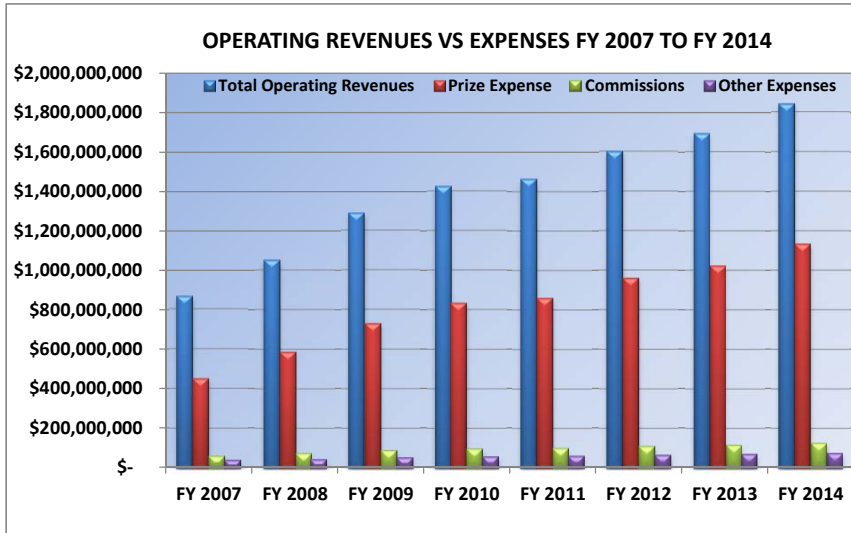
Category	Balance			Balance			Balance			Balance			Balance
	July 1, 2006	Increases	Decreases	June 30, 2007	Increases	Decreases	June 30, 2008	Increases	Decreases	June 30, 2009	Increases	Decreases	
Capital assets, nondepreciable													
Improvements in progress	\$ 194	\$ -	\$ 194	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total capital assets, nondepreciable	194	-	194	-	-	-	-	-	-	-	-	-	-
Capital assets, depreciable													
Furniture	-	29	-	29	-	-	29	-	-	29	-	-	29
Equipment	484	1,179	11	1,652	587	-	2,239	367	-	2,606	529	(482)	2,653
Motorized equipment	22	45	-	67	-	-	67	-	-	67	-	-	67
Total capital assets, depreciable	506	1,253	11	1,748	587	-	2,335	367	-	2,702	529	(482)	2,749
Less accumulated depreciation for:													
Furniture	-	4	-	4	7	-	11	7	-	18	5	-	23
Equipment	74	377	1	450	363	-	813	523	-	1,336	564	(465)	1,435
Motorized equipment	2	10	-	12	12	-	24	14	-	38	14	-	52
Total accumulated depreciation	76	391	1	466	382	-	848	544	-	1,392	583	(465)	1,510
Total capital assets, depreciable, net	430	862	10	1,282	205	-	1,487	(177)	-	1,310	(54)	(17)	1,239
Capital assets, net	624	862	204	1,282	205	-	1,487	(177)	-	1,310	(54)	(17)	1,239
Net Position													
Net investment in capital assets	624	862	204	1,282	205	-	1,487	(177)	-	1,310	(54)	(17)	1,239
Unrestricted	(624)	(862)	(204)	(1,282)	(205)	-	(1,487)	177	-	(1,310)	54	17	(1,239)
Total Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Category	Balance			Balance			Balance			Balance			Balance
	June 30, 2010	Increases	Decreases	June 30, 2011	Increases	Decreases	June 30, 2012	Increases	Decreases	June 30, 2013	Increases	Decreases	
Capital assets, nondepreciable													
Improvements in progress	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total capital assets, nondepreciable	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital assets, depreciable													
Furniture	29	-	-	29	-	-	29	17	-	46	-	-	46
Equipment	2,653	211	(60)	2,804	310	(38)	3,076	553	-	3,629	889	(142)	4,376
Motorized equipment	67	-	-	67	-	-	67	-	-	67	-	-	67
Total capital assets, depreciable	2,749	211	(60)	2,900	310	(38)	3,172	570	-	3,742	889	(142)	4,489
Less accumulated depreciation for:													
Furniture	23	4	-	27	2	-	29	2	-	31	3	-	34
Equipment	1,435	609	(53)	1,991	450	(38)	2,403	343	-	2,746	436	(126)	3,056
Motorized equipment	52	11	-	63	5	-	68	-	-	68	-	-	68
Total accumulated depreciation	1,510	624	(53)	2,081	457	(38)	2,500	345	-	2,845	439	(126)	3,158
Total capital assets, depreciable, net	1,239	(413)	(7)	819	(147)	-	672	225	-	897	450	(16)	1,331
Capital assets, net	1,239	(413)	(7)	819	(147)	-	672	225	-	897	450	(16)	1,331
Net Position													
Net investment in capital assets	1,239	(413)	(7)	819	(147)	-	672	225	-	897	450	(16)	1,331
Unrestricted	(1,239)	413	7	(819)	147	-	(672)	(225)	-	(897)	(450)	16	(1,331)
Total Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

North Carolina Education Lottery Statistics

Revenue and Expenses FY 2007 to FY 2014:

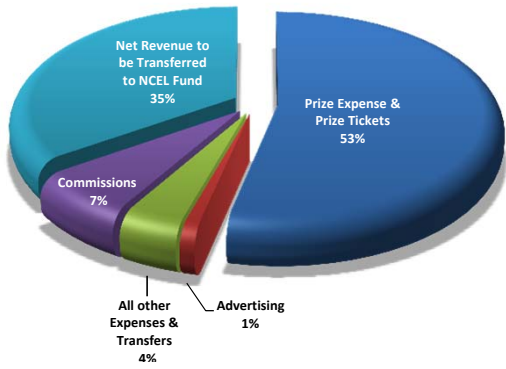
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Total Operating Revenues \$	866,194,905	1,053,131,125	1,288,102,861	1,424,457,618	1,464,639,726	1,601,837,648	1,695,008,870	1,844,636,362
Total Operating Expenses \$	555,433,414	709,646,237	876,666,966	993,888,090	1,028,509,675	1,141,909,797	1,215,924,034	1,341,206,063
Prize Expense \$	451,791,593	588,484,904	731,690,305	835,302,004	862,996,103	961,556,221	1,024,436,531	1,135,052,490
Commissions \$	61,932,162	75,370,563	90,366,111	99,339,830	102,126,855	111,624,043	118,148,409	128,550,515
Other Expenses \$	41,709,659	45,790,770	54,610,550	59,246,256	63,386,717	68,729,533	73,339,094	77,603,058



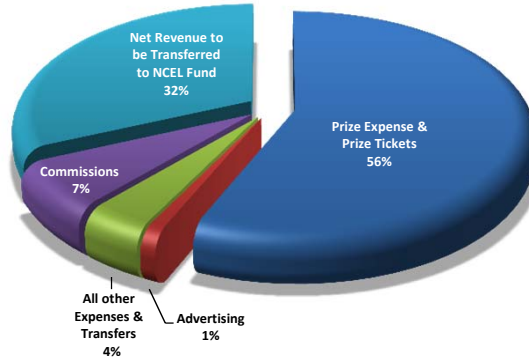
North Carolina Education Lottery Statistics

Allocation of Expenses FY 2007 to FY 2014:

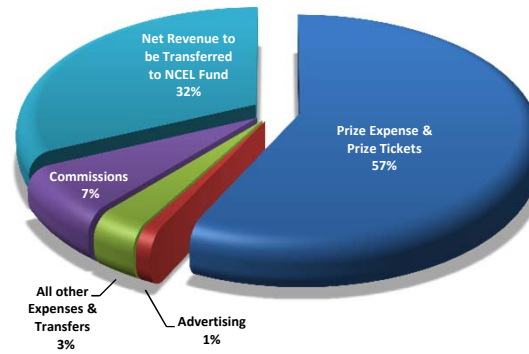
DISTRIBUTION OF REVENUES FY 2007



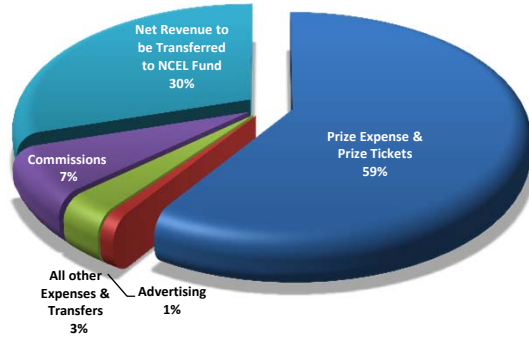
DISTRIBUTION OF REVENUES FY 2008



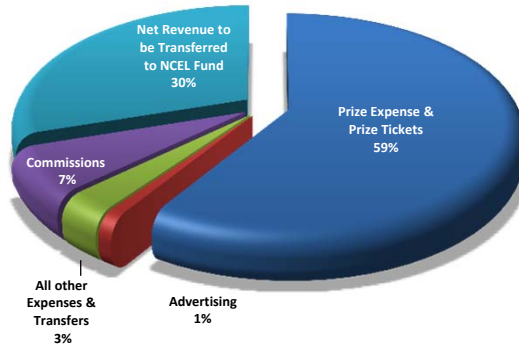
DISTRIBUTION OF REVENUES FY 2009



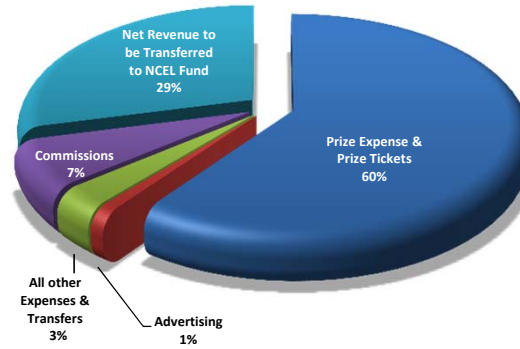
DISTRIBUTION OF REVENUES FY 2010



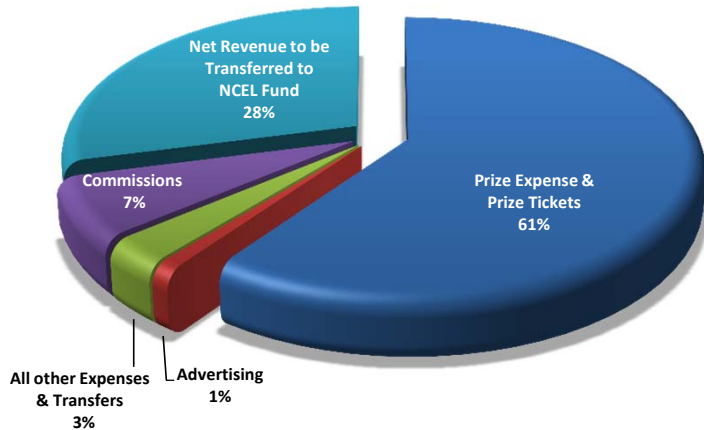
DISTRIBUTION OF REVENUES FY 2011



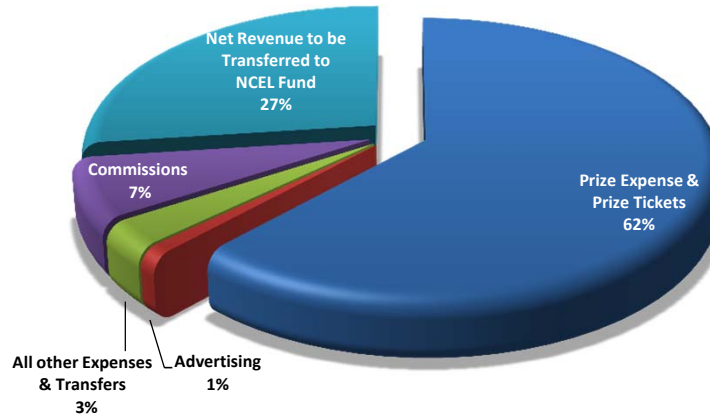
DISTRIBUTION OF REVENUES FY 2012



DISTRIBUTION OF REVENUES FY 2013

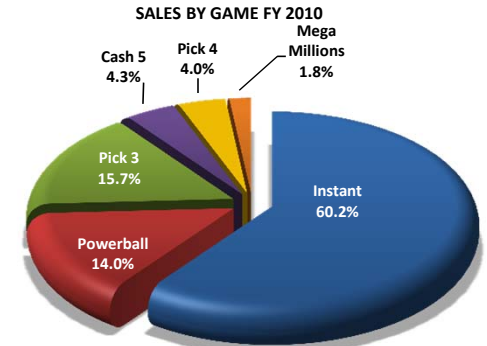
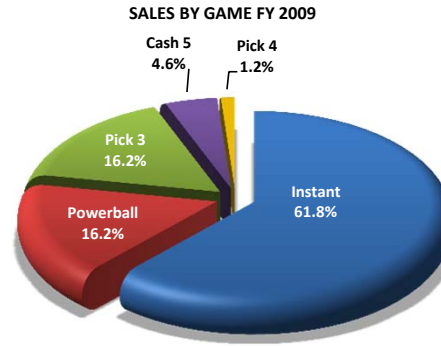
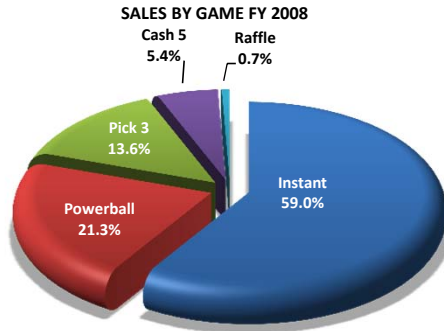
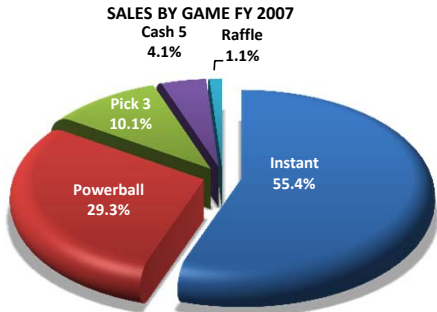


DISTRIBUTION OF REVENUES FY 2014



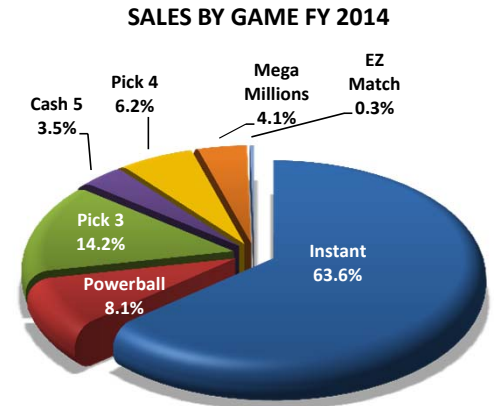
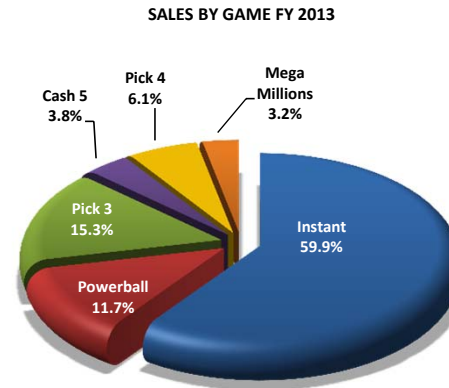
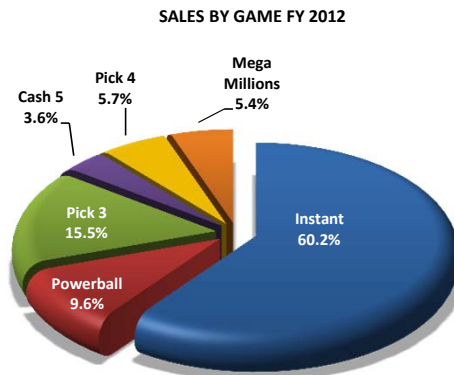
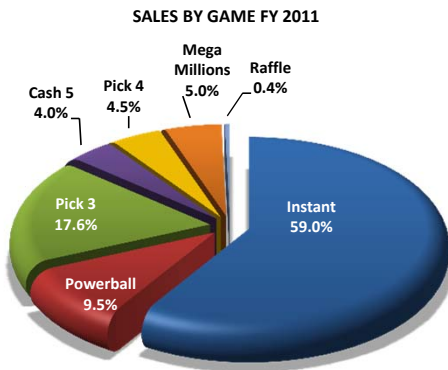
North Carolina Education Lottery Statistics

Sales by Game FY 2007 to FY 2014:



Cash 5 & Pick 3 games were launched in Oct '06

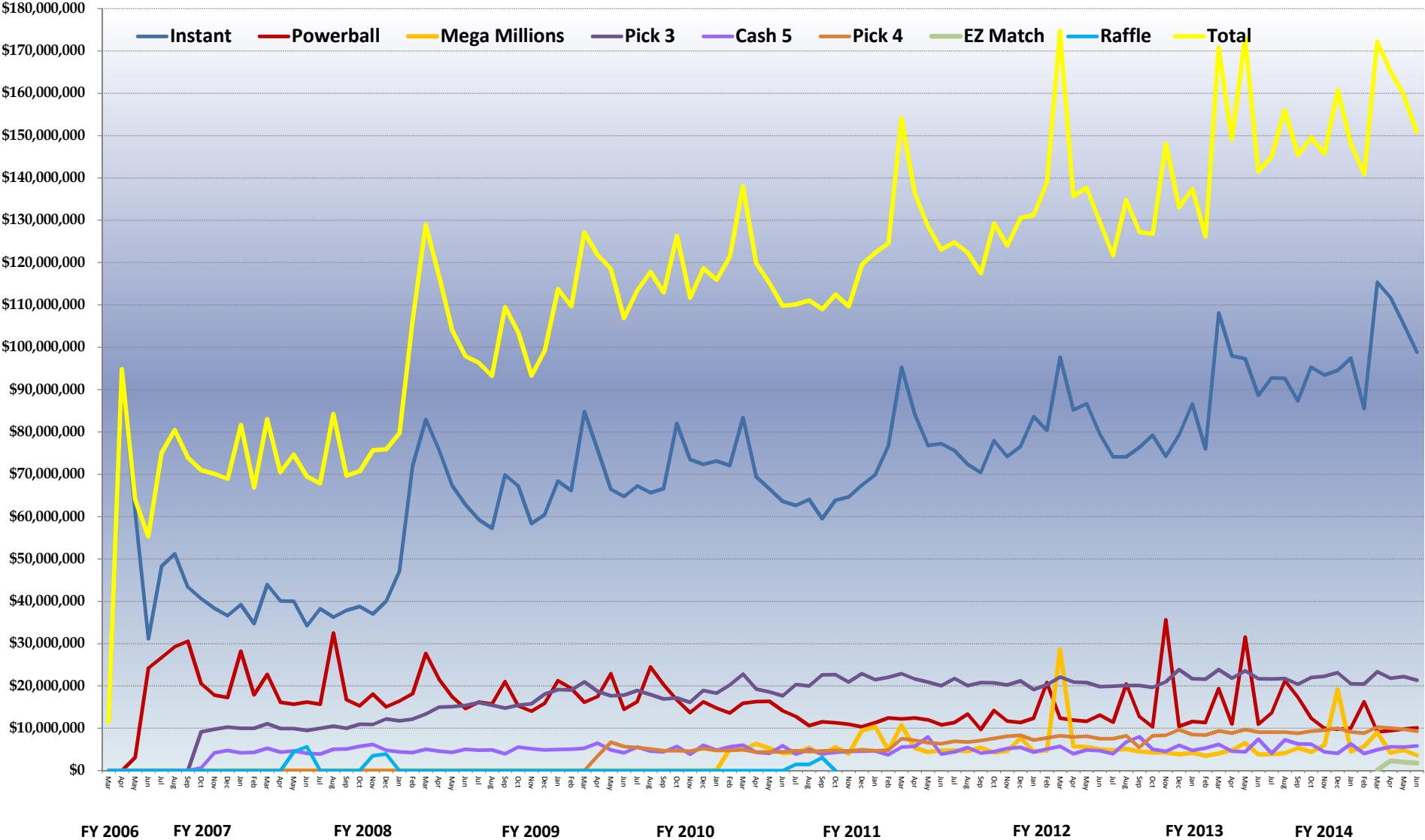
Mega Millions game was launched in Jan '10



EZ Match game was launched in March '14

Total Sales Life to Date:

Game Sales - LTD Comparison By Game



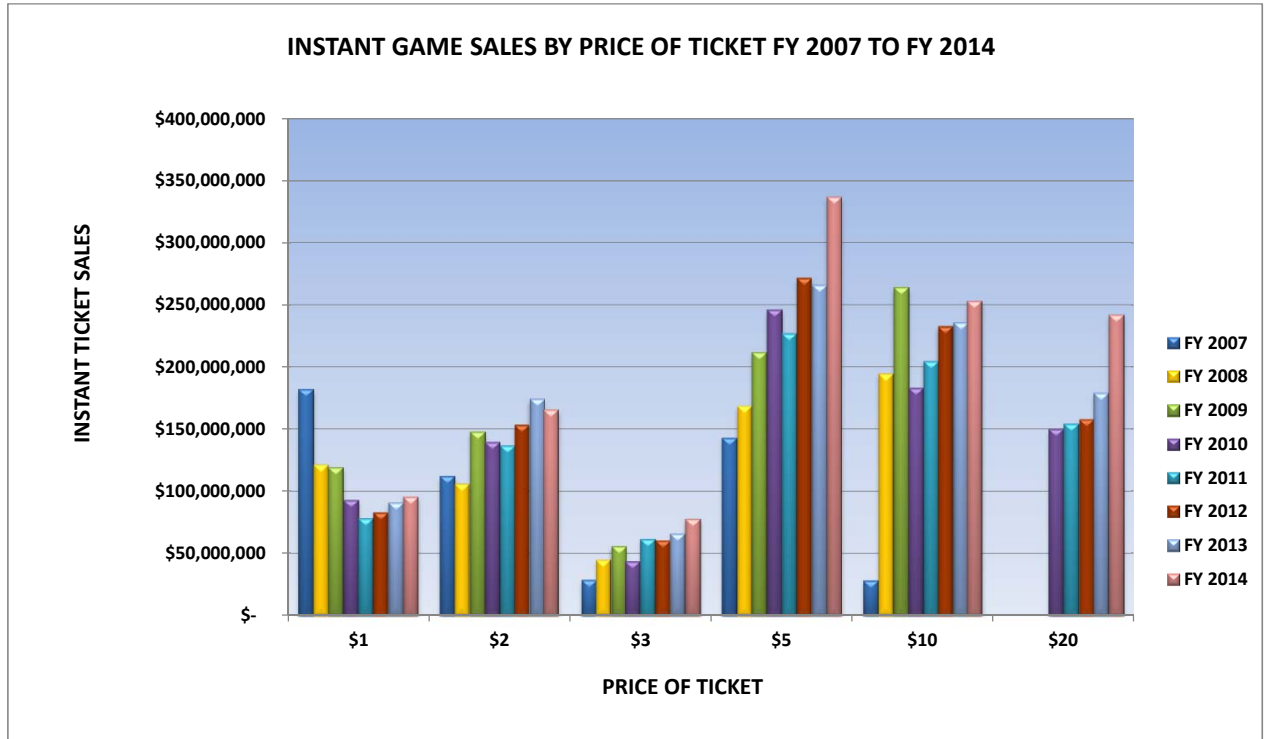
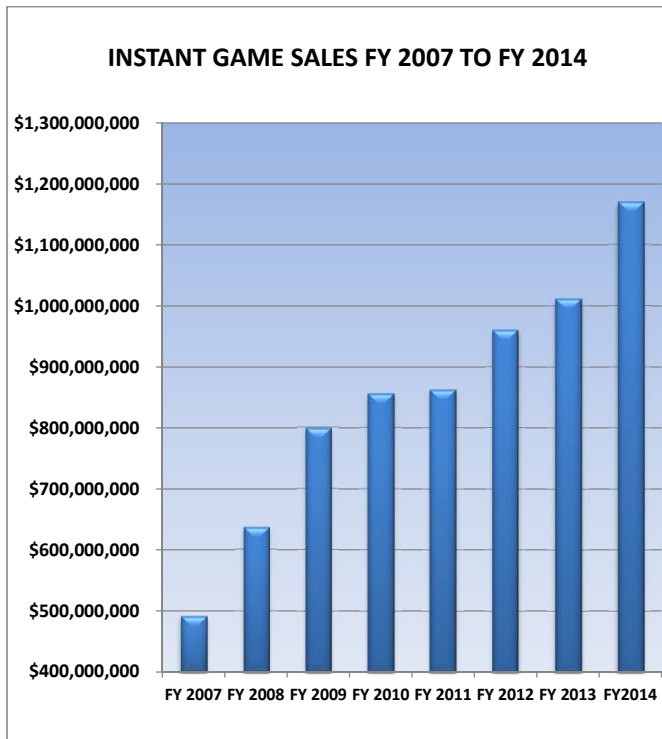
North Carolina Education Lottery Statistics

Instant Tickets FY 2007 to FY 2014:

Instant Games by Price of Ticket

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
\$1	\$ 182,168,872	\$ 121,600,546	\$ 119,083,157	\$ 92,980,150	\$ 78,296,263	\$ 83,189,184	\$ 90,927,671	\$ 95,376,092
\$2	112,107,280	106,036,416	147,937,906	139,472,210	136,676,260	153,609,582	174,358,200	165,497,798
\$3	28,790,607	44,977,548	55,828,311	43,751,937	61,499,178	60,791,835	65,926,023	77,651,188
\$5	142,974,345	168,722,235	211,778,870	246,081,170	227,038,175	271,630,660	265,910,475	336,917,685
\$10	28,273,430	194,543,370	264,048,160	183,066,660	204,423,280	232,576,800	235,765,240	252,975,900
\$20	-	-	-	150,230,140	154,157,320	158,157,300	179,055,580	241,829,580
TOTAL	\$ 494,314,534	\$ 635,880,115	\$ 798,676,404	\$ 855,582,267	\$ 862,090,476	\$ 959,955,361	\$ 1,011,943,189	\$ 1,170,248,243

During the 2007 fiscal year, the North Carolina General Assembly approved new legislation to provide the NCEL with more flexibility in instant ticket prize payouts. The impact of this change can be seen above with the increases in instant ticket sales, beginning in January of fiscal year 2008 and continuing through fiscal year 2012.

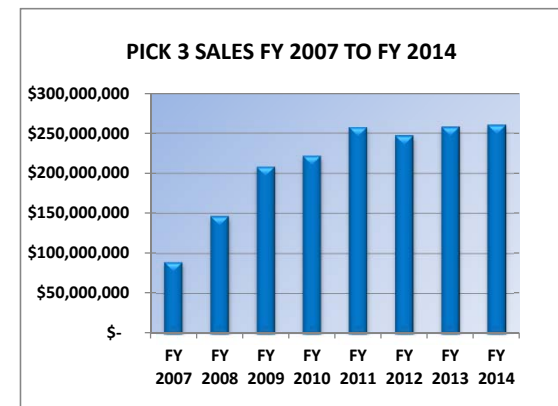
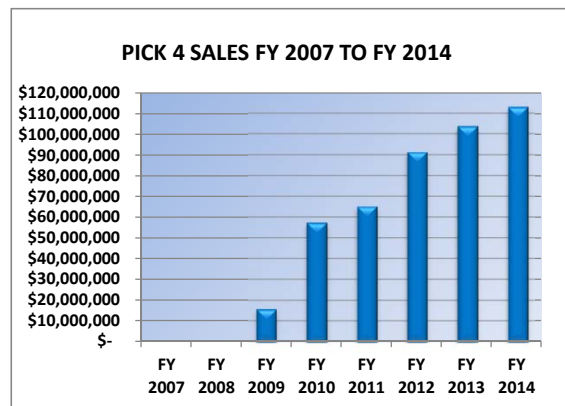
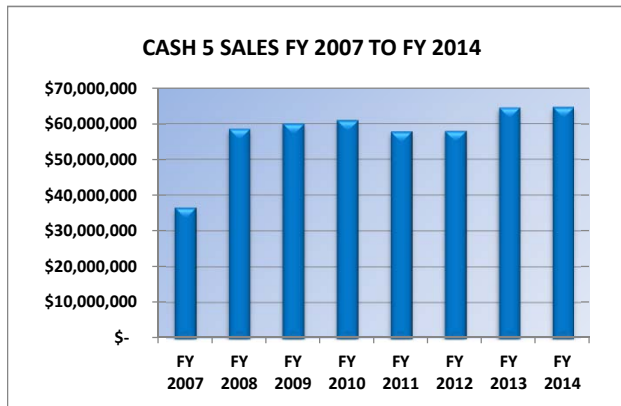
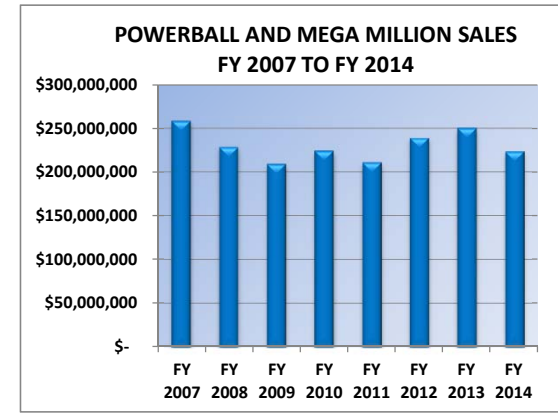
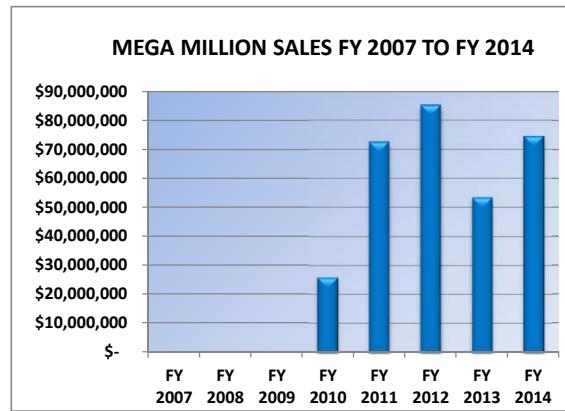
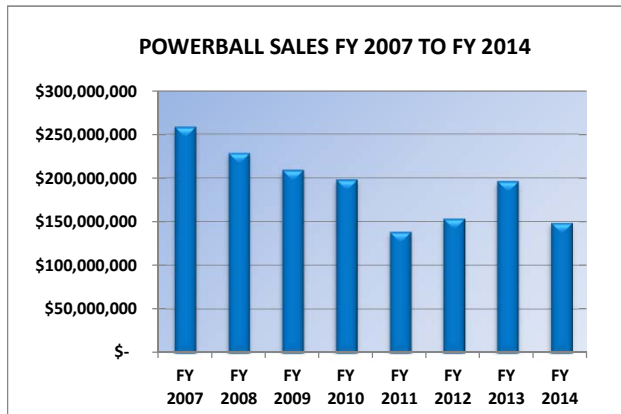
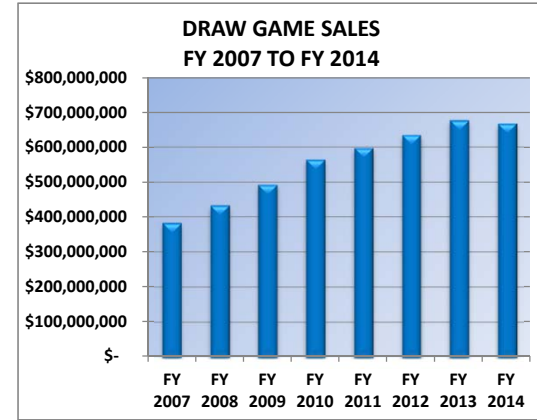


North Carolina Education Lottery Statistics

Draw Game Sales FY 2007 to FY 2014:

North Carolina Education Lottery Draw Game Sales

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Powerball	\$258,967,883	\$229,255,174	\$209,746,679	\$198,756,717	\$138,670,659	\$153,921,894	\$196,942,790	\$149,222,277
Mega Millions	\$-	\$-	\$-	\$25,969,303	\$72,847,709	\$85,564,057	\$53,665,710	\$74,809,896
Cash 5	\$36,501,699	\$58,516,249	\$60,011,218	\$60,873,168	\$57,757,944	\$57,971,905	\$64,480,563	\$64,620,396
Pick 4	\$-	\$-	\$15,793,159	\$57,370,252	\$65,309,804	\$91,528,197	\$103,902,120	\$113,192,015
Pick 3	\$89,541,217	\$147,158,304	\$208,883,766	\$222,777,592	\$258,443,414	\$247,751,644	\$258,868,250	\$260,983,275
Raffle	\$10,000,000	\$7,369,240	\$-	\$-	\$5,986,380	\$-	\$-	\$-
EZ Match	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$6,188,671



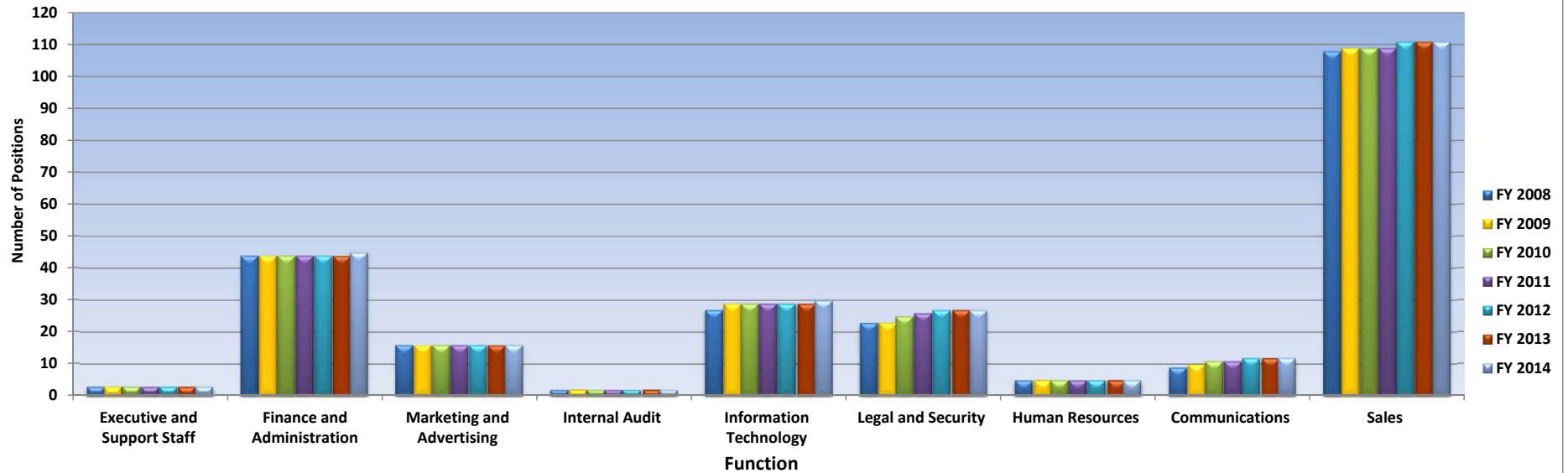
North Carolina Education Lottery Statistics

North Carolina Education Lottery Information:

Budgeted Full Time Equivalent (FTE) Positions by Function

Function	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Executive and Support Staff	3	3	3	3	3	3	3	3
Finance and Administration	43	44	44	44	44	44	44	45
Marketing and Advertising	15	16	16	16	16	16	16	16
Internal Audit	1	2	2	2	2	2	2	2
Information Technology	27	27	29	29	29	29	29	30
Legal and Security	23	23	23	25	26	27	27	27
Human Resources	6	5	5	5	5	5	5	5
Communications	9	9	10	11	11	12	12	12
Sales	101	108	109	109	109	111	111	111
Total	228	237	241	244	245	249	249	251

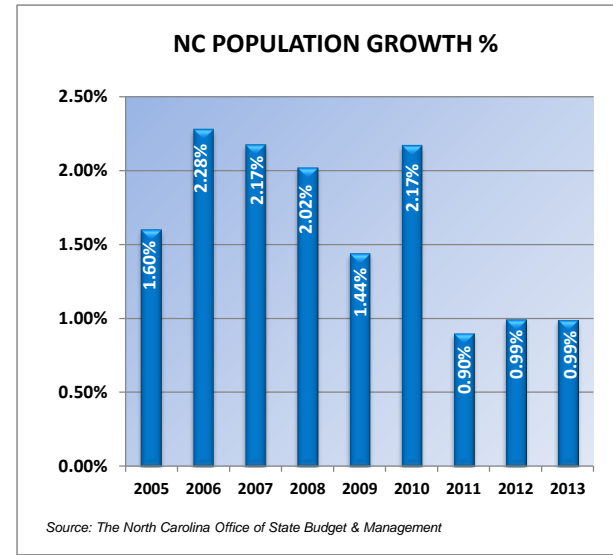
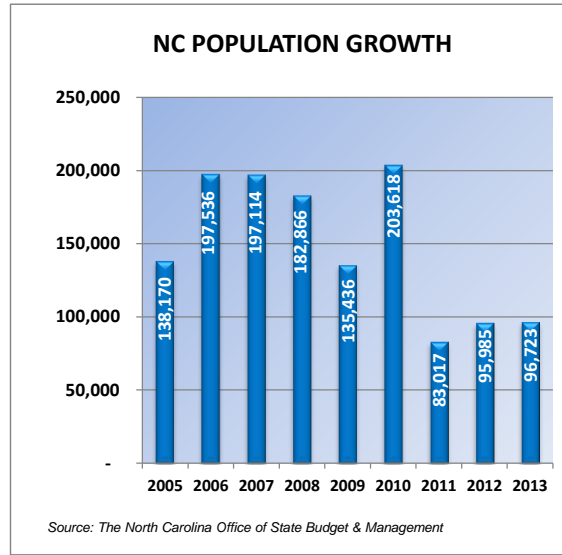
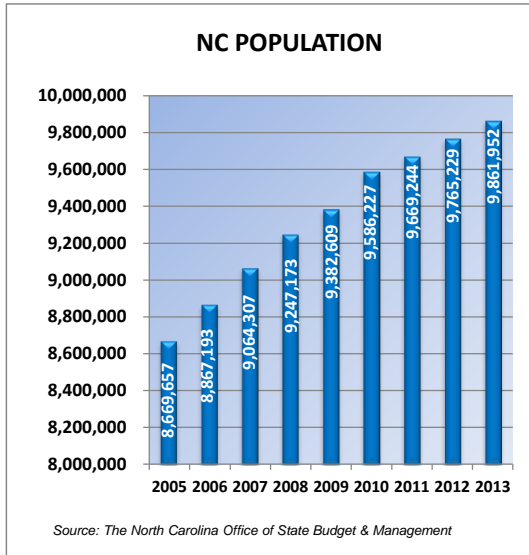
BUDGETED NCEL FTE POSITIONS BY FUNCTION FY 2007 TO FY 2014



North Carolina Population Demographics

Population	2005	2006	2007	2008	2009	2010	2011	2012	2013
North Carolina Total Population	8,669,657	8,867,193	9,064,307	9,247,173	9,382,609	9,586,227	9,669,244	9,765,229	9,861,952
North Carolina Population Growth	138,170	197,536	197,114	182,866	135,436	203,618	83,017	95,985	96,723
North Carolina Population Growth Percentage	1.60%	2.28%	2.17%	2.02%	1.44%	2.17%	0.90%	0.99%	0.99%

Source: Estimates from The North Carolina Office of State Budget & Management



HOUSEHOLDS BY TYPE	2006		2007		2008		2009		2010		2011		2012		2013	
Total households	3,454,068	100.0%	3,540,875	100.0%	3,595,175	100.0%	3,646,095	100.0%	3,670,859	100.0%	3,683,364	100.0%	3,731,325	100.0%	3,757,480	100.0%
Family households (families)	2,310,456	66.9%	2,366,894	66.8%	2,397,731	66.7%	2,430,277	66.7%	2,441,916	66.5%	2,455,564	66.7%	2,472,230	66.3%	2,474,802	65.9%
With own children under 18 years	1,051,848	30.5%	1,081,696	30.5%	1,091,498	30.4%	1,083,501	29.7%	1,075,410	29.3%	1,060,465	28.8%	1,077,533	28.9%	1,048,744	27.9%
Married-couple family	1,706,840	49.4%	1,763,797	49.8%	1,777,054	49.4%	1,791,515	49.1%	1,770,863	48.2%	1,788,142	48.5%	1,795,932	48.1%	1,786,356	47.5%
With own children under 18 years	702,992	20.4%	729,188	20.6%	730,170	20.3%	712,126	19.5%	702,528	19.1%	675,851	18.3%	697,959	18.7%	674,065	17.9%
Male householder, no wife present, family	148,807	4.3%	150,794	4.3%	154,724	4.3%	158,268	4.3%	159,752	4.4%	155,308	4.2%	171,133	4.6%	168,512	4.5%
With own children under 18 years	73,963	2.1%	76,281	2.2%	78,365	2.2%	82,230	2.3%	79,910	2.2%	81,837	2.2%	87,595	2.3%	83,845	2.2%
Female householder, no husband present, family	454,809	13.2%	452,303	12.8%	465,953	13.0%	480,494	13.2%	511,301	13.9%	512,114	13.9%	505,165	13.5%	519,934	13.8%
With own children under 18 years	274,893	8.0%	276,227	7.8%	282,963	7.9%	289,145	7.9%	292,972	8.0%	302,777	8.2%	291,979	7.8%	290,834	7.7%
Nonfamily households	1,143,612	33.1%	1,173,981	33.2%	1,197,444	33.3%	1,215,818	33.3%	1,228,943	33.5%	1,227,800	33.3%	1,259,095	33.7%	1,282,678	34.1%
Householder living alone	959,166	27.8%	980,821	27.7%	994,766	27.7%	1,009,821	27.7%	1,022,017	27.8%	1,031,543	28.0%	1,040,303	27.9%	1,055,613	28.1%
65 years and over	301,931	8.7%	312,083	8.8%	313,422	8.7%	318,699	8.7%	339,711	9.3%	337,273	9.2%	367,231	9.8%	373,739	9.9%
Households with one or more people under 18 years	1,170,646	33.9%	1,200,942	33.9%	1,212,103	33.7%	1,203,617	33.0%	1,207,752	32.9%	1,189,022	32.3%	1,205,732	32.3%	1,178,724	31.4%
Households with one or more people 65 years and over	755,875	21.9%	778,766	22.0%	803,471	22.3%	836,822	23.0%	875,841	23.9%	891,946	24.2%	943,637	25.3%	983,564	26.2%
Average household size	2.49		2.48		2.49		2.49		2.53		2.55		2.55		2.55	
Average family size	3.04		3.04		3.05		3.06		3.10		3.12		3.12		3.13	

Source: U.S. Census Bureau, American Community Survey

2005 Households by type data not available

North Carolina Occupational and Income Statistics

INCOME AND BENEFITS									
Total households	2005	2006	2007	2008	2009	2010	2011	2012	2013
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Less than \$10,000	10.0%	9.4%	8.7%	8.3%	9.0%	9.0%	8.8%	8.2%	8.4%
\$10,000 to \$14,999	7.0%	6.6%	6.7%	6.0%	6.6%	6.9%	6.8%	6.3%	6.1%
\$15,000 to \$24,999	13.6%	12.9%	12.3%	11.7%	12.8%	12.6%	12.8%	12.0%	12.3%
\$25,000 to \$34,999	12.8%	12.5%	11.9%	11.7%	12.4%	12.1%	12.2%	11.8%	11.9%
\$35,000 to \$49,999	16.1%	15.6%	15.3%	15.5%	15.1%	15.6%	14.8%	15.0%	15.0%
\$50,000 to \$74,999	18.5%	18.9%	18.9%	19.1%	18.1%	18.4%	17.9%	18.4%	18.1%
\$75,000 to \$99,999	9.9%	10.6%	11.0%	11.3%	11.1%	10.8%	10.5%	11.4%	11.1%
\$100,000 to \$149,999	7.7%	8.6%	9.3%	10.1%	9.4%	9.0%	10.0%	10.3%	10.0%
\$150,000 to \$199,999	2.3%	2.5%	3.0%	3.3%	2.8%	2.9%	3.3%	3.4%	3.6%
\$200,000 or more	2.1%	2.4%	2.9%	3.0%	2.7%	2.7%	2.9%	3.1%	3.6%
Median household income (dollars)	\$ 40,729	\$ 42,625	\$ 44,670	\$ 46,549	\$ 43,674	\$ 43,326	\$ 43,916	\$ 46,291	\$ 45,906
Mean household income (dollars)	\$ 54,503	\$ 57,184	\$ 60,672	\$ 63,005	\$ 59,700	\$ 59,053	\$ 60,939	\$ 63,298	\$ 64,106

Source: U.S. Census Bureau, American Community Survey

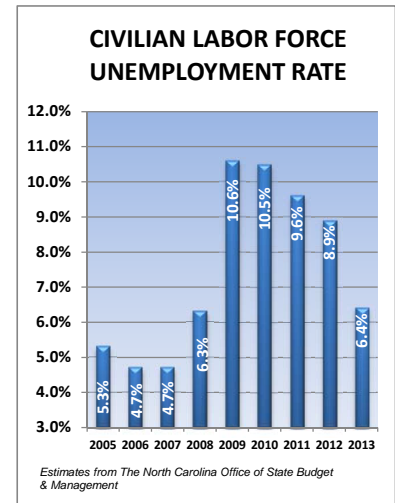
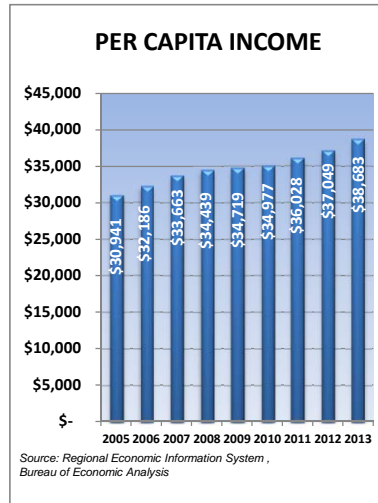
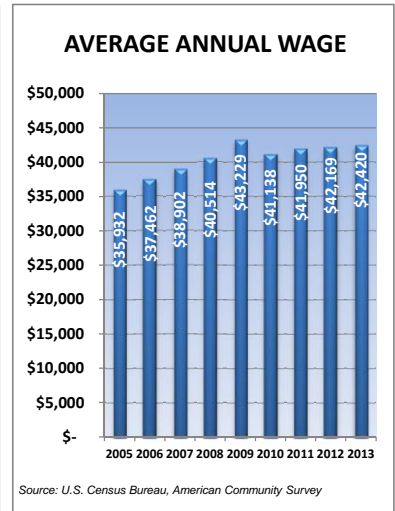
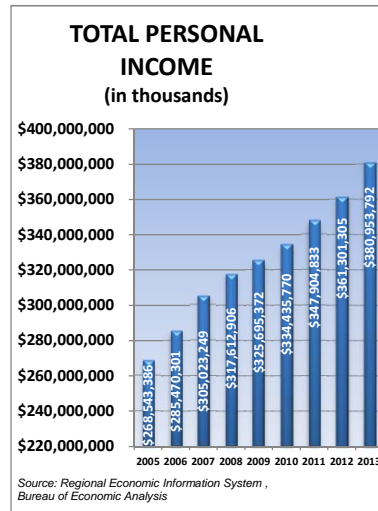
OCCUPATION									
Civilian employed population 16 years and over	2005	2006	2007	2008	2009	2010	2011	2012	2013
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Management, professional, and related occupations	32.3%	32.6%	33.8%	33.9%	35.8%	35.1%	35.6%	35.0%	35.9%
Service occupations	15.8%	15.7%	15.8%	16.2%	16.9%	17.3%	17.6%	16.7%	18.4%
Sales and office occupations	24.2%	24.4%	24.4%	24.4%	24.2%	24.6%	23.6%	24.2%	23.5%
Farming, fishing, and forestry occupations	0.8%	0.8%	0.7%	0.8%	0.7%				
Construction, extraction, maintenance and repair occupations	11.5%	11.7%	10.8%	10.6%	9.1%	9.9%	9.5%	10.5%	9.1%
Production, transportation, and material moving occupations	15.4%	14.9%	14.4%	14.1%	13.3%	13.1%	13.6%	13.7%	13.1%

Starting in 2010 farming and fishing, forestry was included in the construction, extraction, maintenance and repair occupations category

Source: U.S. Census Bureau, American Community Survey

INDUSTRY									
Civilian employed population 16 years and over	2005	2006	2007	2008	2009	2010	2011	2012	2013
	100.0%	100.0%	100.0%	100.0%	100%	100%	100%	100%	100%
Agriculture, forestry, fishing and hunting, and mining	1.4%	1.5%	1.5%	1.5%	1.4%	1.4%	1.4%	1.5%	1.3%
Construction	9.0%	9.4%	9.0%	8.7%	7.3%	6.9%	6.6%	7.7%	6.5%
Manufacturing	14.9%	14.3%	13.6%	13.5%	13.0%	12.4%	12.8%	13.1%	12.5%
Wholesale trade	3.4%	3.5%	3.0%	3.0%	2.8%	3.0%	2.9%	2.9%	2.6%
Retail trade	11.6%	11.3%	11.7%	11.8%	11.6%	12.0%	11.5%	11.6%	11.8%
Transportation and warehousing, and utilities	4.5%	4.5%	4.6%	4.6%	4.4%	4.2%	4.4%	4.4%	4.3%
Information	2.0%	2.1%	2.0%	2.0%	1.9%	1.7%	1.8%	1.9%	1.8%
Finance and insurance, and real estate and rental and leasing	6.6%	6.6%	6.7%	6.6%	6.5%	6.4%	6.2%	6.5%	6.3%
Professional, scientific, and management, and administrative	8.7%	8.6%	9.3%	8.9%	9.7%	9.5%	10.0%	9.5%	10.3%
Educational services, and health care and social assistance	21.0%	21.8%	21.8%	22.3%	23.3%	23.4%	23.7%	22.9%	23.4%
Arts, entertainment, and recreation, and accommodation	8.0%	8.0%	8.2%	8.5%	8.8%	9.2%	9.0%	8.7%	9.8%
Other services, except public administration	4.6%	4.5%	4.6%	4.6%	5.0%	5.0%	4.9%	4.8%	5.0%
Public administration	4.3%	4.0%	4.1%	4.0%	4.4%	4.9%	4.8%	4.4%	4.4%

Source: U.S. Census Bureau, American Community Survey



North Carolina Employer Statistics

Employer	2014			2013			2012			2011		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina	180,000-184,999	1	4.16%	180,000-184,999	1	4.25%	180,000-184,999	1	4.33%	180,000-184,999	1	4.50%
Federal Government	65,000-69,999	2	1.54%	65,000-69,999	2	1.57%	65,000-69,999	2	1.60%	65,000-69,999	2	1.66%
Wal-Mart Stores, Inc.	45,000-59,999	3	1.20%	45,000-59,999	3	1.22%	50,000-54,999	3	1.25%	50,000-54,999	3	1.29%
Charlotte Hospital Authority	30,000-34,999	4	0.74%	30,000-34,999	4	0.76%	25,000-29,999	5	0.65%	25,000-29,999	5	0.68%
Duke University	30,000-34,999	5	0.74%	30,000-34,999	5	0.76%	25,000-29,999	4	0.65%	25,000-29,999	4	0.68%
Food Lion LLC	25,000-29,999	6	0.63%	25,000-29,999	6	0.64%	25,000-29,999	6	0.65%	25,000-29,999	6	0.55%
Wells Fargo Bank NA	25,000-29,999	7	0.63%	20,000-24,999	7	0.52%	20,000-24,999	7	0.53%	20,000-24,999	7	0.55%
Charlotte Board of Ed.	20,000-24,999	8	0.51%	20,000-24,999	8	0.52%	15,000-19,999	8	0.42%	20,000-24,999	8	0.43%
Bank of America NA	20,000-24,999	9	0.51%	20,000-24,999	9	0.52%	15,000-19,999	10	0.42%	15,000-19,999	10	0.43%
Wake Public schools	20,000-24,999	10	0.51%	15,000-19,999	10	0.41%	15,000-19,999	9	0.42%	15,000-19,999	9	0.43%
Total	460,000-519,990		11.17%	435,000-484,990		11.17%	435,000-484,990		10.92%	440,000-489,990		11.20%

Employer	2010			2009			2008			2007		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina	180,000-184,999	1	4.46%	180,000-184,999	1	4.50%	180,000-184,999	1	4.26%	175,000-179,999	1	3.93%
Federal Government	65,000-69,999	2	1.65%	65,000-69,999	2	1.67%	60,000-64,999	2	1.46%	60,000-64,999	2	1.38%
Wal-Mart Stores, Inc.	50,000-54,999	3	1.28%	50,000-54,999	3	1.30%	50,000-54,999	3	1.22%	50,000-54,999	3	1.16%
Duke University	25,000-29,999	4	0.67%	25,000-29,999	4	0.68%	25,000-29,999	4	0.64%	25,000-29,999	4	0.61%
Charlotte Hospital Authority	25,000-29,999	5	0.67%	20,000-24,999	6	0.56%	15,000-19,999	9	0.41%	15,000-19,999	9	0.39%
Food Lion LLC	25,000-29,999	6	0.67%	25,000-29,999	5	0.68%	25,000-29,999	5	0.64%	25,000-29,999	5	0.61%
Charlotte Board of Ed.	20,000-24,999	7	0.55%	20,000-24,999	9	0.56%	20,000-24,999	6	0.52%	20,000-24,999	6	0.50%
Wells Fargo Bank NA	20,000-24,999	8	0.55%	15,000-19,999	7	0.43%	20,000-24,999	7	0.52%	20,000-24,999	7	0.50%
Wake Public schools	15,000-19,999	9	0.43%	20,000-24,999	8	0.56%	15,000-19,999	8	0.41%	15,000-19,999	8	0.39%
Lowes Home Centers, Inc	-	-	-	15,000-19,999	10	0.43%	15,000-19,999	10	0.41%	15,000-19,999	10	0.39%
Bank of America NA	15,000-19,999	10	0.43%	-	-	-	-	-	-	-	-	-
Total	440,000-489,990		11.36%	435,000-484,990		11.37%	425,000-474,990		10.49%	420,000-469,990		9.86%

All figures are based on 1st quarter average. Percentage of total state employment is based on the average of the ranges given.

Source: North Carolina Employment Security Commission.

North Carolina Educational Statistics

EDUCATIONAL ATTAINMENT	2005	% of Total	2006	% of Total	2007	% of Total	2008	% of Total	2009	% of Total
Population 25 years and over	5,568,889		5,845,235		5,959,907		6,085,315		6,150,247	
Less than 9th grade	353,070	6.3%	384,155	6.6%	365,783	6.1%	383,607	6.3%	364,595	6.0%
9th to 12th grade, no diploma	631,888	11.3%	667,051	11.4%	647,904	10.9%	612,533	10.1%	599,129	9.8%
High school graduate (includes equivalency)	1,638,855	29.4%	1,738,948	29.7%	1,766,873	29.6%	1,680,882	27.6%	1,678,361	27.6%
Some college, no degree	1,089,224	19.6%	1,129,037	19.3%	1,160,685	19.5%	1,324,936	21.8%	1,350,850	22.2%
Associate's degree	456,290	8.2%	474,966	8.1%	491,574	8.2%	497,276	8.2%	524,739	8.6%
Bachelor's degree	951,509	17.1%	966,882	16.5%	1,015,979	17.0%	1,060,313	17.4%	1,091,506	17.9%
Graduate or professional degree	448,053	8.0%	484,196	8.3%	511,109	8.6%	525,768	8.6%	541,067	8.9%

Source: U.S. Census Bureau, American Community Survey

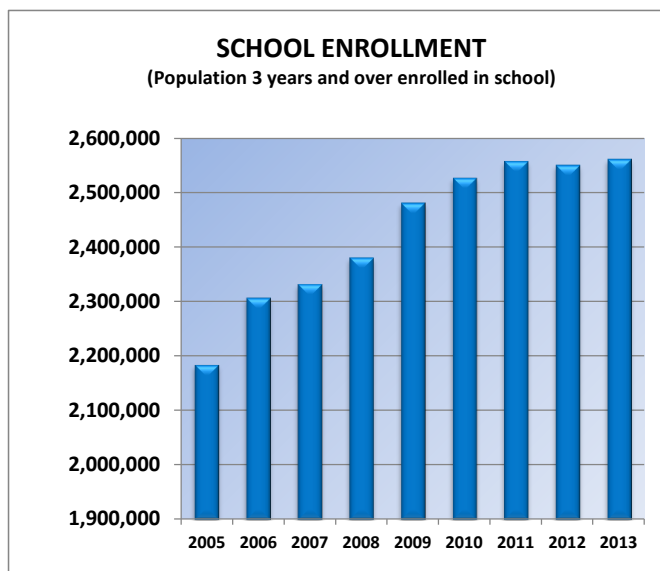
EDUCATIONAL ATTAINMENT	2010	% of Total	2011	% of Total	2012	% of Total	2013	% of Total
Population 25 years and over	6,325,621		6,399,357		6,489,883		6,568,110	
Less than 9th grade	354,732	5.6%	364,763	5.7%	374,003	5.8%	354,678	5.4%
9th to 12th grade, no diploma	610,095	9.6%	607,939	9.5%	588,448	9.1%	577,994	8.8%
High school graduate (includes equivalency)	1,749,642	27.7%	1,747,024	27.3%	1,760,704	27.1%	1,740,549	26.5%
Some college, no degree	1,392,117	22.0%	1,395,060	21.8%	1,428,821	22.0%	1,444,984	22.0%
Associate's degree	545,716	8.6%	556,744	8.7%	562,049	8.7%	577,994	8.8%
Bachelor's degree	1,123,118	17.8%	1,139,086	17.8%	1,170,056	18.0%	1,208,532	18.4%
Graduate or professional degree	550,201	8.7%	588,741	9.2%	605,802	9.3%	650,243	9.9%

Source: U.S. Census Bureau, American Community Survey

SCHOOL ENROLLMENT

Population 3 years and over enrolled in school

Year	School Enrollment
2005	2,183,555
2006	2,306,697
2007	2,332,078
2008	2,380,186
2009	2,480,531
2010	2,526,366
2011	2,557,304
2012	2,550,114
2013	2,560,742



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