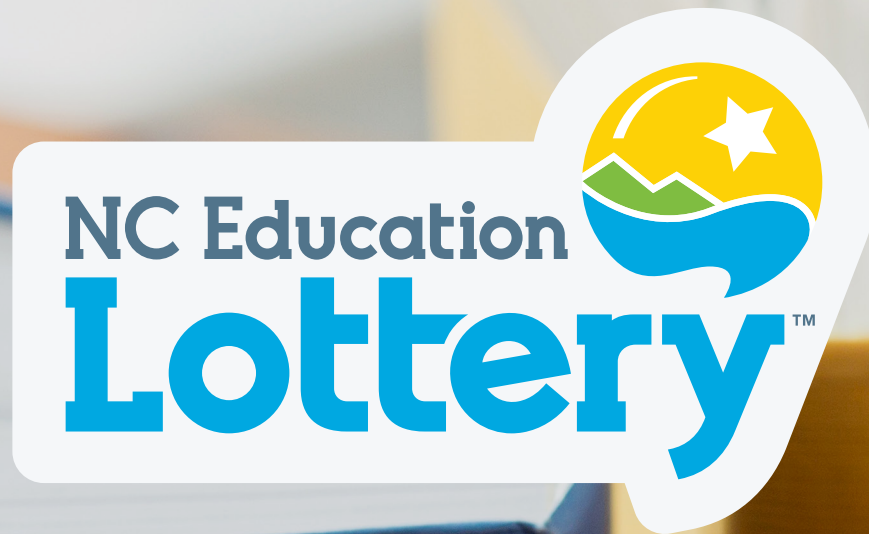


North Carolina Education Lottery Popular Annual Financial Report Fiscal Year Ended June 30, 2016



About the Popular Annual Financial Report

The North Carolina Education Lottery (NCEL) finance division is proud to present you its Popular Annual Financial Report (PAFR) for the Fiscal Year (FY) ended June 30, 2016. This report provided an overview of the NCEL's financial condition and a brief analysis of where the money comes from and where the dollars are spent.

Most of the information in this report is drawn from the financial information appearing on the NCEL's FY 2016 Comprehensive Annual Financial Report (CAFR). The CAFR is a more detailed and complete financial presentation prepared in conformance with Generally Accepted Accounting Principals (GAAP) and was audited by an independent accounting firm, receiving an unqualified (clean) opinion. The financial data in this report also conforms to the GAAP. The CAFR, PAFR and the NCEL's Annual Report are available for viewing on the NCEL's website at www.nclottery.com/about.aspx

NORTH CAROLINA EDUCATION LOTTERY

For the 10th year in a row, the N.C. Education Lottery completed its fiscal year by setting a new record not only for lottery ticket sales, but also for its contribution to education programs in North Carolina. The Education Lottery recorded \$2.38 billion in sales in fiscal year 2016 and \$636 million in earnings.

The instant product continued to be the largest revenue source, generating \$1.6 billion in sales. The lottery launched 51 new instant games during the year, including its first \$30 game, Ultimate Millions, which offered four \$10 million prizes, 18 \$1 million prizes, and three additional \$1 million prizes that could be won in second-chance drawings.

The lottery also began a new draw game, Lucky For Life, a \$2 game with a top prize of \$1,000 a Day for Life that winners receive every year for the rest of their lives. Draw games sales also benefited from a record Powerball jackpot of \$1.5 billion in February 2016, boosting Powerball ticket sales to \$208 million, up \$78 million from the year before. Lottery players collected \$1.49 billion in prize money. During the year, prizes of \$1 million or more were won 58 times, including two prizes of \$10 million. Many winners put their money right back to work in the economy, by paying bills, buying new houses or cars, taking vacations, saving and investing the money for retirement or college, or donating to personal good causes.

The lottery ended the year with 6,898 retail locations across North Carolina. Retailers earned \$167 million in sales commissions and incentives.

The N.C. Education Lottery marked its 10th anniversary on March 30th. Over the decade the growing popularity of lottery games has raised more than \$4.6 billion for the good cause it serves. Since inception on March 30, 2006 through the end of FY16, the lottery surpassed \$15.8 billion in sales. More than 722,000 North Carolinians have joined the lottery's Lucke-Zone, a website where they can get lottery news, ask questions about lottery games, and enter second-chance drawings and other promotions.

To get a sense of the lottery's success, consider what happens every day across the state. Last year, the lottery averaged \$6.5 million a day in lottery ticket sales, \$4.1 million in prizes, and \$1.7 million raised for education. The lottery has increased sales and earnings every year of its operations, received "a clean opinion" from independent auditors in each year's audit of its finances, and become a leader in the U.S. lottery industry on responsible gaming.

The State Lottery Act directs the lottery to increase and maximize the available revenues for education purposes. In FY16, a breakdown of lottery revenues showed 62.4 percent went to prizes, 26.5 percent for education programs that the lottery serves, 7 percent in retailer commissions. The remaining 4.1 percent of revenues went to administrative expenses, including 1.75 percent to gaming vendors, advertising and marketing, salaries, wages and benefits and other administrative expenses.

The Education Lottery transfers its net assets on a quarterly basis to the Office of State Budget and Management to the North Carolina State Lottery Fund. The monies were distributed in FY16 as outlined in the budget approved by the General Assembly.

The General Assembly made the following allocation of lottery dollars in its FY16 budget to education programs:

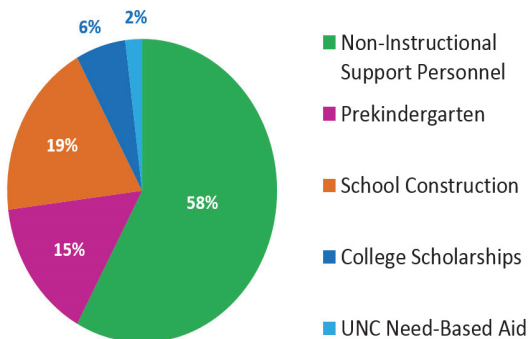
- 58 percent of the net assets, or \$310.5 million, to non-instructional support personnel;
- 19 percent, or \$100 million, for the Public School Building Capital Fund which provides monies to North Carolina counties to build and repair schools;
- 15 percent, or \$78.3 million, to the N.C. Pre-K program to fund seats in the prekindergarten program for at-risk four-year-olds;
- 6 percent, or \$30.4 million, for N.C. Education Lottery Scholarships which are awarded based on financial need;
- 2 percent, \$10.7 million, to the UNC Need-Based Grant program, which provides financial aid based on need to students attending one of the 16 UNC system institutions.

Lottery's revenues exceeded projections and unallocated funds were placed in reserve funds. The General Assembly also directed that \$2.1 million in earnings go to the N.C. Alcohol Law Enforcement and \$1 million to the N.C. Problem Gambling Program.

EDUCATION PROGRAMS RECEIVING LOTTERY DOLLARS

County	FY16	Cumulative
Alamance	8,084,861	64,350,280
Alexander	1,769,080	15,355,492
Alleghany	595,957	5,146,880
Anson	1,420,732	13,175,563
Ashe	1,339,073	11,832,815
Avery	823,478	7,656,096
Beaufort	2,508,147	20,797,910
Bertie	1,021,373	10,481,196
Bladen	1,950,418	18,635,644
Brunswick	4,665,835	37,768,734
Buncombe	9,827,668	79,174,048
Burke	4,819,547	42,554,356
Cabarrus	11,738,239	94,113,807
Caldwell	4,023,030	33,000,806
Camden	682,244	5,431,670
Carteret	3,062,960	24,285,104
Caswell	947,055	8,609,420
Catawba	8,227,846	67,002,466
Chatham	3,118,402	25,483,288
Cherokee	1,317,825	10,987,120
Chowan	817,253	7,006,557
Clay	524,652	4,382,291
Cleveland	5,586,470	51,212,539
Columbus	3,355,722	31,167,358
Craven	4,905,111	41,169,837
Cumberland	19,634,296	174,642,929
Currituck	1,246,901	9,898,756
Dare	1,776,174	14,104,347
Davidson	8,297,510	68,942,808
Davie	2,365,233	20,170,939
Duplin	3,510,869	29,083,646
Durham	11,296,741	95,468,502
Edgecombe	2,743,866	26,587,539
Forsyth	17,963,055	149,888,007
Franklin	2,895,924	23,572,677
Gaston	11,744,469	100,357,138
Gates	575,170	5,334,467
Graham	493,780	4,136,527
Granville	2,693,865	23,800,338
Greene	1,186,843	10,417,139
Guilford	27,766,460	235,528,597
Halifax	2,681,134	25,689,160
Hamett	6,818,531	54,448,231
Haywood	2,625,484	21,392,010
Henderson	4,634,223	36,698,086
Hertford	1,313,889	11,916,692
Hoke	3,454,978	29,226,855
Hyde	248,842	2,161,868
Iredell	8,777,492	69,501,933
Jackson	1,272,212	10,778,455

County	FY16	Cumulative
Johnston	11,000,468	88,786,199
Jones	549,448	5,099,561
Lee	3,791,043	31,908,696
Lenoir	3,337,612	29,147,223
Lincoln	3,930,015	32,000,766
Macon	1,573,211	13,856,961
Madison	845,519	7,266,050
Martin	1,304,933	11,666,343
McDowell	2,340,853	18,675,663
Mecklenburg	49,028,372	401,620,057
Mitchell	665,989	5,793,092
Montgomery	1,691,953	14,918,616
Moore	3,954,463	30,187,528
Nash	5,253,469	47,105,810
New Hanover	9,761,022	79,445,956
Northampton	824,234	9,380,808
Onslow	10,031,027	77,363,823
Orange	6,520,128	52,587,172
Pamlico	519,975	4,692,248
Pasquotank	2,034,945	17,572,971
Pender	3,225,979	24,074,238
Perquimans	627,507	5,464,247
Person	1,716,906	15,865,335
Pitt	8,889,325	74,612,661
Polk	885,671	7,842,637
Randolph	7,535,023	61,168,724
Richmond	2,817,304	25,064,386
Robeson	9,157,199	83,292,753
Rockingham	4,444,244	39,772,959
Rowan	6,779,727	58,416,595
Rutherford	3,295,170	29,040,939
Sampson	4,247,604	37,030,859
Scotland	2,429,543	22,565,990
Stanly	3,502,315	30,868,664
Stokes	2,426,819	21,606,203
Surry	3,963,354	34,592,015
Swain	857,979	6,762,989
Transylvania	1,221,230	9,725,929
Tyrrell	217,373	1,941,016
Union	13,516,562	105,174,388
Vance	2,248,659	21,302,718
Wake	50,074,419	381,067,541
Warren	906,571	8,104,266
Washington	684,246	6,618,736
Watauga	1,649,255	14,214,732
Wayne	7,177,984	64,171,463
Wilkes	4,054,656	35,239,191
Wilson	4,067,112	35,326,524
Yadkin	2,002,477	17,982,742
Yancey	760,158	6,600,346



New Grays Creek Middle School in Cumberland County, N.C.

Headline: Lottery funds help build schools

Some of the money raised by the N.C. Education Lottery goes to help counties in North Carolina build and repair schools. Some counties use their portions as a repair fund, fixing roofs and HVAC systems. Other use the funds to build new schools. Last year, Cumberland County used lottery funds to make a \$1.5 million payment on bonds used to build a new middle school. So far, Cumberland County has used lottery funds to

SALES

The gross lottery ticket sales for fiscal year 2016 totaled \$2.38 billion as compared to \$1.97 billion for fiscal year 2015 and \$1.84 billion for fiscal year 2014. This represents an increase of \$411 million from 2015 and \$130 million from 2014.

Gross instant ticket sales were \$1.617 billion for fiscal year 2016 compared with \$1.294 billion for fiscal year 2015 and \$1.17 billion in fiscal year 2014, an increase of approximately \$323 million from fiscal year 2015 and approximately \$124 million from fiscal year 2014. The increase realized during fiscal year 2016 is attributable to several factors. In August, the popular “Bucks” family of games were re-launched and included \$1 “Mighty Bucks”, \$2 “Junior Big Ol’ Bucks”, \$5 “Mega Bucks”, and \$10 “Jumbo Bucks”—and the “Bucks” family combined for a total \$125 million in sales during fiscal year 2016. The NCEL’s first \$30 scratch-off “Ultimate Millions” launched in September and totaled \$280 million in sales. The NCEL saw continued strong performance of games featuring “Back Scratch”, an additional play area on the back of the ticket, with the December launch of the \$5 scratch-off “\$500 Cash”. \$500 Cash was one of the highest performing \$5 games of the year with nearly \$45 Million in sales. In February, another family of the popular multiplier scratch-off games was introduced, with the launch of “5X The Cash!”, “10X The Cash!”, “20X The Cash!”, and “50X The Cash!” combining for sales of \$109 Million in the final two quarters of fiscal year 2016. To celebrate the NCEL’s 10th anniversary during FY 2016, a “10th anniversary family” of scratch-offs was launched in April 2016, and the four games combined for \$56 Million in the final quarter of fiscal year 2016. Additionally, scratch-off games achieved double-digit growth rates at the following price points: \$2, \$3, and \$10.

Draw game sales were \$766 million for fiscal year 2016 compared to \$678 million for fiscal year 2015 and \$669 for fiscal year 2014, representing a \$88 million increase over fiscal year 2015 and a \$9 million increase over fiscal year 2014. Draw game sales benefitted from a record-setting \$1.5 billion jackpot in the multi-state game Powerball. This led to sales of \$208 million for fiscal year 2016, an increase of \$78 million from fiscal year 2015. Mega Millions, the NCEL’s other multi-state game, reached a top jackpot amount for fiscal year 2016 of \$390 million during June, after reaching a top jackpot of \$321 million in fiscal year 2015. This resulted in sales of \$58 million during fiscal year 2016, a decrease of \$3 million from sales of \$61 million in fiscal year 2015.

Sales information by game are shown on the table below.

SALES FY 2014 TO FY 2016



Game	FY 2016	FY 2015	FY 2014
Instant Games	1,617,456,944	1,294,037,685	1,170,270,045
Powerball	208,736,913	130,058,625	149,222,277
Mega Millions	57,859,391	61,314,087	74,809,896
Pick 3	286,014,567	278,083,184	260,983,272
Pick 4	125,975,768	122,886,664	113,192,013
Pick 5	62,010,371	64,928,960	70,809,067
All or Nothing	12,651,658	19,549,252	-
Lucky for Life	12,885,532	-	-
Monopoly MC	-	1,361,520	-
TOTAL SALES	2,383,591,144	1,972,219,976	1,839,286,570

*The EZ Match game is an additional add on to the Carolina Cash 5 game, sales for EZ Match have been included with Cash 5 in the chart.



STATEMENT OF NET POSITION

The Statement of Net Position presents the NCEL's financial position from a long-term perspective. It reports all of the NCEL's assets and liabilities.

Condensed Statement of Net Position (in thousands)

	FY 2016	FY 2015	FY 2014
ASSETS			
Total current assets	\$128,400	\$ 73,811	\$ 51,543
Noncurrent assets	58,678	59,206	56,351
Total Assets	188,624	133,017	107,894
Deferred Outflows	1,327	1,471	-
LIABILITIES			
Total current liabilities	124,272	70,200	53,210
Noncurrent Liabilities	64,704	59,589	54,684
Total Liabilities	188,976	107,894	107,894
Deferred Inflows	975	4,699	-
NET ASSETS			
Invested in capital asse	1,546	1,833	1,331
Unrestricted net assets	(1,546)	(1,833)	(1,331)
Total Net Assets	\$ -	\$ -	\$ -

*Readers wanting more detailed financial information should refer to the NCEL's FY 2015 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at: <http://www.nc-educationlottery.org/about.aspx>

A current asset is an asset which can either be converted to cash or used to pay current liabilities within 12 months. The NCEL's total current assets mainly consist of total cash, accounts receivable, investments in annuity contracts, and inventory.

A noncurrent or capital asset is an asset or property which can not easily converted into cash. The NCEL's noncurrent assets are mainly made up of long term investments in annuity contracts, prepaid items, furniture and equipment.

Total current liabilities are what the NCEL currently owes to its suppliers, winners and the state, all of which are short term debts to be paid within a year. The NCEL's total current liabilities are made up of accounts payable, accrued payroll, current annuity prizes, and due to other funds ("Due to Other Funds" represents the amount of net revenues for the fiscal year not yet transferred to the State as of June 30, 2016 but will be transferred during fiscal year 2017.)

Noncurrent liabilities are the NCEL's long term financial obligations that are not due in the present accounting year. The majority of the NCEL's noncurrent liabilities consist of long

As required in the Lottery Act, net revenues of the NCEL are transferred four times a year to the NC Education Lottery Fund at the Office of State Budget and Management. At year end, Net Revenues /Assets are zero for the NCEL. There are no changes

Activity for Capital Assets for Year Ended June 30, 2016 (in thousands)

Category	Balance July 1, 2015	Increase	Decrease	Balance June 30, 2016
Capital assets, depreciable				
Furniture	\$ 46	\$ -	\$ -	\$ 46
Equipment	3,709	344	-	4,053
Motorized equipment	67	13	-	80
Computer software	983	27	-	1,010
Total capital assets, depreciable	4,805	384	-	5,189
Less accumulated depreciation for				
Furniture	37	3	-	40
Equipment	2,866	549	-	3,415
Motorized equipment	69	3	-	72
Computer software	-	116	-	116
Total accumulated depreciation	2,972	671	-	3,643
Total capital assets, depreciable net	1,833	(287)	-	1,546
Capital assets, net	\$ 1,833	\$ (287)	\$ -	1,546

The majority of capital asset investments were during our first full year of operation in 2007. The investment in capital assets includes game equipment, data processing equipment, telephone equipment, software and fixtures. The capitalization of all items including equipment, computers, and furniture follows North Carolina's Office of State Controller's policies. Capital assets are reported at their cost, and are depreciated over their estimated useful lives.

STATEMENT OF ACTIVITIES

This section reports the fiscal year's financial activities from a long-term perspective. It is designed to provide a summary of the financial health and stability of the NCEL. Information in this section should provide the reader with a general understanding of how the NCEL's resources are used.

Statement of Activities (in thousands)

	FY 2016	FY 2015	FY 2014
Operating Revenues:			
Gross Sales:	\$2,383,591	\$1,972,220	\$1,839,259
Less: Prize Tickets and Bad Debt	24	(5)	(48)
Fees and Licenses	5,361	5,271	5,425
Total Operating Revenues	2,388,976	1,977,486	1,844,636
Operating Expenses:			
Salaries, Wages, and Benefits	19,739	18,738	18,127
Lottery Prizes	1,491,031	1,231,238	1,135,052
Retailer Commissions	166,437	137,767	128,551
Retailer Incentive	1,154	976	825
Gaming Systems Services	40,640	28,678	30,343
Advertising	19,973	19,098	15,238
Marketing	3,981	4,183	3,602
Other Services	5,141	5,272	5,158
Furniture, Fixtures, and Equipment	1,494	983	1,323
Depreciation	671	568	439
Other General and Administrative Expenses	2,539	2,952	2,548
Total Operating Expenses	1,752,800	1,450,453	1,341,206
Operating Income	636,176	527,033	503,430
Nonoperating Revenues (Expenses):			
Investment Earnings and			
Other Miscellaneous Revenue (Expense)	1,190	408	669
Compulsive Gambling Contribution	(1,000)	(1,000)	(1,000)
ALE Gaming Enforcement	(2,100)	-	-
Unclaimed Prizes to NC Education Lottery Fund	(13,696)	(13,841)	(14,043)
Net Revenues to the State of NC	(620,572)	(512,586)	(489,092)
Miscellaneous Nonoperating Expenses	2	(14)	36
Total Nonoperating Revenues (Expense)	(636,176)	(527,033)	(503,430)
Net Income	-	-	-
Net Assets	\$ -	\$ -	\$ -

OPERATING REVENUES:

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

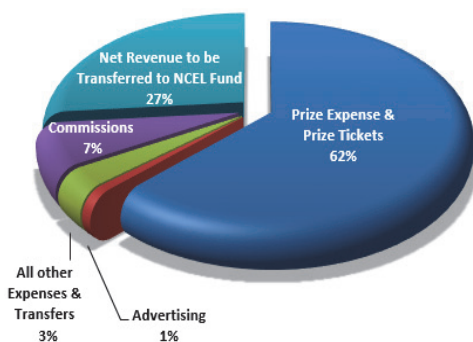
Total gross lottery ticket sales for the fiscal year 2016 were approximately \$2.383 billion as compared to \$1.972 billion in fiscal year 2015. This represents an increase of around \$411 million.

The majority of Fees and Licenses represent a weekly retailer communication fee charged to active retailers for terminal satellite communications and an application fee for new retailers and changes in ownership.

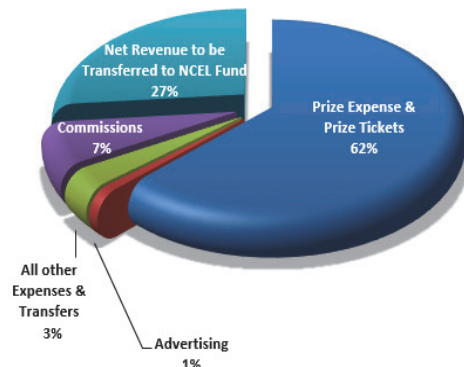
OPERATING EXPENSES:

The following charts show the major components of NCEL operating Expense and transfers as a percentage of total revenues for the June 30, 2016, 2015, and 2014 fiscal years:

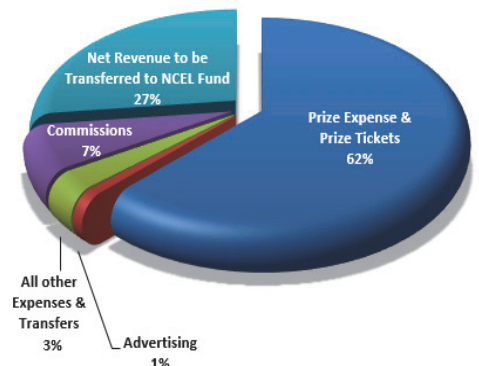
DISTRIBUTION OF REVENUES FY 2016



DISTRIBUTION OF REVENUES FY 2015



DISTRIBUTION OF REVENUES FY 2014

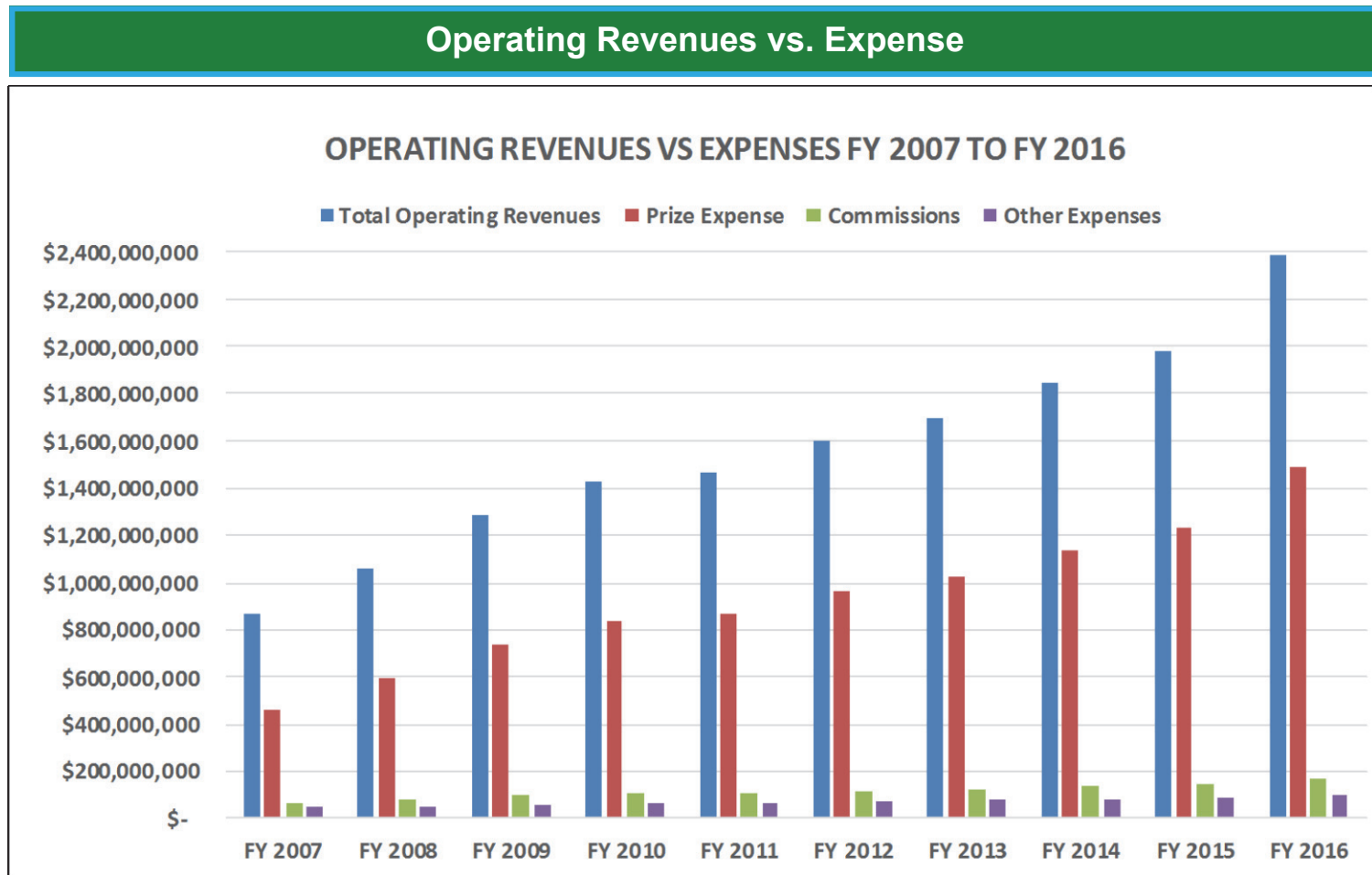


An operating expense is an expense that an organization incurs as a result of its normal business operations. In the lottery's case these expenses are all directly related to the production and sale of lottery tickets.

Section 18C-162, NC General Statutes stipulates no more than 8% of the total annual revenues shall be allocated for payment of expenses of the Lottery. Advertising expenses shall not exceed 1% of the total annual revenues.

Prizes, retailer commissions and gaming vendor charges all directly relate to sales. As expected, as sales have increased and so have these expenses. In fiscal year 2016 prizes, commissions and gaming vendor charges increased to \$1,698 million from \$1,397 million in 2015. The other expenses, which consist of advertising, salary and benefits, professional fees, rent, maintenance, bad debt, depreciation and transfers, have remained at 4% of Total Annual Revenues this year. Fiscal years 2016 and 2015 administrative expenses were \$55 million and \$52 million respectively.

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



NONOPERATING REVENUES & EXPENSES:

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

Nonoperating Revenues consist of investment earnings from the Short Term Investment Fund held at the State Treasurer's office, and Multi-State Lottery Association (MUSL) dividends received.

Nonoperating Expenses mainly consist of transfers from the NCEL to the State. These transfers consist of net revenues to the state, compulsive gambling treatment contributions and unclaimed prizes transferred to the North Carolina Education

Readers wanting more detailed financial information on any of the lottery's financial activities and results should refer to the NCEL's FY 2016 Comprehensive Annual Financial Report (CAFR) available on the NCEL's website at:

<http://www.nc-educationlottery.org/about.aspx>



2100 Yonkers Road
Raleigh, NC 27604



CONNECT & LEARN MORE

Information about the lottery’s mission to raise money for education is available to you in many ways. You are invited to visit our website, contact our communications team, or connect with us through social media. We are here to provide available resources, schedule interviews with lottery officials, or arrange for presentations to civic groups, classes and associations.

VAN DENTON, DIRECTOR OF COMMUNICATIONS
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www.nc-educationlottery.org

AWARDS & ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the North Carolina Education Lottery for its Popular Annual Financial Report for the fiscal year ended June 30, 2015. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. The North Carolina Education Lottery has received a Popular Award for the last 8 consecutive years (fiscal years ended 2008-2015.) We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

