



fy15 annual report

going the distance

**executive
director**



“Yesterday’s home runs don’t win today’s games.”

-Babe Ruth

The day after we finished our first year of earning more than half a billion for education, the score reset — and we were facing an even more ambitious challenge.

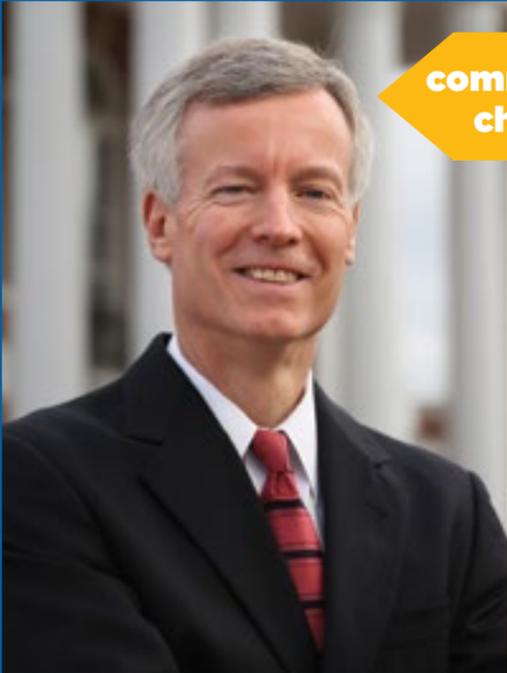
To get there, it was going to take every employee in every division giving it everything. And they hit it out of the park.

How did my team go from zero tickets sold to earning \$521 million in 365 days? They supported our retailers, taught new players about games and kept loyal players entertained. They worked in the field and behind the scenes to drive us toward our destination. They were committed to a common purpose.

I’ll always appreciate what it took for this group to get us to goal. After reading this year’s annual report, I believe you will as well.

— *Alice Garland, Executive Director,
N.C. Education Lottery*

**commission
chairman**



“Coming together is a beginning; keeping together is progress; working together is success.”

-Henry Ford

One of the numbers that best measures the success of the Education Lottery this year is \$5.4 million. What the number represents is the average lottery ticket sales rung up daily as North Carolinians try their luck with the lottery. It happens due to a lot of work by the lottery staff and our more than 6,800 retail partners across the state.

As a retailer myself, I know there’s nothing better than seeing all your employees working together toward a common goal. It is the working together that makes it happen.

Our customers get to enjoy fun games and win nice prizes – on average \$3.4 million a day. And along the way the lottery raises on average \$1.4 million a day for North Carolina. That’s a bottom line that any successful business would be proud to have.

— *Keith Ballentine, Chairman,
N.C. Lottery Commission*

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Keith Ballentine
*Chairman**
Appointed by
Speaker Thom Tillis
Term Expires
August 2017



Jody Tyson
*Operations and
Personnel Chair*
Appointed by
Senate President
Pro Tem Phil Berger
Term Expires
August 2017



Amy Ellis
Audit and Finance Chair
Appointed by
Senate President
Pro Tem Phil Berger
Term Expires
August 2017



Courtney Crowder
Appointed by
Gov. Beverly Perdue
Term Expires
August 2017



Chris Shew
Appointed by
Gov. Pat McCrory
Term Expires
August 2016



David Kirby
Appointed by
Gov. Beverly Perdue
Term Expires
August 2016



Alice Underhill
Appointed by
Gov. Beverly Perdue
Term Expires
August 2016



A.J. Daoud
Appointed by
Gov. Pat McCrory
Term Expires
August 2018*



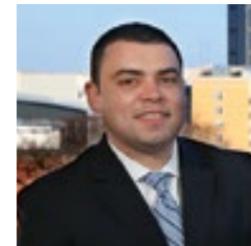
Douglas Baker
Appointed by
Speaker Thom Tillis
Term Expires
August 2018

*After A.J. Daoud resigned from the commission, Gov. Pat McCrory appointed as his replacement Kim Griffin Jr. who became commission chairman.

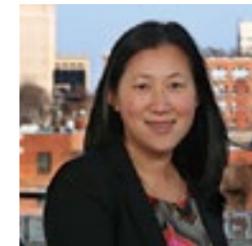
experience guides growth of the lottery

If you add up the years of experience at the top of the ranks of leadership at the Education Lottery, it totals 99 years of experience and work at three of the nation's other state lotteries. Of the lottery's leadership team who helped get the lottery started in 2006, three stayed to build it into a nearly \$2 billion a year business.

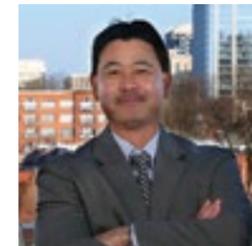
senior management ▼



Frank Suarez,
Deputy Executive
Director,
Brand Management
& Communications



Quan Kirk,
General Counsel



Tony Chung,
Deputy Executive
Director,
MIS/Gaming Systems



Terri Avery
Deputy Executive
Director, Sales



Bill Jourdain,
Deputy Executive
Director, Finance
Administration
and Security

senior staff ▼

executive director's office

Jamie King Fuquay
Director of Government Affairs
Marbet Cuthbert
Director of Human Resources
Mike Suggs
Director of Internal Audit

sales

Reginald Barnes
Director of Sales West
Walter Ingram
Director of Sales Development
Daniel Rose
Director of Sales East

MIS & gaming

Joe Norman
Director of Gaming Systems
George Walker
Director of MIS

finance administration & security

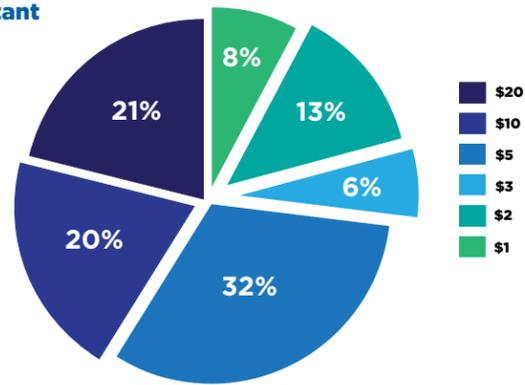
Stacy Askew
Director of Administration
Michelle Lassiter
Director of Finance
Moe McKnight
Director of Security

brand management & communications

Van Denton
Director of Communications
Susan Singley
Director of Advertising
Randy Spielman
Director of Product Development
Tami Wiggs
Director of Marketing



Percent of instant ticket revenue by price point



fresh games prove popular

The 306 million instant tickets printed for the 50 scratch-off games launched in FY15 were the largest driver behind the lottery's record performance.

The popular "X The cash" scratch-off suite returned with a promotion that allowed players to enter their tickets online for a chance to win \$50,000 in monthly drawings. Through the end of the fiscal year, more than 17.8 million entries were made.



The lottery's first new draw game in four and a half years, All or Nothing, attracted new ticket sales. The game, which allows players to win the top prize of \$250,000 by matching all 12 or none of the 12 numbers in the twice-daily drawings, accounted for 2.9% of draw game revenue.



\$200 Million Blowout
\$200 Million Blowout tickets went on sale with 20 prizes of \$1 million to \$4 million.



1-OFF
The 1-OFF play style gave Pick 3 and Pick 4 players the chance to win prizes when one or more of their numbers were one digit off the winning numbers drawn.

Trucks & Bucks

The Trucks & Bucks instant game revved up excitement. Besides the chance to win cash prizes, three lucky winners drove away in their choice of a brand new Chevy, Ford or Dodge truck.

recipe for success

Playing a lottery game is easy and exciting. Creating one — and managing the mix of games available — is a deliberate science.



▲ Director of Product Development Randy Spielman and Product Development Analyst Vicky Scott.

Underpinning the lottery's ability to generate revenue and profits for education is a successful approach to product development. Like other winning endeavors, it starts with research and analysis that informs a solid plan for what games and features to bring to market.

While draw games typically have an indefinite lifespan, promotions and updates can be rolled out electronically. Draw tickets are printed on demand by terminals at each store. The array of instant scratch-off games — which account for nearly two-thirds of sales — changes frequently because there are a finite number of tickets printed for each offering.

For those games, key decisions must be made about the variety of play styles, themes and price points players will have to choose from over the course of a year. Putting that puzzle together is

challenging because a \$1 game can be on sale for as little as half a year while a \$20 ticket could occupy dispensers in stores for a year and a half or longer.

"It is essentially portfolio management," said Randy Spielman, Director of Product Development. "We consider the lifespan of each game to project a schedule designed to optimize performance."

While they're recalled instant games, the development timeline is anything but instantaneous. It takes about four months to nail down everything from the way a ticket will look to getting millions of them printed and distributed to retail.

After players buy the tickets and win prizes, the final step is to take stock of how each game performed. And begin the product development cycle again.

people driving performance

384
total employee attendance for 25 training sessions

It takes a strong team to sustain the lottery's success.

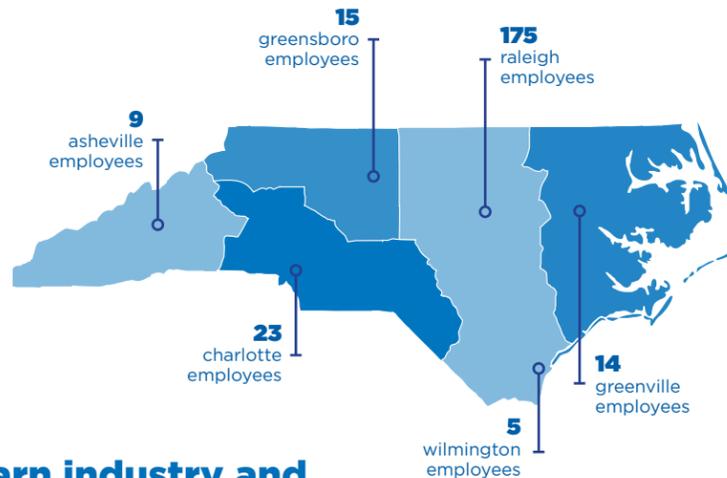
The lottery averaged \$5.4 million in sales a day in FY15, generating \$1.4 million a day on average for education in North Carolina. To deliver those results required much more than selling tickets. The lottery depends on its human resources team to recruit and develop a stellar professional staff to perform all the essential functions needed to fuel a high-performance sales and marketing organization.

employees by division



The lottery has offices in six cities to serve retailers and winners across the state. Most employees report to lottery headquarters in Raleigh where winners of \$100,000 or more collect their winnings.

Less Than 1% of revenue for salaries and benefits



lottery staff earn industry and business recognition



Bill Jourdain Triangle Business Journal CFO of the Year	Tony Chung Triangle Business Journal CIO of the Year	David Nelms NASPL Powers Award for Outstanding Performance	Cory Trottier NASPL Ott Brown Scholarship for Leadership Development
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administration in fy15



788
retailers trained



988
contracts processed



3,653
ADA Inspections



25,934
customer service calls received



53,359
mail-in prize claims processed



16.7
million
total calls to the player hotline

blueprint for the future

It takes space and efficiency to sustain growth.

As sales and earnings have increased over nearly 10 years, so has the volume of work — and the space required to do it. FY15 saw all but one of the lottery's building leases winding down, presenting a needed opportunity to find new facilities.

"We've grown in just about every scenario," explained Stacy Askew, Director of Administration.

The lottery's Charlotte office moved in 2011. Every other location — headquarters in Raleigh and offices in Asheville, Greensboro, Greenville and Wilmington — was at various stages of planning, renovation or relocation at the close of the fiscal year.

The most significant development on the horizon is that lottery HQ will co-locate with its gaming vendor and warehouse in a building more than twice its present size.

"It will give us tremendous efficiency by having everything in one place," Askew said.

◀ *Tarver Sammons, the lottery's Facilities Manager, has been with the organization since start-up.*



protecting our games

Nothing is more important to the lottery than maintaining the integrity of its games.

The lottery's security practices are designed to make sure that if someone gets lucky that they get the prize they won. The lottery's security's program undergoes an independent security audit every two years and has gotten clean reviews in every audit.

Millions of instant tickets, or scratch-offs, are sold a day at more than 6,800 retail locations. Almost all of those transactions go through without a hitch. To keep those games secure, the lottery:

- Works with our retail partners proactively to ensure they have the proper controls over how their employees sell lottery tickets and handle winning tickets.
- Monitors reports/complaints to look for instances that may need further review.
- Educates lottery players through marketing and communications to play smartly and responsibly.
- Conducts occasional undercover operations, in conjunction with local law enforcement agencies.
- Operates a 24/7 security helpline that lottery players, retailers, or the public can call to report any suspicious activity.

Multi-faceted checks and balances ensure the accuracy, honesty and transparency of every drawing that is conducted. The lottery:

- Has auditors observe each lottery drawing to verify that equipment and processes are producing random results.
- Records all drawings and keeps them open to the public upon request.
- Tests on a regular schedule equipment used for drawings, including ball machines and the random number generators.
- Stores all equipment and machines in secure places and allows limited access only by authorized personnel.

These measures ensure the public that the integrity of the lottery is reflected in each and every drawing.

▼ *Juan Ochoa, Security Investigator, in the lottery's security operations control room.*

all systems go

It takes technology, monitoring and rigorous testing to run the lottery.



► *Nina Pannu, Software Quality Assurance Analyst, in the Gaming Systems test lab.*

At a glance there isn't anything high-tech about a lottery ticket. Behind the scenes, however, it takes reliable, state-of-the-art digital infrastructure for the lottery to run 24/7/365.

MIS, the lottery's Management Information Systems team, has the responsibility of keeping a vast amount of data secure yet available to those who need it. In one year, this meant:

- 55 terabytes of data housed
- 14.5 terabytes of data traversed the network
- 45 databases and 29 web applications upgraded to new server

Long before players see a new game, feature or convenience, the initiatives spend many hours in the hands of Gaming Systems for development, testing and quality assurance.

FY15 highlights include:

- Rolling out two new draw games, All or Nothing and the MONOPOLY MILLIONAIRES' CLUB
- Contracting with Linq3 to introduce PLAY AT THE PUMP - a program that gave players the option to buy tickets for jackpot draw games at the gas pump. Getting the service to market took more than 80 meetings and 318 days.
- Making the 1-OFF play style available to Pick 3 and Pick 4 players. The feature allows players to buy a ticket that wins when any of the numbers drawn are one digit away from their favorite combination.
- Creating and digitally distributing the Lucke-Zone mobile app.
- Expanding web-based subscription options to allow members to play as a group or give their winnings to other members as a gift.

message **sent,** message received



Traditional advertising, social media and the lottery's rewards programs gave players lots to talk about.

People have more to think about, more entertainment choices and more information coming at them than ever before. To break through the noise and share information about new games, winners and the lottery's mission, the lottery communicated with players on their terms — and gave them reasons to stay tuned in.

Highlights of television and radio campaigns included spots for a new-look "Bucks" family of instant games, the launch of the "All or Nothing" draw game and ads promoting the "Mayhem" suite of scratch-off tickets.

Players continued to join the lottery's Lucke-Rewards program, which allows them to enter any lottery ticket for points they can use in exclusive drawings for cash and other prizes. The program concluded the fiscal year with:

- 588,963 members (21% growth)
- 34,148 Lucke-Zone app downloads
- 30.1 million total tickets entered
- 234.9 million total points awarded
- 12.4 million total entries made

The conversation continued on social media, where the lottery shared the first look at new games, jackpot updates and winner stories. The lottery's social media stats were:

- 693,520 blog page views
- 38,310 Facebook likes, comments and shares
- 1.1 million Twitter impressions, 1000+ retweets

As consumer preferences continue to evolve, the lottery will keep pace to stay in touch.



▲ Promotions Specialists Eric Dixon and Britni Holman.

connecting with millions

Being part of the fun at events statewide makes the lottery part of North Carolina's cultural fabric.

From the mountains to the coast, the lottery's promotions team hit the road to be on the scene at sporting events, festivals and fairs including — for the first time — the state's most highly-attended event: The North Carolina State Fair. The marketing sponsorship was one of 42 that helped the lottery get the word out about games and money raised for education. More than 12 million people attended events the lottery supported.

It takes clear communication to help players, journalists and the public understand how the lottery works.

When new games are coming out. What it was like to win the lottery. How the lottery meets its mission for the state. The lottery's communications group takes the facts, molds them into stories and shares them with the media, players and the public. The team also researches and responds to requests for information.

Here are some key numbers for the year:

- **194** - Interviews with winners of \$100,000 or more
- **15** - Presentations to civic and community groups
- **341** - Media inquiry responses
- **1,474** - Blog question responses
- **100** - Unique county-specific versions of beneficiary brochures



the bigger picture

Besides players, beneficiaries and retailers, the lottery also serves citizens.

The lottery keeps its commitment to the state by offering fair games and raising funds for education. But it serves stakeholders in other ways as well. The lottery:

- Continued to celebrate teachers through sponsored weekly segments spotlighting excellent educators on local news broadcasts. Their stories aired in the mountains on WLOS-TV in Asheville, in the Triangle on WRAL-TV in Raleigh and the east on WITN-TV in Greenville.
- Became one of just six in the U.S. to achieve Level 3 Responsible Gaming Certification from the World Lottery Association, ensuring best industry practices are followed.
- Received with two awards for its work encouraging responsible play: The La Fleur's Sustainability Award for leadership in promoting Responsible Gaming and received recognition for its "Aiming for Responsible Gaming" newsletter with an award from the National Council on Problem Gambling.

Teacher of the Week segment on WRAL-TV in Raleigh



100%
Percentage of employees trained in responsible gaming through close of FY15



\$137.7 million
Ticket sale commissions paid to local retailers



\$14.1 million
collected in state income taxes from prize winnings



\$1.4 million
collected in debts owed to state and local government



\$1 million
contribution to the N.C. Department of Health and Human Services for gambling addiction, education and treatment programs



▲ From left, General Counsel Quan Kirk, Director of Internal Audit, Mike Suggs, and Director of Finance Michelle Lassiter.

the details are everything

Running a \$2 billion business requires a commitment to detail.

While the spotlight is on lottery games, winners and earnings for education, dedicated teams work behind the scenes to make it possible. Among them are the audit, legal and finance groups. They have a common talent and dedication: Crossing every proverbial "t" and dotting every last "i" when it comes to procedures, contracts and accounting.

In FY15, these teams:

- Presided over 55 prize drawings.
- Conducted 13 internal audits.
- Coordinated work of three external auditors, auditing lottery's finances, performance, and quality assurance program.
- Managed the RFI and RFP for gaming systems and instant ticket contracts.
- Handled contracts for partnerships, external audits and IT risk assessment.
- Drafted and processed 68 contracts between the lottery and business partners.
- Drafted and processed 23 sets of policies and procedures.
- Managed eight major procurements by the lottery.
- Helped implement a new accounting system.

The teams continued their records of achievement, including:

- For 9th year in a row, receiving a clean opinion during the annual independent financial audit.
- For 6th year in a row, receiving awards from the Government Finance Officers Association of the United State and Canada for efforts to clearly communicate financial information to the public.
- Maintained a collection rate of 99.8 percent for all receivables.



the extra mile

▲ From left, Deputy Executive Director of Sales Terri Avery, Director of Sales East Daniel Rose, Director of Sales Development Walter Ingram, and other members of the lottery's sales team.

Prizes for players. Earnings for education. Commissions for retailers. None of these are possible without ticket sales. And the lottery's goal of \$520 million for education could not have been achieved were it not for the exceptional effort of the sales force.

The lottery's 61 sales reps and in-office counterparts supported more than 6,850 retailers statewide — an average of more than 100 locations per rep. In order to achieve sales and earnings goals, reps doubled their store visits to ensure retailers had dispensers fully stocked to maximize sales opportunities.

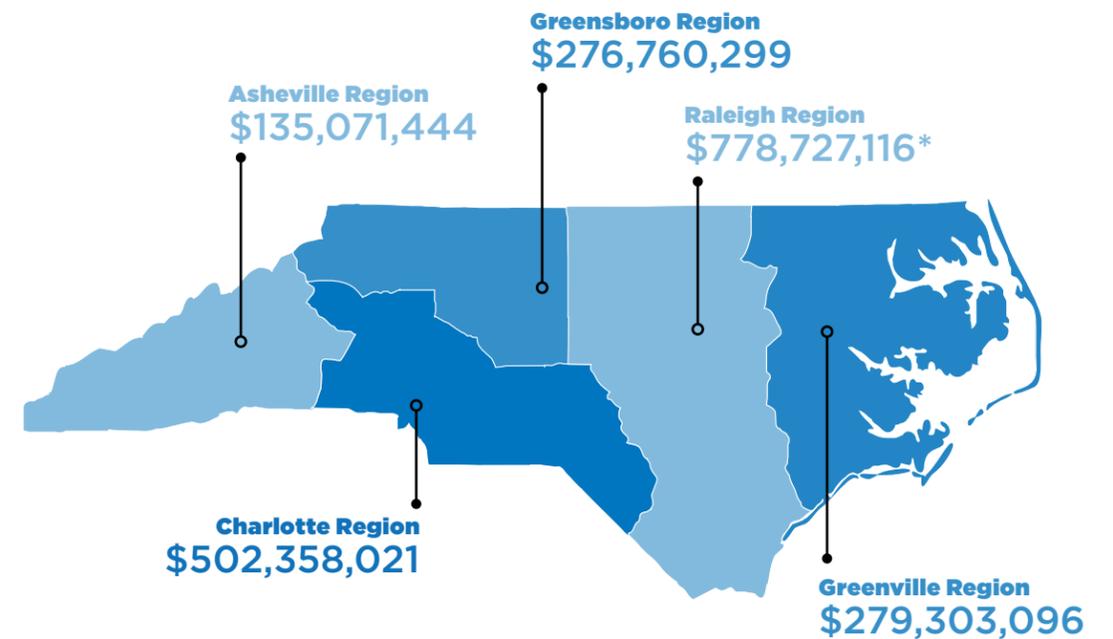
"Without the entire lottery hitting on all cylinders, we could not have hit our goal," said Terri Avery, Deputy Executive Director of Sales. "It took a Herculean effort from our folks — in the field and on the phones — to make it happen."

commissions

	fy 2013	fy 2014	fy 2015
Instant Sales:	1,011,943,189	1,170,270,045	1,294,016,815
Draw Games Total:	677,859,427	669,016,525	678,203,161
Powerball	196,942,790	149,222,277	130,060,064
Mega Millions	53,665,710	74,809,896	61,314,087
Pick 3	258,868,248	260,983,272	278,083,184
Pick 4	103,902,116	113,192,013	122,886,663
Cash 5	64,480,563	70,809,067	64,927,521
All or Nothing	-	-	19,549,252
Monopoly MC	-	-	1,382,390
TOTAL SALES:	1,689,802,616	1,839,286,570	1,972,219,976

	fy 2013	fy 2014	fy 2015
	118,148,409	128,550,515	137,767,027

sales



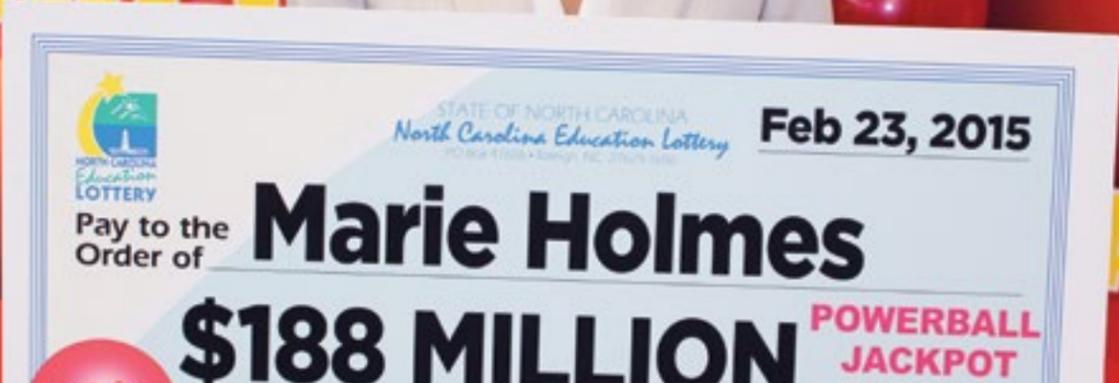
*Raleigh total includes subscriptions.

fy 15 lottery ticket sales



Brunswick County

woman wins \$188 million share of Powerball jackpot



winner highlights



‘Holy mackerel!’
Retired catfish farmer reels in \$1 million

55 times in a year, wins of \$1 million or more



Garner business owner on \$4 million win: 'This gives me a fresh start'



With \$4 million win, Marion man sets sights on retirement



\$1 million Powerball prize claimed by 10 co-workers



Army Veteran to use \$1 million lottery win to help homeless, ASPCA

When North Carolinians play the lottery, many hope one day to win a big prize. Prizes are won daily in lottery games, on average, about \$3.4 million a day. And 55 times over the year someone walked into lottery headquarters and claimed a prize of \$1 million or more.

The biggest win came in February 2015 when Marie Holmes, a single mom from Brunswick County, was one of three winners of a \$564 million Powerball jackpot. Her share was \$188 million.

The lottery games producing those \$1 million wins were:

- Instant games: 41
- Powerball: 12
- Mega Millions: 1
- MONOPOLY MILLIONAIRES' CLUB™: 1

If you look across the state, the new lottery millionaires came from 36 of North Carolina's 100 counties, including: five from Wake County; three from both Cumberland and McDowell counties; and two from Buncombe, Cabarrus, Gaston, Johnston, Mecklenburg, Orange, Randolph, Sampson and Union counties. Two others were out-of-state visitors, one from South Carolina and one from New York.

The million dollar winners came from all walks of life. The list included a construction worker, an art teacher, retirees, small business owners, homemakers, painters, a sales rep, a handyman, a plumber, Navy and Army veterans, bank employees, carpenters, an engineer, and an insurance agent.

Their plans for using their winnings varied too. Some said they planned to buy a new home or pay off the mortgage. Others said they would buy a new car or new boat. A few had travel plans to Disney, to Hawaii, and to Alaska. Some planned to save for retirement or for a child or grandchild's education. One planned to buy a rescue dog. Couples said the winnings would help with a wedding or a honeymoon they never got to take. Many planned to help their family or a cause important in their lives.

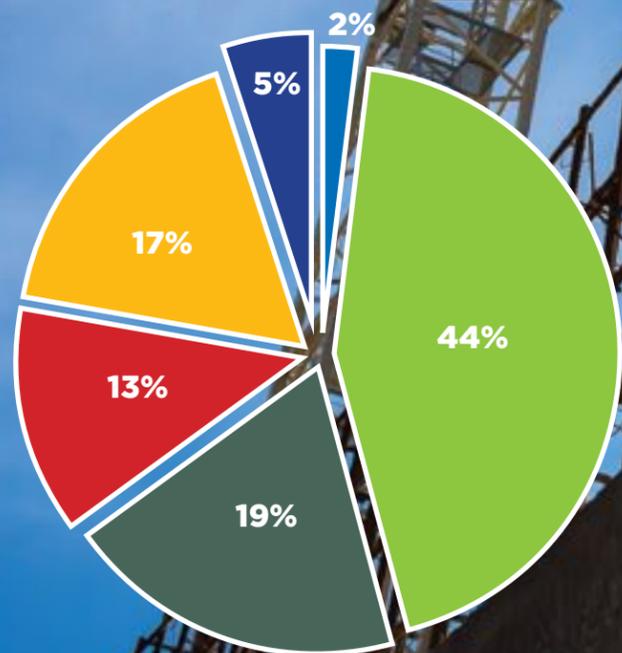
hitting goals means raising half a billion in education dollars

For the second year in a row, the lottery's earnings topped a half billion dollars as it continued its record of increasing earnings each of its nine years of operations. The \$521 million helped support education programs in every county in North Carolina. Lottery dollars:

- Supported public schools by helping to pay the salaries of teachers and teacher assistants
- Helped to build new schools, pay off bonds to fund school construction programs, and covered the costs of multiple repair projects from new roofs to new HVAC systems to new security systems.
- Covered the costs of "at-risk" four-year-olds to attend an academic preschool to get a better start in kindergarten.
- Made the costs of attending a state university or community college more affordable through scholarships and grants based on financial need.

fy 15 allocation

- Classroom Teachers
- Teachers Assistants
- Prekindergarten
- School Construction
- College Scholarships
- UNC Need-Based Aid



County	FY15	Cumulative	County	FY15	Cumulative
Alamance	\$8,879,269	\$56,265,419	Johnston	\$11,928,140	\$77,785,731
Alexander	\$2,015,235	\$13,586,411	Jones	\$614,464	\$4,550,113
Alleghany	\$643,645	\$4,550,923	Lee	\$4,196,288	\$28,117,654
Anson	\$1,588,230	\$11,754,831	Lenoir	\$3,743,292	\$25,809,611
Ashe	\$1,478,046	\$10,493,742	Lincoln	\$4,194,295	\$28,070,751
Avery	\$926,739	\$6,832,618	Macon	\$1,807,027	\$12,283,750
Beaufort	\$2,712,937	\$18,289,763	Madison	\$900,913	\$6,420,532
Bertie	\$1,174,456	\$9,459,823	Martin	\$1,463,879	\$10,361,410
Bladen	\$2,086,444	\$16,685,226	McDowell	\$2,471,794	\$16,334,810
Brunswick	\$5,032,570	\$33,102,900	Mecklenburg	\$55,454,544	\$352,591,685
Buncombe	\$11,074,368	\$69,346,380	Mitchell	\$708,893	\$5,127,103
Burke	\$5,214,449	\$37,734,809	Montgomery	\$1,803,602	\$13,226,664
Cabarrus	\$12,532,920	\$82,375,568	Moore	\$4,361,563	\$26,233,064
Caldwell	\$4,343,123	\$28,977,775	Nash	\$5,987,392	\$41,852,342
Camden	\$675,552	\$4,749,427	New Hanover	\$10,796,796	\$69,684,934
Carteret	\$3,226,667	\$21,222,144	Northampton	\$1,045,044	\$8,556,574
Caswell	\$1,035,485	\$7,662,365	Onslow	\$11,887,158	\$67,332,796
Catawba	\$8,846,726	\$58,774,620	Orange	\$7,285,302	\$46,067,044
Chatham	\$3,293,719	\$22,364,886	Pamlico	\$526,173	\$4,172,273
Cherokee	\$1,389,279	\$9,669,295	Pasquotank	\$2,344,152	\$15,538,026
Chowan	\$895,459	\$6,189,304	Pender	\$3,429,085	\$20,848,259
Clay	\$577,171	\$3,857,639	Perquimans	\$716,504	\$4,836,739
Cleveland	\$5,965,429	\$45,626,069	Person	\$1,901,363	\$14,148,429
Columbus	\$3,588,857	\$27,811,636	Pitt	\$9,862,766	\$65,723,336
Craven	\$5,748,405	\$36,264,727	Polk	\$919,370	\$6,956,966
Cumberland	\$22,121,572	\$155,008,633	Randolph	\$8,150,757	\$53,633,701
Currituck	\$1,332,400	\$8,651,854	Richmond	\$3,170,383	\$22,247,082
Dare	\$1,962,318	\$12,328,172	Robeson	\$10,415,198	\$74,135,554
Davidson	\$9,102,009	\$60,645,298	Rockingham	\$4,953,957	\$35,328,715
Davie	\$2,495,416	\$17,805,707	Rowan	\$7,492,485	\$51,636,868
Duplin	\$4,007,779	\$25,572,777	Rutherford	\$3,542,140	\$25,745,769
Durham	\$13,102,515	\$84,171,760	Sampson	\$4,698,708	\$32,783,255
Edgecombe	\$2,978,461	\$23,843,673	Scotland	\$2,713,261	\$20,136,448
Forsyth	\$19,849,161	\$131,924,952	Stanly	\$3,729,423	\$27,366,349
Franklin	\$3,255,201	\$20,676,753	Stokes	\$2,522,863	\$19,179,384
Gaston	\$12,832,639	\$88,612,670	Surry	\$4,363,102	\$30,628,661
Gates	\$626,212	\$4,759,297	Swain	\$898,693	\$5,905,010
Graham	\$513,859	\$3,642,747	Transylvania	\$1,270,798	\$8,504,699
Granville	\$2,904,728	\$21,106,473	Tyrrell	\$236,175	\$1,723,642
Greene	\$1,243,075	\$9,230,296	Union	\$14,216,606	\$91,657,825
Guilford	\$29,529,972	\$207,762,138	Vance	\$2,699,204	\$19,054,059
Halifax	\$3,078,446	\$23,008,026	Wake	\$55,889,408	\$330,993,122
Harnett	\$7,518,182	\$47,629,700	Warren	\$1,000,072	\$7,197,694
Haywood	\$2,871,669	\$18,766,526	Washington	\$772,909	\$5,934,489
Henderson	\$5,092,752	\$32,063,863	Watauga	\$1,874,869	\$12,565,478
Hertford	\$1,445,402	\$10,602,803	Wayne	\$8,015,955	\$56,993,479
Hoke	\$3,864,597	\$25,771,876	Wilkes	\$4,394,274	\$31,184,535
Hyde	\$296,844	\$1,913,026	Wilson	\$4,631,532	\$31,259,412
Iredell	\$9,179,807	\$60,724,441	Yadkin	\$2,134,924	\$15,980,265
Jackson	\$1,324,045	\$9,506,243	Yancey	\$837,921	\$5,840,188

county totals

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, 2015 and 2014, 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 opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit 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 financial statement 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 opinion.

Opinion

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, 2015 and 2014, 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

Nature of Reporting Entity

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, 2015 and 2014, and the changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 13 to the financial statements, the NCEL adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 68, Accounting and Financial Reporting for Pensions, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, during fiscal year 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by GASB who considers it to be an essential part of 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 audit 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015, on our consideration the NCEL's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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
October 21, 2015

North Carolina Education Lottery

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015 and 2014

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, 2015, 2014 and 2013 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, 2015, 2014 and 2013.

Financial Highlights

For fiscal year 2015, gross ticket sales totaled \$1.97 billion representing a \$133 million increase over fiscal year 2014. Total operating income was \$527 million, which represented an increase of \$23.6 million over fiscal year 2014. 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 2015, the sum total of these cash transfers was \$520.6 million. Total cash transfers for fiscal years 2014 and 2013 were \$525.8 million and \$461.4 million, respectively.
- Awarded \$1 million or more to an NCEL player for the 227th time.
- Provided customer service to our 6,901 retailers on a regular basis.
- Released 50 new instant scratch-off games into the marketplace generating gross instant ticket sales of \$1.29 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, 2015 and 2014, the Statements of Revenues, Expenses, and Changes in Net Position for the periods ended June 30, 2015 and 2014, and the Statements of Cash Flows for the periods ended June 30, 2015 and 2014.

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 2015 were \$133 million compared to \$108 million at the end of fiscal year 2014, representing an increase of \$25 million.

Current assets increased from \$52 million in 2014 to \$74 million in 2015, representing an increase of \$22 million. This increase resulted from an increase in Pooled Cash due to fiscal year 2015 and 2014 surplus earnings held to be dispersed in the subsequent fiscal year. The increase was partially offset by a decrease in accounts receivable in 2015 from 2014. This primarily represents amounts due from retailers for ticket sales less commissions and prizes paid by the retailers. The decrease 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 \$2 million increase in the State Treasurer's Securities Lending Collateral and a \$532 thousand increase in investments in annuity contracts.

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 \$408 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 2015, was \$1.8 million which is approximately \$502 thousand higher than 2014. 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.

The activity for capital assets for the year ended June 30, 2015 was (in thousands):

CATEGORY	BALANCE JULY 1, 2014	INCREASES	DECREASES	BALANCE JUNE 30, 2015
Capital assets, depreciable				
Furniture	\$ 46	\$ -	\$ -	\$ 46
Equipment	4,376	111	(778)	3,709
Motorized equipment	67	-	-	67
Computer software	-	983	-	983
Total capital assets, depreciable	4,489	1,094	(778)	4,805
Less accumulated depreciation for:				
Furniture	34	3	-	37
Equipment	3,056	563	(753)	2,866
Motorized equipment	68	1	-	69
Computer software	-	-	-	-
Total accumulated depreciation	3,158	567	(753)	2,972
Total capital assets, depreciable, net	1,331	527	(25)	1,833
Capital assets, net	\$ 1,331	\$ 527	\$ (25)	\$ 1,833

Deferred Outflows of Resources

The NCEL recognized deferred outflows of resources as related to pensions as per GASB 68 during fiscal year 2015. More information on deferred outflows can be found in Note 9 of the Notes to the financial statements.

Total Liabilities

Total current liabilities for the NCEL were \$70 million in 2015 increasing by \$17 million from 2014. The increase in current liabilities partially resulted from increases in transfers due to the state and in obligations under State Treasurer's security lending collateral agreements. The increased amount due to the State can be attributed to the timing of transactions encountered in the normal course of business. The increase in the obligations under State Treasurer's security lending collateral is directly related to the NCEL having more cash on hand at year-end. Current liabilities also increased over 2014 due to increases in prize awards payable, and other payables.

Noncurrent liabilities include 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.

BEGINNING	EARNED	USED	ENDING	CURRENT LIABILITY	LONG TERM PORTION
\$1,264	\$ 1,554	\$ 1,056	\$ 1,762	\$ 192	\$ 1,570

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, 2016.

Deferred Inflows of Resources

The NCEL recognized deferred inflows of resources as related to pensions as per GASB 68 during fiscal year 2015. More information on deferred inflows can be found in Note 9 of the Notes to the financial statements.

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)	2015	2014	2013
ASSETS			
Total Current Assets	\$ 73,811	\$ 51,543	\$ 59,643
Noncurrent Assets	57,373	55,020	50,708
Capital Assets, Depreciable (Net)	1,833	1,331	897
Total Assets	133,017	107,894	111,248
Deferred Outflows of Resources	1,471	-	-
Liabilities			
Total Current Liabilities	70,200	53,210	60,525
Noncurrent Liabilities	59,589	54,684	50,723
Total Liabilities	129,789	107,894	111,248
Deferred Inflows of Resources	4,699	-	-
Net Position			
Net Investment in Capital Assets	1,833	1,331	897
Unrestricted	(1,833)	(1,331)	(897)
Total Net Position	\$ -	\$ -	\$ -

Current liabilities consist of "Due to the State" in the amount of \$10.404 million. Of this amount, \$10.350 million represents the remaining amount of the "Net Revenues" and "50% of Unclaimed Prizes" for Fiscal Year 2015 not yet transferred to the State of North Carolina as of June 30, 2015. These funds will be transferred to the State during Fiscal Year 2016. 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.

Sales

The gross lottery ticket sales for fiscal year 2015 totaled \$1.972 billion as compared to \$1.839 billion for fiscal year 2014 and \$1.69 billion in fiscal year 2013. This represents an increase of \$133 million from 2014 and \$282 million from 2013.

Gross instant ticket sales were \$1.294 billion for fiscal year 2015 compared with \$1.17 billion for fiscal year 2014 and \$1.01 billion in fiscal year 2013, an increase of approximately \$124 million from fiscal year 2014 and approximately \$284 million from fiscal year 2013. The increase realized during fiscal year 2015 is attributable to several factors. The NCEL saw continued strong performance of games featuring "Back Scratch", an additional play area on the back of the ticket, with the launch of the \$5 Break the Bank and \$5 Trucks and Bucks games. Break the Bank was one of the highest performing \$5 games of the year with nearly \$30 Million in sales. Trucks & Bucks also featured "Back Scratch", as well as, the opportunity for players to win one of three four wheel drive trucks in a second chance drawing. Each winner had a choice of a Chevrolet Silverado, Ford F-150 or Dodge Ram. The game was very popular amongst players because of this one-of-a-kind prize opportunity. The NCEL also expanded the "Bucks" family of games to include all of the Holiday themed tickets this past year which included \$1 – Jingle Bucks, \$2 – Jolly Jingle Bucks, \$3 – Jingle Bingo Bucks, \$5 – Jumbo Jingle Bucks and \$10 – Millionaire Jingle Bucks Collectively, these holiday themed "Bucks" tickets became the best-selling holiday tickets ever for the NCEL.

Draw game sales were \$678 million for fiscal year 2015 compared to \$669 million for fiscal year 2014 and \$678 for fiscal year 2013, representing a \$9 million increase over fiscal year 2014 and no change from fiscal year 2013. Draw game sales suffered from a lack of high jackpots in the multi-state game Powerball. Since surpassing \$500 million twice in fiscal year 2013, the Powerball jackpot has broken the mark only once. This led to sales of \$130 million for fiscal year 2015, a decrease of \$19 million from fiscal year 2014 and of \$67 million from 2013. After reaching a top jackpot of \$636 million in fiscal year 2014, the NCEL's other multi-state game, Mega Millions, reached a top jackpot amount for fiscal year 2015 of \$321 million. This resulted in sales of \$61 million, a decrease of \$13 million from sales of \$74 million in fiscal year 2014.

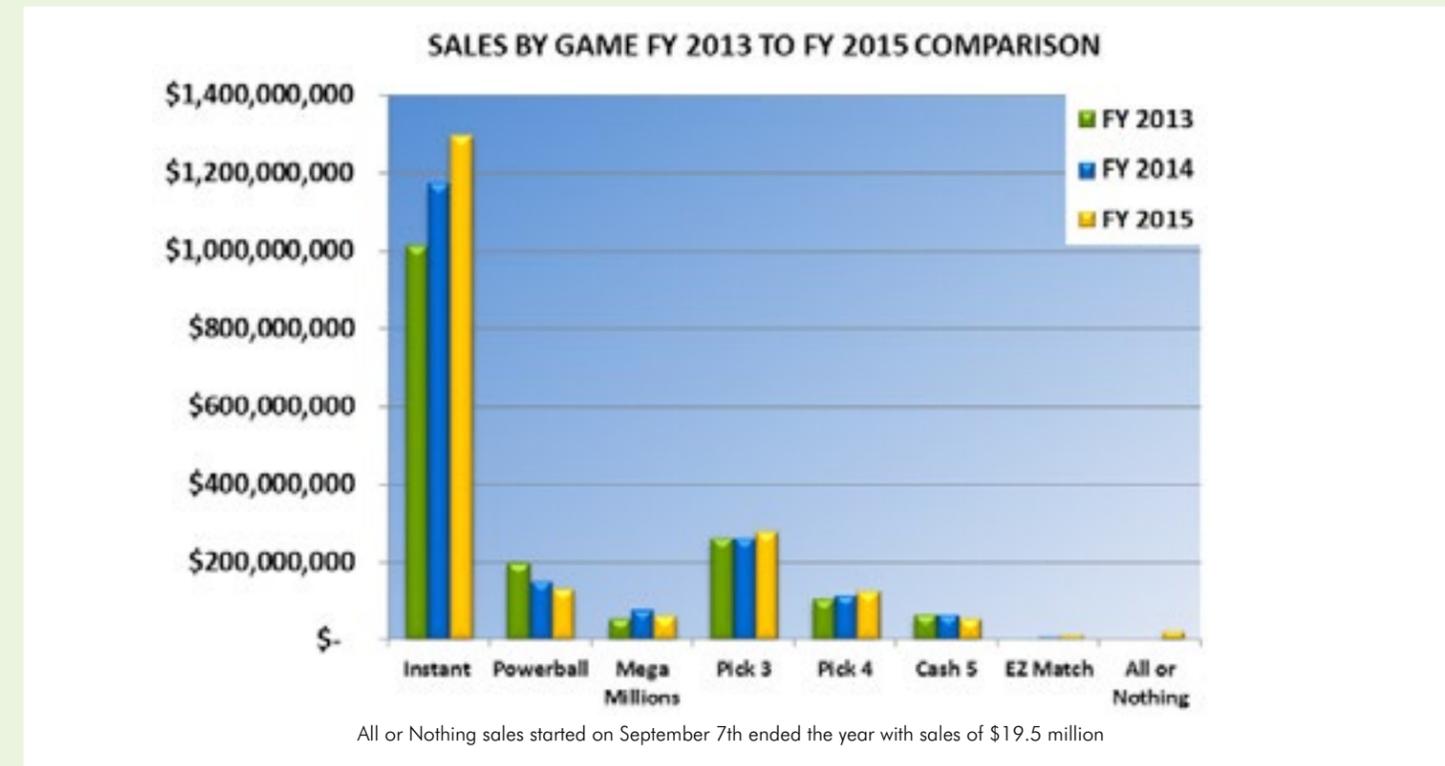
The Carolina Cash 5 top prize exceeded half of a million dollars five times during the fiscal year and reached a peak of \$740 thousand. Fiscal year 2015 was the first full year of the EZ match add-on to the Cash 5 ticket. For an additional dollar, this feature prints an instant "EZ" match number with a corresponding prize amount. If the EZ match number matches any of Cash 5 numbers, the player wins the corresponding prize instantly. The EZ match feature generated over \$10 million in sales for the year.

The Carolina Pick 4 game also had increased sales from the previous year. Carolina Pick 4 sales were over \$122.8 million compared to \$113.1 million the previous year, and \$103.9 million in fiscal year 2013.

All or Nothing was launched in September of 2014 as a new draw game for the NCEL. All or Nothing pays out a top prize for matching all twelve numbers drawn or none at all. All or Nothing generated sales of over \$19.5 million during 10 months of sales in fiscal year 2015.

Sales (cont.)

The following chart depicts the distribution of sales by product for the fiscal years ended June 30, 2015, 2014 and 2013.

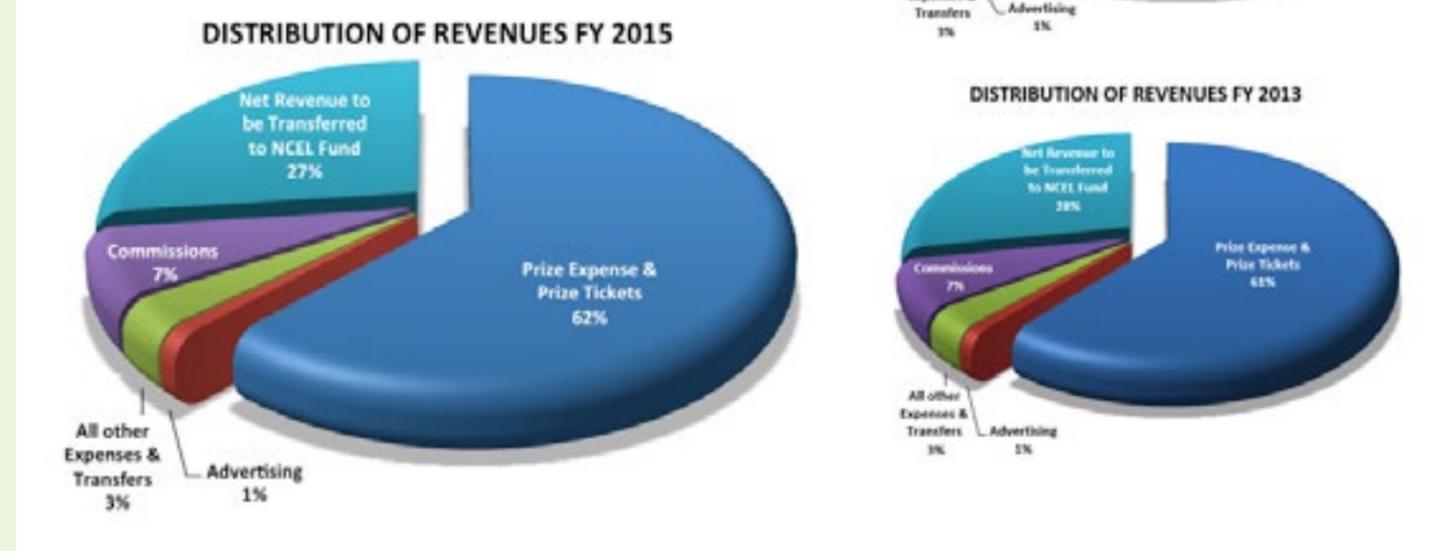


Non-operating Revenues mainly consist of investment earnings on Short Term Investment Fund (STIF) accounts and security lending transactions, and Multi-State Lottery Association (MUSL) dividends received.

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.

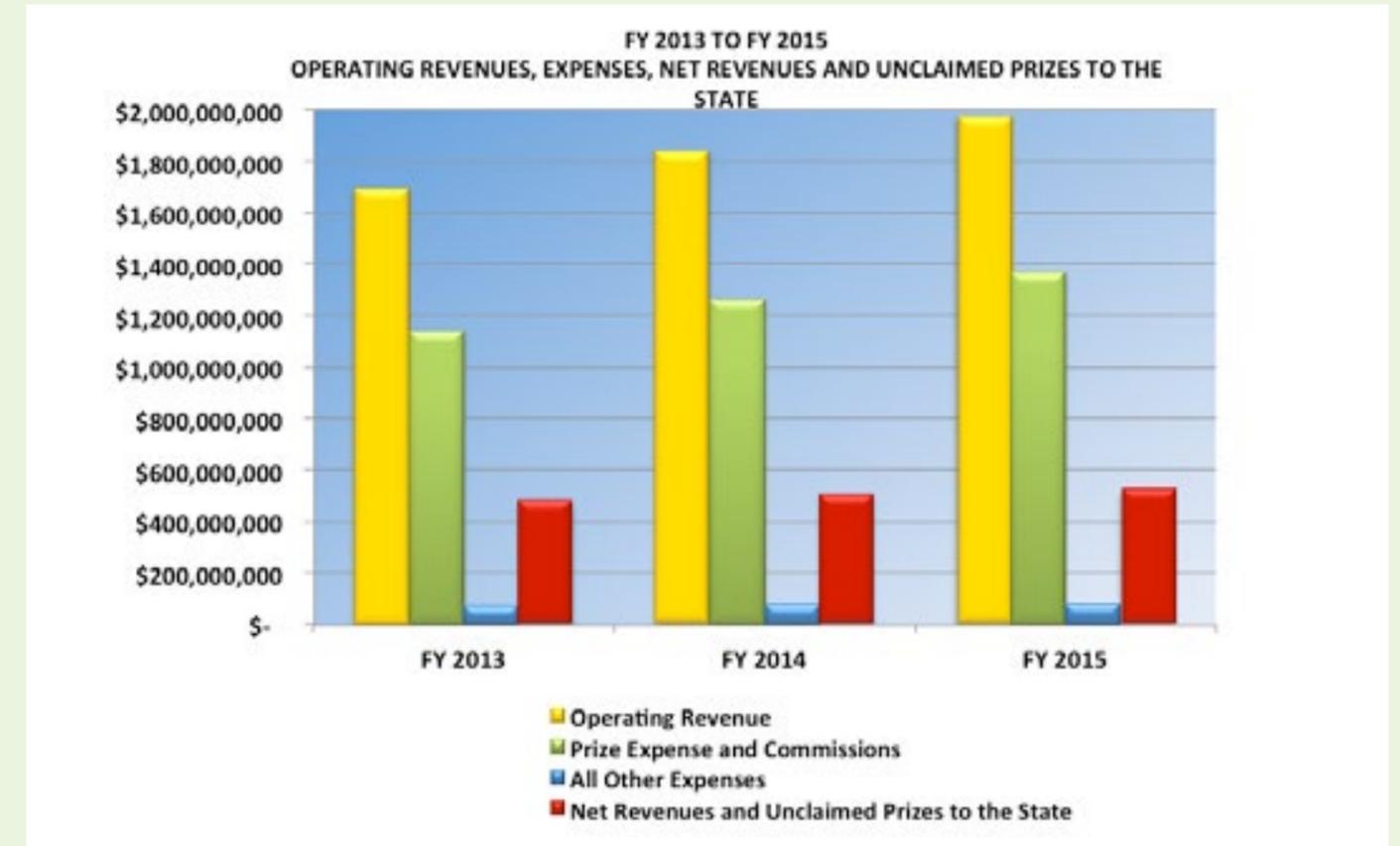
The following charts show the major components of NCEL operating expenses and transfers as a percentage of total revenues for the fiscal years ended June 30, 2015, 2014 and 2013.



Prizes, commissions and gaming vendor charges all directly relate to sales. As expected, as sales have increased so have these expenses. In fiscal year 2015 total gaming expenses which consist of prizes, retailer commissions and gaming vendor charges (gaming system services), totaled \$1,398 million as compared to \$1,294 million and \$1,170 million for fiscal years 2014 and 2013, respectively. Other operating expenses, which consist of advertising and marketing, salary and benefits, professional fees, rent, maintenance, depreciation and general administrative expenses increased to \$52.8 million in fiscal year 2015, as compared with \$47.3 million and \$46.1 million for fiscal years 2014 and 2013, respectively. Other operating expenses represented 2.7%, 2.6% and 2.7% of total operating revenues in fiscal years 2015, 2014 and 2013, respectively.

Condensed Statement of Revenues, Expenses and changes in Net Position (in thousands)	2015	2014	2013
Operating Revenues			
Gross Sales	\$ 1,972,220	\$ 1,839,259	\$ 1,689,803
Less: Sales/Service Bad Debt	(5)	(48)	(90)
Fees and Licenses	5,271	5,425	5,296
Total Operating Revenues	1,977,486	1,844,636	1,695,009
Operating Expenses			
Gaming Expenses			
Lottery Prizes	1,231,238	1,135,052	1,024,437
Retailer Commissions	137,767	128,551	118,148
Gaming Systems Services	28,678	30,343	27,262
Total Gaming Expenses	1,397,683	1,293,946	1,169,847
Other Operating Expenses	52,770	47,260	46,078
Total Operating Expenses	1,450,453	1,341,206	1,215,925
Operating Income	527,033	503,430	479,084
Nonoperating Revenues (Expenses)			
Investment Earnings, Nonoperating Revenue (Expense) and Compulsive Gambling Contribution	(606)	(295)	(576)
Net Revenues and Unclaimed Prizes to the State	(526,427)	(503,135)	(478,508)
Total Nonoperating Revenue (Expenses)	(527,033)	(503,430)	(479,084)
Change in Net Position	-	-	-
Net Position Beginning July 1	-	-	-
Net Position Ending June 30	\$ -	\$ -	\$ -

From fiscal year 2013 to fiscal year 2015, the NCEL has achieved annual increases in revenues and transfers to the State. The following graph depicts these trends.



Budget and Economic Outlook

On June 2nd, 2015, the NCEL Commission approved the Fiscal Year 2016 budget for the NCEL to provide a projected \$528.9 million to the State's Education Lottery Fund. This projected budget is a 1.71% increase over the fiscal year 2015 budget that reflected a \$520 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 revenue outlook for the 2015-17 biennium reflects a continuation of moderate, steady economic growth. Employment growth will continue to show improvement as employment markets continue to stabilize. Concern along the economic front continues as global economic weakness and social instability continue to keep risks slightly elevated. Nonetheless, the forecast envisions the pace of growth to remain stable in 2015 and into 2016, with the State's growth in economic activity keeping pace with the nation as a whole." 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 ninth consecutive year, the State Auditor contracted with an outside CPA firm to conduct the fiscal year financial audit, which resulted in an unmodified opinion.

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.

North Carolina Education Lottery
Statements of Net Position
(in thousands)
June 30, 2015 and 2014

	2015	2014
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash	\$ 119	\$ 155
Pooled Cash	48,885	21,002
Receivables:		
Accounts Receivable	8,654	22,069
Interest Receivable	41	26
Due from Other Funds	5,275	-
Investment in Annuity Contracts	5,136	4,604
Prepaid Items	651	655
State Treasurer's Security Lending Collateral	5,050	3,032
Total Current Assets	<u>73,811</u>	<u>51,543</u>
Noncurrent Assets:		
Investment in Annuity Contracts	56,718	53,714
Prepaid Items	655	1,306
Capital Assets, Depreciable (Net):		
Furniture and Equipment	4,805	4,489
Accumulated Depreciation	(2,972)	(3,158)
Total Capital Assets, Depreciable (Net)	<u>1,833</u>	<u>1,331</u>
Total Assets	<u>133,017</u>	<u>107,894</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>1,471</u>	<u>-</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	48,952	40,499
Accrued Payroll	466	415
Annuity Prize Award Payable - Current	5,136	4,604
Accrued Time Off - Current	192	294
Due to the State	10,404	4,628
Obligations Under State Treasurer's Security Lending Agreements	5,050	2,770
Total Current Liabilities	<u>70,200</u>	<u>53,210</u>
Noncurrent Liabilities		
Annuity Prize Award Payable	56,718	53,174
Accrued Paid Time Off	1,570	970
Net Pension Liability	1,301	-
Total Liabilities	<u>129,789</u>	<u>107,894</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>4,699</u>	<u>-</u>
NET POSITION		
Net Investment in Capital Assets	1,833	1,331
Unrestricted	(1,883)	(1,331)
Total Net Position	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements

North Carolina Education Lottery
Statements of Revenues, Expenses, & Changes in Net Position
(in thousands)
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Revenues		
Gross Sales:	\$ 1,972,220	\$ 1,839,259
Less: Sales/Service Bad Debt	(5)	(48)
Fees and Licenses	(5,271)	(5,425)
Total Operating Revenues	<u>1,977,486</u>	<u>1,844,636</u>
Operating Expenses		
Salaries, Wages, Benefits	18,738	18,127
Lottery Prizes	1,231,238	1,135,052
Retailer Commissions	137,767	128,551
Retailer Incentives	976	825
Gaming Systems Services	28,678	30,343
Advertising	19,098	15,238
Marketing	4,183	3,602
Other Services	5,272	5,158
Furniture, Fixtures, and Equipment	983	1,323
Depreciation	568	439
Other General and Administrative Expenses	2,952	2,548
Total Operating Expenses	<u>1,450,453</u>	<u>1,341,206</u>
Operating Income	<u>527,033</u>	<u>503,430</u>
Nonoperating Revenues (Expenses)		
Investment Earnings	408	669
Compulsive Gambling Contribution	(1,000)	(1,000)
Unclaimed Prizes to NC Education Lottery Fund	(13,841)	(14,043)
Net Revenues to the State of NC	(512,586)	(489,092)
Miscellaneous Nonoperating Revenues (Expenses)	(14)	36
Total Nonoperating Expenses	<u>(527,033)</u>	<u>(503,430)</u>
Change in Net Position	<u>-</u>	<u>-</u>
Net Position Beginning, July 1	-	-
Net Position Ending, June 30	<u>\$ -</u>	<u>\$ -</u>

See Notes to the Financial Statements.

North Carolina Education Lottery
Statements of Cash Flows
(in thousands)
Years Ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,852,801	\$ 1,711,791
Payments to Employees and Fringe Benefits	(18,868)	(18,227)
Payments for Prizes, Benefits, and Claims	(1,216,421)	(1,120,520)
Payments to Vendors and Suppliers	(67,518)	(57,182)
Other Receipts	24	50
Net Cash Flows Provided by Operating Activities	550,018	515,912
CASH USED FOR NONCAPITAL FINANCING ACTIVITIES		
Transfers to State	(520,651)	(525,824)
Transfers to Other State Agencies	(1,000)	(1,000)
Total Cash Used for Noncapital Financing Activities	(521,651)	(526,824)
CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(1,086)	(874)
Total Cash Used for Capital and Related Financing Activities	(1,086)	(874)
CASH PROVIDED FROM INVESTING ACTIVITIES		
Investment Earnings	566	458
Total Cash Provided from Investing Activities	566	458
Net Increase/(Decrease) in Cash and Cash Equivalents	27,847	(11,328)
Cash and Cash Equivalents at Beginning of Year	21,157	32,485
Cash and Cash Equivalents at End of Year	\$ 49,004	\$ 21,157
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 527,033	\$ 503,430
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation Expense	568	439
Pension Expense	606	-
Other Nonoperating Income	24	49
(Increase) Decrease in Assets:		
Accounts Receivable	13,415	(4,295)
Prepaid Items	655	(538)
Deferred Outflows for Pensions	(1,285)	-
Increase (Decrease) in Liabilities:		
Accounts Payable	8,453	16,927
Accrued Payroll and Related Liabilities	51	(16)
Other Liabilities	498	(84)
Total Cash Provided by Operating Activities	\$ 550,018	\$ 515,912
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through the Assumption of a Liability	\$ 2,018	\$ 2,699
Change in Fair Value of Investments	262	190

See Notes to the Financial Statements.

North Carolina Education Lottery
Notes to Financial Statements
(in thousands)
June 30, 2015 and 2014

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
- All or Nothing on September 7, 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.

Change in Accounting Principle – During fiscal year 2015, the NCEL adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.

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, 2015 and 2014.

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:

Category	Years
Equipment	5-7
Furniture	5
Computers and Software	3-5

G. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized until then. The NCEL has two items that meet this criterion - a pension related deferral and contributions made to the pension plan in the current fiscal year. The statement of financial position also reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized until then. The NCEL has one item that meets this criterion - pension related deferrals.

H. Game Revenue Recognition:

For the NCEL’s draw games, POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, EZ Match, All or Nothing 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).

I. 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 All or Nothing prize expense is recorded at 52 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.

J. 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.

K. Retirement Plans:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers’ and State Employees’ Retirement System (TSERS) and additions to/deductions from TSERS’ fiduciary net position have been determined on the same basis as they are reported by TSERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The NCEL’s employer contributions are recognized when due and the NCEL has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of TSERS. Investments are reported at fair value.

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.

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

Game Revenue	2015	2014
Instant	\$ 1,294,017	\$ 1,170,248
Draw	678,203	669,017
Bad debt write off	3	(48)
Damaged tickets, sales services	(8)	(6)
Total	\$ 1,972,215	\$ 1,839,211

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 2015 and 2014 were \$5,271 and \$5,425, 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 \$408 and \$669 for the years ended June 30, 2015 and 2014, respectively.

The NCEL also has miscellaneous non-operating revenue related to dividends received from MUSL which were \$24 and \$49 for the years ended June 30, 2015 and 2014, 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	2015	2014
Instant	\$ 891,330	\$ 794,282
Draw	326,067	326,727
50% of Unclaimed Prizes	13,841	14,043
Total	\$ 1,231,238	\$ 1,135,052

2. Retailer Commissions:

Commissions	2015	2014
Instant	\$ 90,429	\$ 81,799
Draw	47,338	46,752
Total	\$ 137,767	\$ 128,551

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 2015 and 2014 were \$976 and \$825, 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 the Department of Public Safety's Division of Alcohol and Law Enforcement (ALE) in the amount of \$968 in fiscal year 2015 and \$1,000 in fiscal year 2014.

	2015	2014
Security Services	\$ 18	\$ 17
Background Checks	1,120	1,157
Communications, including wiring	1,128	1,231
Legal Services	32	21
Travel	166	192
Other	2,908	2,540
Total	\$ 5,272	\$ 5,158

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 2015 and 2014 were \$983 and \$1,323, respectively.

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:

Year Ending	Amount
2016	\$ 1,164
2017	442
2018	394
2019	329
2020	277
2021-2025	1,268
Total	\$ 3,874

The total space rental costs for the fiscal years 2015 and 2014 were \$1,176 and \$1,145, 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 \$21 and \$13 for the years ended June 30, 2015 and 2014, respectively, are included as non-operating expense. For the years ended June 30, 2015 and 2014, 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, 2015 and 2014 (See Note 7D).

The second transfer was \$13,841 and \$14,043 for the years ended June 30, 2015 and 2014, 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 \$512,586 for fiscal year 2015 compared with \$489,092 for fiscal year 2014 (see Note 12). However, \$520,642 was transferred to the NC Education Lottery Fund for fiscal year 2015 compared with \$525,823 for fiscal year 2014. The balances remaining (\$10,350 and \$4,565 for fiscal years 2015 and 2014) 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."

NOTE 5 - ASSETS

A. Cash:

The cash and cash equivalents balances at June 30, 2015 and 2014 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, 2015 and 2014, respectively, \$48,885 and \$21,002 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 1.5 and 1.3 years, as of June 30, 2015 and 2014, 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 retailer's 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 \$5,136 and \$56,718 for fiscal year 2015 and \$4,604 and \$53,714 for fiscal year 2014, 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, 2015 and June 30, 2014, all annuities carried a rating of Aa/AA.

Maturities for investments in annuity contracts are as follows:

Maturities	2015	2014
Less than 1 year	\$ 5,136	\$ 4,604
1 to 5 years	20,256	18,416
6 to 10 years	20,256	18,416
More than 10 years	16,206	16,882
Total	\$ 61,854	\$ 58,318

D. Capital Assets:

The activity for capital assets for the year ended June 30, 2015 was:

Category	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets, depreciable				
Furniture	\$ 46	\$ -	\$ -	\$ 46
Equipment	4,376	111	(778)	3,709
Motorized equipment	67	-	-	67
Computer software	-	983	-	983
Total capital assets, depreciable	4,489	1,094	(778)	4,805
Less accumulated depreciation for:				
Furniture	34	3	-	37
Equipment	3,056	563	(753)	2,866
Motorized equipment	68	1	-	69
Computer software	-	-	-	-
Total accumulated depreciation	3,158	567	(753)	2,972
Total capital assets, depreciable, net	1,331	527	(25)	1,833
Capital assets, net	\$ 1,331	\$ 527	\$ (25)	\$ 1,833

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

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

Equipment expenditures for 2015 and 2014 included replacements of aged instant ticket dispensers, computer server equipment, and accounting software.

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, 2015 and 2014, the balances were:

Account type	2015	2014
Trade payables to vendors and other	\$ 15,680	\$ 6,066
Instant prize liability - unused unclaimed	23,680	32,026
Multi-state games low-tier liability	3,694	2,287
Prize liability - breakage	5,898	120
Total Accounts Payable	\$ 48,952	\$ 40,499

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 \$5,136 and \$56,718 for fiscal year 2015 and \$4,604 and \$53,714 for fiscal year 2014, respectively.

Annuity activity for both short and long term accounts during fiscal year 2015 are as follows:

	Beginning Balance	Purchases	Annuity Appreciation	Annuity Disbursements	Reclass to Short Term	Ending Balance
Short Term	\$ 4,604	\$ -	\$ -	\$ (5,154)	\$ 5,686	\$ 5,136
Long Term	53,714	6,332	2,358	-	(5,686)	56,718
Total	\$ 58,318	\$ 6,332	\$ 2,358	\$ (5,154)	\$ -	\$ 61,854

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

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

C. Due to the State:

As explained in Note 4C, \$10,350 and \$4,565 for the years ended June 30, 2015 and 2014, 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, 2015:

Beginning	Earned	Used	Ending	Current Liability	Long Term Portion
\$ 1,264	\$ 1,554	\$ 1,056	\$ 1,762	\$ 192	\$ 1,570

Activity for the year ended June 30, 2014:

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

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, 2015, MUSL included 34 state lotteries, the District of Columbia, Lotería Electronica de Puerto Rico 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, 2015 and 2014, the NCEL had been credited with \$8,956 and \$9,682, respectively, in the MUSL prize reserve funds.

B. Annuity Installment Prizes:

The NCEL funds long term installment prizes through the purchase of insurance company annuities and treasury strips. 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, Prudential Life Insurance Company and Wells Fargo Bank to provide these future prize installment payments. The future value of the annuity prizes awarded as of June 30, 2015 and 2014 were \$76,384 and \$72,872, respectively.

C. Unclaimed Prizes:

As of June 30, 2015 and 2014, 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 were recorded on September 26, 2014. Unclaimed prizes for All or Nothing were recorded on March 6, 2015. The NCEL closed forty-five instant games during fiscal year 2015 resulting in \$18,557 in unclaimed prizes. In 2014, the NCEL closed sixty-six instant games resulting in \$18,080 in unclaimed prizes.

Game Type	2015	2014
Instant	\$ 18,557	\$ 18,080
Powerball	2,839	3,142
Mega Millions	1,295	1,517
Carolina Cash 5	1,412	2,057
Carolina Pick 4	1,332	1,404
Carolina Pick 3	1,780	1,884
All or Nothing	91	-
EZ Match	353	-
Monopoly Millionaire's Club	21	-
Total Unclaimed Prizes	\$ 27,680	\$ 28,084

NOTE 7 - OTHER IMPORTANT ITEMS (continued)

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.

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, 2015.

The types of coverage, limits, and deductibles, as of June 30, 2015, 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	5,804,735	5,000	
Auto - liability	1,000,000 per person / 10,000,000 per accident		
Hired Auto - Physical Damage	40,000 60,000 if GVW > 10,000 lbs.	100 250	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.

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.

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. Benefits Provided

TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General

employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60 (10 years for members joining on or after August 1, 2011). Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Funding policy. Plan members are required to contribute 6% of their annual covered salary, and the NCEL is required to contribute at an actuarially determined rate. The fiscal year 2015 rate is 9.15% of the annual covered payroll. The contribution requirements of plan members and the NCEL are established and may be amended by the General Assembly. The following table represents the three-year trend of the annual contributions made by the NCEL to the State retirement system. The NCEL made 100% of its required contributions for the years ended June 30, 2015, 2014, and 2013:

	2015	2014	2013
Retirement Contribution	\$ 1,279	\$ 1,191	\$ 1,094
Percentage of Covered Payroll	9.15 %	8.69%	8.33%

Net pension liability. At June 30, 2015, the NCEL reported a liability of \$1,301 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The NCEL's proportion of the net pension liability was based on a projection of the NCEL's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2014 and at June 30, 2013, the NCEL's proportion was 0.11096% and 0.10540%, respectively.

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

Deferred inflows of resources and deferred outflows of resources related to pensions. For the year ended June 30, 2015, the NCEL recognized pension expense of \$606. At June 30, 2015, the NCEL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ -	\$ 303
Net difference between projected and actual earnings on pension plan investments (see note below)	-	4,396
Change in proportion and differences between the NCEL's contributions and proportionate share on contributions	186	-
Contributions subsequent to the measurement date	1,285	-
Total	\$ 1,471	\$ 4,699

Deferred Outflows of Resources of \$1,285 related to pensions resulting from the NCEL's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2016	\$ (1,130)
2017	(1,130)
2018	(1,130)
2019	(1,123)
2020	-
Total	\$ (4,513)

Actuarial assumptions. The total pension liability was determined by an actuarial valuation performed as of December 31, 2013. The total pension liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2014. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal actuarial cost method was utilized. Inflation is assumed to be 3% and salary increases range 4.25% to 9.10% which includes 3.5% inflation and productivity factor. The long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7.25% and is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and studies that cover significant portions of the US population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (“COLA”) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies’ return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	100.0%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, implements changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the NCEL’s proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as, what the NCEL’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
NCEL’s proportionate share of the net pension liability (asset)	\$ 9,339	\$ 1,301	\$ (5,486)

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

Pension plan fiduciary net position. Detailed information about the TSERS fiduciary net position 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.

C. 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 \$185, \$123 and \$138 for the years ended June 30, 2015, 2014 and 2013, respectively.

D. 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 \$38, \$47 and \$58, for the years ended June 30, 2015, 2014 and 2013, respectively.

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 2015, the NCEL contributed 5.5% of the covered payroll under the Teachers’ and State Employees’ Retirement System. Required contribution rates for the years ended June 30, 2014 and 2013, were 5.4% and 5.3%, respectively. The NCEL made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were \$769, \$740, and \$696, 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, 2015, the NCEL made a statutory contribution of .41% 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, 2015, 2014 and 2013, were .41%, .44% and .44%, respectively. The NCEL made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were \$57, \$60, and \$58, respectively. The NCEL assumes no liability for long term disability benefits under the Plan other than its contribution.

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, 2015, 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

	2015		
Lottery Ticket Sales	\$	1,972,215	
Fees and Licenses		5,271	
Investment Earnings and Other Revenues		394	
Total Annual Revenue		1,977,880	
Prize Expense		(1,231,238)	62% of Total Annual Revenue
Advertising		(19,098)	1% of Total Annual Revenue
All Other Expenses and Transfers		(63,350)	4% of Total Annual Revenue
Total Section 18C-162.a.3		(82,448)	
Commissions (per 18C-142)		(137,767)	7% of Lottery Ticket Sales
Unclaimed Prizes to The State of North Carolina		13,841	
Net Revenues to The State of North Carolina		512,586	
Total Revenues to The State of North Carolina	\$	526,427	27% of Total Annual Revenue

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

	2014		
Lottery Ticket Sales	\$	1,839,211	
Fees and Licenses		5,425	
Investment Earnings and Other Revenues		705	
Total Annual Revenue		1,845,341	
Prize Expense		(1,135,052)	62% of Total Annual Revenue
Advertising		(15,238)	1% of Total Annual Revenue
All Other Expenses and Transfers		(63,356)	4% of Total Annual Revenue
Total Section 18C-162.a.3		(78,603)	
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	\$	503,135	27% 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).)

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 \$520.6 million to the NC Education Lottery Fund for fiscal year 2015 compared with \$525.8 million for fiscal year 2014. As explained in Note 4C, \$10.4 million and \$4.6 million for fiscal years ended June 30, 2015 and 2014, 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, 2015, the NCEL implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*,
- Statement No. 69, *Government Combinations and Disposals of Government Operations*, and
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an Amendment of GASB Statement No. 68*.

Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability (or asset) and to more comprehensively and comparably measure the annual costs of pension benefits. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. In specific circumstances called special funding situations, this Statement requires governments that are nonemployer contributing entities to recognize in their own financial statements their proportionate share of the other governmental employers’ net pension liability and pension expense. The existing standards for governments that provide defined contribution pensions are largely carried forward in Statement No. 68. These governments recognize pension expenses equal to the amount of contributions or credits to employees’ accounts, absent forfeited amounts. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

Statement No. 71 modifies the transition guidance provided in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as it relates to employer contributions made subsequent to the measurement date of the beginning net pension liability, but before the start of the government’s fiscal year. Specifically, the revised guidance clarifies that such amounts would always be treated as a deferred outflows of resources, regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions.

Statements No. 69 did not result in any significant changes to the financial statements.

The cumulative effect of the changes in accounting principles relating to the net pension liability was recognized in the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2015.

NOTE 14 - SUBSEQUENT EVENTS

The Commission of the NCEL has evaluated all subsequent events for potential recognition and disclosure through October 21, 2015, the date these financial statements will be available.

**NORTH CAROLINA EDUCATION LOTTERY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY
TEACHERS’ AND STATE EMPLOYEES’ RETIREMENT SYSTEM**

Last Two Fiscal Years		2015	2014
(1)	Proportionate share percentage of collective net pension liability	0.11096%	0.10540%
(2)	Proportionate share of TSERS collective net pension liability	\$ 1,301	\$ 6,399
(3)	Covered-employee payroll	\$ 13,989	\$ 13,706
(4)	Net Pension liability as a percentage of covered-employee payroll	9%	47%
(5)	Plan fiduciary net position as a percentage of the total pension liability	98.24%	90.60%

Information is not available for preceding years, to the extent 10 years of information is not presented

NORTH CAROLINA EDUCATION LOTTERY
REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CONTRIBUTIONS
 TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

Last Ten Fiscal Years

	2015	2014	2013	2012	2011
(1) Contractually required contribution	\$ 1,279	\$ 1,191	\$ 1,094	\$ 955	\$ 592
(2) Contributions in relation to the contractually determined contribution	1,279	1,191	1,094	955	592
(3) Contribution deficiency (excess)	<u>\$ -</u>				
(4) Covered-employee payroll	\$ 13,989	\$ 13,706	\$ 13,139	\$ 12,839	\$ 12,018
(5) Contributions as a percentage of covered-employee payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
(1) Contractually required contribution	\$ 425	\$ 378	\$ 313	\$ 257	\$ 262
(2) Contributions in relation to the contractually determined contribution	425	378	313	257	262
(3) Contribution deficiency (excess)	<u>\$ -</u>				
(4) Covered-employee payroll	\$ 11,968	\$ 11,696	\$ 10,862	\$ 9,720	\$ 3,842
(5) Contributions as a percentage of covered-employee payroll	3.55%	3.23%	2.88%	2.64%	6.82%



**Report of Independent Auditor on Internal Control over Financial Reporting
 and on Compliance and Other Matters Based on an Audit of Financial Statements
 Performed in Accordance with Government Auditing Standards**

To the Commissioners
 North Carolina Education Lottery
 Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements 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, 2015 and 2014, and the related notes to the financial statements, which collectively comprises the NCEL's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 21, 2015.

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, 2015 and 2014, and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the NCEL's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the NCEL's internal control. Accordingly, we do not express an opinion on the effectiveness of the NCEL's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the NCEL's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet, important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NCEL's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NCEL's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NCEL's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Raleigh, North Carolina
 October 21, 2015

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