

North Carolina Education Lottery

A Major Enterprise Fund of the Primary
Government of the State of North Carolina



Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2016 & June 30, 2015



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NORTH CAROLINA EDUCATION LOTTERY
A MAJOR ENTERPRISE FUND OF THE PRIMARY GOVERNMENT OF NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 & JUNE 30, 2015



Kim Griffin, Jr.
COMMISSION CHAIRMAN

ALICE GARLAND
EXECUTIVE DIRECTOR

Prepared by the North Carolina Education Lottery Finance Division

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

William T. Jourdain

Deputy Executive Director, Finance, Administration & Security
bjourdain@lotterync.net

Michelle Lassiter

Director of Finance
massiter@lotterync.net

Erwin Mialkowski

Financial Accounting Administrator
emialkowski@lotterync.net

Patrick Maginnis

Retail Accounting Manager
pmaginnis@lotterync.net

Anthony Downey

Purchasing Administrator
adowney@lotterync.net

Dilip Shah

Cash Accounting Administrator
dshah@lotterync.net

Finance Division Staff

Nirav Amin
Ross Davidson
Michael Farmer

Kimberle Hartsfield
Marika Holland
Daniel Honeycutt

Dorthy McCoy
Camilla Sandlin
Elexa Soriano

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INTRODUCTORY SECTION





October 25, 2016

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

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the North Carolina Education Lottery (NCEL) for the fiscal years ended June 30, 2016 & June 30, 2015. The finance department of the NCEL prepared this report to provide a comprehensive overview of our financial statements. Lottery management assumes the responsibility for the accuracy and completeness of this report. To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, the changes in financial position, and cash flows of the NCEL. All disclosures necessary to gain an understanding of the NCEL's financial activities have been included.

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

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

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

Profile of North Carolina Education Lottery

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

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

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

Powerball: Players select 5 numbers ranging from 1 to 69 lotto numbers, and 1 additional number ranging from 1 to 26 designated as the “Powerball.” To win the jackpot, players need to match all five lotto numbers and the Powerball. Jackpot prizes start at \$40 million, which increase in the event that no one matches all the numbers. There are also nine secondary prizes ranging from \$4 to \$1,000,000. For an additional dollar, players can “Power Play” and have the opportunity to increase their winnings, except for the jackpot, by up to ten times. If a player matches the 5 lotto numbers and power plays the ticket, they automatically win \$2 million.

Mega Millions: Players select 5 numbers ranging from 1 to 75 lotto numbers, and 1 additional number ranging from 1 to 15 designated as the “Mega Ball.” To win the jackpot, players need to match all five lotto numbers and the Mega Ball. Jackpot prizes start at \$15 million, which increase in the event that no one matches all the numbers. There are also eight secondary prizes ranging from \$1 to \$1,000,000. For an additional dollar, players can “Megaply” and have the opportunity to increase their winnings, except for the jackpot, by up to five times. If a player matches the 5 lotto numbers and Megapplies the ticket, they multiply their winnings by 2, 3, 4, or 5 times the original amount.

Lucky For Life: Players select 5 numbers ranging from 1 to 48 lotto numbers, and 1 additional number ranging from 1 to 18 designated as the “Lucky Ball.” The top prize is \$1,000 A Day For Life, and to win the top prize, players need to match all five lotto numbers and the Lucky Ball. If a player matches the 5 lotto numbers only, the player wins a \$25,000 A Year For Life prize.

Carolina Cash 5: Players select 1 set of 5 numbers ranging from 1 to 41. Players win prizes by matching from two to five numbers, and must match all five numbers drawn to win the jackpot. Drawings are held daily with jackpot amounts starting at \$50,000, which increase for subsequent drawings if no one matches all five numbers. On March 30th 2014, an EZ match add-on was created for the Carolina Cash 5 game. The feature prints an instant “EZ” match number with a corresponding prize amount. If the EZ match number matches any of the pick 5 numbers, the player wins the corresponding prize instantly.

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

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

The NCEL continued with activities to attract different players throughout the fiscal year. The strategy of launching and advertising families of games continued to move the needle for scratch-off sales. The popular “Bucks” family of games were re-launched in August, then in February another family of the popular multiplier scratch-off games was introduced, and then in April the year was capped off by the “10th anniversary family” of scratch-offs. The NCEL’s first \$30 scratch-off game “Ultimate Millions” launched in September, and sales of this premium game totaled \$280 million. In addition the NCEL saw continued strong performance with tickets featuring a “Back Scratch” play area with the “\$500 Cash” game launching in December.

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

These efforts have allowed the Lottery to surpass two billion dollars in annual sales for the first time, and the ability to transfer over \$4.7 billion to education since operations began.

Relevant Financial Policies

Accounting System and Policies

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

Budgetary Controls

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

Internal Controls

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

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

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

- Restricted access to office and warehouse areas to certain lottery personnel
- Specialized security staff
- Secured facilities and gaming equipment
- Background checks conducted on retailers, contractors and lottery employees
- Lottery tickets with special inks, dyes and security codes
- Strict security procedures for game drawings
- Lottery draw balls are weighed and measured to ensure that they comply with standards by the Weights and Measures Division of the North Carolina Department of Agriculture
- Drawings are held in secure drawing rooms which are monitored 24 hours a day, the actual drawings are witnessed by an independent CPA firm, videotaped by primary, backup and security cameras and are reviewed each day
- An independent firm is contracted to complete an annual SOC 1 audit on the gaming vendor's systems to ensure the systems have full integrity. A SOC 1 Report (Service Organization Controls Report) is a report on Controls at a Service Organization which are relevant to user entities' internal control over financial reporting.

Debt Administration

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

Annuities

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

Cash Management

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

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

Major Initiatives

The NCEL continues to work on new ways to attract players and increase sales to expand net revenues. To this end, the NCEL developed a new Five Year strategic plan beginning in Fiscal Year 2015. The NCEL is currently in year two of this five year plan.

The N.C. Education Lottery's new strategic plan will guide its growth over the course of five years and is designed to ensure continued success in raising money for the good cause it serves – education in North Carolina.

The NCEL's plan combines the annual budget planning process with the strategic plan, so that the tactics developed for achieving the goals work in conjunction with the resources dedicated to the strategies in the budget plan for the next year. It is the NCEL's intention to transition the strategic plan from a formal report into a living and working document that will guide lottery staff as they move forward over the course of five years. NCEL staff have worked diligently to create a shared vision for the future of the lottery and break it down into actionable focus areas, allowing staff the ability to measure their success on a yearly basis both internally, and through the eyes of their players, stakeholders and beneficiaries.

As this plan moves forward, the measurements and tactics will continue to change with each passing year, but the six overarching goals will remain constant. These six goals are:

- Increase net revenues, year over year, raised for the education programs identified by the legislature
- Expand NCEL player and retailer base
- Grow and or improve through cost-effective and efficient technologies and operations
- Become Top 12 U.S. Lottery in per capita sales and per capita return to the State of North Carolina
- Enrich company culture and employee engagement
- Provide value to the citizens of North Carolina.

The sole purpose of the North Carolina Education Lottery is to raise as much revenue as possible for the State of North Carolina, and through this new five year strategic plan and the hard work of NCEL employees, this mission can be achieved.

Local Economy, From the North Carolina Fiscal Research Division:

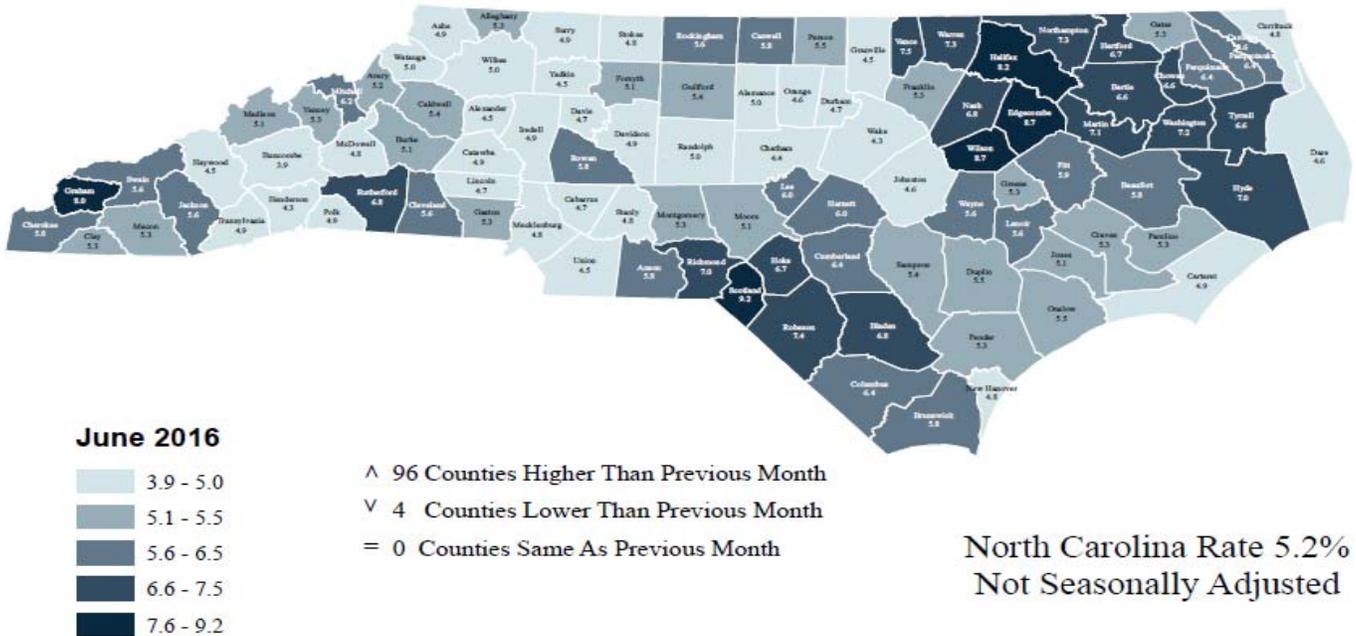
The national economy has been unable to accelerate into overdrive. Instead, it continues to move at a steady, moderate pace. There is no sign of acceleration on the horizon. The economy is improving, but not at a strong enough pace to produce a robust employment and consumer markets. The most recent survey of macroeconomic forecasters by the Wall Street Journal foresees economic activity remaining at the current pace throughout the fiscal year. Fortunately, 82% of those economist believe the national economy faces less than a 1 in 4 chance of a recession this year.

The State’s economy, similar to the nation’s, has steadily improved during this prolonged recovery phase in the business cycle. Since the end of the Great Recession in 2009, the State’s economy has never gained sufficient momentum to enter a robust expansionary phase. Recent data on income and overall economic activity (Gross State Product) indicate that the State’s growth is beginning to outpace average growth for the nation. The typical pattern for the State is one in which downturns are bigger and upturns are more robust compared to the national average. It has taken seven years for that pattern to re-emerge. For the rest of the fiscal year, the expectation is that the State will continue to experience economic growth at a slightly faster pace than the nation.

The State’s employment outlook has stabilized. Non-farm employment is expected to grow by 2.0% this fiscal year, similar to last fiscal year’s 2.1% growth. Non-farm employment is forecast to net 85,000 to 90,000 jobs in FY 2016-17.

The following graphic depicts the county and state unemployment rate at the end of the 2016 fiscal year.

North Carolina Unemployment Rates by County June 2016



Note: June 2016 data are preliminary.
Prepared by Labor & Economic Analysis, North Carolina Department of Commerce 7_2016

A recent Babson Capital/UNC Charlotte Economic Forecast has a similar outlook. The forecast projects that in calendar year 2017, the State's Non-farm employment will grow by 88,900 jobs and inflation-adjusted economic activity will increase by 2.2%. Last fiscal year, Non-farm employment grew by 88,500 jobs, which was not as robust as the 103,900 jobs added the previous year.

Solid employment growth has helped reduce slack in the State's labor market, and there has been greater pressure on individual wages to rise. Individual wage increases have lagged behind other improvements in the economy. The forecast expects the wage base to grow by 4.8% this fiscal year. This is similar to last fiscal year's estimated growth of 5.0%, but less than the pre-recession growth rates of 6% to 7%.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2015. This was the eight consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,



Alice Garland
Executive Director



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



Government Finance Officers Association

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

Presented to

North Carolina Education Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

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NORTH CAROLINA EDUCATION LOTTERY COMMISSION

KIM GRIFFIN, JR., CHAIRMAN

AMY ELLIS
CHAIR-AUDIT & FINANCE

CHRIS SHEW
CHAIR-OPERATIONS & PERSONNEL

COURTNEY CROWDER
CHAIR-REVENUE GENERATING

KEITH BALLENTINE

MORGAN BEAM

BUDDY BENGEL

DOUG BAKER

JODY TYSON

NORTH CAROLINA EDUCATION LOTTERY

SENIOR STAFF

ALICE GARLAND
EXECUTIVE DIRECTOR

DEPUTY EXECUTIVE DIRECTORS

NOBORU “TONY” CHUNG
MIS & GAMING SYSTEMS

WILLIAM JOURDAIN
FINANCE, ADMINISTRATION & SECURITY

TERRI AVERY
SALES

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BRAND MANAGEMENT & COMMUNICATIONS

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SALES-WEST

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DANIEL ROSE
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SUSAN SINGLEY
ADVERTISING

BEN BAUMAN
PRODUCT DEVELOPMENT

MIKE SUGGS
INTERNAL AUDIT

GEORGE WALKER
MIS

TAMARA WIGGS
MARKETING

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FINANCIAL SECTION



NC Education
Lottery[™]

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Report of Independent Auditor

To the Commissioners
North Carolina Education Lottery
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying statements of net position of the North Carolina Education Lottery (“NCEL”), a major enterprise fund of the State of North Carolina, as of and for the years ended June 30, 2016 and 2015, 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 an 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 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, 2016 and 2015, 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, 2016 and 2015, 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.

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 the Governmental Accounting Standards Board 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.

Supplementary and Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2016, on our consideration of the NCEL's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 25, 2016

***MANAGEMENT'S DISCUSSION AND
ANALYSIS***



NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016 and 2015

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, 2016, 2015 and 2014 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, 2016, 2015 and 2014.

Financial Highlights

For fiscal year 2016, gross ticket sales totaled \$2.38 billion representing a \$412 million increase over fiscal year 2015. Total operating income was \$636 million, which represented an increase of \$109 million over fiscal year 2015. 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 2016, the sum total of these cash transfers was \$571.6 million. Total cash transfers for fiscal years 2015 and 2014 were \$520.6 million and \$525.8 million, respectively.
- Awarded \$1 million or more to an NCEL player for the 282th time.
- Provided customer service to our 6,898 retailers on a regular basis.
- Released 51 new instant scratch-off games into the marketplace generating gross instant ticket sales of \$1.6 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, 2016 and 2015, the Statements of Revenues, Expenses, and Changes in Net Position for the periods ended June 30, 2016 and 2015, and the Statements of Cash Flows for the periods ended June 30, 2016 and 2015.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016 and 2015

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 2016 were \$189 million compared to \$133 million at the end of fiscal year 2015, representing an increase of \$56 million.

Current assets increased from \$74 million as of June 30, 2015 to \$128 million as of June 30, 2016, representing an increase of \$54 million. This increase resulted from an increase in Pooled Cash due to fiscal year 2016 and 2015 surplus earnings held to be dispersed in the subsequent fiscal year. The increase was also partially the result of an increase in accounts receivable in 2016 from 2015. This primarily represents amounts due from retailers for ticket sales less commissions and prizes paid by the retailers. The increase is essentially due to the timing of the end of the accounting week for billing and collections from our retailers at fiscal year-end. Electronic Funds Transfer is used to collect receivables weekly from retailer bank accounts that are set up in trust for the NCEL.

Current assets were also affected by a \$313 thousand increase in the State Treasurer's Securities Lending Collateral and a \$180 thousand increase in investments in annuity contracts and treasury strips.

Pooled cash consists of deposits held by the State Treasurer in the State Treasurer's Short-Term Investment Fund (STIF). The STIF 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 \$1.2 million 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 2016 was \$1.5 million which is approximately \$287 thousand lower than 2015. The investment in capital assets includes game equipment, data processing equipment, telephone equipment, software and fixtures. The capitalization of all items including equipment, computers, and furniture follows the Office of the State Controller's (OSC) policy. The NCEL defines capital assets as assets with an initial unit cost of \$5,000 or greater and an estimated useful life of two or more years. Capital assets are carried at cost less accumulated depreciation.

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

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016 and 2015

The activity for capital assets for the year ended June 30, 2016 was (in thousands):

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

Deferred Outflows of Resources

The NCEL recognized deferred outflows of resources as related to pensions during fiscal year 2016 and 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 \$124 million as of June 30, 2016 increasing by \$54 million from 2015. The increase in current liabilities mainly resulted from increases in transfers due to the state. 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.

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.

<u>Beginning</u>	<u>Earned</u>	<u>Used</u>	<u>Ending</u>	<u>Current Liability</u>	<u>Long Term Portion</u>
<u>\$ 1,762</u>	<u>\$ 1,644</u>	<u>\$ 1,224</u>	<u>\$ 2,182</u>	<u>\$ 147</u>	<u>\$ 2,035</u>

Noncurrent liabilities also includes the present value of the annuity contracts that fund the long term installment prizes that are due to NCEL annuity prize winners that will be paid after June 30, 2017.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016 and 2015

Deferred Inflows of Resources

The NCEL recognized deferred inflows of resources as related to pensions during fiscal year 2016 and 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)

	2016	2015	2014
ASSETS			
Total Current Assets	\$ 128,400	\$ 73,811	\$ 51,543
Noncurrent Assets	58,678	57,373	55,020
Capital Assets, Depreciable (Net)	1,546	1,833	1,331
Total Assets	188,624	133,017	107,894
Deferred Outflows of Resources	1,327	1,471	-
Liabilities			
Total Current Liabilities	124,272	70,200	53,210
Noncurrent Liabilities	64,704	59,589	54,684
Total Liabilities	188,976	129,789	107,894
Deferred Inflows of Resources	975	4,699	-
Net Position			
Investment in Capital Assets	1,546	1,833	1,331
Unrestricted	(1,546)	(1,833)	(1,331)
Total Net Position	\$ -	\$ -	\$ -

Current liabilities consist of "Due to the State" in the amount of \$67.738 million. This amount represents the remaining amount of the "Net Revenues" and "50% of Unclaimed Prizes" for Fiscal Year 2016 not yet transferred to the State of North Carolina as of June 30, 2016. These funds will be transferred to the State during Fiscal Year 2017. Additional information on "Due to the State" is found in Note 6C to the financial statements.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016 and 2015

Revenues

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

Sales

The gross lottery ticket sales for fiscal year 2016 totaled \$2.384 billion as compared to \$1.972 billion for fiscal year 2015 and \$1.839 billion for fiscal year 2014. This represents an increase of \$412 million from 2015 and \$133 million from 2014.

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

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

The Carolina Cash 5 top prize exceeded half of a million dollars seven times during the fiscal year and reached a peak of \$952 thousand in September. Fiscal year 2016 was the second 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 the Cash 5 numbers, the player wins the corresponding prize instantly. The EZ match feature generated over \$8 million in sales for the year.

The Carolina Pick 4 game had increased sales from the previous year. Carolina Pick 4 sales were over \$126 million compared to \$123 million the previous year, and \$113 million in fiscal year 2014.

The Carolina Pick 3 game also had increased sales from the previous year. Carolina Pick 3 sales were \$286 million compared to \$278 million in fiscal year 2015, and \$261 million in fiscal year 2014.

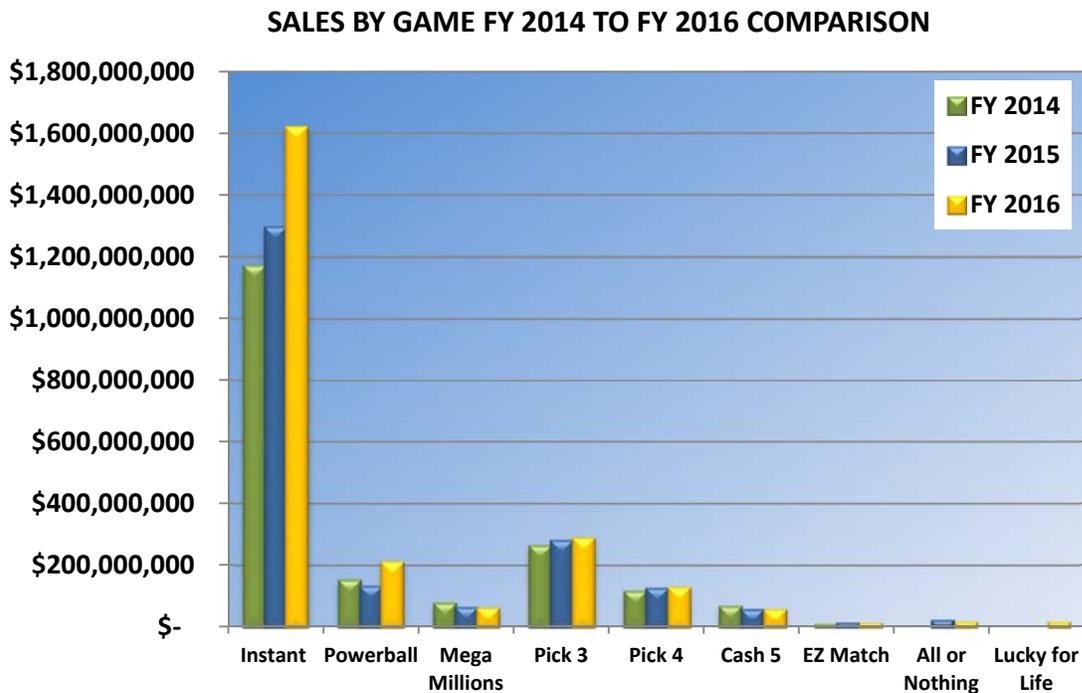
NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016 and 2015

All or Nothing was launched in September of 2014 as a new draw game for the NCEL, and fiscal year 2016 was its first full year on sale. 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 \$12 million during fiscal year 2016.

Lucky For Life was launched in February of 2016 as a new draw game for the NCEL. Lucky for Life pays out a thousand dollars a day for the rest of the winners life, with a guaranteed 20 years. Lucky for Life generated sales of over \$12.8 million during 5 months of sales in fiscal year 2016.

The following chart depicts the distribution of sales by product for the fiscal years ended June 30, 2016, 2015 and 2014.



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

Expenses

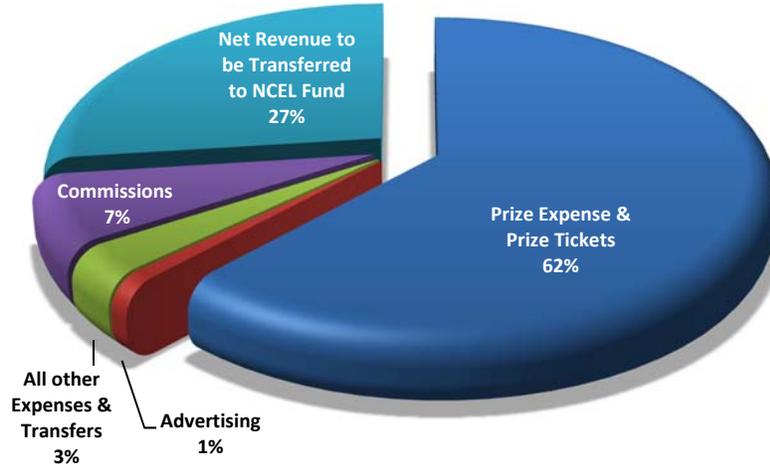
Section 18C-162, NC General Statute stipulates that no more than 8% of the total annual revenues shall be allocated for payment of expenses of the Lottery. Advertising expenses shall not exceed 1% of the total annual revenues.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

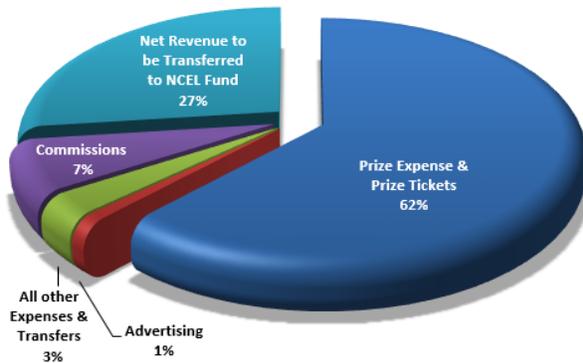
June 30, 2016 and 2015

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, 2016, 2015 and 2014.

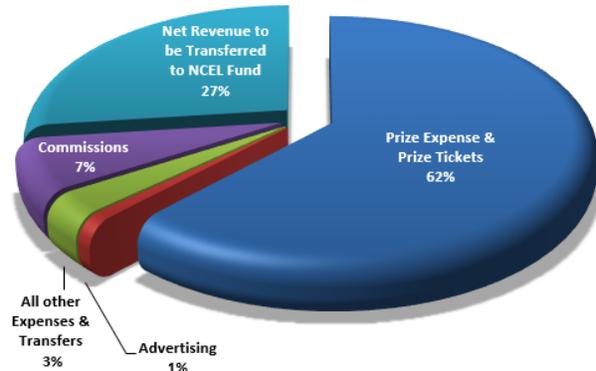
DISTRIBUTION OF REVENUES FY 2016



DISTRIBUTION OF REVENUES FY 2015



DISTRIBUTION OF REVENUES FY 2014



Prizes, commissions and gaming vendor charges all directly relate to sales. As expected, as sales have increased so have these expenses. In fiscal year 2016 total gaming expenses which consist of prizes, retailer commissions and gaming vendor charges (gaming system services), totaled \$1,698 million as compared to \$1,398 million and \$1,294 million for fiscal years 2015 and 2014, respectively. Other operating expenses, which consist of advertising and marketing, salary and benefits, professional fees, rent, maintenance, depreciation and general administrative expenses increased to \$54.7 million in fiscal year 2016, as compared with \$52.8 million and \$47.3 million for fiscal years 2015 and 2014, respectively. Other operating expenses represented 2.4%, 2.7% and 2.6% of total operating revenues in fiscal years 2016, 2015 and 2014, respectively.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016 and 2015

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

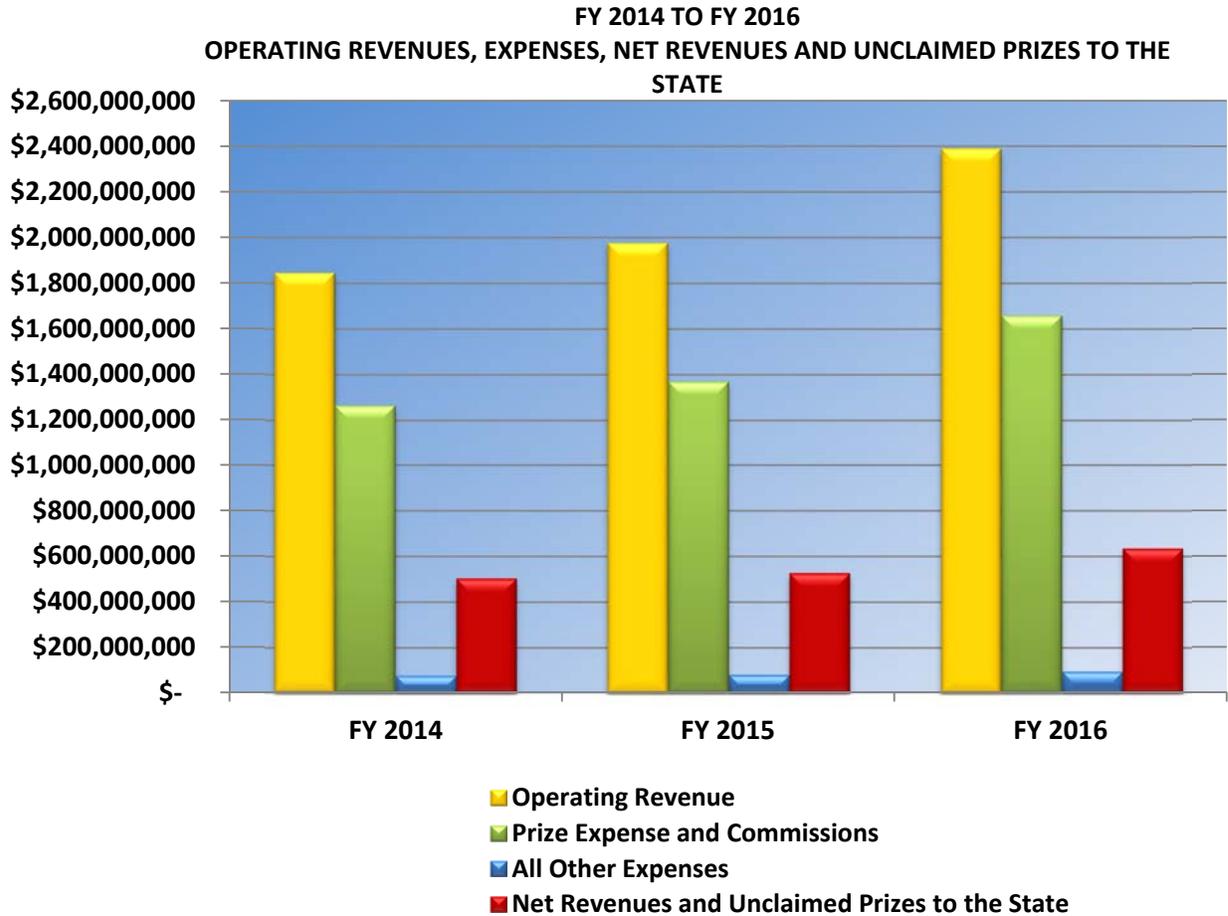
	2016	2015	2014
Operating Revenues:			
Gross Sales:	\$ 2,383,591	\$ 1,972,220	\$ 1,839,259
Sales/Service Bad Debt/Bad Debt Recoveries	24	(5)	(48)
Fees and Licenses	5,361	5,271	5,425
Total Operating Revenues	2,388,976	1,977,486	1,844,636
Operating Expenses:			
Gaming Expenses:			
Lottery Prizes	1,491,031	1,231,238	1,135,052
Retailer Commissions	166,437	137,767	128,551
Gaming Systems Services	40,640	28,678	30,343
Total Gaming Expenses	1,698,108	1,397,683	1,293,946
Other Operating Expenses*	54,692	51,802	46,181
Total Operating Expenses	1,752,800	1,449,485	1,340,127
Operating Income	636,176	528,001	504,509
Nonoperating Revenues (Expenses):			
Investment Earnings, Nonoperating Revenue (Expense)			
Compulsive Gambling and ALE Contributions*	(1,908)	(1,574)	(1,374)
Net Revenues and Unclaimed prizes to the State	(634,268)	(526,427)	(503,135)
Total Nonoperating Revenue (Expenses)	(636,176)	(528,001)	(504,509)
Change in Net Position	-	-	-
Net Position Beginning July 1	-	-	-
Net Position Ending June 30	\$ -	\$ -	\$ -

*The Other Operating Expenses category previously included payments issued to the Department of Public Safety's Division of Alcohol and Law Enforcement (ALE). As of fiscal year 2016, the fiscal year 2016, 2015 and 2014 ALE amounts have been re-classified as a transfer to another state agency (See Note 4C).

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016 and 2015

From fiscal year 2014 to fiscal year 2016, 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 7, 2016, the NCEL Commission approved the Fiscal Year 2017 budget for the NCEL to provide a projected \$551.6 million to the State's Education Lottery Fund. This projected budget is a 4.29% increase over the fiscal year 2016 budget that reflected a \$529.9 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 State's economy is at its strongest since the recession ended six and a half years ago. The pace of growth remains moderate, however, but has quickened sufficiently to improve overall economic conditions. During the post-recession recovery, the State's economy has tracked closely with the recovery of the nation's and this trend is expected to continue as the State tracks along with this moderate, steady growth." Therefore, the NCEL has constructed an increasing budget and sales forecast for the upcoming fiscal year.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016 and 2015

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.

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BASIC FINANCIAL STATEMENTS



NORTH CAROLINA EDUCATION LOTTERY

Statements of Net Position (in thousands)
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash	\$ 146	\$ 119
Pooled Cash	96,714	48,885
Receivables:		
Accounts Receivable	20,261	8,654
Interest Receivable	87	41
Due from Other Funds	-	5,275
Investment in Annuity Contracts and Treasury Strips	5,316	5,136
Prepaid Items	513	651
State Treasurer's Security Lending Collateral	5,363	5,050
Total Current Assets	128,400	73,811
Noncurrent Assets:		
Investment in Annuity Contracts	58,536	56,718
Prepaid Items	142	655
Capital Assets, Depreciable (Net):		
Furniture and Equipment	5,189	4,805
Accumulated Depreciation	(3,643)	(2,972)
Total Capital Assets, Depreciable (Net)	1,546	1,833
Total Assets	188,624	133,017
DEFERRED OUTFLOWS OF RESOURCES	1,327	1,471
LIABILITIES		
Current Liabilities:		
Accounts Payable	45,350	48,952
Accrued Payroll	358	466
Annuity Prize Award Payable - Current	5,316	5,136
Accrued Paid Time Off - Current	147	192
Due to the State	67,738	10,404
Obligations Under State Treasurer's Security Lending Agreements	5,363	5,050
Total Current Liabilities	124,272	70,200
Noncurrent Liabilities:		
Annuity Prize Award Payable	58,536	56,718
Accrued Paid Time Off	2,035	1,570
Net Pension Liability	4,133	1,301
Total Liabilities	188,976	129,789
DEFERRED INFLOWS OF RESOURCES	975	4,699
NET POSITION		
Investment in Capital Assets	1,546	1,833
Unrestricted	(1,546)	(1,833)
Total Net Position	\$ -	\$ -

See Notes to the Financial Statements.

NORTH CAROLINA EDUCATION LOTTERY

Statements of Revenues, Expenses and Changes in Net Position (in thousands)
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues:		
Gross Sales:	\$ 2,383,591	\$ 1,972,220
Sales/Service Bad Debt/Bad Debt Recoveries	24	(5)
Fees and Licenses	5,361	5,271
Total Operating Revenues	2,388,976	1,977,486
Operating Expenses:		
Salaries, Wages, and Benefits	19,739	18,738
Lottery Prizes	1,491,031	1,231,238
Retailer Commissions	166,437	137,767
Retailer Incentives	1,154	976
Gaming Systems Services	40,640	28,678
Advertising	19,973	19,098
Marketing	3,981	4,183
Other Services	5,141	4,304
Furniture, Fixtures, and Equipment	1,494	983
Depreciation	671	568
Other General and Administrative Expenses	2,539	2,952
Total Operating Expenses	1,752,800	1,449,485
Operating Income	636,176	528,001
Nonoperating Revenues (Expenses):		
Investment Earnings	1,190	408
Compulsive Gambling Contribution	(1,000)	(1,000)
ALE Gaming Enforcement	(2,100)	(968)
Unclaimed Prizes to NC Education Lottery Fund	(13,696)	(13,841)
Net Revenues to the State of NC	(620,572)	(512,586)
Miscellaneous Nonoperating Revenues (Expenses)	2	(14)
Total Nonoperating Expenses	(636,176)	(528,001)
Change in Net Position	-	-
Net Position Beginning, July 1	-	-
Net Position Ending, June 30	\$ -	\$ -

See Notes to the Financial Statements.

NORTH CAROLINA EDUCATION LOTTERY

Statements of Cash Flows (in thousands)
Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 2,210,932	\$ 1,852,801
Payments to Employees and Fringe Benefits	(20,175)	(18,868)
Payments for Prizes, Benefits and Claims	(1,496,074)	(1,216,421)
Payments to Vendors and Suppliers	(72,885)	(66,550)
Other Receipts	38	24
	<u>621,836</u>	<u>550,986</u>
Net Cash Flows Provided by Operating Activities		
CASH USED FOR NONCAPITAL FINANCING ACTIVITIES		
Transfers to State	(571,605)	(520,651)
Transfers to Other State Agencies	(3,100)	(1,968)
	<u>(574,705)</u>	<u>(522,619)</u>
Total Cash Used for Noncapital Financing Activities		
CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(384)	(1,086)
	<u>(384)</u>	<u>(1,086)</u>
Total Cash Used for Capital and Related Financing Activities		
CASH PROVIDED FROM INVESTING ACTIVITIES		
Investment Earnings	1,109	566
	<u>1,109</u>	<u>566</u>
Total Cash Provided from Investing Activities		
Net Increase/(Decrease) in Cash and Cash Equivalents	47,856	27,847
Cash and Cash Equivalents at Beginning of Year	49,004	21,157
Cash and Cash Equivalents at End of Year	<u>\$ 96,860</u>	<u>\$ 49,004</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 636,176	\$ 528,001
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation Expense	671	568
Pension Expense	436	606
Other Nonoperating Income	38	24
(Increase) Decrease in Assets:		
Accounts Receivable	(11,653)	13,415
Prepaid Items	651	655
Deferred Outflows for Pensions	(978)	(1,285)
Increase (Decrease) in Liabilities:		
Accounts Payable	(3,602)	8,453
Accrued Payroll and Related Liabilities	(108)	51
Other Liabilities	205	498
	<u>205</u>	<u>498</u>
Total Cash Provided by Operating Activities	<u>\$ 621,836</u>	<u>\$ 550,986</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through the Assumption of a Liability	\$ -	\$ 202
Change in Securities Lending Collateral	313	2,018

See Notes to the Financial Statements.

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NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

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.
- Lucky For Life on February 8, 2016

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity:

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

B. Basis of Presentation:

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

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

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash and Cash Equivalents:

Cash and cash equivalents include regional office deposited operating funds, imprest funds, and deposits held by the State Treasurer in the State Treasurer's Short Term Investment Fund. The Short Term Investment Fund 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, 2016 and 2015.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Capital Assets:

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

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

G. 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, Lucky For Life 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, and Carolina Pick 3, 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. Lucky For Life prize expense is recorded at 59 percent of sales on a daily basis, and EZ Match is recorded at 68% 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 (U.S. GAAP) 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.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The 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	2016	2015
Instant	\$ 1,617,457	\$ 1,294,017
Draw	766,134	678,203
Bad debt write off	38	3
Damaged tickets, sales services	(14)	(8)
Total	\$ 2,383,615	\$ 1,972,215

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 2016 and 2015 were \$5,361 and \$5,271, 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 \$1,190 and \$408 for the years ended June 30, 2016 and 2015, respectively.

The NCEL also has miscellaneous non-operating revenue related to dividends received from MUSL which were \$38 and \$24 for the years ended June 30, 2016 and 2015, respectively.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 4 – EXPENSES

A. Operating Expenses:

1. Lottery Prize Expense:

Prize Expense	2016	2015
Instant	\$ 1,121,378	\$ 891,330
Draw	355,957	326,067
50% of unclaimed prizes	13,696	13,841
Total	\$ 1,491,031	\$ 1,231,238

2. Retailer Commissions:

Commissions	2016	2015
Instant	\$ 113,042	\$ 90,429
Draw	53,395	47,338
Total	\$ 166,437	\$ 137,767

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. As of February 8, 2016, the program was again expanded to include Lucky For Life. The total payments issued for the retailer incentive program for fiscal years 2016 and 2015 were \$1,154 and \$976, respectively.

4. Other Services:

The principal expenses included are: security services, communications, legal services, travel, financial audit services, network support, and costs for temporary employees. The Other category under Other Services previously included payments issued to the Department of Public Safety's Division of Alcohol and Law Enforcement (ALE). As of fiscal year 2016 the fiscal year 2016 and 2015 ALE amounts have been re-classified as a transfer to another state agency (See Note 4C).

	2016	2015
Security services	\$ 13	\$ 18
Communications, including wiring	1,065	1,128
Legal services	50	32
Travel	228	166
Other	3,785	2,960
Total	\$ 5,141	\$ 4,304

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 4 – EXPENSES (continued)

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 2016 and 2015 were \$1,494 and \$983, 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:

<u>Year Ending</u>	<u>Amount</u>
2017	\$ 1,609
2018	1,698
2019	1,671
2020	1,660
2021	1,702
<u>2022-2026</u>	<u>8,555</u>
<u>Total</u>	<u>\$ 16,895</u>

The total space rental costs for the fiscal years 2016 and 2015 were \$1,214 and \$1,176, 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 \$36 and \$21 for the years ended June 30, 2016 and 2015, respectively, are included as non-operating expense. For the year ended June 30, 2015 the remaining non-operating expenses consist of other miscellaneous non-operating items.

C. Transfers Out:

There were four 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, 2016 and 2015 (See Note 7D).

The second transfer was to the Department of Public Safety's Division of Alcohol and Law Enforcement (ALE) in the amount of \$2,100 in fiscal year 2016 and \$968 in fiscal year 2015. Previous to fiscal year 2016 this transfer was recorded as an expense under Other Services, and ALE expenses for FY 2015 have been reclassified as a transfer.

The Third transfer was \$13,696 and \$13,841 for the years ended June 30, 2016 and 2015, 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).

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 4 – EXPENSES (continued)

C. Transfers Out: (continued)

The fourth 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 \$620,572 for fiscal year 2016 compared with \$512,586 for fiscal year 2015 (see Note 12). However, \$571,605 was transferred to the NC Education Lottery Fund for fiscal year 2016 compared with \$520,642 for fiscal year 2015. The balances remaining (\$67,738 and \$10,350 for fiscal years 2016 and 2015) 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 as of June 30, 2016 and 2015 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.

Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

At June 30, 2016 and 2015, respectively, \$96,714 and \$48,885 of the amounts shown on the Statement of Net Position as cash and cash equivalents represents the NCEL’s equity position in the STIF. The STIF (a portfolio within the State Treasurer’s Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 and 1.5 years, as of June 30, 2016 and 2015, respectively. The NCEL’s fair market value share of the STIF was determined based on level 2 inputs in accordance with GASB Statement No. 72 (see Note 7B for further information on GASB Statement No. 72).

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. Investment in Annuity Contracts and Treasury Strips:

Investments in Annuity Contracts and Treasury Strips represent the present value of the annuity contracts that fund the long term installment prizes contracted through insurance company annuities (See Note 7B) and the market value of treasury strips that fund the long term installment prizes. The current and long term balances are \$5,316 and \$58,536 for fiscal year 2016 and \$5,136 and \$56,718 for fiscal year 2015, respectively.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 5 – ASSETS (continued)

C. Investment in Annuity Contracts and Treasury Strips: (continued)

The policies of the NCEL only allow for direct purchase of annuity contracts and treasury strips 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 and treasury strips 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, 2016 and June 30, 2015, all annuities carried a rating of Aa/AA.

Maturities for investments in annuity contracts and treasury strips are as follows:

<u>Maturities</u>	<u>2016</u>	<u>2015</u>
Less than 1 year	\$ 5,316	\$ 5,136
1 to 5 years	20,313	20,256
6 to 10 years	20,313	20,256
More than 10 years	17,910	16,206
Total	<u>\$ 63,852</u>	<u>\$ 61,854</u>

D. Capital Assets:

The activity for capital assets for the year ended June 30, 2016 was:

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

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 5 – ASSETS (continued)

D. Capital Assets: (continued)

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

<u>Category</u>	<u>Balance July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2015</u>
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	<u>4,489</u>	<u>1,094</u>	<u>(778)</u>	<u>4,805</u>
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	<u>3,158</u>	<u>567</u>	<u>(753)</u>	<u>2,972</u>
Total capital assets, depreciable, net	<u>1,331</u>	<u>527</u>	<u>(25)</u>	<u>1,833</u>
Capital assets, net	<u>\$ 1,331</u>	<u>\$ 527</u>	<u>\$ (25)</u>	<u>\$ 1,833</u>

Equipment expenditures for 2016 and 2015 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, 2016 and 2015, the balances were:

<u>Account Type</u>	<u>2016</u>	<u>2015</u>
Trade payables to vendors and other	\$ 4,446	\$ 15,680
Instant prize liability – unused unclaimed	38,075	23,680
Multi state games low-tier liability	2,829	3,694
Prize liability – breakage	-	5,898
Total Accounts Payable	<u>\$ 45,350</u>	<u>\$ 48,952</u>

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 6 – LIABILITIES (continued)

B. Annuity Prize Awards Payable:

Annuity prize awards payable represents the present value of the contracts and fair value of the treasury strips 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 \$5,316 and \$58,536 for fiscal year 2016 and \$5,136 and \$56,718 for fiscal year 2015, respectively.

Annual activity for both short and long term accounts during fiscal year 2016 are as follows:

	<u>Beginning Balance</u>	<u>Purchases</u>	<u>Appreciation</u>	<u>Disbursements</u>	<u>Reclass to Short Term</u>	<u>Ending Balance</u>
Short Term	\$ 5,136	\$ -	\$ -	\$ (4,886)	\$ 5,066	\$ 5,316
Long Term	56,718	2,826	3,878	-	(4,886)	58,536
Total	\$ 61,854	\$ 2,826	\$ 3,878	\$ (4,886)	\$ 180	\$ 63,852

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

	<u>Beginning Balance</u>	<u>Purchases</u>	<u>Appreciation</u>	<u>Disbursements</u>	<u>Reclass to Short Term</u>	<u>Ending Balance</u>
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

C. Due to the State:

As explained in Note 4C, \$67,738 and \$10,350 for the years ended June 30, 2016 and 2015, 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.

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 their accrued leave balances upon separation provided they have attained one (1) year of service as of the date of separation. PTO payouts will be prorated based on length of service if tenure is less than one (1) year.

Activity for the year ended June 30, 2016:

<u>Beginning</u>	<u>Earned</u>	<u>Used</u>	<u>Ending</u>	<u>Current Liability</u>	<u>Long Term Portion</u>
\$ 1,762	\$ 1,644	\$ 1,224	\$ 2,182	\$ 147	\$ 2,035

Activity for the year ended June 30, 2015:

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

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 6 – LIABILITIES (continued)

E. Changes in Net Pension Liabilities:

The changes in Net Pension Liability during fiscal year 2016 are as follows:

<u>July 1, 2015</u>			<u>June 30, 2016</u>
<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
<u>\$ 1,301</u>	<u>\$ 2,832</u>	<u>\$ -</u>	<u>\$ 4,133</u>

The changes in Net Pension Liability during fiscal year 2015 are as follows:

<u>July 1, 2014</u>			<u>June 30, 2015</u>
<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
<u>\$ -</u>	<u>\$ 1,301</u>	<u>\$ -</u>	<u>\$ 1,301</u>

For more information on Net Pension Liability see Note 9.

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, 2016, MUSL included 37 state lotteries, the District of Columbia, Loteria 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, 2016 and 2015, the NCEL had been credited with \$6,786 and \$6,921, 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, 2016 and 2015 were \$75,208 and \$76,384, respectively.

To the extent available, the NCEL's treasury strips are recorded at fair value as of June 30, 2016 and June 30, 2015. GASB Statement No. 72 - Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 7 – OTHER IMPORTANT ITEMS (continued)

financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

At year end, June 30, 2016 and 2015, the NCEL's treasury strips had recurring fair value measurements of \$9,631 and \$6,152 respectively, and inputs used to measure fair value were categorized as Level 1 inputs.

C. Unclaimed Prizes:

As of June 30, 2016 and 2015, 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 fifty-five instant games during fiscal year 2016 resulting in \$17,527 in unclaimed prizes. In 2015, the NCEL closed forty-five instant games resulting in \$18,557 in unclaimed prizes.

<u>Game Type</u>	<u>2016</u>	<u>2015</u>
Instant	\$ 17,527	\$ 18,557
Powerball	3,488	2,839
Mega Millions	1,155	1,295
Carolina Cash 5	1,252	1,412
Carolina Pick 4	1,595	1,332
Carolina Pick 3	1,893	1,780
All or Nothing	259	91
EZ Match	224	353
Monopoly Millionaire's Club	-	21
Total unclaimed prizes	<u>\$ 27,393</u>	<u>\$ 27,680</u>

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

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, 2016.

The types of coverage, limits, and deductibles, as of June 30, 2016, 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	

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 8 – RISK MANAGEMENT (continued)

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.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

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 membership 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 membership 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 2016 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, 2016, 2015, and 2014:

	2016	2015	2014
Retirement Contribution	\$ 1,190	\$ 1,279	\$ 1,191
Percentage of Covered Payroll	9.15%	9.15%	8.69%

Net pension liability. At June 30, 2016, the NCEL reported a liability of \$4,133 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 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, 2015 and at June 30, 2014, the NCEL's proportion was 0.11215% and 0.11096%, respectively.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

Deferred inflows of resources and deferred outflows of resources related to pensions. For the years ended June 30, 2016 and June 30, 2015, the NCEL recognized pension expense of \$436 and \$606 respectively. At June 30, 2016, the NCEL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between actual and expected experience	\$ -	\$ 470
Net difference between projected and actual earnings on pension plan investments (see note below)	-	448
Change in proportion and differences between the NCEL's contributions and proportionate share of contributions	137	57
Contributions subsequent to the measurement date	<u>1,190</u>	<u>-</u>
Total	<u>\$ 1,327</u>	<u>\$ 975</u>

Deferred Outflows of Resources of \$1,190 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, 2017. 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:	
2017	\$ (505)
2018	(505)
2019	(498)
2020	670
2021	-
Total	<u>\$ (838)</u>

Note: negative amounts indicate amortization of pension deferrals that will decrease pension expense.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

Actuarial assumptions. The total pension liability was determined by an actuarial valuation performed as of December 31, 2014. 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, 2015. 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, 2014 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, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 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.

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

June 30, 2016 and 2015

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

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)	\$ 12,439	\$ 4,133	\$ (2,916)

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 \$207, \$185 and \$123 for the years ended June 30, 2016, 2015 and 2014, 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 \$47, \$38 and \$47, for the years ended June 30, 2016, 2015 and 2014, respectively.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

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 2016, the NCEL contributed 5.6% of the covered payroll under the Teachers' and State Employees' Retirement System. Required contribution rates for the years ended June 30, 2015 and 2014, were 5.5% and 5.4%, respectively. The NCEL made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were \$728, \$769, and \$740, 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, 2016, 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, 2016, 2015 and 2014, were .41%, .41% and .44%, respectively. The NCEL made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were \$53, \$57, and \$60, respectively. The NCEL assumes no liability for long term disability benefits under the Plan other than its contribution.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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

NOTE 11 – LITIGATION

As of June 30, 2016, the NCEL is not, nor anticipates being, a party to any litigation.

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

	<u>2016</u>		
Lottery Ticket Sales	\$ 2,383,615		
Fees and Licenses	5,361		
Investment Earnings and Other Revenues	1,192		
Total Annual Revenue	<u>2,390,168</u>		
Prize Expense	(1,491,031)	62%	Of Total Annual Revenue
Advertising	(19,973)	1%	Of Total Annual Revenue
All Other Expenses and Transfers	(78,459)		
Total Section 18C-162.a.3	<u>(98,432)</u>	4%	Of Total Annual Revenue
Commissions (per 18C-142)	(166,437)	7%	Of Lottery Ticket Sales
Unclaimed Prizes to The State of North Carolina	13,696		
Net Revenues to The State of North Carolina	620,572		
Total Revenues to The State of North Carolina	<u>\$ 634,268</u>	27%	Of Total Annual Revenue

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

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

	<u>2015</u>		
Lottery Ticket Sales	\$ 1,972,215		
Fees and Licenses	5,271		
Investment Earnings and Other Revenues	394		
Total Annual Revenue	<u>1,977,880</u>		
Prize Expense	(1,231,238)	62%	Of Total Annual Revenue
Advertising	(19,098)	1%	Of Total Annual Revenue
All Other Expenses and Transfers	<u>(63,350)</u>		
Total Section 18C-162.a.3	<u>(82,448)</u>	4%	Of Total Annual Revenue
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	<u>512,586</u>		
Total Revenues to The State of North Carolina	<u>\$ 526,427</u>	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).)

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

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

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

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

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

The NCEL transferred \$571.6 million to the NC Education Lottery Fund for fiscal year 2016 compared with \$520.6 million for fiscal year 2015. As explained in Note 4C, \$67.7 million and \$10.4 million for fiscal years ended June 30, 2016 and 2015, 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, 2016, the NCEL implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 72, *Fair Value Measurement and Application*,
- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (paragraph 115 through 122 only),
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*,
- Statement No. 79, *Certain External Investment Pools and Pool Participants* (excluding paragraphs 18, 19, 23–26, and 40), and
- Implementation Guide No. 2015-1.

Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The Statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under the Statement, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as securities or other assets that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. A government is permitted to establish the fair value of an investment in a nongovernmental entity that does not have a readily determinable fair value (e.g., alternative investments) by using the net asset value per share (or its equivalent). Prior to the issuance of Statement 72, governments were required to disclose how they arrived at their measures of fair value if not based on quoted market prices. Under the new guidance, those disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments. Also, the Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. The use of acquisition value should be applied prospectively.

Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. This Statement also made minor technical changes to Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68. The requirements of this

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2016 and 2015

NOTE 13 – CHANGES IN FINANCIAL ACCOUNTING AND REPORTING (continued)

Statement that amend Statement Nos. 67 and 68 are effective for the fiscal year ended June 30, 2016. The requirements of this Statement related to assets accumulated for the purpose of providing pensions through defined benefit pension plans that are not administered through trusts are also effective for the fiscal year ending June 30, 2016; however, the State currently has no such assets. The remaining requirements of this Statement will be effective for the fiscal year ending June 30, 2017.

Statement No. 76 simplifies the structure of the hierarchy of generally accepted accounting principles (GAAP). This Statement replaces the current four-level GAAP hierarchy with a new two-level hierarchy of authoritative sources and elevates the GASB's Implementation Guides to authoritative status. This Statement also addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, which has the same title.

Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement do not apply under current conditions.

Implementation Guide No. 2015-1 supersedes all previously issued Implementation Guides, including the 2013–2014 Comprehensive Implementation Guide. It was the first Guide issued as Category B literature in the GAAP hierarchy.

NOTE 14 – SUBSEQUENT EVENTS

The Commission of the NCEL has evaluated all subsequent events for potential recognition and disclosure through October 25, 2016, 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 Three Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
(1) Proportionate share percentage of collective net pension liability	0.11215%	0.11096%	0.10540%
(2) Proportionate share of TSERS collective net pension liability	\$ 4,133	\$ 1,301	\$ 6,399
(3) Covered-employee payroll	\$ 13,006	\$ 13,989	\$ 13,706
(4) Net pension liability as a percentage of covered-employee payroll	32%	9%	47%
(5) Plan fiduciary net position as a percentage of the total pension liability	94.64%	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 CONTRIBUTIONS
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
(1) Contractually required contribution	\$ 1,190	\$ 1,279	\$ 1,191	\$ 1,094	\$ 955
(2) Contributions in relation to the contractually determined contribution	<u>1,190</u>	<u>1,279</u>	<u>1,191</u>	<u>1,094</u>	<u>955</u>
(3) Contribution deficiency (excess)	<u>\$ -</u>				
(4) Covered-employee payroll	\$ 13,006	\$ 13,989	\$ 13,706	\$ 13,139	\$ 12,839
(5) Contributions as a percentage of covered-employee payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
(1) Contractually required contribution	\$ 592	\$ 425	\$ 378	\$ 313	\$ 257
(2) Contributions in relation to the contractually determined contribution	<u>592</u>	<u>425</u>	<u>378</u>	<u>313</u>	<u>257</u>
(3) Contribution deficiency (excess)	<u>\$ -</u>				
(4) Covered-employee payroll	\$ 12,018	\$ 11,968	\$ 11,696	\$ 10,862	\$ 9,720
(5) Contributions as a percentage of covered-employee payroll	4.93%	3.55%	3.23%	2.88%	2.64%

STATISTICAL SECTION



STATISTICAL SECTION

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- Households by Type 2006 to 2015

North Carolina Occupational and Income Statistics 77

Information to help the reader understand the economic environment within which the NCEL's activities take place.

- Income and Benefits
- Total Personal Income
- Average Annual Wage
- Occupation
- Industry
- Per Capita Income
- Civilian Labor Force Unemployment Rate

North Carolina Employer Statistics 78

Information to help the reader understand the economic environment within which the NCEL's activities take place.

North Carolina Educational Statistics 79

Information to help the reader understand the educational environment within which the NCEL's activities take place.

- Educational Attainment
- School Enrollment

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

Introduction to Statistical Section

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

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

- The NCEL began operations during fiscal year 2006, however there were only three months of operations during that fiscal year. Therefore, comparative information for fiscal year 2006 or prior has not been included for revenue, sales, expense, and demographic schedules.
- The NCEL's fiscal year begins on July 1st and ends on June 30th of the following calendar year. Fiscal year 2016 information begins on July 1st 2015 and concludes as of June 30th 2016. Total fiscal year and monthly information is included in this analysis.
- The NCEL does not have any material outstanding debts, therefore debt schedule or debt ratio information is not provided.

North Carolina Education Lottery Statistics

Capital Assets Since Inception (in thousands):

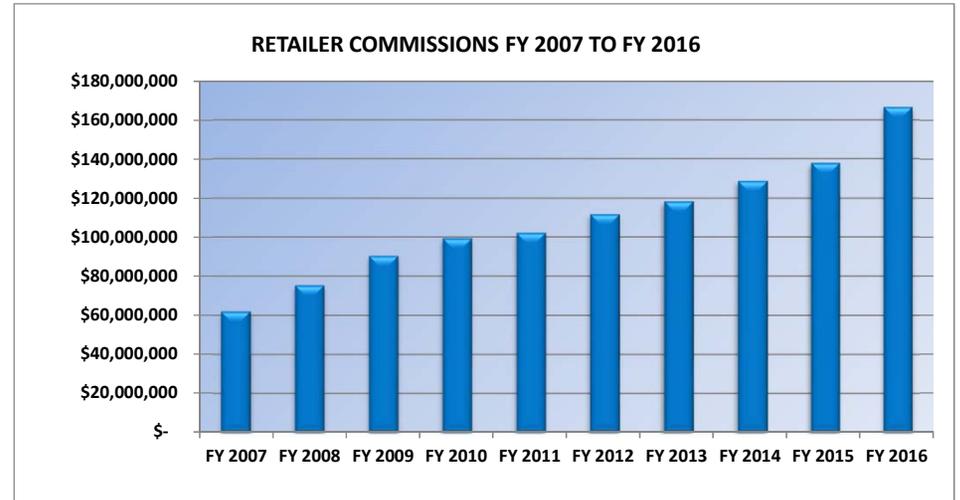
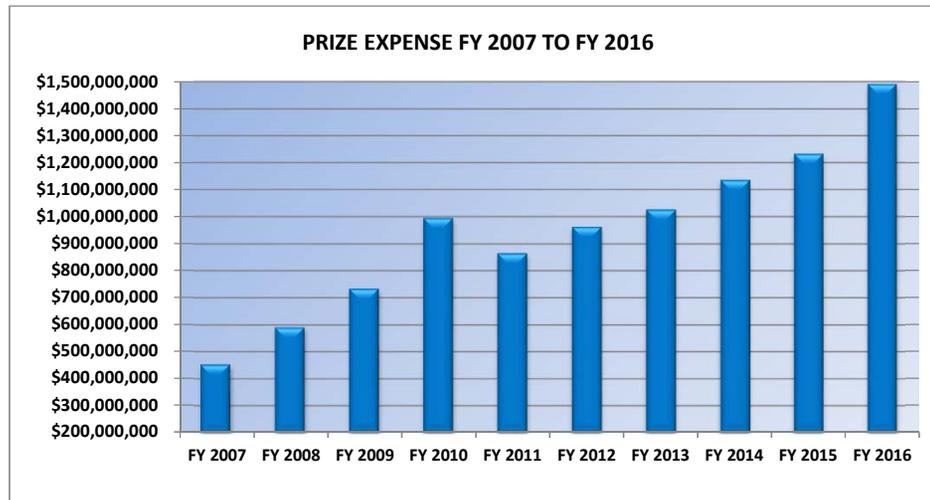
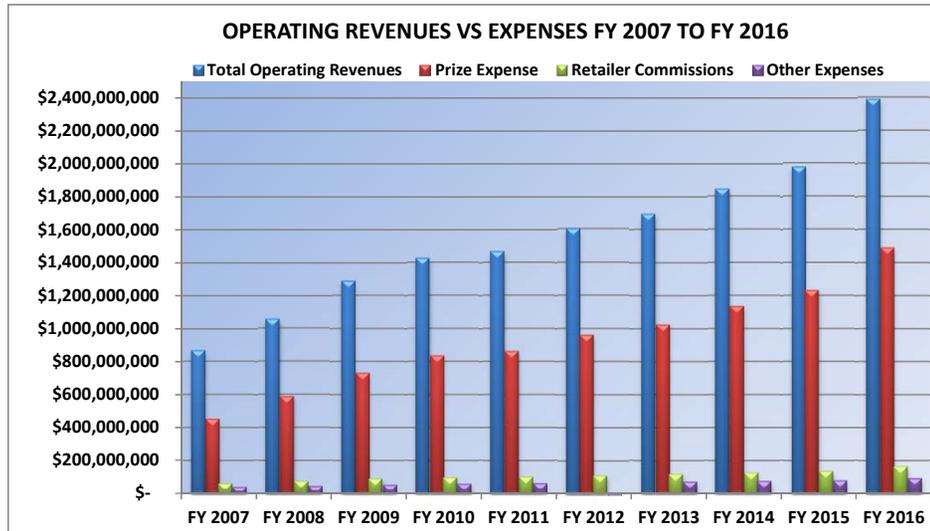
Category	Balance			Balance			Balance			Balance			Balance			
	July 1, 2006	Increases	Decreases	June 30, 2007	Increases	Decreases	June 30, 2008	Increases	Decreases	June 30, 2009	Increases	Decreases	June 30, 2010	Increases	Decreases	June 30, 2011
Capital assets, nondepreciable																
Improvements in progress	\$ 194	\$ -	\$ 194	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total capital assets, nondepreciable	194	-	194	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital assets, depreciable																
Furniture	-	29	-	29	-	-	29	-	-	29	-	-	29	-	-	29
Equipment	484	1,179	11	1,652	587	-	2,239	367	-	2,606	529	(482)	2,653	211	(60)	2,804
Motorized equipment	22	45	-	67	-	-	67	-	-	67	-	-	67	-	-	67
Total capital assets, depreciable	506	1,253	11	1,748	587	-	2,335	367	-	2,702	529	(482)	2,749	211	(60)	2,900
Less accumulated depreciation for:																
Furniture	-	4	-	4	7	-	11	7	-	18	5	-	23	4	-	27
Equipment	74	377	1	450	363	-	813	523	-	1,336	564	(465)	1,435	609	(53)	1,991
Motorized equipment	2	10	-	12	12	-	24	14	-	38	14	-	52	11	-	63
Total accumulated depreciation	76	391	1	466	382	-	848	544	-	1,392	583	(465)	1,510	624	(53)	2,081
Total capital assets, depreciable, net	430	862	10	1,282	205	-	1,487	(177)	-	1,310	(54)	(17)	1,239	(413)	(7)	819
Capital assets, net	624	862	204	1,282	205	-	1,487	(177)	-	1,310	(54)	(17)	1,239	(413)	(7)	819
Net Position																
Net investment in capital assets	624	862	204	1,282	205	-	1,487	(177)	-	1,310	(54)	(17)	1,239	(413)	(7)	819
Unrestricted	(624)	(862)	(204)	(1,282)	(205)	-	(1,487)	177	-	(1,310)	54	17	(1,239)	413	7	(819)
Total Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Category	Balance															
	June 30, 2011	Increases	Decreases	June 30, 2012	Increases	Decreases	June 30, 2013	Increases	Decreases	June 30, 2014	Increases	Decreases	June 30, 2015	Increases	Decreases	June 30, 2016
Capital assets, nondepreciable																
Improvements in progress	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total capital assets, nondepreciable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital assets, depreciable																
Furniture	29	-	-	29	17	-	46	-	-	46	-	-	46	-	-	46
Equipment	2,804	310	(38)	3,076	553	-	3,629	889	(142)	4,376	111	(778)	3,709	344	-	4,053
Motorized equipment	67	-	-	67	-	-	67	-	-	67	-	-	67	13	-	80
Computer Software	-	-	-	-	-	-	-	-	-	-	983	-	983	27	-	1,010
Total capital assets, depreciable	2,900	310	(38)	3,172	570	-	3,742	889	(142)	4,489	1,094	(778)	4,805	384	-	5,189
Less accumulated depreciation for:																
Furniture	27	2	-	29	2	-	31	3	-	34	3	-	37	3	-	40
Equipment	1,991	450	(38)	2,403	343	-	2,746	436	(126)	3,056	563	(753)	2,866	549	-	3,415
Motorized equipment	63	5	-	68	-	-	68	-	-	68	1	-	69	3	-	72
Computer Software	-	-	-	-	-	-	-	-	-	-	-	-	-	116	-	116
Total accumulated depreciation	2,081	457	(38)	2,500	345	-	2,845	439	(126)	3,158	567	(753)	2,972	671	-	3,643
Total capital assets, depreciable, net	819	(147)	-	672	225	-	897	450	(16)	1,331	527	(25)	1,833	(287)	-	1,546
Capital assets, net	819	(147)	-	672	225	-	897	450	(16)	1,331	527	(25)	1,833	(287)	-	1,546
Net Position																
Net investment in capital assets	819	(147)	-	672	225	-	897	450	(16)	1,331	527	(25)	1,833	(287)	-	1,546
Unrestricted	(819)	147	-	(672)	(225)	-	(897)	(450)	16	(1,331)	(527)	25	(1,833)	287	-	(1,546)
Total Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

North Carolina Education Lottery Statistics

Revenue and Expenses FY 2007 to FY 2016:

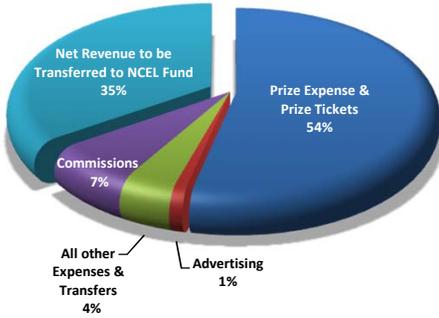
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Total Operating Revenues	\$ 866,194,905	\$ 1,053,131,125	\$ 1,288,102,861	\$ 1,424,457,618	\$ 1,464,639,726	\$ 1,601,837,648	\$ 1,695,008,870	\$ 1,844,636,362	\$ 1,977,485,514	\$ 2,388,976,612
Total Operating Expenses	\$ 555,433,414	\$ 709,646,237	\$ 876,666,966	\$ 993,888,090	\$ 1,028,509,675	\$ 961,556,221	\$ 1,215,924,034	\$ 1,341,206,063	\$ 1,449,483,907	\$ 1,752,801,115
Prize Expense	\$ 451,791,593	\$ 588,484,904	\$ 731,690,305	\$ 835,302,004	\$ 862,996,103	\$ 961,556,221	\$ 1,024,436,531	\$ 1,135,052,490	\$ 1,231,238,430	\$ 1,491,030,615
Retailer Commissions	\$ 61,932,162	\$ 75,370,563	\$ 90,366,111	\$ 99,339,830	\$ 102,126,855	\$ 111,624,043	\$ 118,148,409	\$ 128,550,515	\$ 137,767,027	\$ 166,437,296
Other Expenses	\$ 41,709,659	\$ 45,790,770	\$ 54,610,550	\$ 59,246,256	\$ 63,386,717	\$ (111,624,043)	\$ 73,339,094	\$ 77,603,058	\$ 80,478,450	\$ 95,333,204



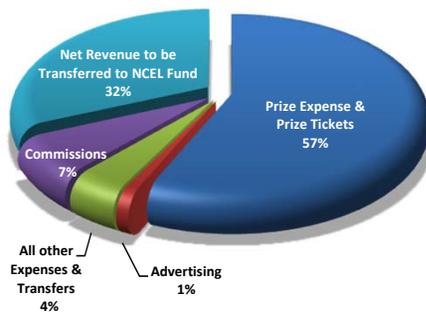
North Carolina Education Lottery Statistics

Distribution of Revenues FY 2007 to FY 2016:

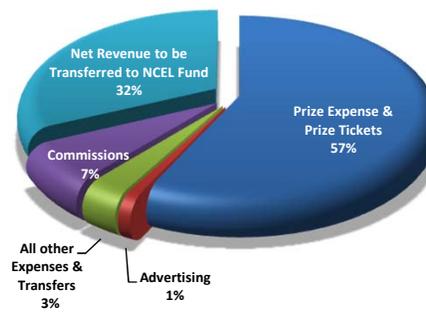
DISTRIBUTION OF REVENUES FY 2007



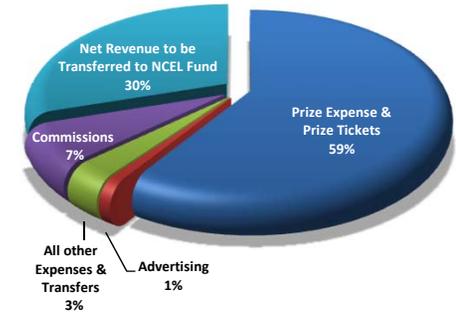
DISTRIBUTION OF REVENUES FY 2008



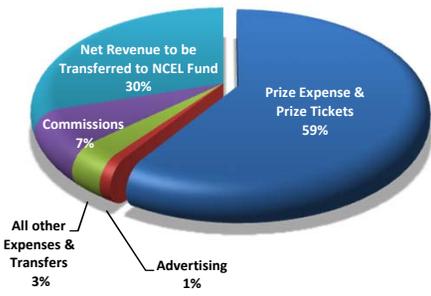
DISTRIBUTION OF REVENUES FY 2009



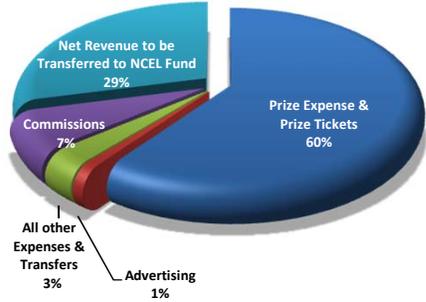
DISTRIBUTION OF REVENUES FY 2010



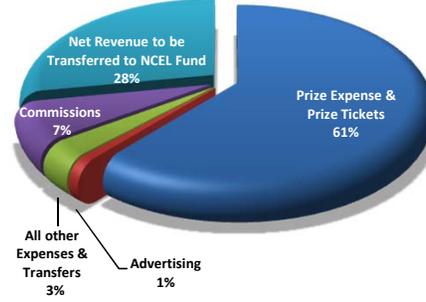
DISTRIBUTION OF REVENUES FY 2011



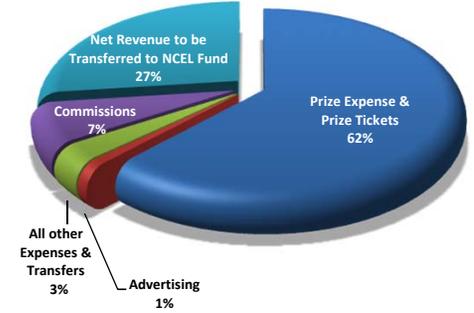
DISTRIBUTION OF REVENUES FY 2012



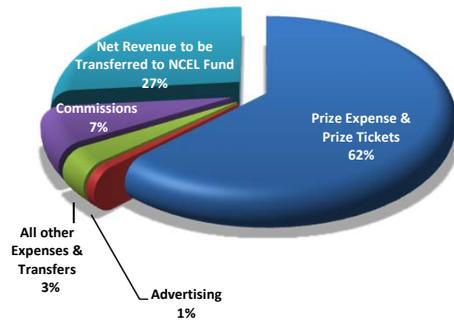
DISTRIBUTION OF REVENUES FY 2013



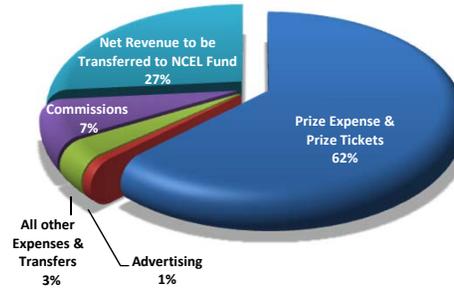
DISTRIBUTION OF REVENUES FY 2014



DISTRIBUTION OF REVENUES FY 2015



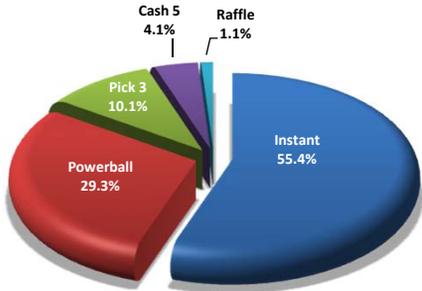
DISTRIBUTION OF REVENUES FY 2016



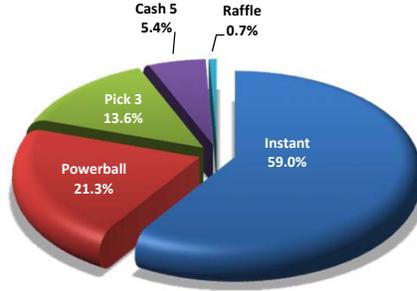
North Carolina Education Lottery Statistics

Sales by Game FY 2007 to FY 2016:

SALES BY GAME FY 2007



SALES BY GAME FY 2008



SALES BY GAME FY 2009



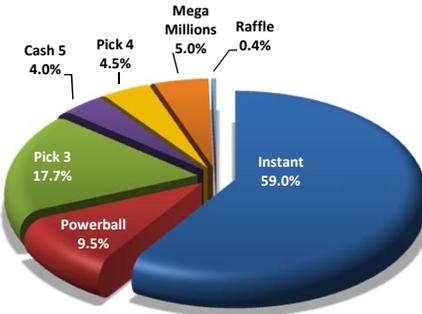
SALES BY GAME FY 2010



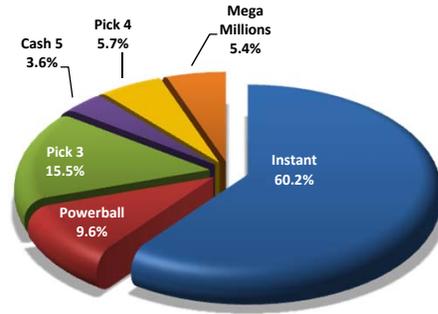
Cash 5 & Pick 3 games were launched in Oct '06

Mega Millions game was launched in Jan '10

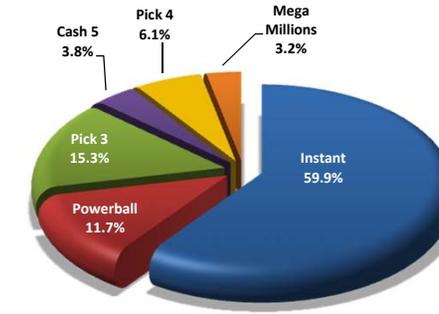
SALES BY GAME FY 2011



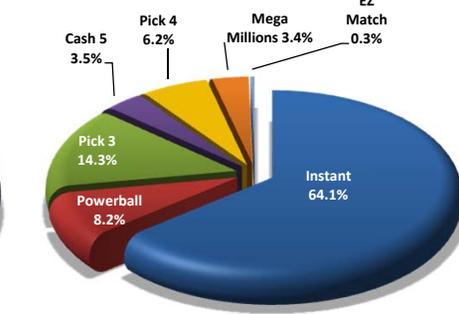
SALES BY GAME FY 2012



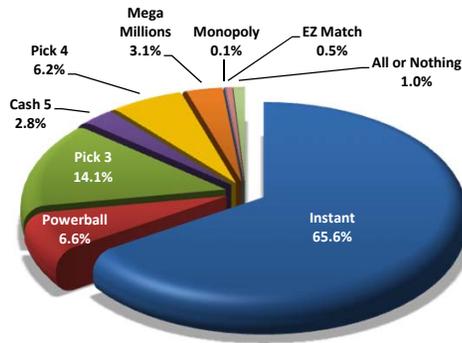
SALES BY GAME FY 2013



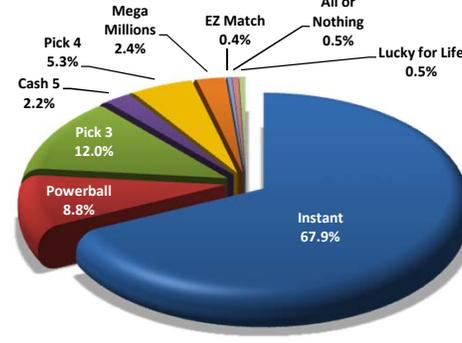
SALES BY GAME FY 2014



SALES BY GAME FY 2015



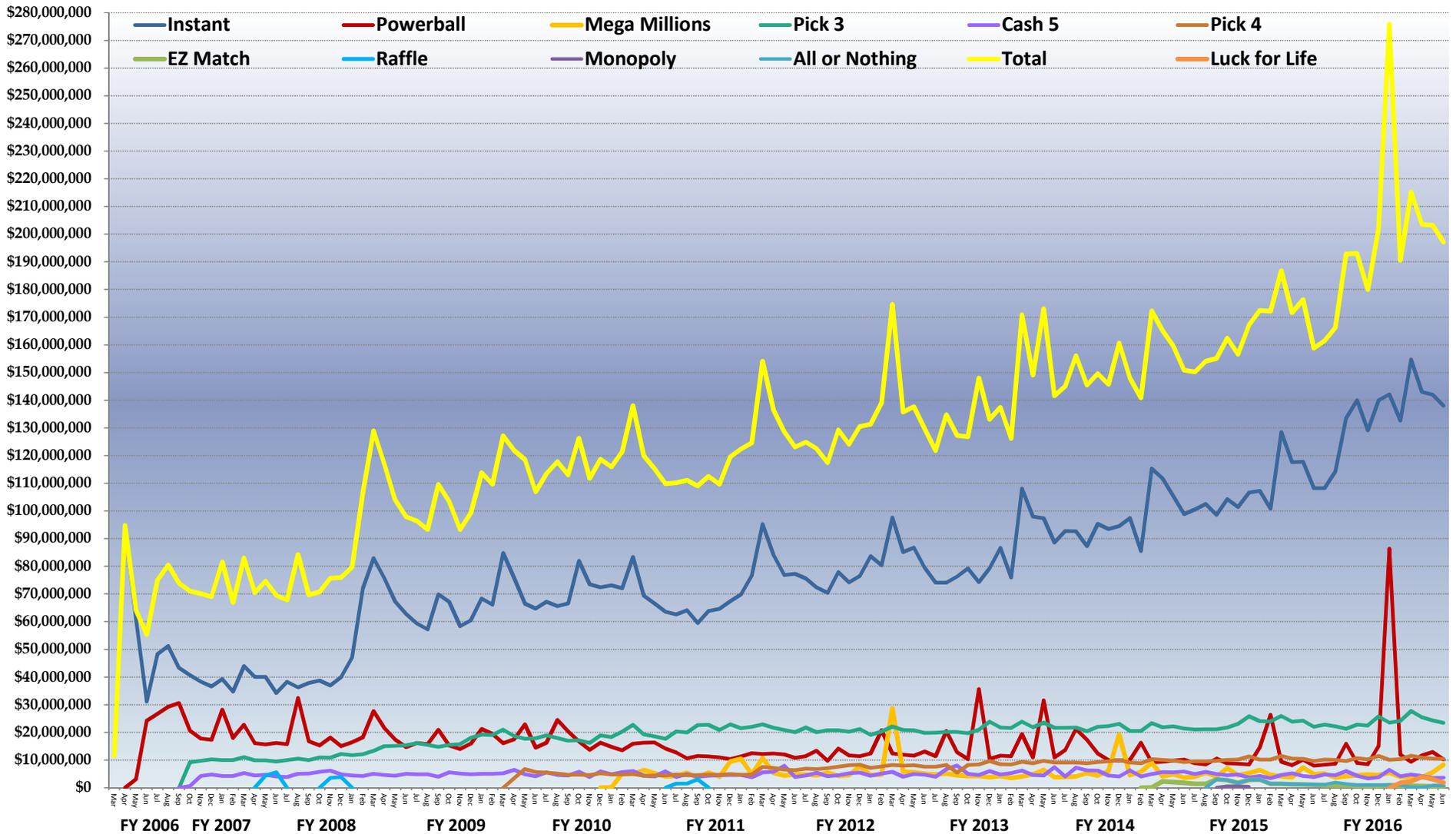
SALES BY GAME FY 2016



North Carolina Education Lottery Statistics

Total Sales Life to Date:

Game Sales - LTD Comparison By Game



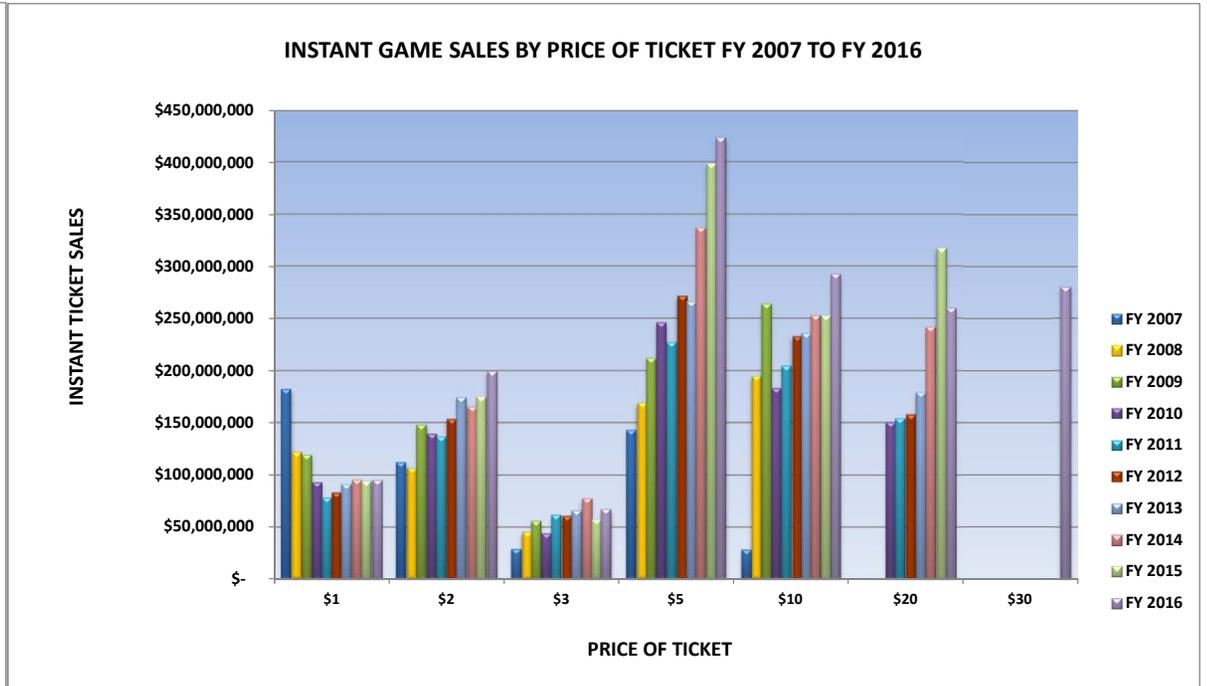
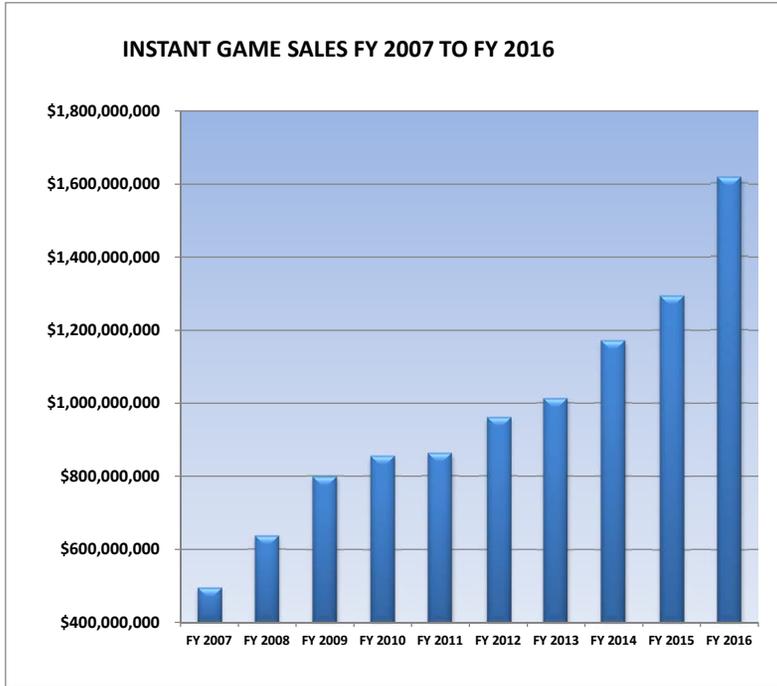
North Carolina Education Lottery Statistics

Instant Tickets FY 2007 to FY 2016:

Instant Games by Price of Ticket

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
\$1	\$ 182,168,872	\$ 121,600,546	\$ 119,083,157	\$ 92,980,150	\$ 78,296,263	\$ 83,189,184	\$ 90,927,671	\$ 95,376,092	\$ 93,679,930	\$ 94,851,413
\$2	112,107,280	106,036,416	147,937,906	139,472,210	136,676,260	153,609,582	174,358,200	165,497,798	174,789,492	199,286,716
\$3	28,790,607	44,977,548	55,828,311	43,751,937	61,499,178	60,791,835	65,926,023	77,650,923	57,110,988	66,990,120
\$5	142,974,345	168,722,235	211,778,870	246,081,170	227,038,175	271,630,660	265,910,475	336,937,950	398,449,055	423,456,365
\$10	28,273,430	194,543,370	264,048,160	183,066,660	204,423,280	232,576,800	235,765,240	252,975,900	252,521,190	292,654,680
\$20	-	-	-	150,230,140	154,157,320	158,157,300	179,055,580	241,829,580	317,466,160	260,010,060
\$30										280,207,590
TOTAL	\$ 494,314,534	\$ 635,880,115	\$ 798,676,404	\$ 855,582,267	\$ 862,090,476	\$ 959,955,361	\$ 1,011,943,189	\$ 1,170,268,243	\$ 1,294,016,815	\$ 1,617,456,944

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



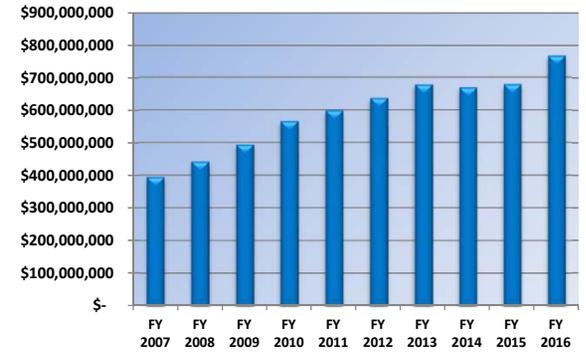
North Carolina Education Lottery Statistics

Draw Game Sales FY 2007 to FY 2016:

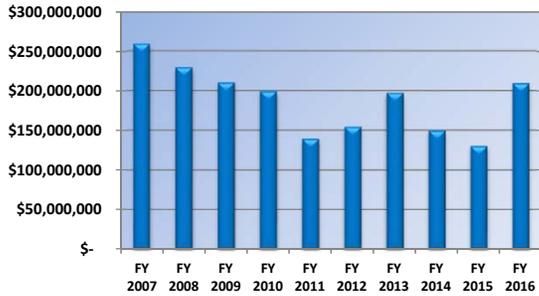
North Carolina Education Lottery Draw Game Sales

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Powerball	\$258,967,883	\$229,255,174	\$209,746,679	\$198,756,717	\$138,670,659	\$153,921,894	\$196,942,790	\$149,222,277	\$130,060,064	\$208,736,913
Mega Millions	\$ -	\$ -	\$ -	\$ 25,969,303	\$ 72,847,709	\$ 85,564,057	\$ 53,665,710	\$ 74,809,896	\$ 61,314,087	\$ 57,859,391
Cash 5	\$ 36,501,699	\$ 58,516,249	\$ 60,011,218	\$ 60,873,168	\$ 57,757,944	\$ 57,971,905	\$ 64,480,563	\$ 64,620,396	\$ 54,235,978	\$ 53,482,065
Pick 4	\$ -	\$ -	\$ 15,793,159	\$ 57,370,252	\$ 65,309,804	\$ 91,528,197	\$ 103,902,120	\$ 113,192,015	\$ 122,886,664	\$ 125,975,768
Pick 3	\$ 89,541,217	\$ 147,158,304	\$ 208,883,766	\$ 222,777,592	\$ 258,443,414	\$ 247,751,644	\$ 258,868,250	\$ 260,983,275	\$ 278,083,184	\$ 286,014,567
Raffle	\$ 10,000,000	\$ 7,369,240	\$ -	\$ -	\$ 5,986,380	\$ -	\$ -	\$ -	\$ -	\$ -
EZ Match	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,188,671	\$ 10,691,543	\$ 8,528,306
All or Nothing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,549,252	\$ 12,651,658
Monopoly	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,382,390	\$ -
Lucky for Life	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,885,532

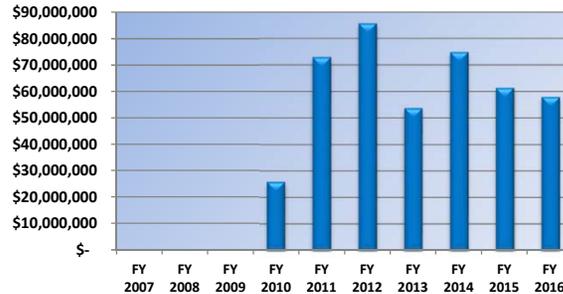
DRAW GAME GAME SALES FY 2007 TO FY 2016



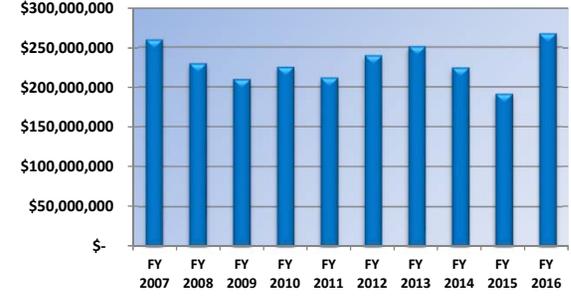
POWERBALL SALES FY 2007 TO FY 2016



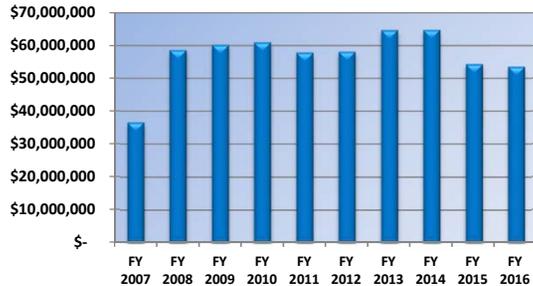
MEGA MILLION SALES FY 2007 TO FY 2016



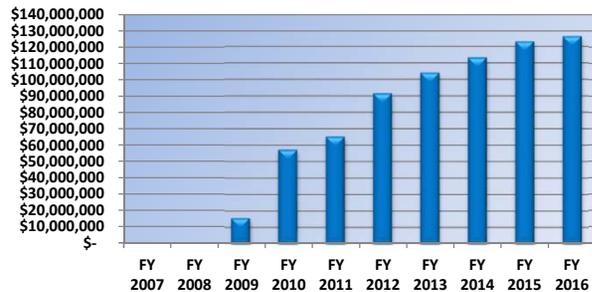
POWERBALL AND MEGA MILLION SALES FY 2007 TO FY 2016



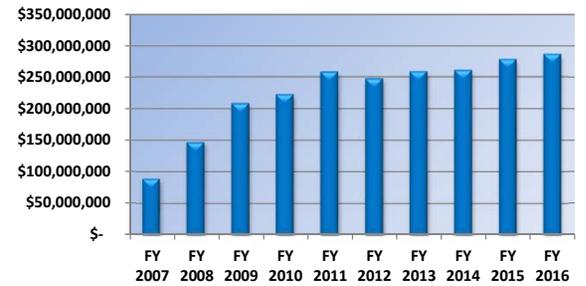
CASH 5 SALES FY 2007 TO FY 2016



PICK 4 SALES FY 2007 TO FY 2016



PICK 3 SALES FY 2007 TO FY 2016



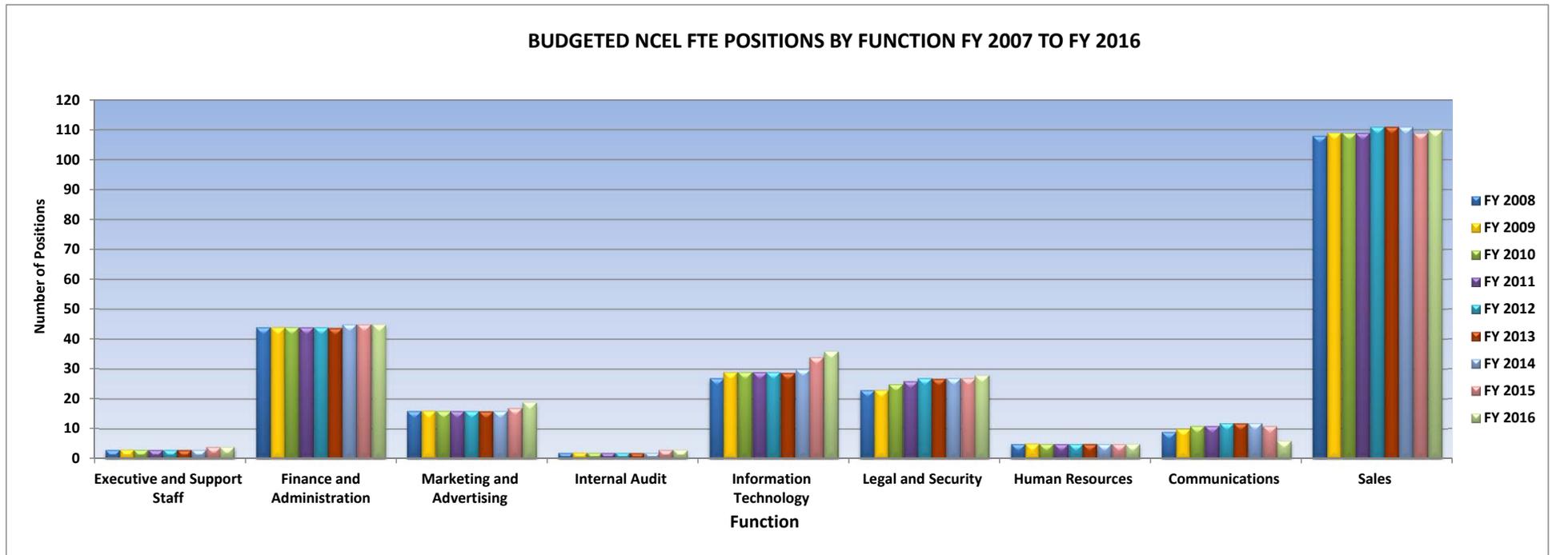
North Carolina Education Lottery Statistics

North Carolina Education Lottery Information:

Budgeted Full Time Equivalent (FTE) Positions by Function

Function	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Executive and Support Staff	3	3	3	3	3	3	3	3	4	4
Finance and Administration	43	44	44	44	44	44	44	45	45	45
Marketing and Advertising	15	16	16	16	16	16	16	16	17	19
Internal Audit	1	2	2	2	2	2	2	2	3	3
Information Technology	27	27	29	29	29	29	29	30	34	36
Legal and Security	23	23	23	25	26	27	27	27	27	28
Human Resources	6	5	5	5	5	5	5	5	5	5
Communications	9	9	10	11	11	12	12	12	11	6
Sales	101	108	109	109	109	111	111	111	109	110
Total	228	237	241	244	245	249	249	251	255	256

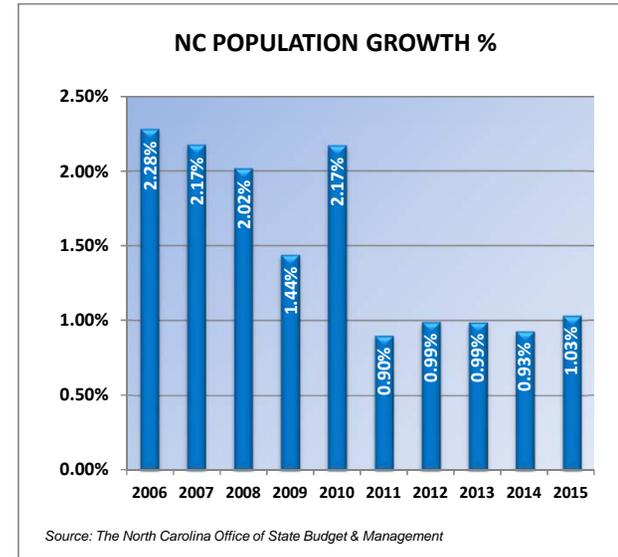
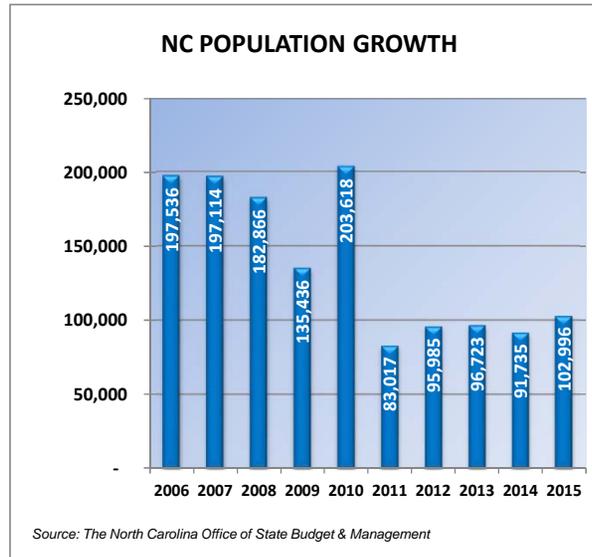
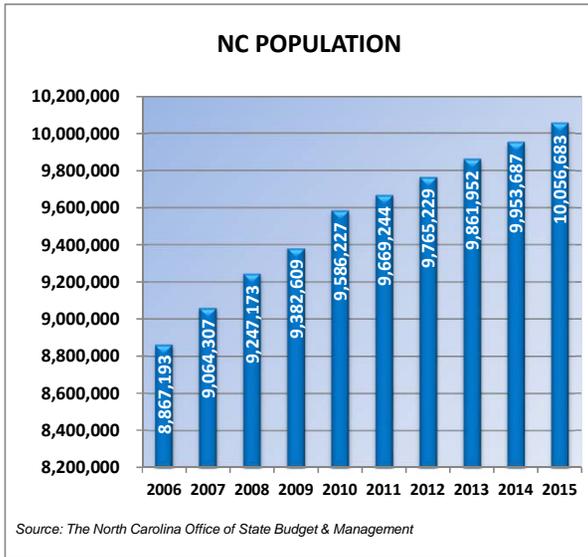
BUDGETED NCEL FTE POSITIONS BY FUNCTION FY 2007 TO FY 2016



North Carolina Population Demographics

Population	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
North Carolina Total Population	8,867,193	9,064,307	9,247,173	9,382,609	9,586,227	9,669,244	9,765,229	9,861,952	9,953,687	10,056,683
North Carolina Population Growth	197,536	197,114	182,866	135,436	203,618	83,017	95,985	96,723	91,735	102,996
North Carolina Population Growth Percentage	2.28%	2.17%	2.02%	1.44%	2.17%	0.90%	0.99%	0.99%	0.93%	1.03%

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



HOUSEHOLDS BY TYPE	2006		2007		2008		2009		2010	
Total households	3,454,068	100.0%	3,540,875	100.0%	3,595,175	100.0%	3,646,095	100.0%	3,670,859	100.0%
Family households (families)	2,310,456	66.9%	2,366,894	66.8%	2,397,731	66.7%	2,430,277	66.7%	2,441,916	66.5%
With own children under 18 years	1,051,848	30.5%	1,081,696	30.5%	1,091,498	30.4%	1,083,501	29.7%	1,075,410	29.3%
Married-couple family	1,706,840	49.4%	1,763,797	49.8%	1,777,054	49.4%	1,791,515	49.1%	1,770,863	48.2%
With own children under 18 years	702,992	20.4%	729,188	20.6%	730,170	20.3%	712,126	19.5%	702,528	19.1%
Male householder, no wife present, family	148,807	4.3%	150,794	4.3%	154,724	4.3%	158,268	4.3%	159,752	4.4%
With own children under 18 years	73,963	2.1%	76,281	2.2%	78,365	2.2%	82,230	2.3%	79,910	2.2%
Female householder, no husband present, family	454,809	13.2%	452,303	12.8%	465,953	13.0%	480,494	13.2%	511,301	13.9%
With own children under 18 years	274,893	8.0%	276,227	7.8%	282,963	7.9%	289,145	7.9%	292,972	8.0%
Nonfamily households	1,143,612	33.1%	1,173,981	33.2%	1,197,444	33.3%	1,215,818	33.3%	1,228,943	33.5%
Householder living alone	959,166	27.8%	980,821	27.7%	994,766	27.7%	1,009,821	27.7%	1,022,017	27.8%
65 years and over	301,931	8.7%	312,083	8.8%	313,422	8.7%	318,699	8.7%	339,711	9.3%
Households with one or more people under 18 years	1,170,646	33.9%	1,200,942	33.9%	1,212,103	33.7%	1,203,617	33.0%	1,207,752	32.9%
Households with one or more people 65 years and over	755,875	21.9%	778,766	22.0%	803,471	22.3%	836,822	23.0%	875,841	23.9%
Average household size	2.49		2.48		2.49		2.49		2.53	
Average family size	3.04		3.04		3.05		3.06		3.10	

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

2005 Households by type data not available

North Carolina Population Demographics

HOUSEHOLDS BY TYPE	2011		2012		2013		2014		2015	
	3,683,364	100.0%	3,731,325	100.0%	3,757,480	100.0%	3,790,620	100.0%	3,843,745	100.0%
Total households	2,455,564	66.7%	2,472,230	66.3%	2,474,802	65.9%	2,492,048	65.7%	2,506,215	65.2%
Family households (families)	1,060,465	28.8%	1,077,533	28.9%	1,048,744	27.9%	1,056,105	27.9%	1,056,067	27.5%
Married-couple family	1,788,142	48.5%	1,795,932	48.1%	1,786,356	47.5%	1,803,874	47.6%	1,829,450	47.6%
With own children under 18 years	675,851	18.3%	697,959	18.7%	674,065	17.9%	685,518	18.1%	698,000	18.2%
Male householder, no wife present, family	155,308	4.2%	171,133	4.6%	168,512	4.5%	171,445	4.5%	169,304	4.4%
With own children under 18 years	81,837	2.2%	87,595	2.3%	83,845	2.2%	87,583	2.3%	84,853	2.2%
Female householder, no husband present, family	512,114	13.9%	505,165	13.5%	519,934	13.8%	516,729	13.6%	507,461	13.2%
With own children under 18 years	302,777	8.2%	291,979	7.8%	290,834	7.7%	283,004	7.5%	273,214	7.1%
Nonfamily households	1,227,800	33.3%	1,259,095	33.7%	1,282,678	34.1%	1,298,572	34.3%	1,337,530	34.8%
Householder living alone	1,031,543	28.0%	1,040,303	27.9%	1,055,613	28.1%	1,076,536	28.4%	1,106,999	28.8%
65 years and over	337,273	9.2%	367,231	9.8%	373,739	9.9%	390,434	10.3%	399,749	10.4%
Households with one or more people under 18 years	1,189,022	32.3%	1,205,732	32.3%	1,178,724	31.4%	1,190,255	31.4%	1,191,561	31.0%
Households with one or more people 65 years and over	891,946	24.2%	943,637	25.3%	983,564	26.2%	1,021,905	27.0%	1,060,874	27.6%
Average household size	2.55		2.55		2.55		2.56		2.55	
Average family size	3.12		3.12		3.13		3.15		3.14	

Source: U.S. Census Bureau, American Community Survey
 2005 Households by type data not available

North Carolina Occupational and Income Statistics

INCOME AND BENEFITS	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total households	100%									
Less than \$10,000	9.4%	8.7%	8.3%	9.0%	9.0%	8.8%	8.2%	8.4%	7.9%	7.4%
\$10,000 to \$14,999	6.6%	6.7%	6.0%	6.6%	6.9%	6.8%	6.3%	6.1%	6.4%	6.1%
\$15,000 to \$24,999	12.9%	12.3%	11.7%	12.8%	12.6%	12.8%	12.0%	12.3%	11.9%	11.9%
\$25,000 to \$34,999	12.5%	11.9%	11.7%	12.4%	12.1%	12.2%	11.8%	11.9%	11.7%	11.5%
\$35,000 to \$49,999	15.6%	15.3%	15.5%	15.1%	15.6%	14.8%	15.0%	15.0%	15.2%	14.7%
\$50,000 to \$74,999	18.9%	18.9%	19.1%	18.1%	18.4%	17.9%	18.4%	18.1%	17.8%	17.8%
\$75,000 to \$99,999	10.6%	11.0%	11.3%	11.1%	10.8%	10.5%	11.4%	11.1%	11.2%	11.4%
\$100,000 to \$149,999	8.6%	9.3%	10.1%	9.4%	9.0%	10.0%	10.3%	10.0%	10.6%	11.2%
\$150,000 to \$199,999	2.5%	3.0%	3.3%	2.8%	2.9%	3.3%	3.4%	3.6%	3.7%	3.9%
\$200,000 or more	2.4%	2.9%	3.0%	2.7%	2.7%	2.9%	3.1%	3.6%	3.6%	4.0%
Median household income (dollars)	\$ 42,625	\$ 44,670	\$ 46,549	\$ 43,674	\$ 43,326	\$ 43,916	\$ 46,291	\$ 45,906	\$ 46,556	\$ 47,830
Mean household income (dollars)	\$ 57,184	\$ 60,672	\$ 63,005	\$ 59,700	\$ 59,053	\$ 60,939	\$ 63,298	\$ 64,106	\$ 65,099	\$ 67,516

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

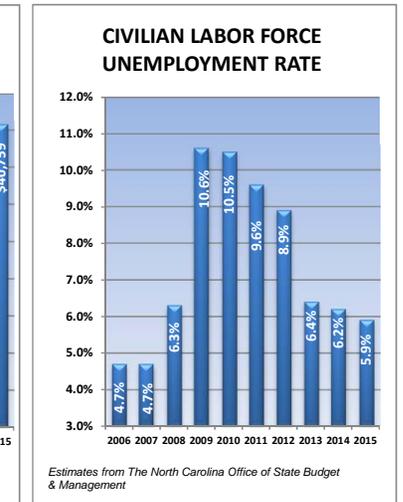
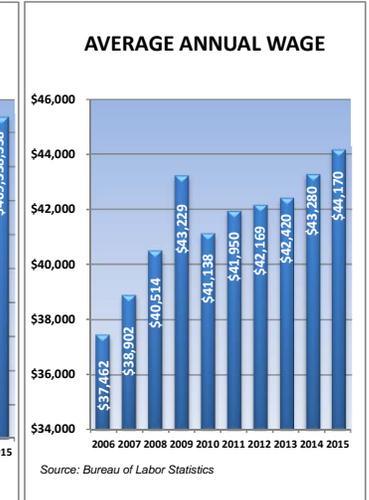
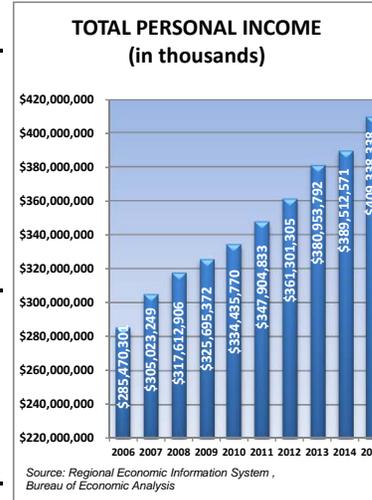
OCCUPATION	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Civilian employed population 16 years and over	100%									
Management, professional, and related occupations	32.6%	33.8%	33.9%	35.8%	35.1%	35.6%	35.0%	35.9%	36.1%	36.6%
Service occupations	15.7%	15.8%	16.2%	16.9%	17.3%	17.6%	16.7%	18.4%	17.7%	17.1%
Sales and office occupations	24.4%	24.4%	24.4%	24.2%	24.6%	23.6%	24.2%	23.5%	23.6%	23.0%
Farming, fishing, and forestry occupations	0.8%	0.7%	0.8%	0.7%					1%	1%
Construction, extraction, maintenance and repair occupations	11.7%	10.8%	10.6%	9.1%	9.9%	9.5%	10.5%	9.1%	8.3%	5.5%
Production, transportation, and material moving occupations	14.9%	14.4%	14.1%	13.3%	13.1%	13.6%	13.7%	13.1%	13.5%	13.5%

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

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

INDUSTRY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Civilian employed population 16 years and over	100.0%	100.0%	100.0%	100%						
Agriculture, forestry, fishing and hunting, and mining	1.5%	1.5%	1.5%	1.4%	1.4%	1.4%	1.5%	1.3%	1.3%	1.2%
Construction	9.4%	9.0%	8.7%	7.3%	6.9%	6.6%	7.7%	6.5%	6.4%	7.2%
Manufacturing	14.3%	13.6%	13.5%	13.0%	12.4%	12.8%	13.1%	12.5%	12.1%	12.5%
Wholesale trade	3.5%	3.0%	3.0%	2.8%	3.0%	2.9%	2.9%	2.6%	2.7%	2.6%
Retail trade	11.3%	11.7%	11.8%	11.6%	12.0%	11.5%	11.6%	11.8%	12.2%	11.8%
Transportation and warehousing, and utilities	4.5%	4.6%	4.6%	4.4%	4.2%	4.4%	4.4%	4.3%	4.4%	4.2%
Information	2.1%	2.0%	2.0%	1.9%	1.7%	1.8%	1.9%	1.8%	1.9%	1.8%
Finance and insurance, and real estate and rental and leasing	6.6%	6.7%	6.6%	6.5%	6.4%	6.2%	6.5%	6.3%	6.3%	6.3%
Professional, scientific, and management, and administrative	8.6%	9.3%	8.9%	9.7%	9.5%	10.0%	9.5%	10.3%	10.3%	10.7%
Educational services, and health care and social assistance	21.8%	21.8%	22.3%	23.3%	23.4%	23.7%	22.9%	23.4%	23.1%	23.0%
Arts, entertainment, and recreation, and accommodation	8.0%	8.2%	8.5%	8.8%	9.2%	9.0%	8.7%	9.8%	9.9%	9.5%
Other services, except public administration	4.5%	4.6%	4.6%	5.0%	5.0%	4.9%	4.8%	5.0%	4.9%	4.7%
Public administration	4.0%	4.1%	4.0%	4.4%	4.9%	4.8%	4.4%	4.4%	4.4%	4.3%

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



North Carolina Employer Statistics

Employer	2016			2007		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina	185,000-189,999	1	4.06%	175,000-179,999	1	4.12%
Federal Government	70,000-74,999	2	1.57%	60,000-64,999	2	1.45%
Wal-Mart Associates, Inc.	45,000-59,999	3	1.14%	50,000-54,999	3	1.22%
Food Lion LLC	30,000-34,999	4	0.70%	25,000-29,999	5	0.64%
Duke University	30,000-34,999	5	0.70%	25,000-29,999	4	0.64%
Wells Fargo Bank NA	25,000-29,999	6	0.60%	-	-	-
Lowes Home Centers, Inc	20,000-24,999	7	0.49%	15,000-19,999	10	0.41%
Bank of America NA	15,000-19,999	8	0.38%	-	-	-
Harris Teeter LLC	15,000-19,999	9	0.38%	-	-	-
Branch Banking & Trust Company	10,000-14,999	10	0.27%	-	-	-
Charlotte Board of Ed	-	-	-	20,000-24,999	6	0.52%
Wachovia Bank NA	-	-	-	20,000-24,999	7	0.52%
Wake Public Schools	-	-	-	15,000-19,999	8	0.41%
Charlotte Hospital Authority	-	-	-	15,000-19,999	9	0.41%
Total	445,000-504,990		10.29%	420,000-469,990		10.34%

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

Source: North Carolina Employment Security Commission.

North Carolina Educational Statistics

EDUCATIONAL ATTAINMENT	2006	% of Total	2007	% of Total	2008	% of Total	2009	% of Total	2010	% of Total
Population 25 years and over	5,845,235		5,959,907		6,085,315		6,150,247		6,325,621	
Less than 9th grade	384,155	6.6%	365,783	6.1%	383,607	6.3%	364,595	6.0%	354,732	5.6%
9th to 12th grade, no diploma	667,051	11.4%	647,904	10.9%	612,533	10.1%	599,129	9.8%	610,095	9.6%
High school graduate (includes equivalency)	1,738,948	29.7%	1,766,873	29.6%	1,680,882	27.6%	1,678,361	27.6%	1,749,642	27.7%
Some college, no degree	1,129,037	19.3%	1,160,685	19.5%	1,324,936	21.8%	1,350,850	22.2%	1,392,117	22.0%
Associate's degree	474,966	8.1%	491,574	8.2%	497,276	8.2%	524,739	8.6%	545,716	8.6%
Bachelor's degree	966,882	16.5%	1,015,979	17.0%	1,060,313	17.4%	1,091,506	17.9%	1,123,118	17.8%
Graduate or professional degree	484,196	8.3%	511,109	8.6%	525,768	8.6%	541,067	8.9%	550,201	8.7%

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

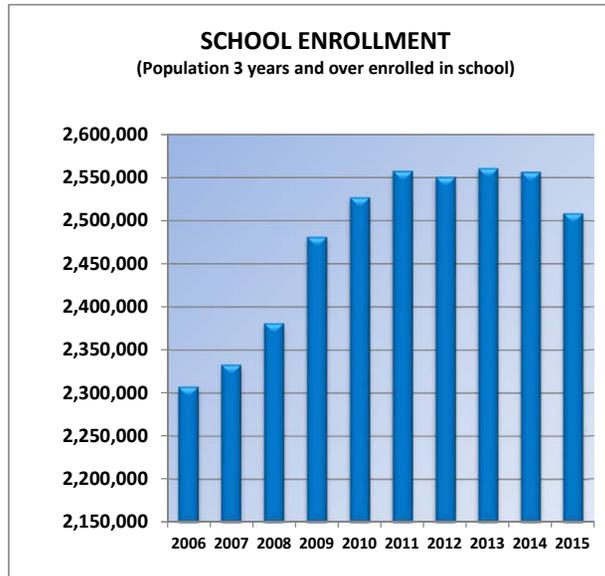
EDUCATIONAL ATTAINMENT	2011	% of Total	2012	% of Total	2013	% of Total	2014	% of Total	2015	% of Total
Population 25 years and over	6,399,357		6,489,883		6,568,110		6,661,937		6,762,644	
Less than 9th grade	364,763	5.7%	374,003	5.8%	354,678	5.4%	333,097	5.0%	340,573	5.0%
9th to 12th grade, no diploma	607,939	9.5%	588,448	9.1%	577,994	8.8%	566,265	8.5%	568,846	8.4%
High school graduate (includes equivalency)	1,747,024	27.3%	1,760,704	27.1%	1,740,549	26.5%	1,772,075	26.6%	1,785,510	26.4%
Some college, no degree	1,395,060	21.8%	1,428,821	22.0%	1,444,984	22.0%	1,458,964	21.9%	1,452,845	21.5%
Associate's degree	556,744	8.7%	562,049	8.7%	577,994	8.8%	612,898	9.2%	623,813	9.2%
Bachelor's degree	1,139,086	17.8%	1,170,056	18.0%	1,208,532	18.4%	1,239,120	18.6%	1,277,412	18.9%
Graduate or professional degree	588,741	9.2%	605,802	9.3%	650,243	9.9%	672,856	10.1%	713,645	10.6%

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

SCHOOL ENROLLMENT

Population 3 years and over enrolled in school

Year	School Enrollment
2006	2,306,697
2007	2,332,078
2008	2,380,186
2009	2,480,531
2010	2,526,366
2011	2,557,304
2012	2,550,114
2013	2,560,742
2014	2,556,055
2015	2,507,958



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2100 Yonkers Road, Raleigh, NC 27604
919-301-3300