

CELEBRATING

10

YEARS



FY 2016 ANNUAL REPORT

10 YEARS OF PROUD MOMENTS



LETTER FROM THE EXECUTIVE DIRECTOR

Ten years ago the lottery began its mission to raise money to support education in our state. As the 5th person on board with the organization, I've had the privilege of supporting that mission every day since.

Looking back at photos from our first 10 years, you get a glimpse of how the lottery has become an important part of the state's economy and culture. Because of the lottery's popularity, ticket sales now generate more than half a billion dollars a year for the state. And that money has helped create a lot of proud moments in education across North Carolina.

The lottery has accomplished its mission with a track record of efficiency, responsibility, and integrity. And it can be counted on to continue that performance for years to come.

Alice Harland

☆☆☆
TOP 10

LOTTERY FACTS

- 1 With more than \$2 billion in annual revenue, the lottery has grown into one of the state's most successful sales organizations.
- 2 Ticket sales have increased every year, averaging \$6.5 million a day.
- 3 More than 6,850 retail locations across North Carolina sell lottery tickets.
- 4 Money raised for education has increased every year, averaging \$1.7 million a day.
- 5 Six North Carolinians have won Powerball or Mega Millions jackpots, ranging from \$12 million to \$188 million.
- 6 The lottery awarded a prize of \$1 million or more 58 times last year.
- 7 Players win on average \$4.1 million a day in prizes.
- 8 In the first 10 years, the lottery raised more than \$4.6 billion for North Carolina.
- 9 The only source of funds for the state's problem gambling program - \$1 million a year - comes from the lottery.
- 10 Independent auditors have issued an "unmodified opinion" - the highest available - in every annual audit of lottery finances.



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LETTER FROM THE CHAIRMAN

As chairman of the commission, I am pleased to report that the Education Lottery's 10th year was its best year of performance so far. The lottery achieved new records in both sales and earnings in our state. During its first decade, the lottery became an important fixture of North Carolina, enjoying a popular place in our state's culture, playing an important role in our economy, and raising money for education. You can expect that record of success to continue.

Kim Griffin Jr.

Chairman, N.C. State Lottery Commission
 Realtor and president of Griffin Associates of Durham
 Appointed and named chairman by Gov. Pat McCrory.
 Term: Dec. 8, 2015 – Aug. 31, 2018.

N.C. STATE LOTTERY COMMISSION

The commission consists of nine members. Commissioners serve five-year terms and can only serve two successive terms. One member must have five years of experience in law enforcement, one must be a certified public accountant, and one must have retail sales experience as an owner or manager of a sales company. Commission meetings are held quarterly.



DOUGLAS BAKER

Chapel Hill
 Entrepreneur in fields of life science, healthcare, and technology.
 Appointed by: Speaker of the House Thom Tillis
 Term:
 Sept. 1, 2013 – Aug. 31, 2018



KEITH BALLENTINE

Rocky Mount
 Vice president, Daughtridge Gas & Oil Co.
 Appointed by: Speaker of the House Thom Tillis
 Term:
 Aug. 12, 2012 – Aug. 31, 2017



MORGAN BEAM

Raleigh
 Business development, Samet Corporation
 Appointed by: Gov. Pat McCrory
 Term:
 Sept. 1, 2016 – Aug. 31, 2021



RICHARD E. BENDEL

New Bern
 Owner, Morehead City Marlins and Bengel Sports Marketing and Consulting; managing partner/co-owner, Bengel Hospitality.
 Appointed by: Gov. Pat McCrory
 Term:
 Sept. 1, 2016 – Aug. 31, 2021



COURTNEY CROWDER

Raleigh
 Owner, Crowder Consulting Co.
 Appointed by: Gov. Beverly Perdue
 Term:
 Nov. 6, 2012 – Aug. 31, 2017



AMY ELLIS

Raleigh
 Certified public accountant
 Appointed by: Senate President Pro Tem Phil Berger
 Term:
 Jan. 22, 2014 – Aug. 31, 2018



CHRIS SHEW

Wilkesboro
 Sheriff, Wilkes County
 Appointed by: Gov. Pat McCrory
 Term:
 Oct. 22, 2013 – Aug. 31, 2021



JODY TYSON

Snow Hill
 Managing partner, Taylor-Tyson Funeral Service
 Appointed by: Senate President Pro Tem Phil Berger
 Term:
 July 2, 2012 – Aug. 31, 2017

SENIOR MANAGEMENT

The ranks of the lottery's top executives include three people who helped launch the lottery more than 10 years ago. One, Alice Garland, now is executive director. Another, Terri Avery, is deputy executive director of sales. And the third, Tony Chung, is deputy executive director of MIS and Gaming Systems. Overall, the top executives have lottery experience from three other state lotteries and marketing experience from such well-known brands as Kentucky Fried Chicken and Darden Restaurants.



TERRI AVERY
Deputy Executive Director,
Sales



TONY CHUNG
Deputy Executive Director,
MIS/Gaming Systems



BILL JOURDAIN
Deputy Executive Director,
Finance Administration
and Security



QUAN KIRK
General
Counsel



FRANK SUAREZ
Deputy Executive Director,
Brand Management
& Communications

Photo Credit: Christer Berg Photography

DIRECTORS

Fifteen directors make up the rest of the lottery's senior staff

EXECUTIVE DIRECTOR'S OFFICE

- Sarah Hardin
Director of Government Affairs
- Marbet Cuthbert
Director of Human Resources
- Mike Suggs
Director of Internal Audit

BRAND MANAGEMENT & COMMUNICATIONS

- Van Denton
Director of Communications
- Susan Singley
Director of Advertising
- Ben Bauman
Director of Product Development
- Tami Wiggs
Director of Marketing

FINANCE, ADMINISTRATION & SECURITY

- Stacy Askew
Director of Administration
- Michelle Lassiter
Director of Finance
- Joe Cosgriff
Director of Security

MANAGEMENT INFORMATION & GAMING SYSTEMS

- Joe Norman
Director of Gaming Systems
- George Walker
Director of MIS

SALES

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



LOTTERY'S 10TH YEAR BECOMES BEST YET

The lottery capped a decade of operations with a year of record performance fueled by innovations that reached new milestones.

For a third-straight year, earnings for education topped half a billion dollars. Not only did the lottery continue its track record of year-over-year growth, the year saw the largest leap in performance as sales increased by nearly 21 percent.

The results reflect a well-calibrated portfolio of familiar games and new products – not to mention a big boost from the largest jackpot in history.

The \$1.6 billion Powerball jackpot helped the lottery set a new single-day sales record. On Jan. 13, \$20.9 million in Powerball sales pushed the day's total to \$27.8 million. The 20-drawing jackpot run yielded \$20 million in prizes and \$38 million in earnings for education.

Tapping into a treasured Tar Heel State tradition, the lottery introduced its first-ever scented scratch-off ticket: BBQ Bucks. Events highlighting the unique feature were held at restaurants in Charlotte and Raleigh, generating media coverage that turned the game into a water cooler conversation topic.



Ultimate Millions, the lottery's first \$30 game, went on sale with four \$10 million top prizes – the largest ever offered on an instant game – plus second-chance drawings for \$1 million. In all, the game offered 25 times for someone to win \$1 million or more.



The lottery went live with a new multi-state draw game, Lucky for Life. But whereas Powerball and Mega Millions have jackpots that grow larger, Lucky for Life features a unique set top prize of \$1,000 a Day for Life.

Surpassing \$2 billion in revenue for the first time, the lottery finished the year with new high water marks across the board.

- \$2.4 billion in sales
- \$634 million in earnings
- \$1.5 billion in prizes
- \$1.6 billion in instant sales
- \$166 million in commissions

SIGNIFICANT EVENTS IN FY16

SEPT. 1, 2015

North Carolina's first scented scratch-off ticket, BBQ Bucks, is introduced. It smells like smoky BBQ.

SEPT. 1, 2015

The state's first \$30 ticket, Ultimate Millions, goes on sale with a total of 25 prizes from \$1 million to \$10 million.

SEPT. 21, 2015

Lexington couple wins largest scratch-off prize in state history. Dale and Robin Summey won the first \$10 million prize in the Ultimate Millions game.

NOV. 23, 2015

Lottery moves Greensboro office to new location.

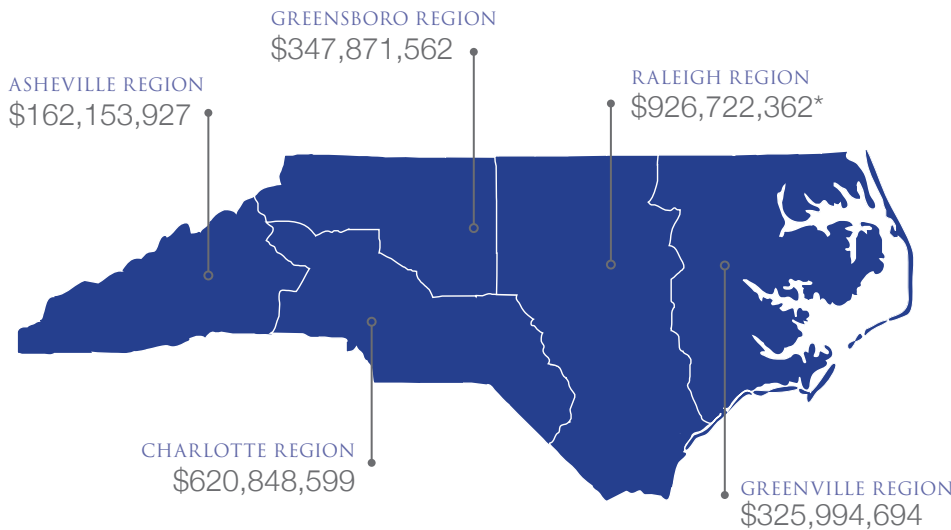
JAN. 6, 2016

Lottery announced IGT has been awarded a new contract for gaming systems and Scientific Games has been awarded the instant ticket and related services contract.

SALES HIT RECORD-BREAKING \$2.38 BILLION

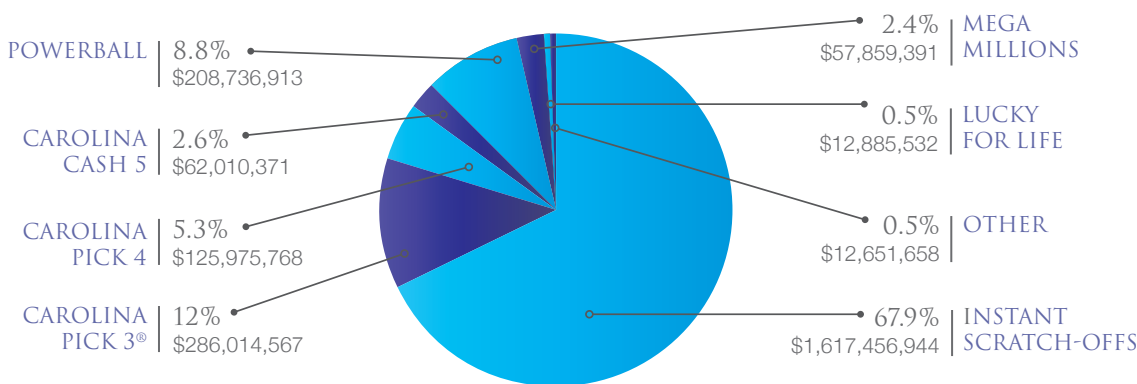
Here's a closer look at how \$2.38 billion in total sales breaks out across sales regions and by product.

SALES BY REGION



*Raleigh total includes subscriptions.

SALES BY PRODUCT



STAFF AWARDS



ALICE GARLAND

Executive Director
Women in Business Award for Corporate Executive
Triangle Business Journal



QUAN KIRK

General Counsel
Triangle Business Journal
Corporate Counsel of the Year



ERWIN MIALKOWSKI

Financial Accounting Administrator
NASPL Powers Award for Outstanding Performance

MICHELLE LASSITER, ERWIN MIALKOWSKI, ROSS DAVIDSON, AND NIRAV AMIN

Certificate of Achievement for Excellence in Financial Reporting and Award for Outstanding Achievement in Popular Annual Financial Reporting, Government Finance Officers Association

JAN. 13, 2016

\$1.6 billion Powerball jackpot - largest in world history - nets 19 prizes of \$50,000 to \$2 million in NC. The 20-drawing jackpot run yielded \$20 million in prizes and \$38 million in earnings for education in our state.

FEB. 7, 2016

Tickets go on sale for Lucky for Life, the lottery's third multistate draw game. Unlike Powerball and Mega Millions that have jackpots that grow larger, the game features a unique set top prize of \$1,000 a Day for Life.

MAR. 30, 2016

The lottery marks its 10th Anniversary with \$4.2 billion for education earned in a decade.

MAY 15, 2016

A new version of Carolina Cash 5 begins, with an updated matrix and odds designed to create faster-growing, larger jackpots.

JUNE 30, 2016

For a 10th year in a row, the lottery finishes the fiscal year with record sales and earnings, raising \$634 million for education on sales of \$2.38 billion. Players won \$1 million or more 58 times in 12 months.



A DECADE OF RECORD PERFORMANCE & WINNING FOR NORTH CAROLINA

In its first 10 years, the lottery increased sales and earnings for the state every year. While the games are all about a chance to win for a good cause, the mission to create a winning legacy was not a matter of luck.

LET THE GAMES BEGIN



Tom Shaheen,
Executive Director
2005 - 2010

March 30, 2006: With executive director Tom Shaheen at the helm, the first lottery scratch-off tickets go on sale. Exactly two months later, North Carolinians got their first chance to play Powerball. And in October the lottery added daily evening drawings for Carolina Pick 3 and Carolina Cash 5. Gradual product roll-outs allowed people unfamiliar with the lottery to learn how to play and try new games.

Just 399 days after entering the market, total sales topped \$1 billion. In May 2008 the first NCEL 200 truck race got underway at Charlotte Motor Speedway. The high-visibility event would become the lottery's signature marketing sponsorship. Supporting professional and collegiate sports programs, minor league baseball and local fairs and festivals were key to the lottery becoming part of the state's cultural fabric.

By the time the lottery's third birthday rolled around, total sales reached \$3 billion and total earnings for education exceeded \$1 billion. It was the right time to introduce Carolina Pick 4, rounding out the lottery's complement of daily draw games.

Shaheen led negotiations to make it possible for states to sell tickets for both Powerball and Mega Millions. As a result, North Carolina players got the chance starting in January 2010 to take aim at multi-million dollar jackpots four times a week, elevating the regular buzz surrounding lottery jackpots.



With a long list of accomplishments, Shaheen left his post in fall 2010. Alice Garland, a member of the lottery's executive team since day one, became the lottery's second executive director.





Alice Garland,
Executive Director
2010 - Present

PAVING THE PATH FOR CONTINUED SUCCESS

Garland set a course to sustain steady year-over-year growth in an evolving marketplace. She also challenged the entire organization to expand the scope of its responsible gaming program, establishing North Carolina as an industry leader in the field.



As technology prompted changes in consumer preferences, the lottery adapted to sustain relevance. In October 2012 the Lucke-Rewards program went live, allowing players to enter tickets online for points they could use to enter exclusive drawings for cash and other prizes. The following December, players for the first time could purchase tickets for jackpot games through web-based subscription services.

The launch of a mobile app and the Play At The Pump program would follow. By the close of FY16, there were more than 700,000 registered members and more than 100,000 mobile app users.



A top priority for FY13 was to develop a plan to reach \$1 billion in instant ticket sales with new games, more effective sales practices, and stronger advertising and marketing. After reaching that goal, the lottery realized another major milestone the following year: Annual earnings for education surpassed half a billion dollars.

Scratch-off enthusiasts had been able to try their luck on \$10 tickets since fall 2006 and \$20 tickets since fall 2009. It wasn't until fall 2015 that the first \$30 ticket hit stores, giving players the chance to win \$10 million prizes, the largest instant prize in history.

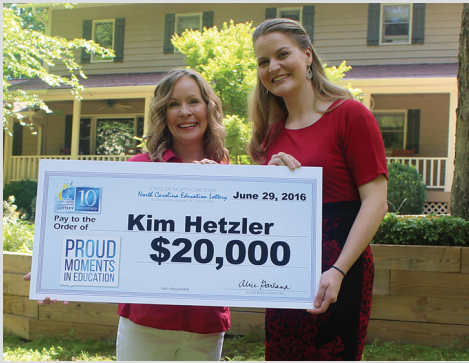
On Super Bowl Sunday in February 2016, the lottery joined the multi-state game Lucky for Life. While some players enjoy the chance to win big top prizes or play for jackpots that grow larger, the unique top prize of \$1,000 a Day for Life in the game offers the appeal of a prize that lasts a lifetime.

The lottery celebrated its 10th anniversary and closed out its 10th full year with total earnings for education in excess of \$4.6 billion, and \$15.8 billion in sales since inception.

\$4.6 BILLION FOR EDUCATION

MARCH 30, 2006 THROUGH JUNE 30, 2016





LOTTERY CREATES “PROUD MOMENTS” IN EDUCATION

Kim Hetzler of Hendersonville didn't know much about the mission of the Education Lottery until she participated in its Proud Moments contest.

Hetzler lived homeless at times while growing up and didn't complete high school. Her proud moment in education came when she got her GED. That certificate led to a master's degree and eventually a business of her own.

Sharing the story led to Hetzler winning \$20,000 in the contest. She planned to use the prize to help pay for her sons' college tuition.

N.C. PROUD MOMENTS CONTEST

The Education Lottery asked North Carolinians to share their proudest moments in education and how they would use \$20,000 to create more proud moments. The lottery received hundreds of moving responses.

Judges chose 10 winners from the 100 entries that got the most votes. The contest helped mark the lottery's 10th anniversary as it raised money to support education programs in North Carolina.

SEE ‘PROUD MOMENTS’ STORIES

The winners' submissions and a video featuring their stories are posted on the N.C. Proud Moments website. **To see the video and stories, visit ncproudmoments.com**

“
Education completely changes lives. While it was really exciting for me to win, it's also been exciting to learn how the lottery supports education in the state. I'm all about the value of learning.”

Kim Hetzler, a winner of Proud Moments contest.

IN 10 YEARS, LOTTERY RAISES EXTRA \$4.6 BILLION FOR EDUCATION

In the United States, states established lotteries to raise money for good causes. In 2006, when North Carolina decided to have its own lottery, the state chose as its good cause supporting education. The lottery's support for education now adds up to more than half a billion a year, with a new record last year of \$634 million. After 10 years, the money raised totaled \$4.6 billion.

Every county in the state benefits from the money raised by the lottery. Education programs that have received support from the lottery include:

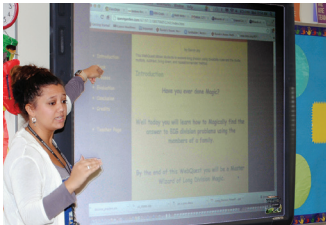
- Salaries for teachers and teacher assistants
- School construction and repair programs
- Non-instructional support personnel for school districts
- The N.C. Pre-K Program for at-risk four-year-olds
- N.C. Education Lottery Scholarships, awarded based on financial need
- UNC Need-Based Grant Program
- Digital learning initiatives

The money raised by the lottery is used each year as allocated by the N.C. General Assembly in the state budget. The benefits have added up to significant numbers for several major programs.

- \$1.49 billion for teacher salaries
- \$1.2 billion to help counties build and repair schools
- \$772 million for more than 154,000 at-risk four-year-olds to attend an academic pre-school
- \$310 million for non-instruction support personnel at schools
- \$295 million for 267,000 in-state scholarships, making college more affordable
- \$113 million for the salaries of teacher assistants.
- \$112 million to support grants under the UNC Need-Based Grant Program

LOTTERY CREATES MEMORABLE MOMENTS

Over the lottery's first 10 years, those who benefited from the money raised by the lottery shared stories about ways it made a difference.



OPENING A NEW SCHOOL FOR THE FIRST TIME IN 21 YEARS

Greene County used lottery funds to help build the new Greene County Intermediate School in Snow Hill. The school opened equipped with an array of new technology such as interactive smart boards. Year after year, money for school construction helps pay back money borrowed to build the new school. Last year, for example, lottery funds were used to make another \$211,000 loan payment.

“
Greene County has used these dollars to pay off debt on schools and for planning capital projects. We also plan to use lottery dollars to make the bulk of the annual payments for the new intermediate school ... It is not every day that you get a new school. So this was a very big deal.”

Dr. Patrick Miller,
superintendent, Greene County schools



HELPING A FOUR-YEAR-OLD GET A STRONGER START IN SCHOOL

Preschool teachers like Emem Thompson know that helping students be ready to learn creates the best opportunity for them to succeed.

The N.C. Pre-K Program serves four-year-old children who are at risk of falling behind their peers and helps them prepare for kindergarten.

“
I have always had a strong heart for those kids who need that extra love and attention. The N.C. Pre-K Program gives them a chance to be prepared socially and academically for the future. You can really see the difference it makes in those children.”

Pre-school teacher Emem Thompson



MAKING COLLEGE MORE AFFORDABLE

A memorable day for Erica Woodington was the day she received her degree from Fayetteville Technical Community College. A N.C. Education Lottery scholarship helped

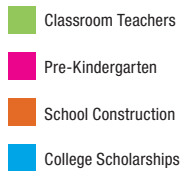
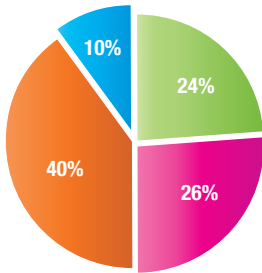
Woodington cover the costs of attending the community college. She was unsure who to thank, but knew that the scholarship came from monies raised by the lottery. So she penned a note and mailed the thank-you to the lottery.

“
I'd like to say thank you, to you and the North Carolina Education Lottery, for the grant scholarship. I know the money was awarded to me was not "free money," and that someone was responsible for helping me achieve my education goals. I truly value every education opportunity I receive.”

Erica J. Woodington,
a N.C. Education Lottery recipient.

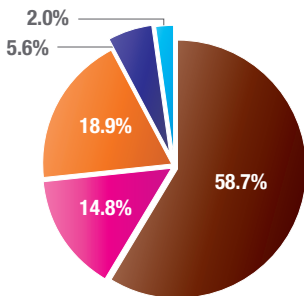
HOW LOTTERY MONEY WAS USED IN FIRST YEAR

FY2007



HOW LOTTERY MONEY WAS USED IN 10TH YEAR

FY2016



HELPING EDUCATION, FROM PRE-K TO COLLEGE

The money raised by the lottery to support education in North Carolina now exceeds half a billion a year. Last year, the total amount raised set a new record of \$634 million.

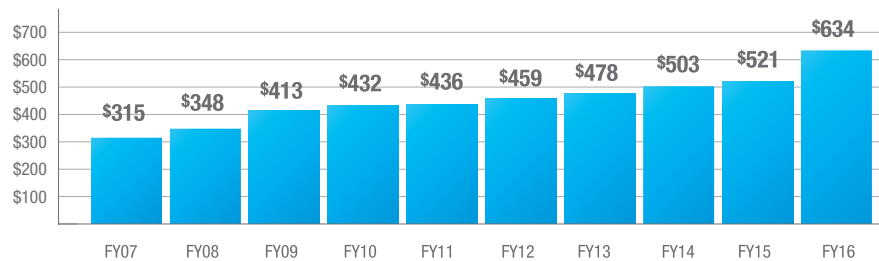
How best to use the money to support education programs is decided each year in the state budget as approved by members of the N.C. General Assembly.

Originally, the lottery supported four education programs. The money went to add classroom teachers in grades K-3 to lower class size; to fund a pre-school program then called More At Four which provided a free academic preschool to at-risk four-year-olds; to help build and repair schools in all 100 counties in the state; and to college scholarships based on financial needs.

As the legislature made budget decisions each year, the amount of money each program received changed. New education initiatives also have benefited from the support of the lottery. One year some of the money went to digital learning initiatives. Another year, a portion of the money helped cover the salaries of teacher assistants.

In fiscal year 2016, the state legislature allocated money raised by the lottery to school systems across the state to cover most of the costs of non-instructional support personnel; to continue to provide a free academic pre-school for at-risk four-year-olds in a program now called NC Pre-K; to help build and repair schools; and to provide college scholarships and financial aid grants based on need.

MONEY RAISED BY LOTTERY HAS INCREASED EACH YEAR (IN MILLIONS)



LOTTERY DOLLARS MAKING A DIFFERENCE IN EVERY COUNTY

COUNTY	FY16	CUMULATIVE	COUNTY	FY16	CUMULATIVE
Alamance	8,084,861	64,350,280	Johnston	11,000,468	88,786,199
Alexander	1,769,080	15,355,492	Jones	549,448	5,099,561
Alleghany	595,957	5,146,880	Lee	3,791,043	31,908,696
Anson	1,420,732	13,175,563	Lenoir	3,337,612	29,147,223
Ashe	1,339,073	11,832,815	Lincoln	3,930,015	32,000,766
Avery	823,478	7,656,096	Macon	1,573,211	13,856,961
Beaufort	2,508,147	20,797,910	Madison	845,519	7,266,050
Bertie	1,021,373	10,481,196	Martin	1,304,933	11,666,343
Bladen	1,950,418	18,635,644	McDowell	2,340,853	18,675,663
Brunswick	4,665,835	37,768,734	Mecklenburg	49,028,372	401,620,057
Buncombe	9,827,668	79,174,048	Mitchell	665,989	5,793,092
Burke	4,819,547	42,554,356	Montgomery	1,691,953	14,918,616
Cabarrus	11,738,239	94,113,807	Moore	3,954,463	30,187,528
Caldwell	4,023,030	33,000,806	Nash	5,253,469	47,105,810
Camden	682,244	5,431,670	New Hanover	9,761,022	79,445,956
Carteret	3,062,960	24,285,104	Northampton	824,234	9,380,808
Caswell	947,055	8,609,420	Onslow	10,031,027	77,363,823
Catawba	8,227,846	67,002,466	Orange	6,520,128	52,587,172
Chatham	3,118,402	25,483,288	Pamlico	519,975	4,692,248
Cherokee	1,317,825	10,987,120	Pasquotank	2,034,945	17,572,971
Chowan	817,253	7,006,557	Pender	3,225,979	24,074,238
Clay	524,652	4,382,291	Perquimans	627,507	5,464,247
Cleveland	5,586,470	51,212,539	Person	1,716,906	15,865,335
Columbus	3,355,722	31,167,358	Pitt	8,889,325	74,612,661
Craven	4,905,111	41,169,837	Polk	885,671	7,842,637
Cumberland	19,634,296	174,642,929	Randolph	7,535,023	61,168,724
Currituck	1,246,901	9,898,756	Richmond	2,817,304	25,064,386
Dare	1,776,174	14,104,347	Robeson	9,157,199	83,292,753
Davidson	8,297,510	68,942,808	Rockingham	4,444,244	39,772,959
Davie	2,365,233	20,170,939	Rowan	6,779,727	58,416,595
Duplin	3,510,869	29,083,646	Rutherford	3,295,170	29,040,939
Durham	11,296,741	95,468,502	Sampson	4,247,604	37,030,859
Edgecombe	2,743,866	26,587,539	Scotland	2,429,543	22,565,990
Forsyth	17,963,055	149,888,007	Stanly	3,502,315	30,868,664
Franklin	2,895,924	23,572,677	Stokes	2,426,819	21,606,203
Gaston	11,744,469	100,357,138	Surry	3,963,354	34,592,015
Gates	575,170	5,334,467	Swain	857,979	6,762,989
Graham	493,780	4,136,527	Transylvania	1,221,230	9,725,929
Granville	2,693,865	23,800,338	Tyrrell	217,373	1,941,016
Greene	1,186,843	10,417,139	Union	13,516,562	105,174,388
Guilford	27,766,460	235,528,597	Vance	2,248,659	21,302,718
Halifax	2,681,134	25,689,160	Wake	50,074,419	381,067,541
Harnett	6,818,531	54,448,231	Warren	906,571	8,104,266
Haywood	2,625,484	21,392,010	Washington	684,246	6,618,736
Henderson	4,634,223	36,698,086	Watauga	1,649,255	14,214,732
Hertford	1,313,889	11,916,692	Wayne	7,177,984	64,171,463
Hoke	3,454,978	29,226,855	Wilkes	4,054,656	35,239,191
Hyde	248,842	2,161,868	Wilson	4,067,112	35,326,524
Iredell	8,777,492	69,501,933	Yadkin	2,002,477	17,982,742
Jackson	1,272,212	10,778,455	Yancey	760,158	6,600,346



IN 10 YEARS OF PLAY, BILLIONS IN PRIZE MONEY

Lotteries are fun for a good cause and the fun part comes as North Carolinians get the chance to play games and win prizes.

As the lottery has grown, it has expanded its games and the prizes that can be won. On the first day of the lottery, players had a choice of four instant games and the top prize that could be won was \$100,000. Richard Garland of Newton was the first big winner. "I think I am going to buy me a house," he said as he claimed the prize on the lottery's second day.

Now, the lottery has a game portfolio of up to 50 instant tickets at any one time and the top instant prize is \$10 million. Those who like draw games can play the jackpot games, Powerball, Mega Millions or Carolina Cash 5; numbers games such as Carolina Pick 3 and Carolina Pick 4; or the Lucky For Life game that offers a prize of \$1,000 a day for the rest of the winner's life. Through June 30, 2016, the lottery has awarded a prize of \$1 million or more 282 times.

SIX MAJOR JACKPOTS FOR NORTH CAROLINA

Our winners come from all walks of life. They're people who believe in possibilities, and like to dream big. Since the lottery started, we've had six jackpot winners.

POWERBALL:

- Marie Holmes of Shallotte, won \$188 million, a third of a \$564 million jackpot in 2015 - Mother of four.
- Frank Griffin of Asheville, won \$141.4 million in 2010 - Retired Fire Department worker
- Jeff Wilson of Kings Mountain, won \$88.1 million in 2009 - Former real estate broker
- Jackie Alston of Halifax, won \$74.5 million in 2006 - Former correctional officer

MEGA MILLIONS:

- Mike Manheim of Greensboro, won \$12 million in 2010 - Retired businessman
- The Jones Family of Greenville, won \$57 million, half of a \$114 million jackpot in 2011: James Jones, a retired banker shared the jackpot with his two daughters.

WINNING \$10 MILLION, INSTANTLY

The biggest instant win so far has come with the Ultimate Millions game which offers a top prize of \$10 million. Winners have a choice of getting \$500,000 a year for 20 years or taking a lump sum.

BIGGEST CAROLINA CASH 5 JACKPOT

The biggest Cash 5 jackpot ever occurred on May 5, 2011 when it weighed in at \$1.35 million. Three lucky tickets matched all five numbers and split the prize three ways. On March 3, 2013 a farmer from Zebulon, won \$1.1 million - the largest Cash 5 jackpot ever won by a single ticket.

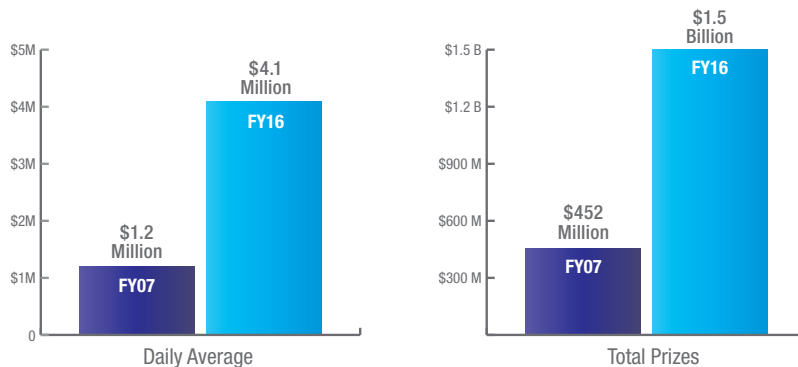
WINNING A GREATER NUMBER OF LARGER PRIZES

A key to the lottery's success is how it has worked to enhance and increase the variety of its products – the games and the prizes they offer – in its first 10 years. This includes increasing the revenues allocated for prizes and adding new games, new features, and new promotions and drawings. Instant games now offer second-chance drawings, both for cash prizes up to \$1 million as well as cars and trucks, and once-in-a-lifetime experiences.

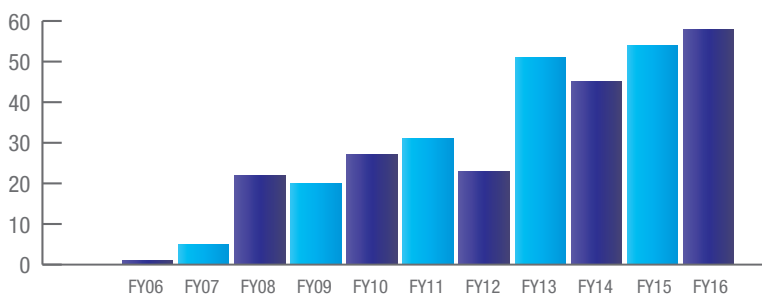


Lottery players who join the lottery's player's club, Lucke-Rewards, get points for each ticket they buy and use those points to enter weekly and monthly drawings for prizes. As the year ended, more than 700,000 players had joined.

PRIZES: 2007 VS. 2016



WINS OF \$1 MILLION OR MORE



TOP CAROLINA PICK 3 & CAROLINA PICK 4 WINS

The popular games can deliver lots of wins too. Pick 3 has a top prize of \$500 and Pick 4 has a top prize of \$5,000.



- \$3.7 million, 15,018 winning tickets, in the evening drawing, Dec. 9, 2012.
- \$3.5 million, 14,406 winning tickets, in the evening drawing, Sept. 25, 2013.
- \$3.4 million, 13,926 winning tickets, in the evening drawing, Jan. 10, 2014.



- \$7.5 million, 3000 winning tickets, in the evening drawing, Aug. 11, 2012.
- \$7.4 million, 3,214 winning tickets, in the evening drawing, April 20, 2013.
- \$6.6 million, 2,641 winning tickets, in the evening drawing, Nov. 21, 2012.

PUTTING GOOD LUCK TO GOOD USE

In 10 years, the lottery has welcomed thousands of winners.

When winners are asked what they plan to do with their prize money, sometimes they have fun things in mind. Others have practical plans.

And just as often winners say they want to put their good fortune to good use.

- After buying her dream car, a Ford Mustang, a High Point mom said she'll use the rest of her \$100,000 instant win to save for her kids' college, give to churches and help the needy.
- A retired bank manager from Hickory said part of the \$1 million she won on the Monopoly Millionaires' Club™ TV game show would be donated to a local theater and an Elks Lodge to help veterans.
- The retired Asheville firefighter who won a \$141.4 million Powerball jackpot used a portion of his winnings to pay for the construction of an athletic facility at Enka High School in Buncombe County.
- A Reidsville homemaker said she would use some of the \$500,000 she won in the instant game to give to her community and to her church.
- A Union County nurse who won a \$1,000 A Week For Life prize said she planned to pamper her patients with manicures, pedicures and new hair styles.
- A Raleigh woman who won a \$2 million Powerball prize said she planned to fund a scholarship at Shaw University.
- A retired Army veteran from Fayetteville said he would use part of his \$1 million instant prize to help the homeless and support the ASPCA.



10 FOR 10: SETTING A NEW SALES RECORD EVERY YEAR

A WINNING PARTNERSHIP

On March 30, 2006, the N.C. Education Lottery opened its doors and sold its first tickets. On that first day, lottery players could buy tickets at one of 5,000 retail locations in North Carolina. First days sales added up to \$8 million.

Ten years later, the lottery retail scene looks quite a bit different. At any one time, players can drop into one of the 6,850 retail locations across the state. They can go on the lottery's website to buy subscriptions to their favorite draw games. Or they can buy tickets for jackpot games at the pump while getting gas. The single day sales record now stands at \$27.8 million.

During its first decade of sales, the Education Lottery has grown into a \$2 billion a year business, increasing its sales and commissions every year. Retail partners range from traditional locations such as convenience stores or gas stations to major grocery store chains to drug stores and even big box retailers such as Walmart.

Overall, retailers earned \$166 million in commissions last year. The state's top retailer last year, Reilly Road BP Amoco in Fayetteville, recorded more than \$3 million in sales and earned more than \$230,000 in commissions.

The lottery weighs in as a major player in North Carolina's retail economy. Sales since inception crossed the \$15 billion milestone this year. The milestone occurred after 3,619 days of sales, or 9 years and 11 months. As it ended the year, total sales hit \$15.8 billion and commissions paid to local retailers added up to \$1.1 billion.

FIRST YEAR
VS.
TENTH YEAR



CURRENT SALES RECORDS

	RECORD AMOUNT	DATE SET
Best Day	\$27.8 Million	January 13, 2016
Best Week	\$83 Million	Week of January 3-9, 2016
Best Month	\$275.8 Million	Month of January 2016
Best Quarter	\$682.7 Million	Third Quarter, FY16

MORE WAYS TO PLAY, MORE WAYS TO WIN

Here's a look at the different kinds of places where lottery tickets were sold:

- Convenience stores, including major brands such as Sheetz, Kangaroo and Speedway
- Grocery stores and supermarkets, including Harris Teeter, Food Lion, Ingles and Walmart
- Big box stores, including Kmart and BJ's Wholesale Club
- Drug stores such as Rite Aid
- Clothing stores, bars, restaurants, hardware, auto supply and tobacco stores

The lottery also is using advances in technology to meet its customers where they are. Two new and growing sales channels are:

Play At The Pump. Tickets for the lottery's jackpot games can be purchased at the gas pump at gas stations and convenience stores that offer the service. More than 180 locations offered the service as the year ended.

Subscriptions through the lottery's website. Lottery players can also buy subscriptions to Powerball, Mega Millions, Cash 5, and Lucky for Life games on the lottery's website. As of June 23, 2016, players could also use the website to buy tickets for a single draw in one of the four games.

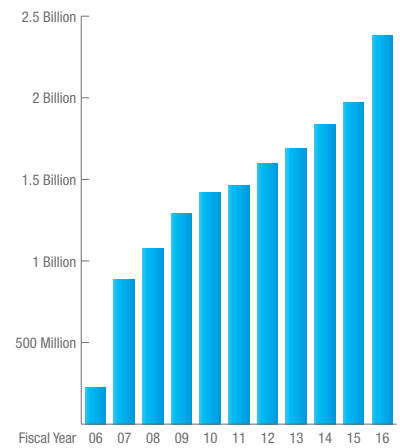


Top Retailer: Rose Mart #14, Raleigh Rd, Wilson, NC

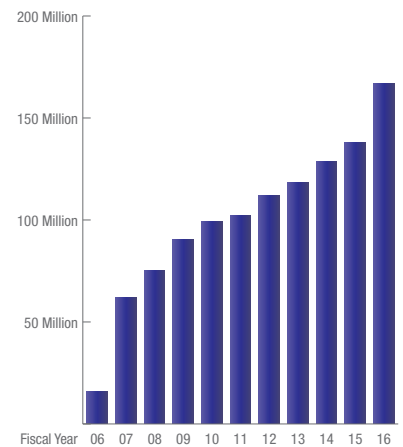
TOP 10 RETAILERS IN FIRST 10 YEARS

RETAILER NAME	ADDRESS	CITY	SALES	SALES COMMISSION
Rose Mart #14	1701 W Raleigh Rd	Wilson	\$21,669,216.00	\$1,516,886.41
Reilly Road BP Amoco	101 N Reilly Rd	Fayetteville	\$17,105,941.00	\$1,197,438.72
C Mini Mart #3	3405 Poole Rd	Raleigh	\$14,302,245.00	\$1,001,184.19
Carlton's Tanglewood	4060 Clemmons Rd	Clemmons	\$14,015,580.00	\$981,105.19
Catamount Travel Center	3385 Hwy 441 N	Whittier	\$13,599,272.00	\$951,964.40
Bobby Taylor Oil #2	704 Country Club Dr	Fayetteville	\$13,548,169.50	\$948,387.53
Eagles Express	6132 Knightdale Blvd	Knightdale	\$12,441,213.00	\$870,911.60
Church St Convenience Mart	1001 N. Church St	Rocky Mount	\$11,780,757.00	\$824,681.20
Winners Food Mart	401 N. Madison Blvd	Roxboro	\$11,114,181.00	\$778,011.07
Ms. Sudy's	3535 Clinton Road	Fayetteville	\$10,855,014.50	\$759,871.91

NET SALES \$15,850,405,479 (TOTAL)



NET COMMISSION \$1,107,719,737 (TOTAL)



ANNUAL REPORT ON PROBLEM GAMBLING HELPLINE

To help minimize the effects of problem gambling, the lottery provides \$1 million a year to the N.C. Department of Health and Human Services for gambling addiction, education, and treatment. In its annual report, the N.C. Problem Gambling Program reported:

Out of the 3,826 calls to the Problem Gambling helpline, 469 callers chose to receive counseling and treatment. Seventy-seven percent of callers reported they were problem gamblers and 22.8 percent reported they were family members or friends of a problem gambler.

Breakdown of callers showed gender as 56.3 percent male and 43.7 percent female and race as 53.4 percent Caucasian, 39.3 percent African American, 3 percent Hispanic, 1.3 percent Asian, and .4 percent Native American.

The program's evidence-based trainings "Stacked Deck," reached 25 high schools, 7 middle schools, and 19 community programs last year.

Calls to the N.C. Problem Gambling helpline decreased by 16.4 percent from 2015 to 2016.

The National Council on Problem Gambling reports that 1 percent of U.S. adults meet criteria for problem gambling and 2 to 3 percent would be considered problem gamblers.



With last year's addition of the Gambling Helpline button to all lottery terminals, retailers now have a quick and subtle way to share the toll-free number of the state's Problem Gambling helpline with a lottery player, highlighting the lottery's commitment to reaching potential problem gamblers in various settings.

LOTTERY CHIEF EARNS NATIONAL HONOR FOR ADVOCACY



Alice Garland, executive director of the lottery, received national recognition for her leadership expanding responsible gaming efforts across the United States.

Garland received the Don Hulen Award for Advocacy

from the National Council on Problem Gambling at the 30th National Conference on Problem Gambling. She is the first lottery or gaming industry professional to earn the honor.

"Alice's leadership in responsible gaming resonates across the country," said Keith Whyte, executive director of the National Council on Problem Gambling. "She has helped set the standard for the lottery industry."

Garland pioneered a program to share responsible gaming training resources developed in North Carolina with other U.S. lotteries. Her vision led to a broader discussion about the active role lotteries must play in responsible gaming and new partnerships with advocacy groups.

Resources are available. Anyone can reach out to licensed professionals 24 hours a day, seven days a week by calling, texting, or online chatting.

- Call: (877) 718-5543, a toll-free helpline
- Text: morethanagamenc to 53342
- Online Chat: www.morethanagamenc.com

All new employees received responsible gaming training and learned their role in supporting it.



LOTTERY BALANCES FUN WITH RESPONSIBILITY

Since day one, the N.C. Education Lottery has been committed to responsible gaming, encouraging responsible play, building a strong framework for a play responsibly program, and integrating it into sales, marketing, and advertising practices. The lottery is one of six states to be awarded Level 3 certification for responsible gaming programs from the World Lottery Association. This is the second highest level of WLA certification.

CONTINUOUSLY IMPROVING

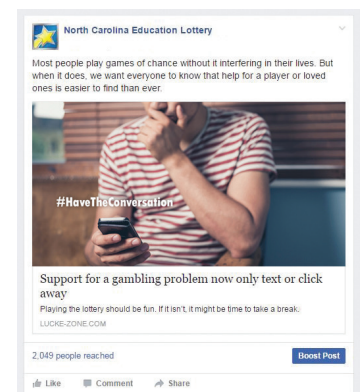
Even as the lottery began offering new ways to play, the commitment to responsible gaming never faltered. Along with the additions of Play At The Pump and web-based subscription, the lottery chose to add ways for players to play responsibly. From limiting how much players can buy each week, to allowing them to voluntarily exclude themselves from buying tickets for these services, players can stay in control of their game.

Among the other responsible gaming efforts were:

- Continued training all new lottery employees on the responsible gaming program and their role in supporting it.
- Promoted best practices in the area of responsible gaming during training sessions in the areas of sales, public relations, research, security, and IT at the 2016 Professional Development Seminar of the National Association of State and Provincial Lotteries.
- Helped raise awareness that lottery tickets are not appropriate gifts for minors as part of the annual holiday campaign of the National Council of Problem Gambling and McGill University.
- Joined effort by the National Council on Problem Gambling to raise awareness about problem gambling during National Problem Gambling Awareness Month.
- Used the blog on its popular website and its social media channels to share key messages on problem gambling in North Carolina.
- Received and reviewed the annual report on the N.C. Problem Gambling Helpline from the N.C. Problem Gambling Program.
- Conducted a training seminar for all lottery sales staff at the annual sales meeting.
- Maintained supply of a problem gambling brochure, “What Will You Lose Before You Draw The Line On Gambling,” in play centers at all lottery retailers.



Retailers and lottery sales staff made sure problem gambling brochures were always in stock at play centers across all 6,850 locations.



The lottery used its popular blog and social media channels to share key messages and promote problem gambling resources.



WORKING RESPONSIBLY TO MAKE A POSITIVE IMPACT

As the N.C. Education Lottery raises money for education, it is also committed to making sure that its business practices as one of the state's top sales and marketing organizations benefit the greater community.

During the first decade, the lottery created an environment and culture dedicated to social responsibility. Core values that guide the lottery's work are integrity, respect, honesty and trust. Those values are woven into the organization and they guide day-to-day actions.

The commitment to social responsibility is the lottery's promise to beneficiaries and the state. Over the next decade, the lottery will extend its efforts to support communities where its headquarters and offices are based, build relationships with business partners and stakeholders, and strive to achieve sustainability in its work practices.

In addition to raising money for education in North Carolina, employees give back to N.C. communities.

- Last year employees formed the first volunteer committee. As part of the FY16 volunteer action plan, volunteers participated in a school beautification project at Hunter Elementary in Raleigh, held a Red Cross Blood Drive, and collected stockings for the Salvation Army.
- IGT, the lottery's gaming system vendor, provides technology labs for underfunded counties around the state.
- The lottery helps to connect employees with nonprofits to fulfill volunteer needs by being a member of the Activate Good's Corporate Volunteer Council.
- Every year the lottery contributes \$1 million to the N.C. Department of Health and Human Services to support problem gambling prevention, education, outreach, and treatment for North Carolina citizens.



The lottery's existence over the past 10 years has brought in industry and created jobs across the state of North Carolina by:

- Employing 249 North Carolinians across six regions
- Generating statewide economic activity by buying products and services from 357 North Carolina vendors
- Collecting \$94.8 million in state income taxes from prize winnings over the past 10 years
- Collecting \$10.9 million in debts owed to state and local government over the past 10 years

Social responsibility is embedded in every aspect of the lottery, including the lottery's commitment to reducing its carbon footprint.

- The Raleigh headquarters has multiple paper, aluminum can, and bottle recycling bins located throughout the offices
- All instant and draw tickets are printed on recyclable paper
- Option to "Play at the Pump" and subscription services reduces the use of paper tickets
- All offices are equipped with energy efficient lighting and HVAC systems
- Addition of sixth regional office helps reduce the amount of driving for sales representatives, reducing gas consumption and remittance of greenhouse gases.

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 financial statement presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the NCEL as of June 30, 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 GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 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

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.

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.

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.

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	<u>188,624</u>	<u>133,017</u>	<u>107,894</u>
Deferred Outflows of Resources	<u>1,327</u>	<u>1,471</u>	<u>-</u>
Liabilities			
Total Current Liabilities	124,272	70,200	53,210
Noncurrent Liabilities	64,704	59,589	54,684
Total Liabilities	<u>188,976</u>	<u>129,789</u>	<u>107,894</u>
Deferred Inflows of Resources	<u>975</u>	<u>4,699</u>	<u>-</u>
Net Position			
Investment in Capital Assets	1,546	1,833	1,331
Unrestricted	<u>(1,546)</u>	<u>(1,833)</u>	<u>(1,331)</u>
Total Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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.

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 benefited 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.

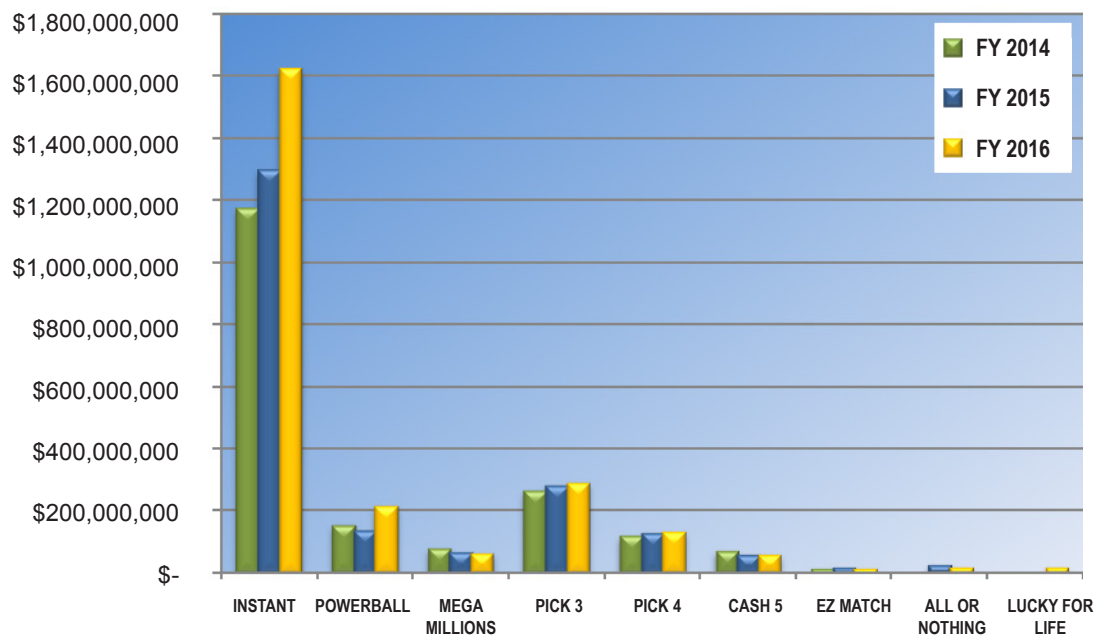
The Carolina Pick 3 game also had increased sales from the previous year. Carolina Pick 3 sales were \$286 million compared to \$278 million in fiscal year 2015, and \$261 million in fiscal year 2014.

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.

SALES BY GAME FY 2014 TO FY 2016 COMPARISON



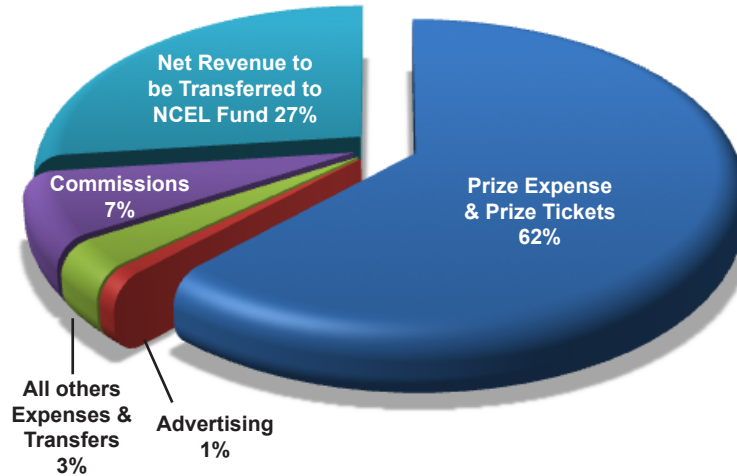
Non-operating Revenues mainly consist of investment earnings on Short Term Investment Fund (STIF) accounts and security lending transactions, and Multi-State Lottery Association (MUSL) dividends received.

Expenses

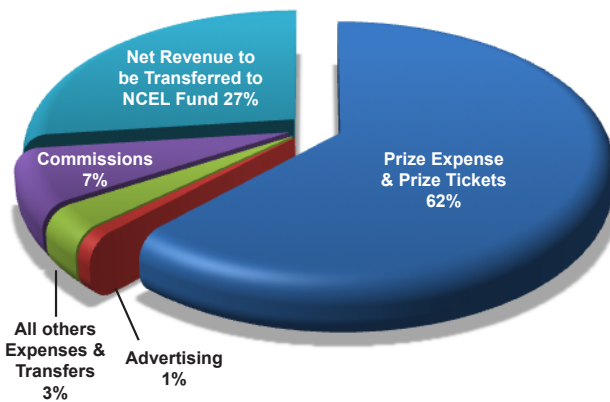
Section 18C-162, NC General Statute stipulates that no more than 8% of the total annual revenues shall be allocated for payment of expenses of the Lottery. Advertising expenses shall not exceed 1% of the total annual revenues.

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

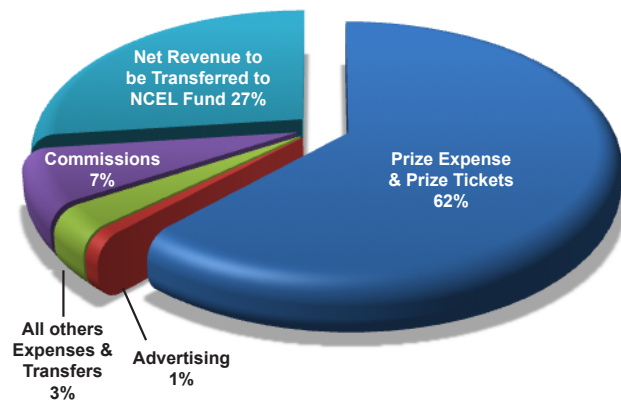
Distribution of Revenues FY 2016



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.

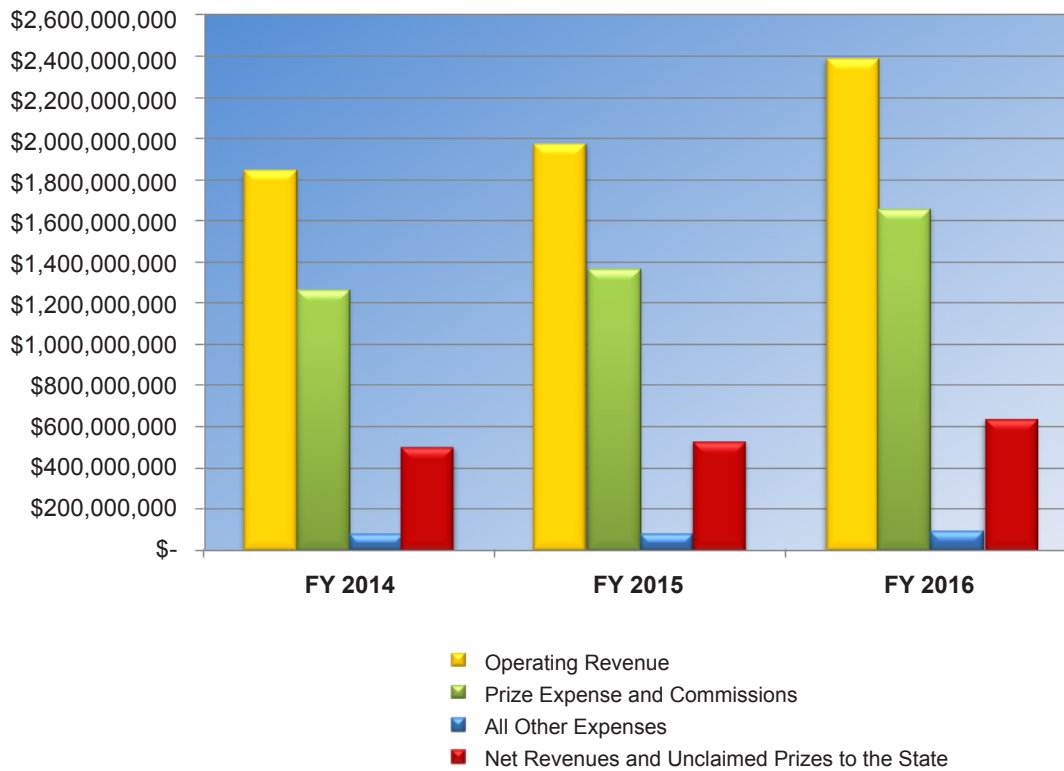
Condensed Statement of Revenues, Expenses and Changes in Net Position (in thousands)

	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	<u>2,388,976</u>	<u>1,977,486</u>	<u>1,844,636</u>
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	<u>1,698,108</u>	<u>1,397,683</u>	<u>1,293,946</u>
Other Operating Expenses*	54,692	51,802	46,181
Total Operating Expenses	<u>1,752,800</u>	<u>1,449,485</u>	<u>1,340,127</u>
Operating Income	<u>636,176</u>	<u>528,001</u>	<u>504,509</u>
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)	<u>(636,176)</u>	<u>(528,001)</u>	<u>(504,509)</u>
Change in Net Position	<u>-</u>	<u>-</u>	<u>-</u>
Net Position Beginning July 1	<u>-</u>	<u>-</u>	<u>-</u>
Net Position Ending June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*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).

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.

**FY 2014 TO FY 2016
OPERATING REVENUES, EXPENSES, NET REVENUES AND UNCLAIMED PRIZES TO THE STATE**



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.

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.

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.

STATEMENTS OF REVENUES, EXPENSES & 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	<u>2,388,976</u>	<u>1,977,486</u>
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	<u>1,752,800</u>	<u>1,449,485</u>
Operating Income	<u>636,176</u>	<u>528,001</u>
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	<u>(636,176)</u>	<u>(528,001)</u>
Change in Net Position	<u>-</u>	<u>-</u>
Net Position Beginning, July 1	<u>-</u>	<u>-</u>
Net Position Ending, June 30	<u>\$ -</u>	<u>\$ -</u>

See Notes to the Financial Statements.

STATEMENTS OF CASH FLOW

(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
	621,836	550,986
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)
	(574,705)	(522,619)
Total Cash Used for Noncapital Financing Activities		
CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(384)	(1,086)
	(384)	(1,086)
Total Cash Used for Capital and Related Financing Activities		
CASH PROVIDED FROM INVESTING ACTIVITIES		
Investment Earnings	1,109	566
	1,109	566
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	\$ 96,860	\$ 49,004
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
	621,836	550,986
Total Cash Provided by Operating Activities		
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.

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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, FNMAs, 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**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.

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	<u>\$ 2,383,615</u>	<u>\$ 1,972,215</u>

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.

NOTE 4 – EXPENSES

A. Operating Expenses:

1. Lottery Prize Expense:

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

2. Retailer Commissions:

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

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).

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

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.

NOTE 4 – EXPENSES (CONTINUED)**6. Leases – Buildings, Offices and Other Equipment:**

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

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

Projected lease payments for these facilities are:

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).

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

NOTE 5 – ASSETS (CONTINUED)

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. Investments 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.

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:

Maturities	2016	2015
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	\$ 63,852	\$ 61,854

NOTE 5 – ASSETS (CONTINUED)**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>

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>	2016	2015
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>

B. Annuity Prize Awards Payable:

Annuity prize awards payable represents the present value of the annuity 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:

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

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

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

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.

NOTE 6 – LIABILITIES (CONTINUED)**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

E. Changes in Net Pension Liabilities:

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

July 1, 2015 <u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2016 <u>Balance</u>
\$ 1,301	\$ 2,832	\$ -	\$ 4,133
July 1, 2014 <u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2015 <u>Balance</u>
\$ -	\$ 1,301	\$ -	\$ 1,301

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.

NOTE 7 – OTHER IMPORTANT ITEMS (CONTINUED)

B. Annuity Installment Prizes (continued):

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 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	\$ 27,393	\$ 27,680

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	

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

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

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

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

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS

A. Retirement Plan:

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

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

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

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

B. Benefits Provided

TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of 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:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
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.

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.

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

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (CONTINUED)

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.

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:

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
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.

NOTE 10 – OTHER POST EMPLOYMENT 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.

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		<u>1,192</u>		
Total Annual Revenue		2,390,168		
Prize Expense		(1,491,031)	62%	Of Total Annual Revenue
Advertising		(19,973)	1%	Of Total Annual Revenue
All Other Expenses and Transfers		<u>(78,459)</u>		
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		<u>620,572</u>		
Total Revenues to The State of North Carolina		<u>\$ 634,268</u>	27%	Of Total Annual Revenue
		<u>2015</u>		
Lottery Ticket Sales	\$	1,972,215		
Fees and Licenses		5,271		
Investment Earnings and Other Revenues		<u>394</u>		
Total Annual Revenue		1,977,880		
Prize Expense		(1,231,238)	62%	Of Total Annual Revenue
Advertising		(19,098)	1%	Of Total Annual Revenue
All Other Expenses and Transfers		<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).)

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

Additionally, in accordance with Section § 18C142 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

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.

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

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.

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	1,190	1,279	1,191	1,094	955
(3) Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
(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	592	425	378	313	257
(3) Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
(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%

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

To the Commissioners
North Carolina Education Lottery
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Carolina Education Lottery ("NCEL"), a major enterprise fund of the State of North Carolina, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprises the NCEL's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 25, 2016.

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

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Raleigh, North Carolina
October 25, 2016

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