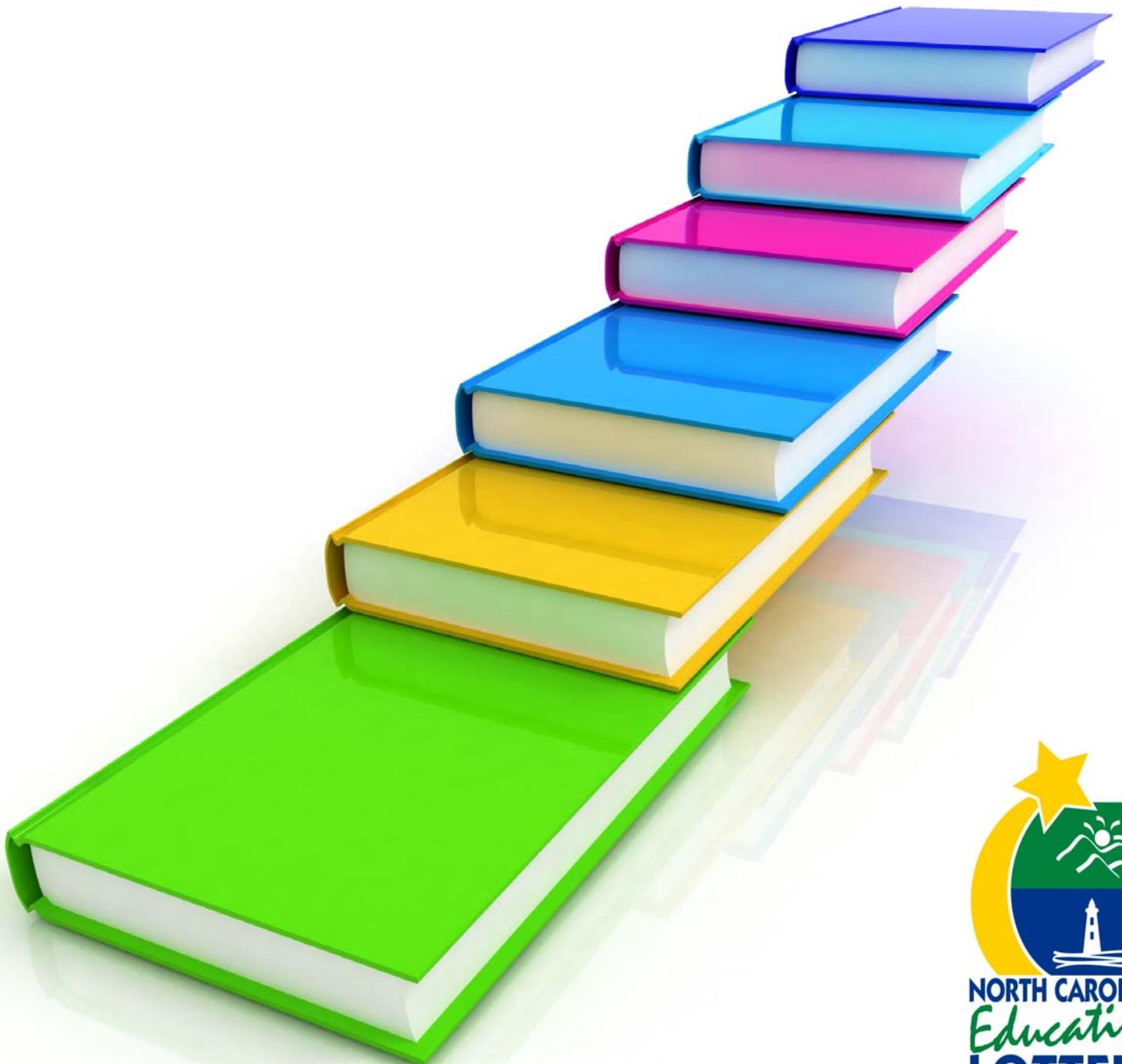


NORTH CAROLINA EDUCATION LOTTERY

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



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

THIS PAGE INTENTIONALLY LEFT BLANK

NORTH CAROLINA EDUCATION LOTTERY

A MAJOR ENTERPRISE FUND OF THE PRIMARY GOVERNMENT OF NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2011



ROBERT A. FARRIS, JR.
COMMISSION CHAIRMAN

ALICE GARLAND
EXECUTIVE DIRECTOR

Prepared by the North Carolina Education Lottery Finance Division

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

William T. Jourdain

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

Michelle Lassiter

Director of Finance
mlassiter@lotterync.net

Barbara Roper

Senior Financial Manager
broper@lotterync.net

Michael Suggs

Retail Accounting Manager
msuggs@lotterync.net

Michele Goff

Purchasing Administrator
mgoff@lotterync.net

Ralph Parker

Collections Manager
rparker@lotterync.net

Finance Division Staff

Joe Belnak, CMA

Michael Farmer

Kyle Gray

Kimberle Hartsfield

Marika Holland

Erwin Mialkowski

Camilla Sandlin

Kim Thomas

Ben Whittington

TABLE OF CONTENTS

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2011

INTRODUCTORY SECTION

Page

Letter of Transmittal	6
Certificate of Achievement for Excellence in Financial Reporting	12
Organization of the North Carolina Education Lottery.....	14

FINANCIAL SECTION

Independent Auditors' Report	19
Management's Discussion and Analysis.....	22

Basic Financial Statements

Statements of Net Assets	34
Statements of Revenues, Expenses and Changes in Fund Net Assets	35
Statements of Cash Flows.....	36
Index to Notes to Financial Statements	37
Notes to Financial Statements.....	38

STATISTICAL SECTION

Index to Statistical Section	56
Introduction to Statistical Section	58
Capital Assets Since Inception	59
Revenue and Expense FY 2007 to FY 2011	60
Allocation of Expense FY 2007 to FY 2011.....	61
Sales by Game FY 2007 to FY 2011	62
Total Sales Life to Date	63
Instant Tickets FY 2007 to FY 2011.....	64
Online Sales FY 2007 to FY 2011	65
North Carolina Education Lottery Information	66
North Carolina Population Demographics	67
North Carolina Occupational and Income Statistics	68
North Carolina Employer Statistics	69
North Carolina Educational Statistics	70

THIS PAGE INTENTIONALLY LEFT BLANK

INTRODUCTORY SECTION



Robert A. Farris, Jr.
Commission Chairman



Alice Garland
Executive Director

January 3, 2012

The Honorable Beverly Perdue, Governor
Members of the North Carolina General Assembly
Citizens of North Carolina

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the North Carolina Education Lottery (NCEL) for the fiscal year ended June 30, 2011. The finance department of the NCEL prepared this report to provide a comprehensive overview of our financial statements. Lottery management assumes the responsibility for the accuracy and completeness of this report. To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, the changes in financial position, and cash flows of the NCEL. All disclosures necessary to gain an understanding of the NCEL's financial activities have been included.

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

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

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

Profile of North Carolina Education Lottery

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

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

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

Powerball: Players select 5 numbers ranging from 1 to 59 lotto numbers, and 1 additional number ranging from 1 to 42 designated as the “Powerball.” To win the jackpot, players need to match all five lotto numbers and the Powerball. Jackpot prizes start at \$20 million, which increase in the event that no one matches all the numbers. There are also eight secondary prizes ranging from \$3 to \$200,000. For an additional dollar, players can “Power Play” and have the opportunity to increase their winnings, except for the jackpot, by up to five times. If a player matches the 5 lotto numbers and power plays the ticket, they automatically win \$1 million.

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

Carolina Cash 5: Players select 1 set of 5 numbers ranging from 1 to 39. Players win prizes by matching from two to five numbers, and must match all five numbers drawn to win the jackpot. Drawings are held daily with jackpot amounts starting at \$50,000, which increase for subsequent drawings if no one matches all five numbers. Since the inception of this game, the largest jackpot has been \$1,346,883.

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

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

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

The NCEL continued with activities to attract different players throughout the fiscal year. The campaign to promote the expansion of the “Bucks” family of tickets, with games available at the price points of \$10 and below was very popular. “\$200,000 a year for life” was North Carolina’s second \$20 game, which had a 75% payout also proved to be a big hit. A greater selection of branded game offerings relied on expanded support for product launches, second chance drawings and winner events.

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

These efforts have allowed the Lottery to surpass a billion dollars in sales for the fourth consecutive fiscal year, and the ability to transfer over \$2 billion to education since operations began.

Relevant Financial Policies

Accounting System and Policies

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

Budgetary Controls

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

Internal Controls

An internal control structure has been set up to ensure that the accounting system allows compilation of accurate and timely financial information and that assets are protected from loss, theft, or misuse. The internal controls are designed to provide reasonable assurance that these objectives are met.

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

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

- Restricted access to office and warehouse areas to certain lottery personnel
- Specialized security staff
- Secured facilities and gaming equipment
- Background checks conducted on retailers, contractors and lottery employees
- Lottery tickets with special inks, dyes and security codes
- Strict security procedures for game drawings
- Lottery draw balls are weighed and measured to ensure that they comply with standards by the Weights and Measures Division of the North Carolina Department of Agriculture
- Drawings are held in secure drawing rooms which are monitored 24 hours a day, the actual drawings are witnessed by an independent CPA firm, videotaped by primary, backup and security cameras and are reviewed each day

- An independent firm is contracted to complete an annual SAS 70 audit on the gaming vendor's systems to ensure the systems have full integrity

Debt Administration

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

Annuities

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

Cash Management

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

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

Major Initiatives

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

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

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

Local Economy

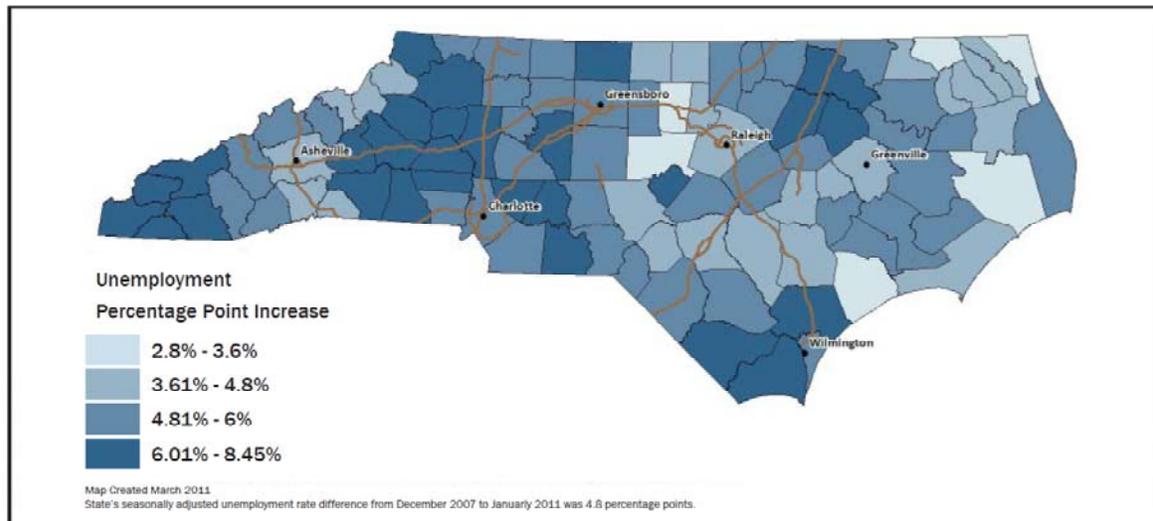
From the North Carolina Department of Commerce:

Similar to the global and national economies, North Carolina is recovering from a recession. According to the National Bureau of Economic Research, the United States entered a recession in December 2007. Employment numbers suggest North Carolina followed in February 2008. Employment and production continued to fall throughout 2008 and 2009. In late 2009 the economy started to stabilize and begin a slow recovery with the official end of the national recession being June 2009. The end of the recession marks the low point in the economic decline, it does not mark a return to pre-recession economic levels, but the path will be long.

In many communities across the State, workers continue to struggle to find jobs. In January 2011, the 12 month average unemployment rate for each county in North Carolina was an average of 5.4 percentage points higher than it was in December 2007 at the start of the recession.

The following graphic depicts the change in the 12 month average unemployment rate from December 2007 to January 2011 in North Carolina.

Percentage Point Change in 12 Month Unemployment Rate Average from Dec. 2007 to Jan. 2011



Source: Calculations based on N.C. Employment Security Commission data

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

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. This was the third year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,



Alice Garland
Executive Director



William T. Jourdain
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

North Carolina Education Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

THIS PAGE INTENTIONALLY LEFT BLANK

NORTH CAROLINA EDUCATION LOTTERY COMMISSION

ROBERT FARRIS JR, CHAIRMAN
WILSON

CARLA ARCHIE
CHARLOTTE

BARRY DODSON
MADISON

WILLIAM DOWDY
RALEIGH

JUDGE MARLENE HYATT
WAYNESVILLE

FERN SHUBERT
MARSHVILLE

LAWRENCE SPEARS
RALEIGH

CULLIE TARLETON
BLOWING ROCK

PAMELA WHITAKER
GREENSBORO

NORTH CAROLINA EDUCATION LOTTERY

SENIOR STAFF

ALICE GARLAND
ACTING EXECUTIVE DIRECTOR

DEPUTY EXECUTIVE DIRECTORS

DEBORAH DOTY
MIS AND GAMING SYSTEMS

WILLIAM JOURDAIN
FINANCE, ADMINISTRATION AND SECURITY

SAM HAMMETT
SALES

LOU ANN RUSSELL
MARKETING AND ADVERTISING

SENIOR DIRECTORS

MARGARET SPINDOLA-BODE
HUMAN RESOURCES

QUAN KIRK
LEGAL SERVICES

DIRECTORS

TERRI AVERY
FIELD SALES

STACY ASKEW
ADMINISTRATION

TONY CHUNG
MIS

VAN DENTON
CORPORATE
COMMUNICATIONS

NIKKI HOWARD
INTERNAL AUDIT

WALTER INGRAM
SALES DEVELOPMENT

JAIME KING
GOVERNMENT AFFAIRS

MICHELLE LASSITER
FINANCE

JOSEPH NORMAN
GAMING SYSTEMS

SUSAN SINGLEY
ADVERTISING

JAMES SPENCE
SECURITY

VACANT
MARKETING

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL SECTION



THIS PAGE INTENTIONALLY LEFT BLANK



INDEPENDENT AUDITORS' REPORT

To the Commissioners
North Carolina Education Lottery
Raleigh, North Carolina

We have audited the accompanying statements of net assets of the North Carolina Education Lottery ("NCEL"), a major enterprise fund of the State of North Carolina as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in fund net assets and cash flows as listed in the foregoing table of contents. These financial statements are the responsibility of the NCEL's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

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, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

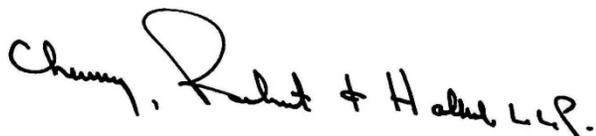
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the NCEL as of June 30, 2011 and 2010, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing; not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the NCEL. The introductory section and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied by us in the audits of the basic financial statements and, accordingly, we express no opinion on them.

CHERRY, BEKAERT & HOLLAND, L.L.P.

A handwritten signature in black ink that reads "Cherry, Bekaert & Holland L.L.P." The signature is written in a cursive, flowing style.

Raleigh, North Carolina
January 3, 2012

*MANAGEMENT'S DISCUSSION AND
ANALYSIS*



NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011 and 2010

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, 2011, 2010 and 2009 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, 2011, 2010 and 2009.

Financial Highlights

For fiscal year 2011, gross ticket sales totaled \$1.461 billion representing a \$39.8 million increase over fiscal year 2010. Total operating income was \$436 million, which represented an increase of \$5.6 million over fiscal year 2010. 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 four times a year. In fiscal year 2011, the sum total of these four cash transfers was \$446.9 million, the largest annual total for cash transfers in NCEL's history. Total cash transfers for fiscal years 2010 and 2009 were \$419.5 million and \$410.8 million, respectively.
- Awarded \$1 million or more to an NCEL player for the 94th time.
- Increased the number of retailers to 6,610, representing a 5.5% increase over the prior year, and provided service to our retailers on a regular basis.
- Released 46 new instant scratch-off games into the marketplace generating gross instant ticket sales of \$862 million.

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 Assets as of June 30, 2011 and 2010, the Statements of Revenues, Expenses, and Changes in Fund Net Assets for the periods ended June 30, 2011 and 2010, and the Statements of Cash Flows for the periods ended June 30, 2011 and 2010.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011 and 2010

As established in House Bill 1023, Section 18C-164, the NCEL transfers its net assets to the Office of State Budget and Management (OSBM) for credit to the State's Education Lottery Fund. Education Lottery Funds are distributed by OSBM in the following manner:

- “(1) A sum equal to fifty percent (50%) to support reduction of class size in early grades to class size allotments not exceeding 1:18 in order to eliminate achievement gaps and to support academic prekindergarten programs for at-risk four-year-olds who would otherwise not be served in a high-quality education program in order to help those four-year-olds be prepared developmentally to succeed in school.*
- (2) A sum equal to forty percent (40%) to the Public School Building Capital Fund in accordance with G.S. 115C-546.2.*
- (3) A sum equal to ten percent (10%) to the State Educational Assistance Authority to fund college and university scholarships in accordance with Article 35A of Chapter 115C of the General Statutes.”*

Total Assets

Total assets at the end of fiscal year 2011 were \$67 million compared to \$82 million at the end of fiscal year 2010, representing a decrease of \$15 million.

Current assets decreased from \$56 million in 2010 to \$30 million in 2011, representing a decrease of \$26 million. This decline resulted from a decrease in Pooled Cash due to fiscal year 2011 and 2010 surplus earnings held to be dispersed in the subsequent fiscal year. In addition, there was a decrease in the State Treasurer's Securities Lending Collateral. More detailed information can be found in Note 2D in the financial statements. The decrease was partially offset by an increase in accounts receivable in 2011 from 2010. This primarily represents amounts due from retailers for settlement of packs of tickets 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 an \$850 thousand increase in investments in annuity contracts.

The Short Term Investment portfolio has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and may withdraw cash at any time without prior notice or penalty. All deposits are combined with other State agencies and invested by the State Treasurer until needed to cover disbursements. Investments are limited to those authorized for the State's General Fund, pursuant to NC General Statute 147-69.1. Interest earned of \$1.1 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 2011 was \$819 thousand which is approximately \$420 thousand lower than 2010. The majority of capital asset investments were made during our first full year of operation in 2007. The investment in capital assets includes game equipment, data processing equipment, telephone equipment, software and fixtures. The capitalization of all items including equipment, computers, and furniture follows 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

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011 and 2010

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 5E to the financial statements.

The activity for capital assets for the year ended June 30, 2011 was (in thousands):

<u>Category</u>	<u>Balance July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Capital assets, depreciable				
Furniture	\$ 29	\$ -	\$ -	\$ 29
Equipment	2,653	211	(60)	2,804
Motorized equipment	67	-	-	67
Total capital assets, depreciable	<u>2,749</u>	<u>211</u>	<u>(60)</u>	<u>2,900</u>
Less accumulated depreciation for:				
Furniture	23	4	-	27
Equipment	1,435	609	(53)	1,991
Motorized equipment	52	11	-	63
Total accumulated depreciation	<u>1,510</u>	<u>624</u>	<u>(53)</u>	<u>2,081</u>
Total capital assets, depreciable, net	<u>1,239</u>	<u>(413)</u>	<u>(7)</u>	<u>819</u>
Capital assets, net	<u>\$ 1,239</u>	<u>\$ (413)</u>	<u>\$ (7)</u>	<u>\$ 819</u>

Total Liabilities

Total current liabilities for the NCEL were \$30 million in 2011 decreasing by \$26 million from 2010. The reduction in current liabilities mainly resulted from decreases in trade payables to vendors, due to other funds and the obligations under State Treasurer's security lending collateral agreements. The decreases in accounts payable and due to other funds can be attributed to the timing of transactions encountered in the normal course of business. The decrease in the obligations under State Treasurer's security lending collateral is directly related to the NCEL having less cash on hand at year-end. Current liabilities also consist of prize awards payable, and other payables.

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

<u>Beginning</u>	<u>Earned</u>	<u>Used</u>	<u>Ending</u>	<u>Current Liability</u>	<u>Long Term Portion</u>
<u>\$ 1,093</u>	<u>\$ 1,204</u>	<u>\$ 1,135</u>	<u>\$ 1,162</u>	<u>\$ 68</u>	<u>\$ 1,094</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, 2012.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011 and 2010

Net Assets and Changes in Net Assets

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 Revenues/Assets are zero for the NCEL. There are no changes in the Net Assets from year to year.

Condensed Statement of Net Assets (in thousands)

	2011	2010	2009
ASSETS			
Total Current Assets	\$ 30,345	\$ 55,713	\$ 62,068
Noncurrent Assets	36,586	26,414	13,728
Total Assets	66,931	82,127	75,796
LIABILITIES			
Total Current Liabilities	30,217	56,092	62,147
Noncurrent Liabilities	36,714	26,035	13,649
Total Liabilities	66,931	82,127	75,796
NET ASSETS			
Invested in Capital Assets	819	1,239	1,310
Unrestricted Net Assets	(819)	(1,239)	(1,310)
Total Net Assets	\$ -	\$ -	\$ -

Current liabilities consist of "Due to Other Funds" in the amount of \$7.5 million. Of this amount, \$7.3 million represents the remaining amount of the "Net Revenues" and "50% of Unclaimed Prizes" for Fiscal Year 2011 not yet transferred to the State of North Carolina as of June 30, 2011. These funds will be transferred to the state during Fiscal Year 2012. The remainder is due to other state agencies for services provided to the NCEL. Additional information on "Due to Other Funds" is found in Note 6D to the financial statements.

Revenues

Operating revenues consist of gross sales, fees and licenses net of prize tickets.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011 and 2010

Sales

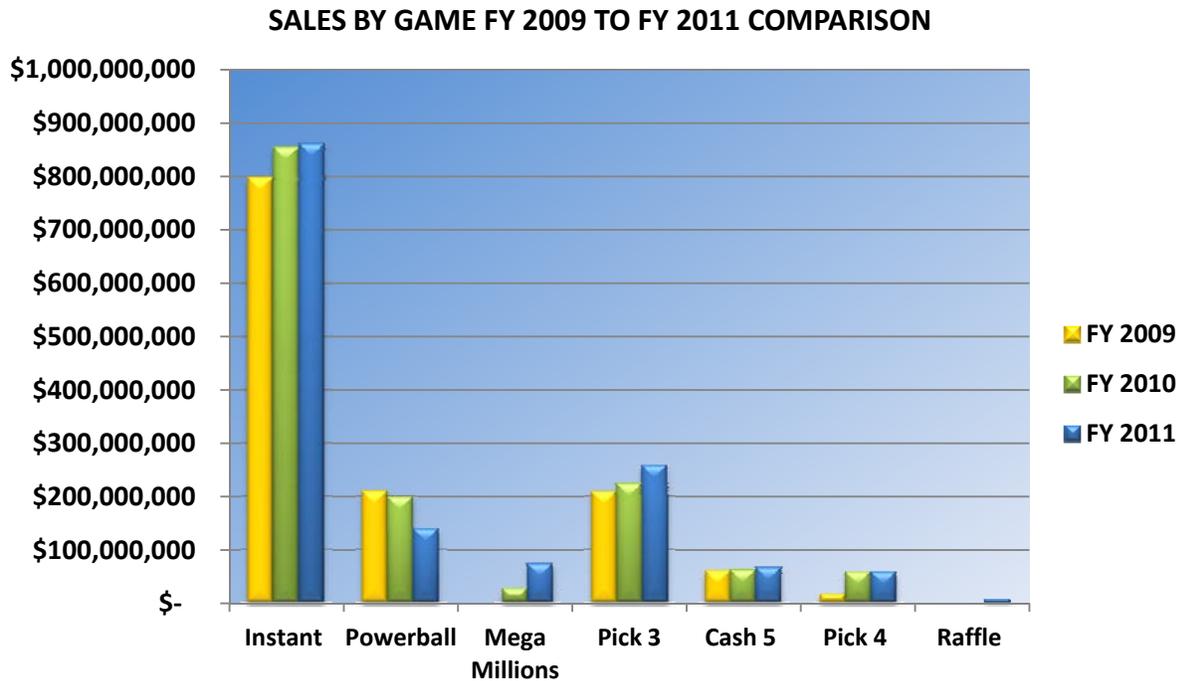
The gross lottery ticket sales for fiscal year 2011 were approximately \$1.461 billion as compared to \$1.421 billion for fiscal year 2010 and \$1.293 billion in fiscal year 2009. This represents an increase of \$40 million from 2010 and \$168 million from 2009.

Gross instant ticket sales were \$862 million for fiscal year 2011 compared with \$856 million for fiscal year 2010 and \$799 million in fiscal year 2009, an increase of \$6 million from fiscal year 2010 and \$63 million from fiscal year 2009. The increase realized during fiscal year 2011 is attributable to several factors. The NCEL launched its second \$20 instant scratch-off mega game, \$200,000 a Year for Life, with a prize payout of 75%, which generated over \$61 million in sales during fiscal year 2011. The NCEL continued the expansion of its "Bucks" family of tickets, with games available at the price points of \$10 and below. The NCEL released several very successful licensed games during the year. The World Series of Poker Instant Scratch-Off was reintroduced and provided players the chance to win a grand prize trip package, including a seat at the 2011 WSOP® Main Event. The NCEL launched its Price is Right Instant Scratch-Off licensed game, which awarded players the opportunity to travel to Las Vegas and play in an untelevised version of the popular game show. In addition, the NCEL partnered with former professional wrestler and North Carolina icon, Ric Flair, to release the "Woooo! 2" Instant Scratch-Off game, which proved to be a great success.

On-line sales were \$599 million for fiscal year 2011 compared to \$566 million for fiscal year 2010 and \$494 for fiscal year 2009, representing a \$33 million increase from fiscal year 2010 and a \$105 million increase from fiscal year 2009. On-line sales benefited from the NCEL selling Mega Millions tickets during the entire year, with total sales of \$72.6 million, compared to \$26 million during fiscal year 2010. The Carolina Cash 5 top prize exceeded \$1 million for the second time in March, resulting in increased on-line sales. The NCEL added an additional daily Carolina Pick 4 draw in February, resulting in an increase of \$8 million from the previous fiscal year.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2011 and 2010

The following chart depicts the distribution of sales by product for the fiscal years ended June 30, 2011, 2010 and 2009.



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

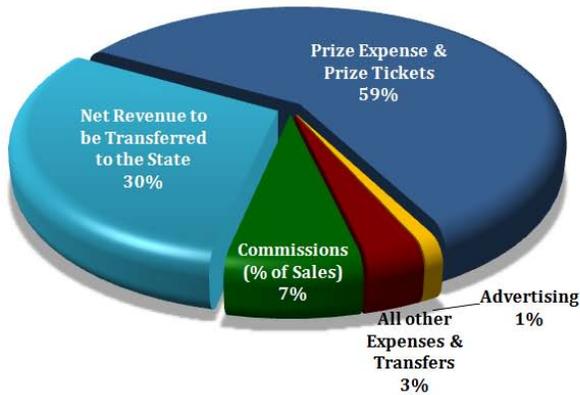
Section 18C-162, NC General Statute stipulates that no more than 8% of the total annual revenues shall be allocated for payment of expenses of the Lottery. Advertising expenses shall not exceed 1% of the total annual revenues.

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, 2011, 2010 and 2009.

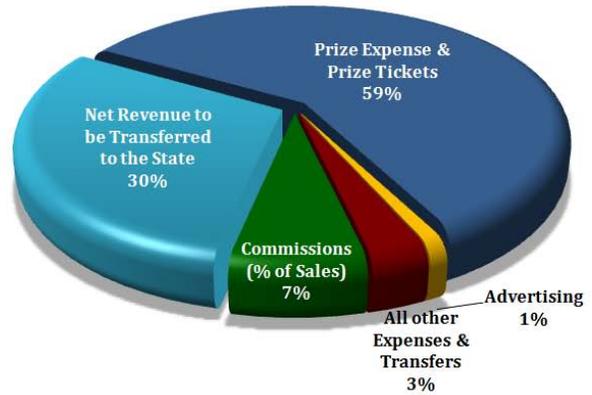
NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011 and 2010

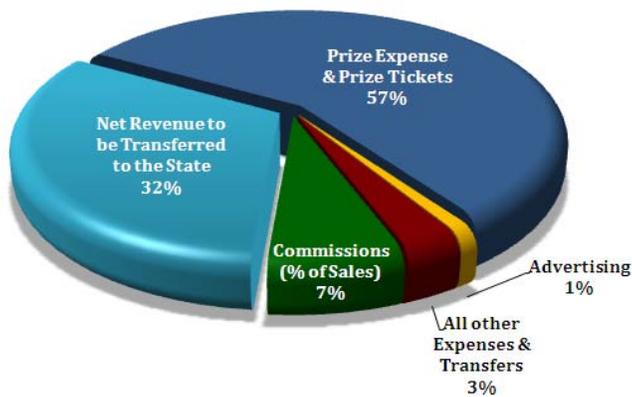
ALLOCATION OF EXPENSES FY 2011



ALLOCATION OF EXPENSES FY 2010



ALLOCATION OF EXPENSES FY 2009



Note: Commissions percentage is calculated based upon the percentage of Sales (all others are calculated based upon the percentage of Total Revenue) per G.S. 18C-162; therefore may not equal 100%.

Prizes, commissions and gaming vendor charges all directly relate to sales. As expected, as sales have increased so have these expenses. In fiscal year 2011 total gaming expenses which consist of prizes, retailer commissions and gaming vendor charges (gaming system services), totaled \$989 million as compared to \$957 million and \$843 million for fiscal years 2010 and 2009, respectively. Other operating expenses, which consist of advertising and marketing, salary and benefits, professional fees, rent, maintenance, bad debt, depreciation and general administrative expenses increased to \$39.9 million in fiscal year 2011, as compared with \$36.6 million and \$34.1 million for fiscal years 2010 and 2009, respectively. Other operating expenses represented 2.7%, 2.6% and 2.7% of total operating revenues in fiscal years 2011, 2010 and 2009, respectively.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011 and 2010

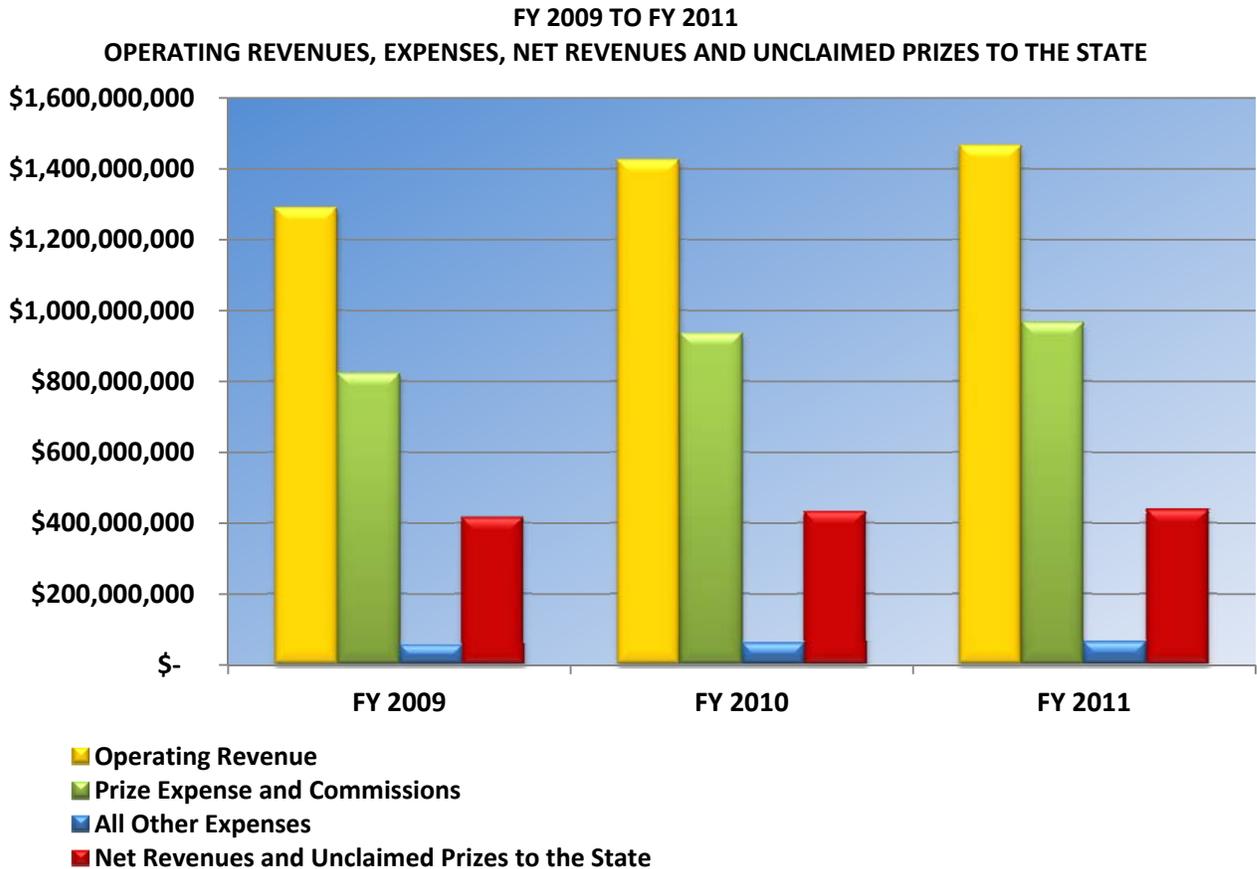
Condensed Statement of Revenues and Expenses (in thousands)

	2011	2010	2009
Operating Revenues:			
Gross Sales:	\$ 1,461,106	\$ 1,421,313	\$ 1,293,111
Less: Prize Tickets	(1,375)	(1,309)	(9,580)
Less: Sales/Service Bad Debt	(152)	(405)	(91)
Fees and Licenses	5,061	4,859	4,663
Total Operating Revenues	1,464,640	1,424,458	1,288,103
Operating Expenses:			
Gaming Expenses:			
Lottery Prizes	862,996	835,302	731,690
Retailer Commissions	102,127	99,340	90,366
Gaming Systems Services	23,482	22,639	20,599
Total Gaming Expenses	988,605	957,281	842,655
Other Operating Expenses	39,905	36,608	34,135
Total Operating Expenses	1,028,510	993,889	876,790
Operating Income	436,130	430,569	411,313
Nonoperating Revenues (Expenses):			
Investment Earnings, Nonoperating Revenue (Expense) and Compulsive Gambling Contribution	111	1,636	2,616
Net Revenues and Unclaimed prizes to the State	(436,241)	(432,205)	(413,929)
Total Nonoperating Revenue (Expenses)	(436,130)	(430,569)	(411,313)
Net Income	-	-	-
Change in Net Assets	-	-	-
Ending Net Assets	\$ -	\$ -	\$ -

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011 and 2010

From fiscal year 2009 to fiscal year 2011, the NCEL has achieved annual increases in revenues and transfers to the State. The following graph depicts these trends.



Budget and Economic Outlook

On June 22, 2011, the NCEL Commission approved the Fiscal Year 2012 budget for the NCEL to provide a projected \$425 million to the State's Education Lottery Fund. This projected budget is a 1.4% increase over the fiscal year 2011 budget that reflected a \$419 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 expected to follow the current path of a slow, steady recovery. Once the economy picks up steam, North Carolina is expected to outpace national average growth. The economy is showing some resilience as it shrugs off several mild economic shocks (oil price spike, natural disasters). The upturn in the economy is more fragile because of these shocks, but seems to have pulled through." Also "While there are plenty of reasons to be cautious about the economic forecast, there seems to be more positive news released each month." Therefore, the NCEL has constructed a conservative budget and sales forecast for the upcoming fiscal year.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011 and 2010

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. The Commission has undergone several audits this fiscal year. Delehanty Consulting LLC, an independent security organization, conducted our fourth security audit and determined that the controls designed by the North Carolina Education Lottery are adequate and operating as intended.

For the fifth consecutive year, the State Auditor contracted with an outside CPA firm to conduct the fiscal year financial audit, which resulted in an unqualified 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.

THIS PAGE INTENTIONALLY LEFT BLANK

BASIC FINANCIAL STATEMENTS



NORTH CAROLINA EDUCATION LOTTERY

Statements of Net Assets (in thousands)
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash	\$ 105	\$ 96
Pooled Cash	15,672	38,664
Receivables:		
Accounts Receivable	9,897	6,648
Interest Receivable	30	110
Investment in Annuity Contracts	3,000	2,150
Inventory	16	209
Prepaid Items	32	30
State Treasurer's Security Lending Collateral	1,593	7,806
Total Current Assets	<u>30,345</u>	<u>55,713</u>
Noncurrent Assets:		
Investment in Annuity Contracts	35,620	25,007
Prepaid Items	147	168
Capital Assets, Depreciable (Net):		
Furniture and Equipment	2,900	2,749
Accumulated Depreciation	<u>(2,081)</u>	<u>(1,510)</u>
Total Capital Assets, Depreciable (Net)	<u>819</u>	<u>1,239</u>
Total Noncurrent Assets	<u>36,586</u>	<u>26,414</u>
Total Assets	<u>66,931</u>	<u>82,127</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	17,559	27,342
Accrued Payroll	666	379
Other Liabilities	27	140
Annuity Prize Award Payable - Current	3,000	2,150
Accrued Paid Time Off - Current	68	65
Due to Other Funds	7,470	18,127
Obligations Under State Treasurer's Security Lending Agreements	1,427	7,889
Total Current Liabilities	<u>30,217</u>	<u>56,092</u>
Noncurrent Liabilities:		
Annuity Prize Award Payable	35,620	25,007
Accrued Paid Time Off	1,094	1,028
Total Noncurrent Liabilities	<u>36,714</u>	<u>26,035</u>
Total Liabilities	<u>66,931</u>	<u>82,127</u>
NET ASSETS		
Invested in Capital Assets	819	1,239
Unrestricted Net Assets	<u>(819)</u>	<u>(1,239)</u>
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>

See Notes to the Financial Statements.

NORTH CAROLINA EDUCATION LOTTERY

Statements of Revenues, Expenses and Changes in Fund Net Assets (in thousands)
Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues:		
Gross Sales:	\$ 1,461,106	\$ 1,421,313
Less: Prize Tickets	(1,375)	(1,309)
Less: Sales/Service Bad Debt	(152)	(405)
Fees and Licenses	5,061	4,859
Total Operating Revenues	1,464,640	1,424,458
Operating Expenses:		
Salaries, Wages, and Benefits	15,824	15,299
Lottery Prizes	862,996	835,302
Retailer Commissions	102,127	99,340
Retailer Incentive	592	394
Gaming Systems Services	23,482	22,639
Advertising	13,760	11,792
Marketing	2,358	2,239
Other Services	3,427	3,555
Furniture, Fixtures, and Equipment	933	376
Depreciation	624	583
Other General and Administrative Expenses	2,387	2,370
Total Operating Expenses	1,028,510	993,889
Operating Income	436,130	430,569
Nonoperating Revenues (Expenses):		
Investment Earnings	1,175	2,699
Compulsive Gambling Contribution	(1,000)	(1,000)
Interest to Federal Medicaid Assistance Percentage Program	(814)	-
Unclaimed Prizes to Federal Medicaid Assistance Percentage Program	(8,556)	-
Unclaimed Prizes to NC Education Lottery Fund	(8,623)	(14,894)
Net Revenues to the State of NC	(418,248)	(417,311)
Miscellaneous Nonoperating Revenues (Expenses)	(64)	(63)
Total Nonoperating Revenues (Expense)	(436,130)	(430,569)
Net Income	-	-
Change in Net Assets	-	-
Net Assets Beginning, July 1	-	-
Net Assets Ending, June 30	\$ -	\$ -

See Notes to the Financial Statements.

NORTH CAROLINA EDUCATION LOTTERY

Statements of Cash Flows (in thousands)
Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,359,272	\$ 1,323,356
Payments to Employees and Fringe Benefits	(15,468)	(15,432)
Payments for Prizes, Benefits and Claims	(873,500)	(839,959)
Payments to Vendors and Suppliers	(46,127)	(42,980)
Other Receipts/Payments	24	13
	<hr/>	<hr/>
Net Cash Flows Provided by Operating Activities	424,201	424,998
CASH USED FOR NONCAPITAL FINANCING ACTIVITIES		
Transfers to State	(446,952)	(419,465)
Transfers to Other State Agencies	(1,000)	(1,000)
	<hr/>	<hr/>
Total Cash Used for Noncapital Financing Activities	(447,952)	(420,465)
CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(211)	(529)
Proceeds from Sale of Capital Assets	-	1
	<hr/>	<hr/>
Total Cash Used for Capital and Related Financing Activities	(211)	(528)
CASH PROVIDED FROM INVESTING ACTIVITIES		
Investment Earnings	979	1,512
	<hr/>	<hr/>
Total Cash Provided from Investing Activities	979	1,512
Net Increase/(Decrease) in Cash and Cash Equivalents	(22,983)	5,517
Cash and Cash Equivalents at Beginning of Year	38,760	33,243
	<hr/>	<hr/>
Cash and Cash Equivalents at End of Year	\$ 15,777	\$ 38,760
	<hr/>	<hr/>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 436,130	\$ 430,569
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation Expense	624	583
Nonoperating Income - MUSL Dividend	11	29
Other Nonoperating Income	12	(16)
(Increase) Decrease in Assets:		
Accounts Receivable	(3,249)	(1,729)
Inventories	193	84
Prepaid Items	19	(198)
Increase (Decrease) in Liabilities:		
Accounts Payable	(9,896)	(4,157)
Accrued Payroll and Related Liabilities	290	(134)
Other Liabilities	67	(33)
	<hr/>	<hr/>
Total Cash Provided by Operating Activities	\$ 424,201	\$ 424,998
	<hr/>	<hr/>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through the Assumption of a Liability	\$ 13,055	\$ 34,964
	<hr/>	<hr/>

See Notes to the Financial Statements.

NOTES TO FINANCIAL STATEMENTS

INDEX

Page

Note 1 – ORGANIZATION	38
Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	38
A. Reporting Entity	38
B. Basis of Presentation	38
C. Cash and Cash Equivalents	39
D. State Treasurer’s Securities Lending Collateral	39
E. Allowance for Doubtful Accounts	39
F. Capital Assets	40
G. Game Revenue Recognition	40
H. Lottery Prize Expense Recognition	40
I. Use of Estimates	40
Note 3- REVENUE	40
A. Operating Revenue	40
B. Non-operating Revenue	41
Note 4- EXPENSES	41
A. Operating Expenses	41
B. Non-operating Expenses	43
C. Transfers Out	43
Note 5- ASSETS	44
A. Cash	44
B. Accounts Receivable	44
C. Inventory	44
D. Investment in Annuity Contracts	44
E. Capital Assets	45
Note 6- LIABILITIES	46
A. Accounts Payable	46
B. Other Payables	46
C. Annuity Prize Awards Payable	46
D. Due to Other Funds	46
E. Accrued Paid Time Off	47
Note 7- OTHER IMPORTANT ITEMS	47
A. Deposits with Multi-State Lottery Association (MUSL)	47
B. Annuity Installment Prizes	47
C. Unclaimed Prizes	48
D. Compulsive Gambling Contribution	48
E. Limitations on Operating and Advertising Expenses	48
Note 8- RISK MANAGEMENT	48
Note 9- PENSION AND DEFERRED COMPENSATION PLANS	50
A. Retirement Plan	50
B. Supplemental Retirement Income Plan	50
C. Deferred Compensation Plan	50
Note 10- OTHER POST RETIREMENT BENEFITS	51
A. Health Care for Long-Term Disability Beneficiaries and Retirees	51
B. Long-Term Disability	51
Note 11- LITIGATION	52
Note 12- ALLOCATION OF TOTAL ANNUAL REVENUES/TRANSFERS TO NC EDUCATION LOTTERY FUND	52
Note 13- CHANGES IN FINANCIAL ACCOUNTING AND REPORTING	54
Note 14- SUBSEQUENT EVENTS	54
Note 15- RECLASSIFICATIONS	54

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

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 on-line POWERBALL lottery tickets. POWERBALL sales began on May 30, 2006. Additional on-line 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

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 Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As permitted by GASB Statement Number 20, the NCEL elected not to apply FASB statements or interpretations issued on or after November 30, 1989, unless specifically adopted by the GASB.

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 assets, and its operating statement includes all revenues (increases) and expenses (decreases) in total assets. The NCEL distinguishes operating from non-operating revenues and expenses. Operating revenues and expenses generally relate to the NCEL's primary ongoing operations of selling lottery tickets and redeeming prizes; all revenues and expenses not meeting this definition are reported as non-operating. The principal operating revenues of the NCEL are for the sales of lottery products. The significant operating expenses include the cost of prizes, commissions, gaming system vendor charges, personnel, advertising and other administrative expenses.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash and Cash Equivalents:

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

D. State Treasurer's Securities Lending Collateral:

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

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

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

Securities lending disclosures are determined by GASB Statement 28. With the investment markets downturn, situations occurred related to securities lending investment activity that resulted in the State experiencing unrealized losses on the investment of cash collateral received for securities lent. Participants in State investment pools bear the risk of loss. Therefore, each participant had been allocated a share of the unrealized loss.

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 "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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, 2011 and 2010.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Capital Assets:

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

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

G. Game Revenue Recognition:

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

H. Lottery Prize Expense Recognition:

For POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, and for raffles, prize expense is recorded at 50 percent of sales on a daily basis. For instant games, prize expense is accrued based on the final production prize structure percentage provided by the gaming vendor for each game and recorded daily on the value of packs settled. Certain games include free tickets (prize tickets) which entitle the holder to exchange one instant ticket for another of equal value. For the instant games with prize tickets, the final prize structure percentage used is adjusted to eliminate the value of the prize tickets. Prize expense for merchandise prizes is recognized as prizes are fulfilled.

I. Use of Estimates:

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

NOTE 3 – REVENUE

A. Operating Revenue:

1. Game Revenue:

Instant packs are settled using the following methodology:

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

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

NOTE 3 – REVENUE (continued)

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

Game Revenue	2011	2010
Instant	\$ 862,090	\$ 855,566
Prize tickets	(1,375)	(1,309)
On-line	599,016	565,747
Bad debt write off	(148)	(396)
Damaged tickets, sales services	(4)	(9)
Total	\$ 1,459,579	\$ 1,419,599

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 2011 and 2010 were \$5,061 and \$4,859, 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 \$1,175 and \$2,699 for the years ended June 30, 2011 and 2010, respectively.

The NCEL also has miscellaneous non-operating revenue related to dividends received from MUSL which were \$11 and \$29 for the years ended June 30, 2011 and 2010, respectively. The remaining miscellaneous non-operating revenue consists of sales and marketing materials to other lotteries and other miscellaneous items.

NOTE 4 – EXPENSES

A. Operating Expenses:

1. Lottery Prize Expense:

Prize Expense	2011	2010
Instant	\$ 572,157	\$ 546,911
On-line	290,839	273,497
50% of unclaimed prizes	-	14,894
Total	\$ 862,996	\$ 835,302

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

NOTE 4 – EXPENSES (continued)

2. Retailer Commissions:

Commissions	2011	2010
Instant	\$ 60,237	\$ 59,777
On-line	41,890	39,563
Total	\$ 102,127	\$ 99,340

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. The total payments issued for the retailer incentive program for fiscal years 2011 and 2010 were \$592 and \$394, respectively.

4. Other Services:

The principal expenses included are: security services, background checks, communications, legal services, travel, financial audit services, network support, and costs for temporary employees.

	2011	2010
Security services	\$ 10	\$ 11
Background checks	830	797
Communications, including wiring	1,093	1,328
Legal services	73	42
Travel	112	79
Other	1,309	1,298
Total	\$ 3,427	\$ 3,555

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 5E) and therefore expensed. The total expenses for fiscal years 2011 and 2010 were \$933 and \$376, respectively.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

NOTE 4 – EXPENSES (continued)

6. Leases – Buildings, Offices and Other Equipment:

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

Projected lease payments for these facilities are:

<u>Year Ending</u>	<u>Amount</u>
2012	\$ 958
2013	884
2014	886
2015	897
2016	883
2017-2021	21
<u>Total</u>	<u>\$ 4,529</u>

The total space rental costs for the fiscal years 2011 and 2010 were \$1,065 and \$1,034, respectively. The NCEL also has several contracts for various equipment leases.

B. Non-operating Expenses:

The allocable share of the expenses arising from State Treasurer’s Securities Lending Collateral program transactions, totaling \$21 and \$62 for the years ended June 30, 2011 and 2010, respectively, are included as non-operating expense. For the years ended June 30, 2011 and 2010, 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, 2011 and 2010 (See Note 7D).

The second transfer was \$8,623 and \$14,894 for the years ended June 30, 2011 and 2010, respectively, from unclaimed prizes during the year. The North Carolina State Lottery Act requires the NCEL to transfer “Fifty percent (50%)” of unclaimed prizes to the NC Education Lottery Fund each year (See Note 7C).

The third transfer was in compliance with the North Carolina State Lottery Act. This Act requires all “Net Revenues” of the NCEL to be transferred to the NC Education Lottery Fund for the educational purposes set forth in the legislation. “Net Revenues” were \$418,248 for fiscal year 2011 compared with \$417,311 for fiscal year 2010 (see Note 12). However, \$410,916 was transferred to the NC Education Lottery Fund for fiscal year 2011 compared with \$398,015 for fiscal year 2010. The balances remaining (\$7,332 and \$18,059 for fiscal years 2011 and 2010) 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.”

The NCEL made a fourth transfer during fiscal year 2011. As per legislation, the NCEL transferred \$9,370 to the State of North Carolina to fund the Federal Medical Assistance Percentage (FMAP) expenses, including \$814 in interest and \$8,556 in unclaimed prizes.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

NOTE 5 – ASSETS

A. Cash:

The cash and cash equivalents balances at June 30, 2011 and 2010 include no undeposited receipts on hand.

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

At June 30, 2011 and 2010, respectively, \$15,672 and \$38,664 of the amounts shown on the Statement of Net Assets as cash and cash equivalents represents the NCEL's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.9 and 1.6 years, as of June 30, 2011 and 2010, respectively. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value.

Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov> and clicking on "Financial Reports" or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Accounts Receivable:

Accounts Receivable primarily represents amounts due from retailers for settlement of packs of tickets 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. Inventory:

Inventory for the NCEL consists of all merchandise prizes that are paid for before distribution. Inventory is reduced as prizes are fulfilled. Inventory as of June 30, 2011 and 2010 was \$16 and \$209, respectively.

D. Investments in Annuity Contracts:

Investments in Annuity Contracts represent the present value of the contracts that fund the long term installment prizes contracted through insurance company annuities (See Note 7B). The current and long term balances are \$3,000 and \$35,620 for fiscal year 2011 and \$2,150 and \$25,007 for fiscal year 2010, respectively.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

NOTE 5 – ASSETS (continued)

E. Capital Assets:

The activity for capital assets for the year ended June 30, 2011 was:

<u>Category</u>	<u>Balance July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Capital assets, depreciable				
Furniture	\$ 29	\$ -	\$ -	\$ 29
Equipment	2,653	211	(60)	2,804
Motorized equipment	67	-	-	67
Total capital assets, depreciable	<u>2,749</u>	<u>211</u>	<u>(60)</u>	<u>2,900</u>
Less accumulated depreciation for:				
Furniture	23	4	-	27
Equipment	1,435	609	(53)	1,991
Motorized equipment	52	11	-	63
Total accumulated depreciation	<u>1,510</u>	<u>624</u>	<u>(53)</u>	<u>2,081</u>
Total capital assets, depreciable, net	<u>1,239</u>	<u>(413)</u>	<u>(7)</u>	<u>819</u>
Capital assets, net	<u>\$ 1,239</u>	<u>\$ (413)</u>	<u>\$ (7)</u>	<u>\$ 819</u>

The activity for capital assets for the year ended June 30, 2010 was:

<u>Category</u>	<u>Balance July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
Capital assets, depreciable				
Furniture	\$ 29	\$ -	\$ -	\$ 29
Equipment	2,606	529	(482)	2,653
Motorized equipment	67	-	-	67
Total capital assets, depreciable	<u>2,702</u>	<u>529</u>	<u>(482)</u>	<u>2,749</u>
Less accumulated depreciation for:				
Furniture	18	5	-	23
Equipment	1,336	564	(465)	1,435
Motorized equipment	38	14	-	52
Total accumulated depreciation	<u>1,392</u>	<u>583</u>	<u>(465)</u>	<u>1,510</u>
Total capital assets, depreciable, net	<u>1,310</u>	<u>(54)</u>	<u>(17)</u>	<u>1,239</u>
Capital assets, net	<u>\$ 1,310</u>	<u>\$ (54)</u>	<u>\$ (17)</u>	<u>\$ 1,239</u>

Equipment expenditures for 2011 included upgraded MIS equipment. Equipment expenditures for 2010 included fire suppression systems, three random number generators and an upgraded telephone system.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

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, 2011 and 2010, the balances were:

<u>Account Type</u>	<u>2011</u>	<u>2010</u>
Trade payables to vendors	\$ 5,635	\$ 5,103
Instant prize liability	4,307	4,278
Prize liability – unused unclaimed prizes	2,785	8,175
Multi state games low-tier liability	4,277	4,098
Prize liability – breakage	123	133
Prize liability – rollover	127	133
Other	305	1,184
Total Accounts Payable	<u>\$ 17,559</u>	<u>\$ 27,342</u>

B. Other Liabilities:

Other liabilities of \$27 and \$140 for the years ended June 30, 2011 and 2010, respectively, primarily consist of federal and state withholding on prize payments, various clearing accounts, and deferred revenue.

C. Annuity Prize Awards Payable:

Annuity prize awards payable represents the present value of the contracts that fund the long term installment prizes that are due to NCEL annuity prize winners (See Note 7B). The current and long term balances are \$3,000 and \$35,620 for fiscal year 2011 and \$2,150 and \$25,007 for fiscal year 2010, respectively.

Annuity activity for both short and long term accounts during fiscal year 2011 are as follows:

	Beginning Balance 7/1/2010	Purchases	Annuity Appreciation	Annuity Disbursements	Reclass to Short Term	Beginning Balance 6/30/2011
Short Term	\$ 2,150	\$ -	\$ -	\$ (2,150)	\$ 3,000	\$ 3,000
Long Term	25,007	12,071	1,542	-	(3,000)	35,620
Total	<u>\$ 27,157</u>	<u>\$ 12,071</u>	<u>\$ 1,542</u>	<u>\$ (2,150)</u>	<u>\$ -</u>	<u>\$ 38,620</u>

Annual Activity for both short and long term accounts during fiscal year 2010 are as follows:

	Beginning Balance 7/1/2009	Purchases	Annuity Appreciation	Annuity Disbursements	Reclass to Short Term	Beginning Balance 6/30/2010
Short Term	\$ 1,100	\$ -	\$ -	\$ (1,100)	\$ 2,150	\$ 2,150
Long Term	12,418	13,726	1,103	-	(2,150)	25,007
Total	<u>\$ 13,518</u>	<u>\$ 13,726</u>	<u>\$ 1,103</u>	<u>\$ (1,100)</u>	<u>\$ -</u>	<u>\$ 27,157</u>

D. Due to Other Funds:

As explained in Note 4C, \$7,332 and \$18,059 for the years ended June 30, 2011 and 2010, respectively, represent the amounts of the “Net Revenues” and “50% of Unclaimed Prizes” for the year not yet transferred to the State as of June 30, but will be transferred to the State subsequent to fiscal year-end. The remainder is due to other state agencies for services provided to the NCEL.

NORTH CAROLINA EDUCATION LOTTERY
 NOTES TO FINANCIAL STATEMENTS (in thousands)
 June 30, 2011 and 2010

NOTE 6 – LIABILITIES (continued)

E. Accrued Paid Time Off:

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

Activity for the year ended June 30, 2011:

<u>Beginning</u>	<u>Earned</u>	<u>Used</u>	<u>Ending</u>	<u>Current Liability</u>	<u>Long Term Portion</u>
<u>\$ 1,093</u>	<u>\$ 1,204</u>	<u>\$ 1,135</u>	<u>\$ 1,162</u>	<u>\$ 68</u>	<u>\$ 1,094</u>

Activity for the year ended June 30, 2010:

<u>Beginning</u>	<u>Earned</u>	<u>Used</u>	<u>Ending</u>	<u>Current Liability</u>	<u>Long Term Portion</u>
<u>\$ 1,274</u>	<u>\$ 1,135</u>	<u>\$ 1,316</u>	<u>\$ 1,093</u>	<u>\$ 65</u>	<u>\$ 1,028</u>

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, 2011, MUSL included 33 state lotteries, the District of Columbia and the U.S. Virgin Islands. The chief executive officer of each member lottery serves on the MUSL board of directors.

As a member of MUSL, the NCEL is required to contribute to various prize reserve funds maintained by MUSL. These contributions are included in the 50% prize expense calculated on POWERBALL and Mega Millions sales. The net amount of the 50% prize expense less the amount required to pay low-tier prizes within the State is paid to MUSL. This payment is to cover the NCEL's share of current jackpot prizes based on the NCEL's percent of sales for each drawing and the NCEL's share of the prize reserve fund. The prize reserve fund serves as a contingency reserve to protect all MUSL members including the NCEL from unforeseen prize liabilities. All prize reserve funds remitted, and the related interest earnings, will be returned to the NCEL upon leaving MUSL, less any portion of unanticipated prize claims which may have been paid from the fund. As of June 30, 2011 and 2010 the NCEL had been credited with \$9,176 and \$7,921, 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. The contract holders will fund the future value of the installment prize awards over the life of the prize awarded to the player. The NCEL currently holds contracts with Met Life Insurance Company and Prudential Life Insurance Company to provide these future prize installment payments. The future value of the annuity prizes awarded as of June 30, 2011 and 2010 were \$53,300 and \$39,300, respectively.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

NOTE 7 – OTHER IMPORTANT ITEMS (continued)

C. Unclaimed Prizes:

As of June 30, 2011 and 2010, 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 not recorded as of June 30, 2010, since the end of the fiscal year was less than 180 days after the first draw on February 2, 2010. The NCEL closed thirty-seven instant games during fiscal year 2011 resulting in \$8,195 in unclaimed prizes. In 2010, the NCEL closed forty-six instant games resulting in \$20,088 in unclaimed prizes.

<u>Game Type</u>	2011	2010
Instant	\$ 8,195	\$ 20,088
Powerball	3,893	5,066
Mega Millions	1,010	-
Carolina Cash 5	1,370	1,917
Carolina Pick 4	759	668
Carolina Pick 3	1,927	2,049
Raffle	91	-
Total unclaimed prizes	<u>\$ 17,245</u>	<u>\$ 29,788</u>

D. Compulsive Gambling Contribution:

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

E. Limitations on Operating and Advertising Expenses:

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

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, 2011.

The types of coverage, limits, and deductibles, as of June 30, 2011, are described below (the following chart is not shown in thousands).

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

NOTE 8 – RISK MANAGEMENT (continued)

Coverage Type	Limits (\$)	Deductible (\$)	Comments
Public officers and employee liability	1,000,000 /5,000,000	The first 150,000 /1,000,000 per person are paid by the Commission.	State is self-insured up to \$5,000,000; excess up to \$10,000,000 is with a private insurer.
All risk – property contents	4,101,918	5,000	
Auto – liability	1,000,000 per person/10,000,000 per accident		
Auto – comp/collision	29,470	50 100	Comp. deductible Collision deductible
Theft, disappearance, destruction	250,000	2,500	Inside premises
Theft, disappearance, destruction	50,000	2,500	Outside premises
Computer fraud	5,000,000	75,000	+10% over \$75,000
Employee dishonesty	5,000,000	75,000	+10% over \$75,000
Forgery and alteration	100,000	2,500	
Robbery and safe burglary – money/securities	500,000	1,000	

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

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

Term life insurance of \$25 to \$50 is provided to eligible employees. This self-insured death benefit program is administered by the North Carolina Department of the State Treasurer and funded via employer contributions. The employer contribution rate was .16% 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 "Financial Reports" or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

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 the NC Department of State Treasurer.

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

For the years ending June 30, 2011, 2010 and 2009, respectively, the NCEL had a total payroll of \$12,018, \$11,968, and \$11,696, of which \$12,018, \$11,968 and \$11,240 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the years ended June 30, 2011, 2010 and 2009, were \$1,314, \$1,143 and \$1,052, respectively. Required employer contribution rates for the years ended June 30, 2011, 2010 and 2009, were 4.93%, 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The NCEL made 100% of its annual required contributions as mandated by Senate Bill 58. The contribution amounts for the years ended June 30, 2011, 2010, and 2009, were \$592, \$425 and \$378, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Supplemental Retirement Income Plan:

IRC Section 401(k) Plan – All full-time employees are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan participants. The Plan is provided by Prudential Retirement, administered by the NC Department of the State Treasurer and sponsored by the State of North Carolina. The effective date of participation was January 30, 2006. The voluntary contributions by employees amounted to \$197, \$203 and \$206 for the years ended June 30, 2011, 2010 and 2009, respectively.

C. Deferred Compensation Plan:

IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a Portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Plan's Board of Trustees. The Board, a part of the North Carolina Department of State Treasurer, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. The effective date of participation was January 30, 2006. The voluntary contributions by employees amounted to \$109, \$134 and \$80, for the years ended June 30, 2011, 2010 and 2009, respectively.

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

June 30, 2011 and 2010

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

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

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

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, 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.

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 determined by the General Assembly in the Appropriations Bill.

For the current fiscal year 2011, the NCEL contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System. Required contribution rates for the years ended June 30, 2010 and 2009, were 4.5% and 4.5%, respectively. The NCEL made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$589, \$539, and \$461, 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 "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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, 2011, the NCEL made a statutory contribution of .52% 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, 2011, 2010 and 2009, were .52%, .52% and .52%, respectively. The NCEL made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$62, \$62, and \$58, respectively. The NCEL assumes no liability for long-term disability benefits under the Plan other than its contribution.

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 11 – LITIGATION

As of June 30, 2011, the NCEL is not, nor anticipates being, a party to any litigation.

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

	<u>2011</u>		
Lottery Ticket Sales	\$ 1,460,954		
Fees and Licenses	5,061		
Investment Earnings and Other Revenues	1,175		
Total Annual Revenue	<u>1,467,190</u>		
Less Prize Tickets	<u>(1,375)</u>	0%	Of Total Annual Revenue
Total Net Revenue	<u>1,465,815</u>		
Prize Expense	(862,996)	59%	Of Total Annual Revenue
Advertising	(13,760)	1%	Of Total Annual Revenue
All Other Expenses and Transfers	<u>(50,691)</u>		
Total Section 18C-162.a.3	<u>(64,451)</u>	4%	Of Total Annual Revenue
Commissions (per 18C-142)	(102,127)	7%	Of Lottery Ticket Sales
Due to FMAP & Legislative Special Revenue Fund	9,370		
Unclaimed Prizes to The State of North Carolina	8,623		
Net Revenues to The State of North Carolina	418,248		
Total Revenues to The State of North Carolina	<u>\$ 436,241</u>	30%	Of Total Annual Revenue

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

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

	<u>2010</u>		
Lottery Ticket Sales	\$ 1,420,908		
Fees and Licenses	4,859		
Investment Earnings and Other Revenues	<u>2,699</u>		
Total Annual Revenue	1,428,466		
Less Prize Tickets	<u>(1,309)</u>	0%	Of Total Annual Revenue
Total Net Revenue	<u>1,427,157</u>		
Prize Expense	(835,302)	59%	Of Total Annual Revenue
Advertising	(11,792)	1%	Of Total Annual Revenue
All Other Expenses and Transfers	<u>(48,518)</u>		
Total Section 18C-162.a.3	<u>(60,310)</u>	4%	Of Total Annual Revenue
Commissions (per 18C-142)	(99,340)	7%	Of Lottery Ticket Sales
Unclaimed Prizes to The State of North Carolina	14,894		
Net Revenues to The State of North Carolina	<u>417,311</u>		
Total Revenues to The State of North Carolina	<u>\$ 432,205</u>	30%	Of Total Annual Revenue

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

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

NORTH CAROLINA EDUCATION LOTTERY
NOTES TO FINANCIAL STATEMENTS (in thousands)
June 30, 2011 and 2010

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

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

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

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

The NCEL transferred \$446.9 million to the NC Education Lottery Fund for fiscal year 2011 compared with \$419.5 million for fiscal year 2010. As explained in Note 4C, \$7.3 million and \$18.0 million for fiscal years ended June 30, 2011 and 2010, 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, 2011, the NCEL implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 59, *Financial Instruments Omnibus*.

GASB Statement No. 59 updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement applies the reporting provisions for interest-earning investment contracts of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to unallocated insurance contracts to improve the consistency of reporting by pension and other post-employment benefit plans. Additionally, it amends GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, to indicate that interest rate risk information should be disclosed only for investments in debt mutual funds, external debt investment pools, or other pooled debt investments.

NOTE 14 – SUBSEQUENT EVENTS

The Commission of the NCEL has evaluated all subsequent events for potential recognition and disclosure through October 31, 2011, the date these financial statements will be available.

The State of North Carolina entered into two lease agreements subsequent to year end on behalf of the NCEL. These agreements were entered into on September 9 and October 3 for office space in Charlotte and Asheville, respectively.

NOTE 15 – RECLASSIFICATIONS

Certain amounts for the year ended June 30, 2010 have been reclassified in the comparative financial statements to be comparable to the presentation for the year ended June 30, 2011.

STATISTICAL SECTION



STATISTICAL SECTION

INDEX

Page

Introduction to Statistical Section	58
Capital Assets Since Inception	59
Information to help the reader understand changes from year to year related to capital and net assets of the NCEL.	
Revenue and Expense FY 2007 to FY 2011	60
Information to help the reader understand changes from FY 2007 to FY 2011 related to operating revenues and major expenses.	
- Operating Revenues vs. Expenses FY 2007 to FY2011	
- Operating Revenues FY 2007 to FY2011	
- Prize Expenses FY 2007 to FY2011	
- Retailer Commissions FY 2007 to FY2011	
Allocation of Expense FY 2007 to FY 2011	61
Information to help the reader understand changes from fiscal year 2007 to fiscal year 2011 in the allocation of expenses for the NCEL.	
- Allocation of Expenses FY 2007, FY 2008, FY 2009, FY 2010, FY 2011	
Sales by Game FY 2007 to FY 2011	62
Information to help the reader understand changes from fiscal year 2007 to fiscal year 2011 in the sources of operating revenue by game.	
- Sales by Game FY 2007, FY 2008, FY 2009, FY 2010, FY 2011	
Total Sales Life to Date	63
Information to help the reader understand changes from month to month in game sales from inception.	
Instant Tickets FY 2007 to FY 2011	64
Information to help the reader understand changes from fiscal year 2007 to fiscal year 2011 in the prize expense and sales of instant tickets.	
- Instant Game Sales FY 2007 to FY 2011	
- Instant Game Sales by Price of Ticket FY 2007 to FY 2011	
Online Sales FY 2007 to FY 2011	65
Information to help the reader understand changes from fiscal year 2007 to fiscal year 2011 in online game sales.	
- Online Game Sales FY 2007 to FY 2011	
- Powerball Sales FY 2007 to FY 2011	
- Mega Million Sales FY 2007 to FY 2011	
- Combined Powerball and Mega Million Sales FY 2007 to FY 2011	
- Cash 5 Sales FY 2007 to FY 2011	
- Pick 4 Sales FY 2007 to FY 2011	
- Pick 3 Sales FY 2007 to FY 2011	

STATISTICAL SECTION

INDEX

Page

North Carolina Education Lottery Information 66

Information to help the reader understand changes from fiscal year 2007 to fiscal year 2010 in the NCEL workforce.

- Budgeted Full Time Equivalent (FTE) Positions by Function
- Budgeted NCEL Positions by Function FY 2007 to FY 2011

North Carolina Population Demographics 67

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

- NC Population
- NC Population Growth
- NC Population Growth %
- Households by Type 2006 to 2010

North Carolina Occupational and Income Statistics 68

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

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

North Carolina Employer Statistics 69

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

North Carolina Educational Statistics 70

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

- Educational Attainment
- School Enrollment
- Education Attainment 2005, 2006, 2007, 2008, 2009, 2010

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

Introduction to Statistical Section

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

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

- The NCEL began operations during fiscal year 2006, however there were only three months of operations during that fiscal year. Therefore, comparative information for fiscal year 2006 or prior has not been included for revenue, sales, expense, and demographic schedules.
- The NCEL's fiscal year begins on July 1st and ends on June 30th of the following calendar year. Fiscal year 2011 information begins on July 1st 2010 and concludes as of June 30th 2011. Total fiscal year and monthly information is included in this analysis.
- The NCEL does not have any material outstanding debts, therefore debt schedule or debt ratio information is not provided.

North Carolina Education Lottery Statistics

Capital Assets Since Inception (in thousands):

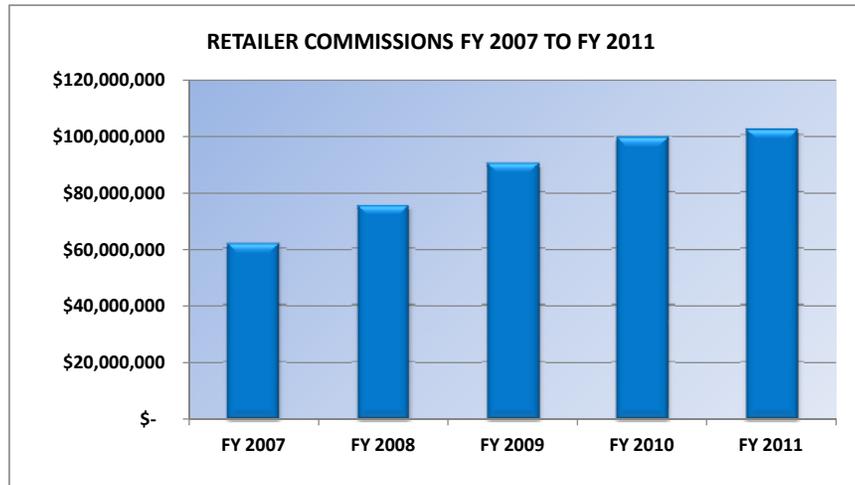
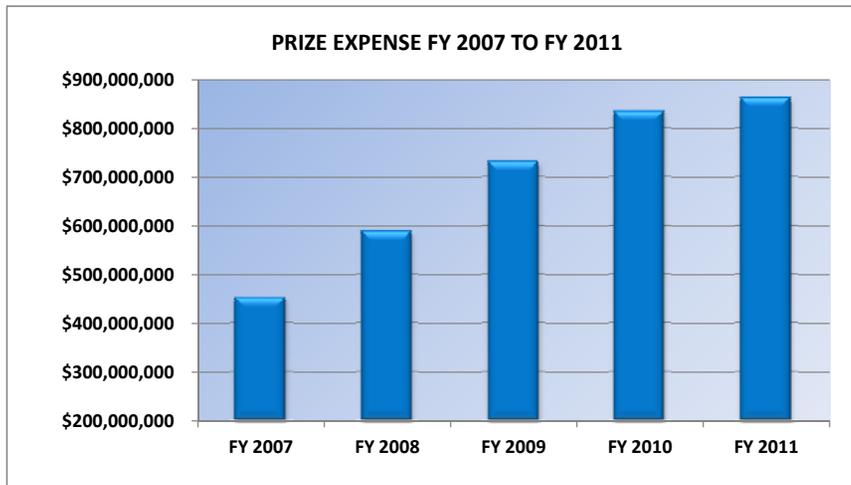
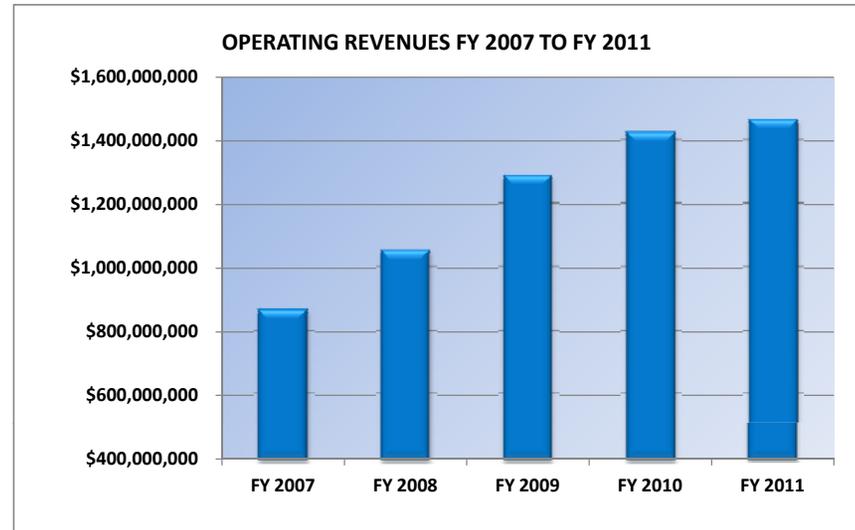
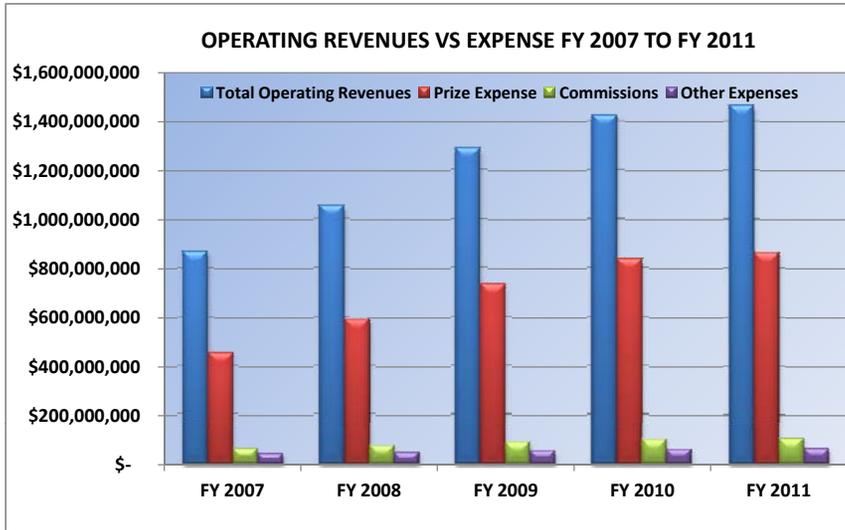
Category	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Increases	Decreases	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, nondepreciable										
Improvements in progress	\$ -	\$ 194	\$ -	\$ 194	\$ -	\$ 194	\$ -	\$ -	\$ -	\$ -
Total capital assets, nondepreciable	-	194	-	194	-	194	-	-	-	-
Capital assets, depreciable										
Furniture	-	-	-	-	29	-	29	-	-	29
Equipment	-	484	-	484	1,179	11	1,652	587	-	2,239
Motorized equipment	-	22	-	22	45	-	67	-	-	67
Total capital assets, depreciable	-	506	-	506	1,253	11	1,748	587	-	2,335
Less accumulated depreciation for:										
Furniture	-	-	-	-	4	-	4	7	-	11
Equipment	-	74	-	74	377	1	450	363	-	813
Motorized equipment	-	2	-	2	10	-	12	12	-	24
Total accumulated depreciation	-	76	-	76	391	1	466	382	-	848
Total capital assets, depreciable, net	-	430	-	430	862	10	1,282	205	-	1,487
Capital assets, net	-	624	-	624	862	204	1,282	205	-	1,487
Net assets										
Invested in capital assets	-	624	-	624	862	204	1,282	205	-	1,487
Unrestricted net assets	-	(624)	-	(624)	(862)	(204)	(1,282)	(205)	-	(1,487)
Total Net Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Category	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets, nondepreciable										
Improvements in progress	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total capital assets, nondepreciable	-	-	-	-	-	-	-	-	-	-
Capital assets, depreciable										
Furniture	29	-	-	29	-	-	29	-	-	29
Equipment	2,239	367	-	2,606	529	(482)	2,653	211	(60)	2,804
Motorized equipment	67	-	-	67	-	-	67	-	-	67
Total capital assets, depreciable	2,335	367	-	2,702	529	(482)	2,749	211	(60)	2,900
Less accumulated depreciation for:										
Furniture	11	7	-	18	5	-	23	4	-	27
Equipment	813	523	-	1,336	564	(465)	1,435	609	(53)	1,991
Motorized equipment	24	14	-	38	14	-	52	11	-	63
Total accumulated depreciation	848	544	-	1,392	583	(465)	1,510	624	(53)	2,081
Total capital assets, depreciable, net	1,487	(177)	-	1,310	(54)	(17)	1,239	(413)	(7)	819
Capital assets, net	1,487	(177)	-	1,310	(54)	(17)	1,239	(413)	(7)	819
Net assets										
Invested in capital assets	1,487	(177)	-	1,310	(54)	(17)	1,239	(413)	(7)	819
Unrestricted net assets	(1,487)	177	-	(1,310)	54	17	(1,239)	413	7	(819)
Total Net Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

North Carolina Education Lottery Statistics

Revenue and Expenses FY 2007 to FY 2011:

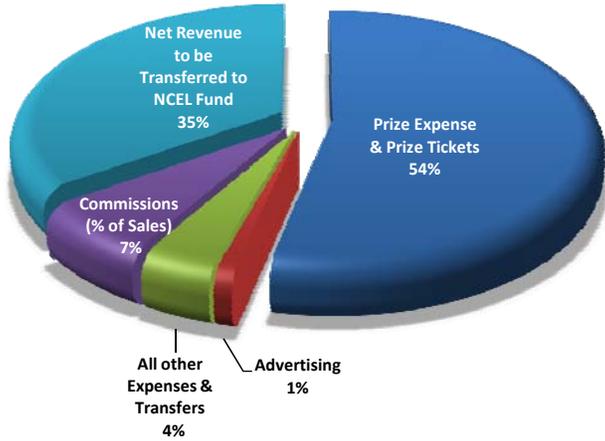
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Total Operating Revenues	\$ 866,194,905	\$ 1,053,131,125	\$ 1,288,102,861	\$ 1,424,457,618	\$ 1,464,639,726
Total Operating Expenses	\$ 555,433,414	\$ 709,646,237	\$ 876,666,966	\$ 993,888,090	\$ 1,028,509,675
Prize Expense	\$ 451,791,593	\$ 588,484,904	\$ 731,690,305	\$ 835,302,004	\$ 862,996,103
Commissions	\$ 61,932,162	\$ 75,370,563	\$ 90,366,111	\$ 99,339,830	\$ 102,126,855
Other Expenses	\$ 41,709,659	\$ 45,790,770	\$ 54,610,550	\$ 59,246,256	\$ 63,386,717



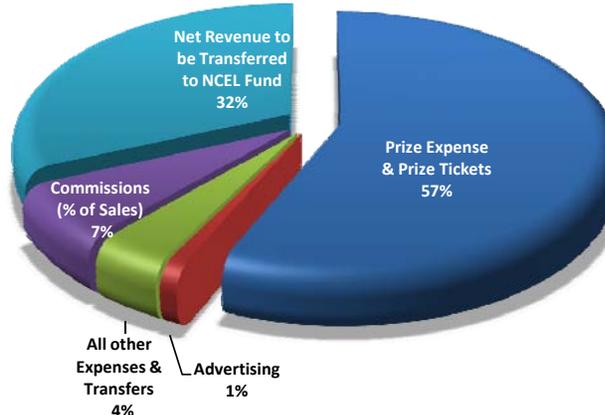
North Carolina Education Lottery Statistics

Allocation of Expense FY 2007 to FY 2011:

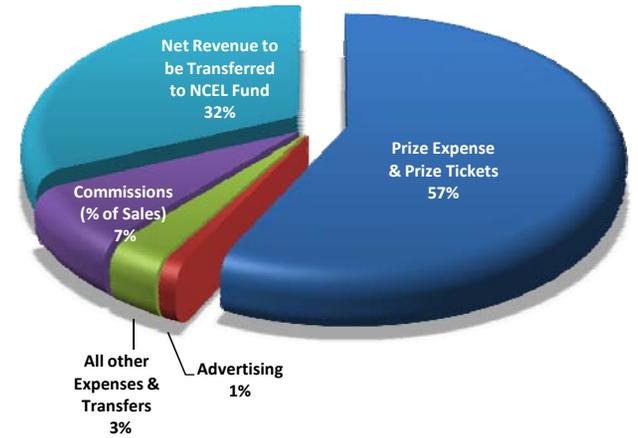
ALLOCATION OF EXPENSES FY 2007



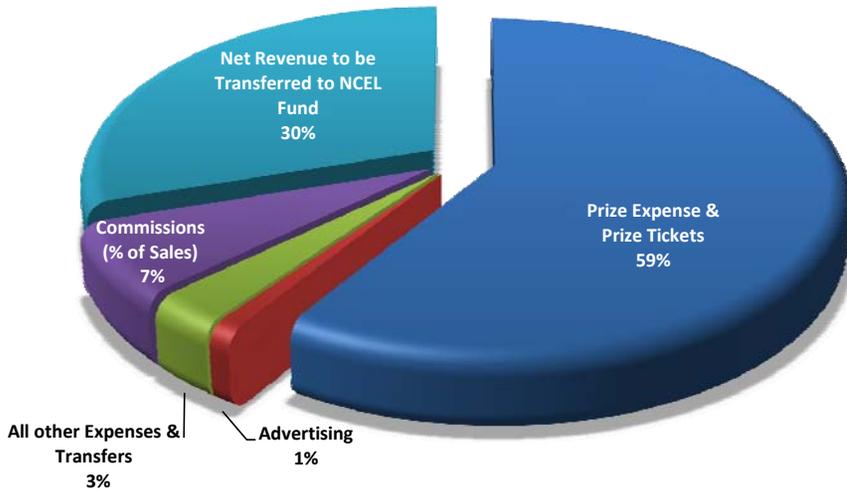
ALLOCATION OF EXPENSES FY 2008



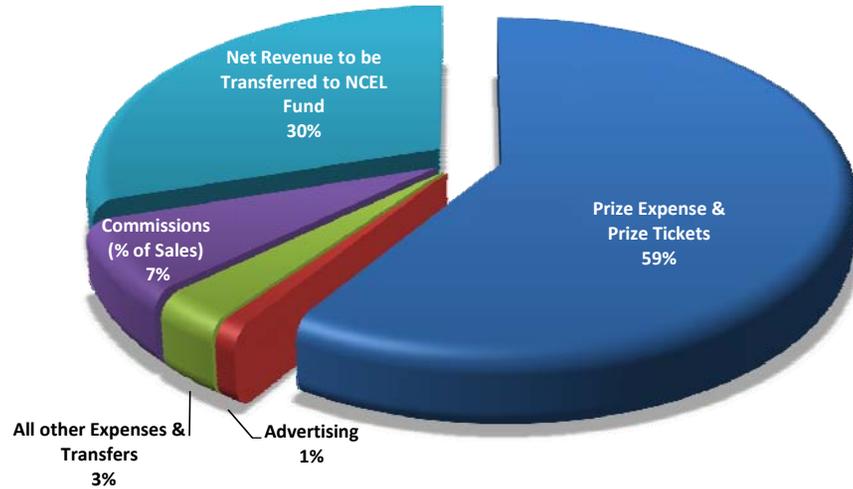
ALLOCATION OF EXPENSES FY 2009



ALLOCATION OF EXPENSES FY 2010



ALLOCATION OF EXPENSES FY 2011

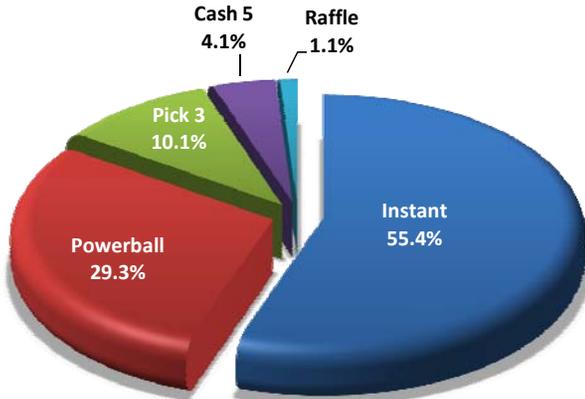


Commissions percentage is calculated based on the percent of Sales (all others calculated based on percentage of Revenue) therefore may not add to 100%.

North Carolina Education Lottery Statistics

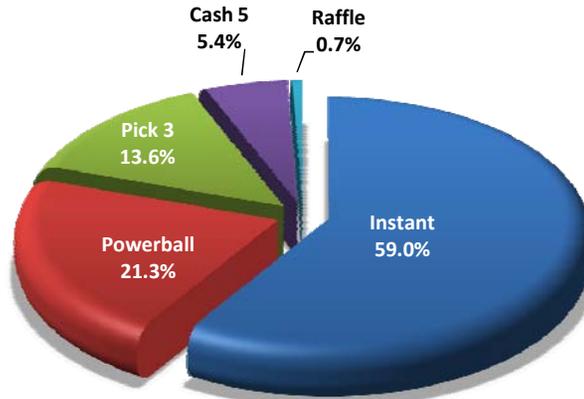
Sales by Game FY 2007 to FY 2011:

SALES BY GAME FY 2007

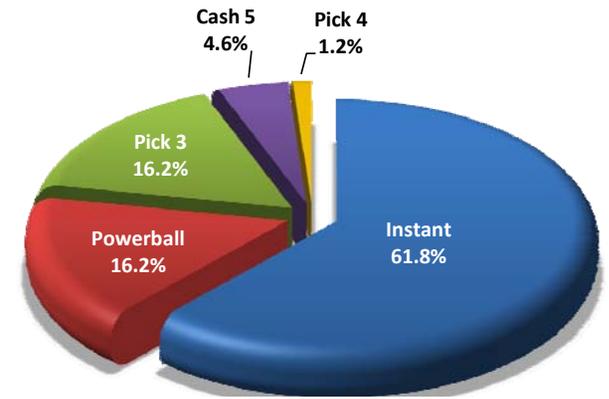


Cash 5 & Pick 3 games were launched in Oct '06

SALES BY GAME FY 2008

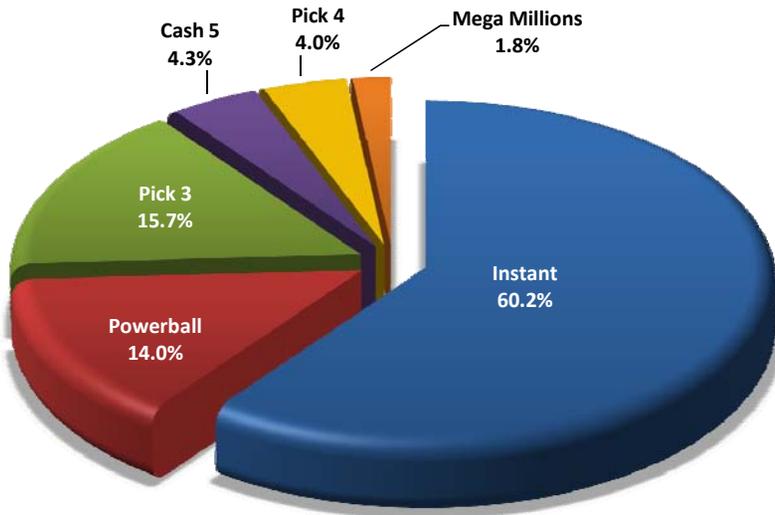


SALES BY GAME FY 2009



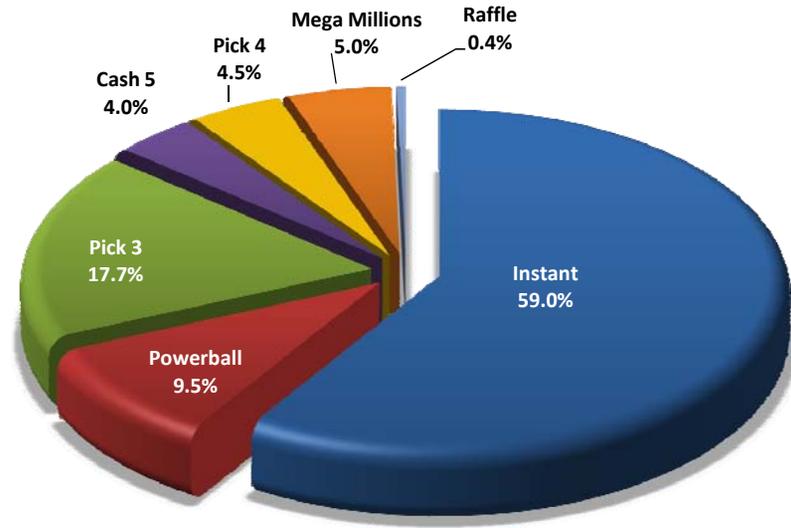
Pick 4 game was launched in Apr '09
No Raffles were held in FY '09

SALES BY GAME FY 2010



Mega Millions game was launched in Jan '10

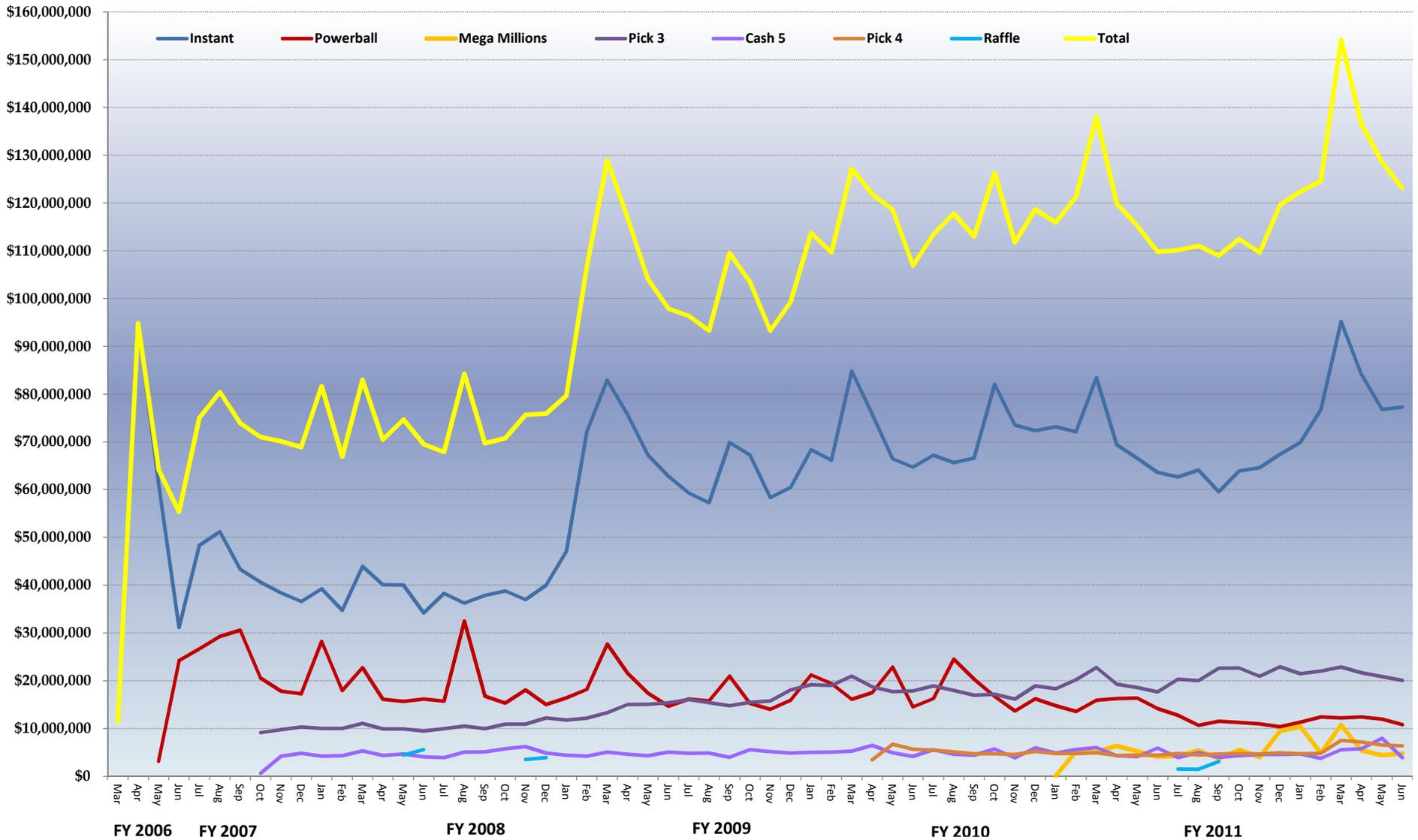
SALES BY GAME FY 2011



North Carolina Education Lottery Statistics

Total Sales Life to Date:

Game Sales - LTD Comparison By Game



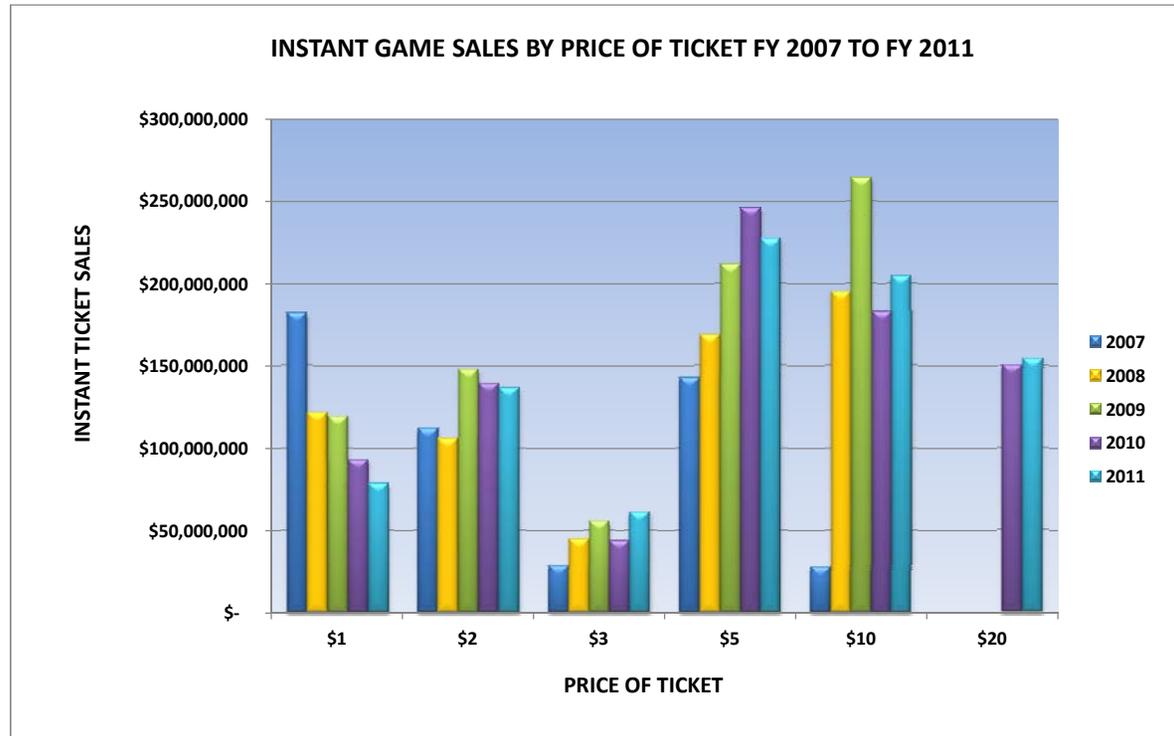
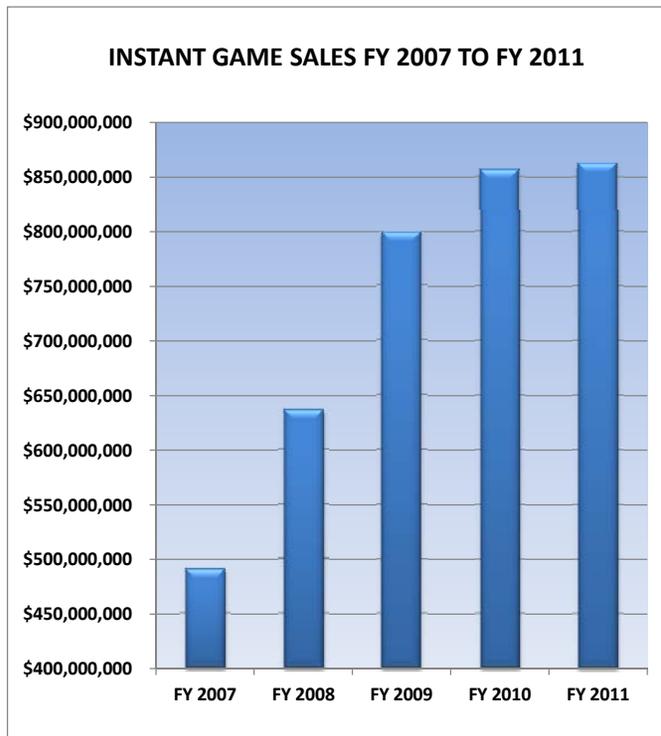
North Carolina Education Lottery Statistics

Instant Tickets FY 2007 to FY 2011:

Instant Games by Price of Ticket

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
\$1	\$ 182,168,872	\$ 121,600,546	\$ 119,083,157	\$ 92,980,150	\$ 78,296,263
\$2	\$ 112,107,280	\$ 106,036,416	\$ 147,937,906	\$ 139,472,210	\$ 136,676,260
\$3	\$ 28,790,607	\$ 44,977,548	\$ 55,828,311	\$ 43,751,937	\$ 61,499,178
\$5	\$ 142,974,345	\$ 168,722,235	\$ 211,778,870	\$ 246,081,170	\$ 227,038,175
\$10	\$ 28,273,430	\$ 194,543,370	\$ 264,048,160	\$ 183,066,660	\$ 204,423,280
\$20	\$ -	\$ -	\$ -	\$ 150,230,140	\$ 154,157,320
TOTAL	\$ 494,314,534	\$ 635,880,115	\$ 798,676,404	\$ 855,582,267	\$ 862,090,476

During the 2007 fiscal year, the North Carolina General Assembly approved new legislation to provide the NCEL with more flexibility in instant ticket prize payouts. The impact of this change can be seen above with the increases in instant ticket sales, beginning in January of fiscal year 2008 and continuing through fiscal year 2011.

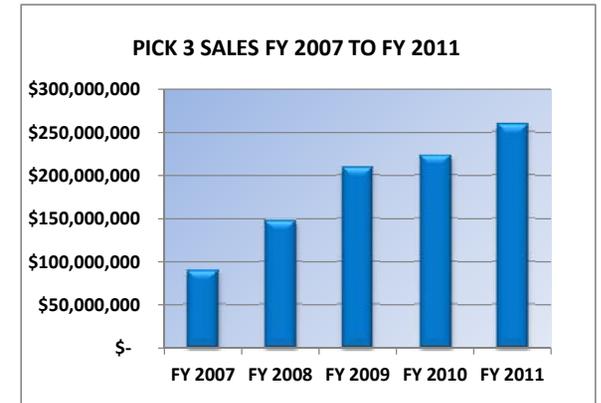
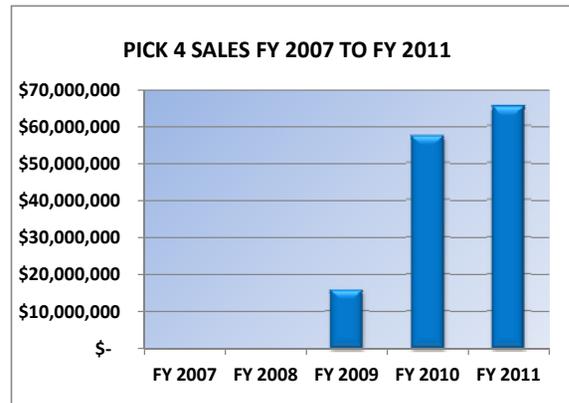
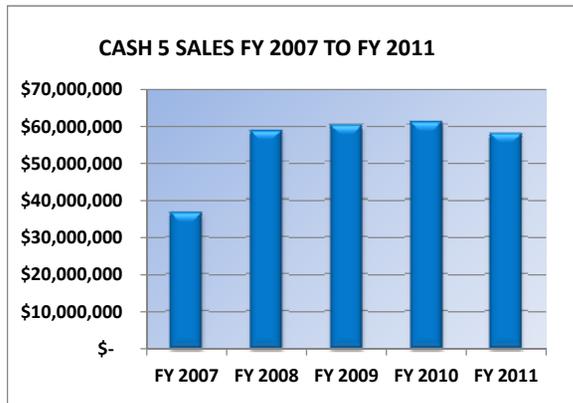
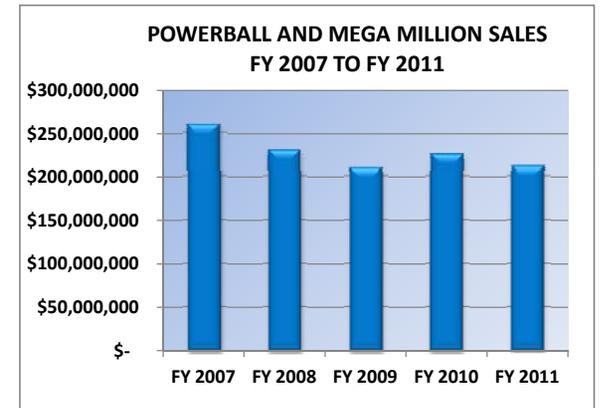
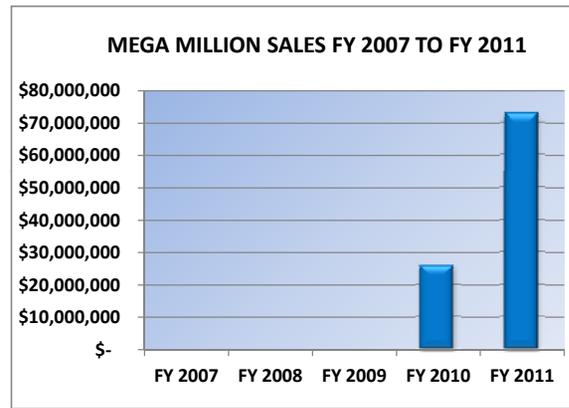
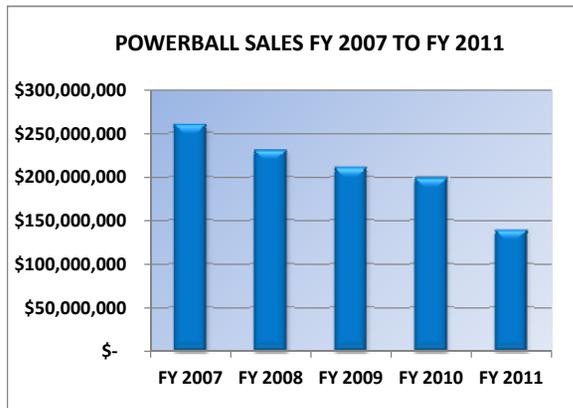
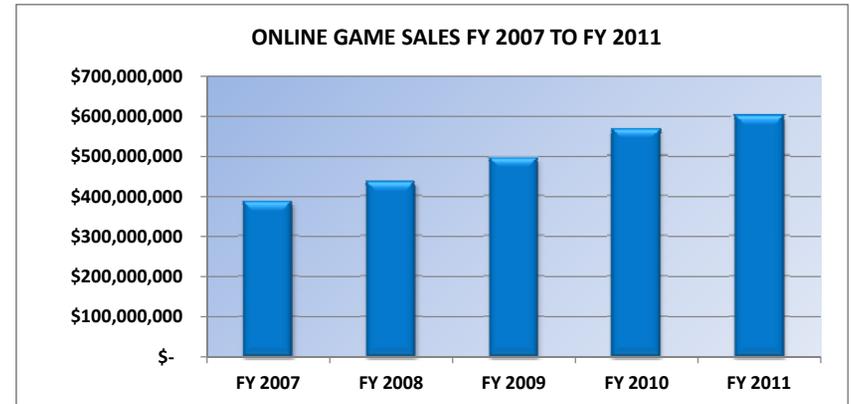


North Carolina Education Lottery Statistics

Online Sales FY 2007 to FY 2011:

North Carolina Education Lottery Online Sales

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Powerball	\$ 258,967,883	\$ 229,255,174	\$ 209,746,679	\$ 198,756,717	\$ 138,670,659
Mega Millions	\$ -	\$ -	\$ -	\$ 25,969,303	\$ 72,847,709
Cash 5	\$ 36,501,699	\$ 58,516,249	\$ 60,011,218	\$ 60,873,168	\$ 57,757,944
Pick 4	\$ -	\$ -	\$ 15,793,159	\$ 57,370,252	\$ 65,309,804
Pick 3	\$ 89,541,217	\$ 147,158,304	\$ 208,883,766	\$ 222,777,592	\$ 258,443,414
Raffle	\$ 10,000,000	\$ 7,369,240	\$ -	\$ -	\$ 5,986,380

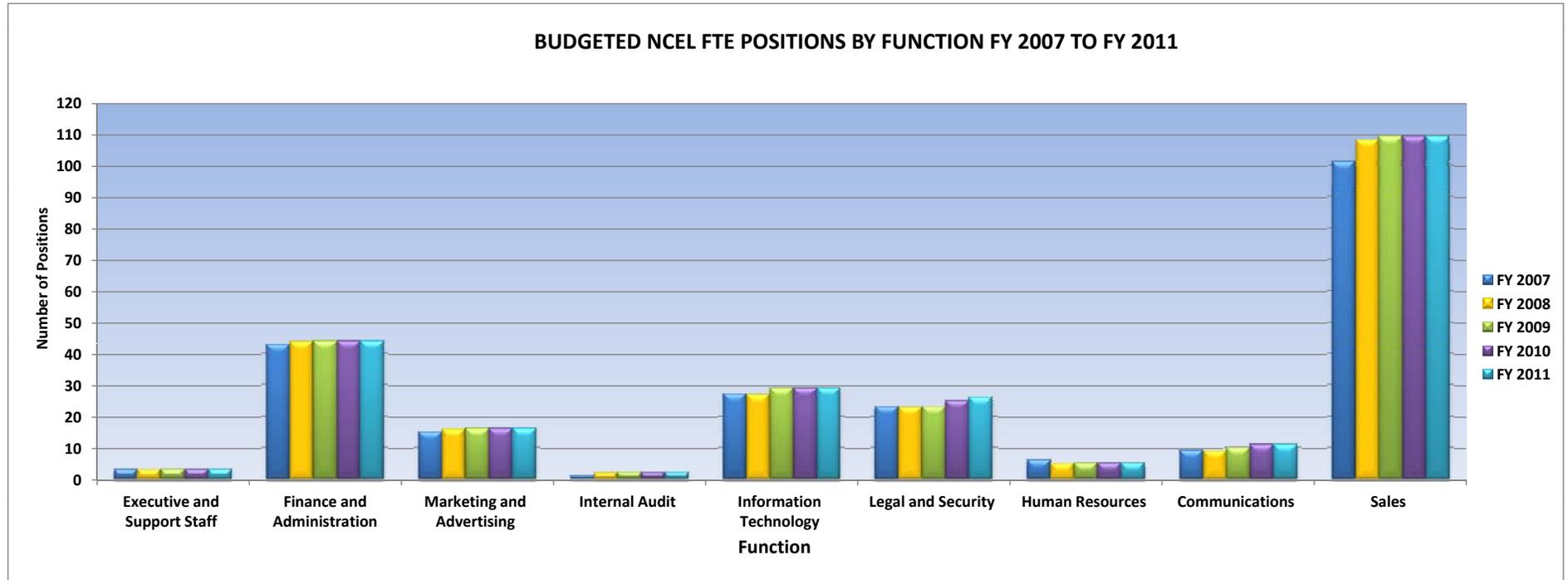


North Carolina Education Lottery Statistics

North Carolina Education Lottery Information:

Budgeted Full Time Equivalent (FTE) Positions by Function

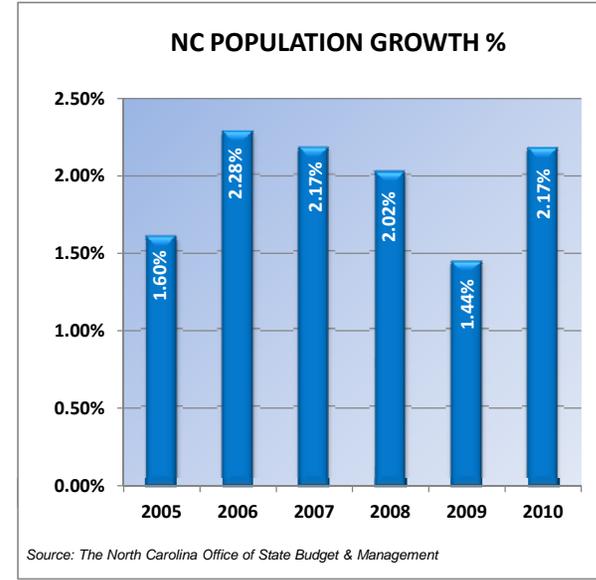
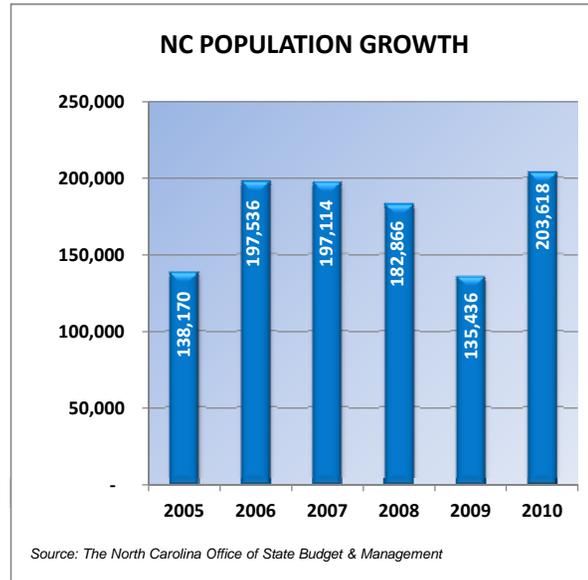
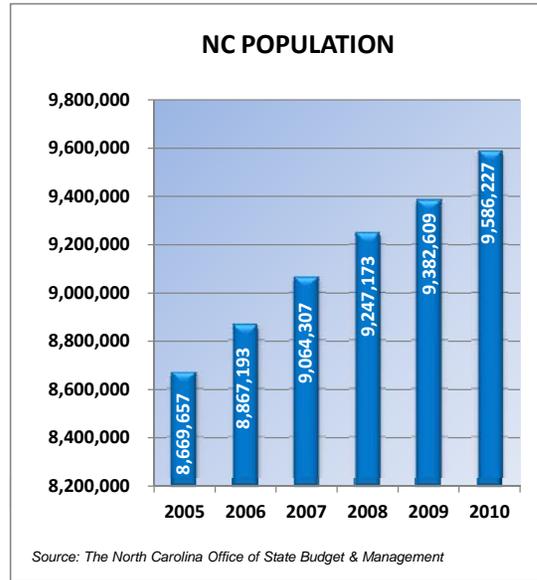
Function	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Executive and Support Staff	3	3	3	3	3
Finance and Administration	43	44	44	44	44
Marketing and Advertising	15	16	16	16	16
Internal Audit	1	2	2	2	2
Information Technology	27	27	29	29	29
Legal and Security	23	23	23	25	26
Human Resources	6	5	5	5	5
Communications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



North Carolina Population Demographics

Population	2005	2006	2007	2008	2009	2010
North Carolina Total Population	8,669,657	8,867,193	9,064,307	9,247,173	9,382,609	9,586,227
North Carolina Population Growth	138,170	197,536	197,114	182,866	135,436	203,618
North Carolina Population Growth Percentage	1.6%	2.3%	2.2%	2.0%	1.4%	2.2%

Source: 2009 Estimates from The North Carolina Office of State Budget & Management



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

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

2005 Households by type data not available

North Carolina Occupational and Income Statistics

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

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

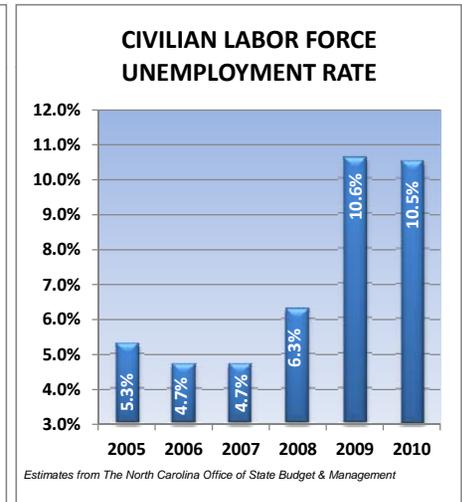
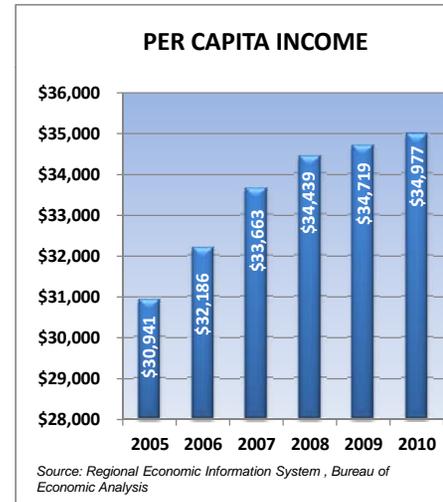
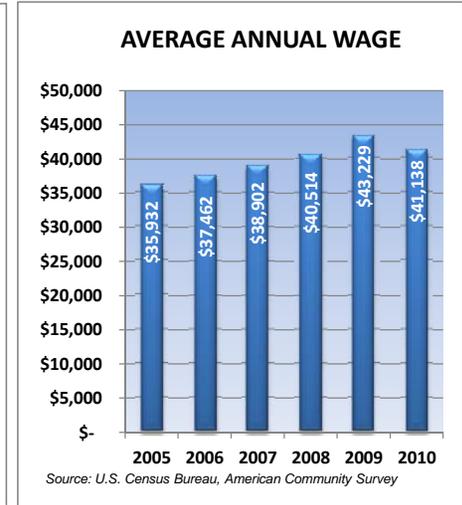
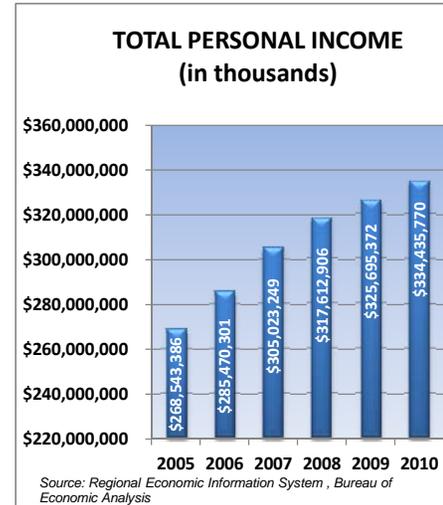
OCCUPATION						
	2005	2006	2007	2008	2009	2010
Civilian employed population 16 years and over	100%	100%	100%	100%	100%	100%
Management, professional, and related occupations	32.3%	32.6%	33.8%	33.9%	35.8%	35.1%
Service occupations	15.8%	15.7%	15.8%	16.2%	16.9%	17.3%
Sales and office occupations	24.2%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

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

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

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

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



North Carolina Employer Statistics

Employer	2011			2010			2009		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina	180,000-184,999	1	4.50%	180,000-184,999	1	4.46%	180,000-184,999	1	4.50%
Federal Government	65,000-69,999	2	1.66%	65,000-69,999	2	1.65%	65,000-69,999	2	1.67%
Wal-Mart Stores, Inc.	50,000-54,999	3	1.29%	50,000-54,999	3	1.28%	50,000-54,999	3	1.30%
Duke University	25,000-29,999	4	0.68%	25,000-29,999	4	0.67%	25,000-29,999	4	0.68%
Charlotte Hospital Authority	25,000-29,999	5	0.68%	25,000-29,999	5	0.67%	20,000-24,999	6	0.56%
Food Lion LLC	25,000-29,999	6	0.55%	25,000-29,999	6	0.67%	25,000-29,999	5	0.68%
Wells Fargo Bank NA	20,000-24,999	7	0.55%	20,000-24,999	8	0.55%	20,000-24,999	9	0.56%
Charlotte Board of Ed.	20,000-24,999	8	0.43%	20,000-24,999	7	0.55%	15,000-19,999	7	0.43%
Wake Public schools	15,000-19,999	9	0.43%	15,000-19,999	9	0.43%	20,000-24,999	8	0.56%
Lowes Home Centers, Inc	15,000-19,999	10	0.43%	15,000-19,999	10	0.43%	15,000-19,999	10	0.43%
Total	440,000-489,990		11.20%	440,000-489,990		11.36%	435,000-484,990		11.37%

Employer	2008			2007		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina	180,000-184,999	1	4.26%	175,000-179,999	1	3.93%
Federal Government	60,000-64,999	2	1.46%	60,000-64,999	2	1.38%
Wal-Mart Stores, Inc.	50,000-54,999	3	1.22%	50,000-54,999	3	1.16%
Duke University	25,000-29,999	4	0.64%	25,000-29,999	4	0.61%
Charlotte Hospital Authority	15,000-19,999	9	0.41%	15,000-19,999	9	0.39%
Food Lion LLC	25,000-29,999	5	0.64%	25,000-29,999	5	0.61%
Charlotte Board of Ed.	20,000-24,999	6	0.52%	20,000-24,999	6	0.50%
Wells Fargo Bank NA	20,000-24,999	7	0.52%	20,000-24,999	7	0.50%
Wake Public schools	15,000-19,999	8	0.41%	15,000-19,999	8	0.39%
Lowes Home Centers, Inc	15,000-19,999	10	0.41%	15,000-19,999	10	0.39%
Total	425,000-474,990		10.49%	420,000-469,990		9.86%

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

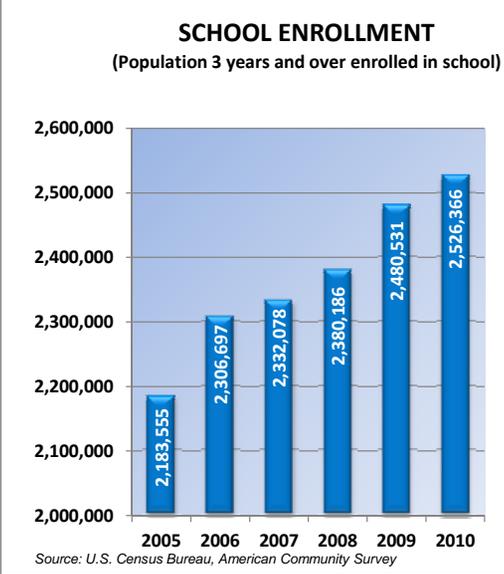
Source: North Carolina Employment Security Commission.

North Carolina Educational Statistics

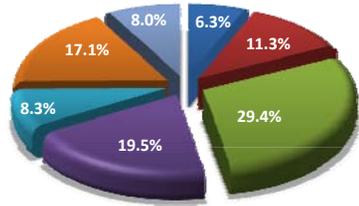
EDUCATIONAL ATTAINMENT

	2005	2006	2007	2008	2009	2010
Population 25 years and over	5,568,889	5,845,235	5,959,907	6,085,315	6,150,247	6,325,621
Less than 9th grade	353,070	384,155	365,783	383,607	364,595	354,732
9th to 12th grade, no diploma	631,888	667,051	647,904	612,533	599,129	610,095
High school graduate (includes equivalency)	1,638,855	1,738,948	1,766,873	1,680,882	1,678,361	1,749,642
Some college, no degree	1,089,224	1,129,037	1,160,685	1,324,936	1,350,850	1,392,117
Associate's degree	456,290	474,966	491,574	497,276	524,739	545,716
Bachelor's degree	951,509	966,882	1,015,979	1,060,313	1,091,506	1,123,118
Graduate or professional degree	448,053	484,196	511,109	525,768	541,067	550,201

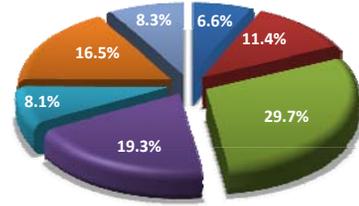
Source: U.S. Census Bureau, American Community Survey



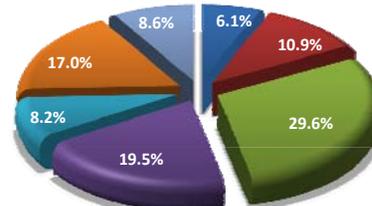
2005 EDUCATIONAL ATTAINMENT
(Population 25 years and over)



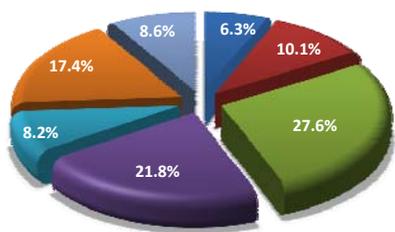
2006 EDUCATIONAL ATTAINMENT
(Population 25 years and over)



2007 EDUCATIONAL ATTAINMENT
(Population 25 years and over)



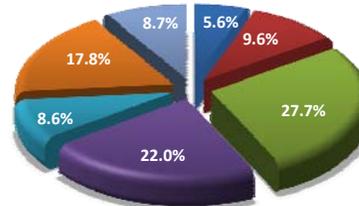
2008 EDUCATIONAL ATTAINMENT
(Population 25 years and over)



2009 EDUCATIONAL ATTAINMENT
(Population 25 years and over)



2010 EDUCATIONAL ATTAINMENT
(Population 25 years and over)



■ Less than 9th grade
■ Associate's degree

■ 9th to 12th (grade no diploma)
■ Bachelor's degree

■ High school graduate
■ Graduate or professional degree

■ Some college, no degree

THIS PAGE INTENTIONALLY LEFT BLANK

THIS PAGE INTENTIONALLY LEFT BLANK

THIS PAGE INTENTIONALLY LEFT BLANK



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

20 Copies of this public document were printed at a cost of \$600.00 or \$30.00 per copy.