

North Carolina Education Lottery

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

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NC Education
Lottery

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2018 & JUNE 30, 2017

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 & JUNE 30, 2017



TONY RAND
COMMISSION CHAIR

MARK MICHALKO
EXECUTIVE DIRECTOR

Prepared by the North Carolina Education Lottery Finance Division

This report was prepared by the
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For the Fiscal Years Ended June 30, 2018 & June 30, 2017

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INTRODUCTORY SECTION





October 22, 2018

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Citizens of North Carolina

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the North Carolina Education Lottery (NCEL) for the fiscal years ended June 30, 2018 and June 30, 2017. The finance department of the NCEL prepared this report to provide a comprehensive overview of our financial statements. Lottery management assumes the responsibility for the accuracy and completeness of this report. To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, the changes in financial position, and cash flows of the NCEL. All disclosures necessary to gain an understanding of the NCEL's financial activities have been included.

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

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

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

Profile of North Carolina Education Lottery

The North Carolina Education Lottery was created with the enactment of House Bill 1023 effective August 31, 2005. On March 30, 2006, the NCEL began selling instant scratch-off tickets. The sales kick-off occurred less than four months after the first NCEL employee came on board and, at that time, was the fastest start-up of any lottery 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 Mega Millions game began on January 31, 2010, while sales of Lucky for Life commenced on February 7, 2016. Finally, the NCEL's newest game, Keno, began selling on October 29, 2017.

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 thirty dollars.

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

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

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

Keno: Keno drawings take place every 5 minutes. For each drawing, 20 numbers out of 80 are chosen as winning numbers. Players decide how many (1 to 10) of the 20 winning numbers (spots) that they will try to match. Then, depending on the number of spots chosen, players will select numbers from 1 to 80. Prizes vary, up to \$100,000, based on the number of spots chosen, how many of the player’s numbers match the winning numbers, and how much money the player initially put down to purchase the ticket.

Carolina Cash 5: Players select 1 set of 5 numbers ranging from 1 to 43. 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 \$100,000, which increase for subsequent drawings if no one matches all five numbers. On March 30th 2014, an EZ match add-on was created for the Carolina Cash 5 game. The feature prints an instant “EZ” match number with a corresponding prize amount. If the EZ match number matches any of the pick 5 numbers, the player wins the corresponding prize instantly.

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

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

The NCEL continued with activities to attract different players throughout the fiscal year. Keno, which launched October 29, 2017, provided players with a new play-style and helped contribute to the year-over-year sales growth of the NCEL’s draw game portfolio. The strategy of launching and advertising families of games continued to move the needle for scratch-off sales, as four new families of games were launched. The second-ever \$30 scratch-off game, “Extreme Millions, continued to be a top performer . In addition, the NCEL saw added growth from the release of its first-ever oversized ticket, “The Big Money Super Ticket”.

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

These efforts aided the Lottery in surpassing two billion dollars in annual sales for the third consecutive year and have contributed to the transfer of more than \$5.9 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 projected net revenue is included in the State's budget and is submitted to the Governor and Legislature.

Internal Controls

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

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

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

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

- An independent firm is contracted to complete an annual SOC 1 audit on the gaming vendor's systems to ensure the systems have full integrity. A SOC 1 Report (Service Organization Controls Report) is a report on Controls at a Service Organization which are relevant to user entities' internal control over financial reporting.

Debt Administration

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

Annuities

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

Cash Management

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

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

Major Initiatives

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

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

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

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

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

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

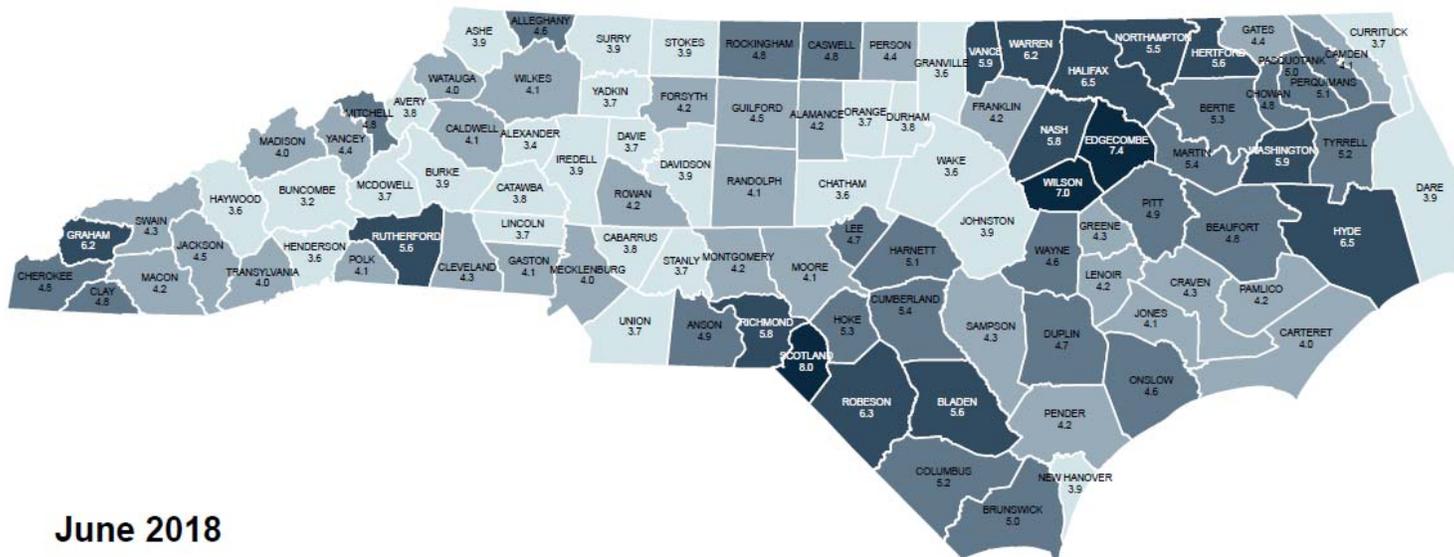
Local Economy, from the North Carolina Fiscal Research Division:

Growth in the last three years, while still moderate, has quickened sufficiently to improve overall economic conditions in the State. Economic projections for the key economic indicators in 2017, especially employment and income, are for continued growth at a solid pace. This would mean economic conditions in the State would be at their best since the onset of the recession 10 years ago.

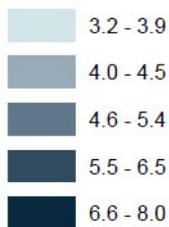
During the post-recession recovery, the State’s economy has tracked closely with the nation’s recovery. This trend is expected to continue as both the nation and the State continue to expand at a moderate, steady pace. For 2018, as is typical when the economy is on an upswing, the State’s growth in both GDP and in payroll employment is expected to slightly outpace the nation’s.

The following graphic depicts the county and state unemployment rate at the end of the 2018 fiscal year.

North Carolina Unemployment Rates by County June 2018



June 2018



- ^ 97 Counties Higher Than Previous Month
- v 3 Counties Lower Than Previous Month
- = 0 Counties Same as Previous Month

North Carolina Rate 4.2%
Not Seasonally Adjusted

Note: June 2018 data are preliminary.
Prepared by the Labor & Economic Analysis, North Carolina Department of Commerce 7_2018

North Carolina's strong overall economy has logged increases in job growth rate for seven consecutive months heading in to the second half of 2018. With unemployment continuing to drop and manufacturing hours at a 39-month high, nearly all signs point to continued economic strength and stability.

A recent Barings/UNC Charlotte Economic Forecast has a similar outlook. The forecast projects that 2018 will end with unemployment around 3.9%. 2019 is expected to continue the modest but sustained growth that the state experienced in 2018.

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, 2017. This was the tenth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,



Mark Michalko
Executive Director



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



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

North Carolina Education Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

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NORTH CAROLINA EDUCATION LOTTERY COMMISSION

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JASON ROTH
CHAIR-FINANCE

CHRIS SHEW
CHAIR-INTERNAL OPERATIONS

BUDDY BENGEL
CHAIR-GAMES & MARKETING

COURTNEY CROWDER
CHAIR-COMMUNITY AFFAIRS

MORGAN BEAM

RANDY JONES

NICK PICERNO

JODY TYSON

NORTH CAROLINA EDUCATION LOTTERY

SENIOR STAFF

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EXECUTIVE DIRECTOR

DEPUTY EXECUTIVE DIRECTORS

NOBORU “TONY” CHUNG
MIS & GAMING SYSTEMS

WILLIAM JOURDAIN
FINANCE, ADMINISTRATION & SECURITY

TERRI AVERY
SALES

FRANK SUAREZ
BRAND MANAGEMENT & COMMUNICATIONS

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STACY ASKEW
ADMINISTRATION

REGINALD BARNES
SALES-WEST

HAYDEN BAUGUESS
GOVERNMENT AFFAIRS

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VAN DENTON
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MIS

TAMARA WIGGS
MARKETING

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FINANCIAL SECTION



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Report of Independent Auditor

To the Commissioners
North Carolina Education Lottery
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying statements of net position of the North Carolina Education Lottery (“NCEL”), a major enterprise fund of the State of North Carolina, as of and for the years ended June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and cash flows, and the notes to the financial statements which collectively comprise the NCEL’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NCEL’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the NCEL as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Nature of Reporting Entity

As discussed in Note 2, the financial statements present only the NCEL and do not purport to and do not present fairly the financial position of the State of North Carolina as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Restatement

As discussed in Note 13 to the financial statements, the NCEL adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the fiscal year ended June 30, 2018. As a result, net position as of June 30, 2017, has been restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the *Governmental Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018, 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, grants 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 and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NCEL's internal control over financial reporting and compliance.

Channing R. Smith LLP

Raleigh, North Carolina
October 22, 2018

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*MANAGEMENT'S DISCUSSION AND
ANALYSIS*



NC Education
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NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

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, 2018, 2017, and 2016 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, 2018, 2017, and 2016.

Financial Highlights

For fiscal year 2018, gross ticketsales totaled \$2.605 billion representing a \$177 million increase over fiscal year 2017. Total operating income was \$673 million, which represented an increase of \$48.3 million over fiscal year 2017. Other significant financial highlights included the following:

- North Carolina General Statute Section 18C-164 (a) requires the NCEL to transfer net proceeds from operations and any prior year surplus to the State of North Carolina at least four times a year. In fiscal year 2018, the sum total of these cash transfers was \$676.6 million. Total cash transfers for fiscal years 2017 and 2016 were \$659.4 million and \$571.6 million, respectively.
- Awarded \$1 million or more to an NCEL player for the 410th time.
- Provided customer service to our 7,021 retailers on a regular basis.
- Released 58 new instant scratch-off games into the marketplace generating gross instant ticket sales of \$1.8 billion.

Overview of the Financial Statements

This financial report is designed to inform the public and other interested parties of the financial results of the NCEL and show its accountability in meeting the legislated mandate to generate funds to further the goal of providing enhanced educational opportunities. Accordingly, the focus of the financial statements is to determine funds available for payment to the State's Education Lottery Fund. It is important to note that most financial statement balances have a direct or indirect relationship to revenue. As lottery sales increase, the amount paid to the State's Education Lottery Fund also increases. Similarly, increases in revenues generally result in direct increases to cost of sales including, but not limited to, prize expense, retailer commission expense and gaming system vendor charges.

The NCEL is a major enterprise fund of the primary government of the State of North Carolina. The financial statements were prepared on the accrual basis of accounting in a manner similar to a private business entity. The principal operating revenues of the NCEL are sales of lottery products, by contracted retailers, to the general playing public. Operating expenses include the cost of prizes, retailer commissions, gaming system vendor charges, personnel, and other administrative expenses.

Included in this report are the Statements of Net Position as of June 30, 2018 and 2017, the Statements of Revenues, Expenses, and Changes in Net Position for the periods ended June 30, 2018 and 2017, and the Statements of Cash Flows for the periods ended June 30, 2018 and 2017.

The NCEL transfers its net revenues to the Office of State Budget and Management (OSBM) for credit to the Education Lottery Fund. Education Lottery funds are distributed by OSBM based on the budgeted distribution of lottery net revenue as recommended by the General Assembly.

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

Total Assets

Total assets at the end of fiscal year 2018 were \$144 million compared to \$168 million at the end of fiscal year 2017, representing a decrease of \$24 million.

Current assets decreased from \$100 million as of June 30, 2017 to \$70 million as of June 30, 2018, representing a decrease of \$30 million. This decrease resulted from a decrease in Pooled Cash that stemmed directly from the timing and frequency of funds transfers.

Current assets were also affected by a \$4 million increase in retailer accounts receivable and a \$1.3 million increase in investments in annuity contracts. Retailer accounts receivable primarily represents amounts due from retailer for ticket sales less commissions and prizes paid by the collections from lottery retailers at fiscal year-end.

Pooled cash consists of deposits held by the State Treasurer in the State Treasurer's Short-Term Investment Fund (STIF). The STIF has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and may withdraw cash at any time without prior notice or penalty. All deposits are combined with other state agencies and invested by the State Treasurer until needed to cover disbursements. Investments are limited to those authorized for the State's General Fund, pursuant to NC General Statute 147-69.1. Interest earned of \$1.28 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 2018 was \$2 million which is showed no change from 2017. The investment in capital assets includes game equipment, data processing equipment, telephone equipment, software and fixtures. The capitalization of all items including equipment, computers, and furniture follows the Office of the State Controller's (OSC) policy. The NCEL defines capital assets as assets with an initial unit cost of \$5,000 or greater and an estimated useful life of two or more years – except in the case of software where the initial unit cost threshold is \$100,000. Capital assets are carried at cost less accumulated depreciation.

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

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

The activity for capital assets for the year ended June 30, 2018 was (in thousands):

<u>Category</u>	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>
Capital assets, depreciable				
Furniture	\$ 66	\$ -	\$ 17	\$ 49
Equipment	5,097	5,464	6,315	4,246
Motorized equipment	80	-	-	80
Computer software	1,010	-	-	1,010
Total capital assets, depreciable	<u>6,253</u>	<u>5,464</u>	<u>6,332</u>	<u>5,385</u>
Less accumulated depreciation for:				
Furniture	43	-	15	28
Equipment	3,825	391	1,354	2,862
Motorized equipment	75	3	-	78
Computer software	242	126	14	354
Total accumulated depreciation	<u>4,185</u>	<u>520</u>	<u>1,383</u>	<u>3,322</u>
Total capital assets, depreciable, net	<u>2,068</u>	<u>4,944</u>	<u>4,949</u>	<u>2,063</u>
Capital assets, net	<u>\$ 2,068</u>	<u>\$ 4,944</u>	<u>\$ 4,949</u>	<u>\$ 2,063</u>

Deferred Outflows of Resources

The NCEL recognized deferred outflows of resources as related to pensions and retiree medical insurance during fiscal year 2018, fiscal year 2017, and fiscal year 2016. More information on deferred outflows can be found in Notes 9 and 10 of the notes to the financial statements.

Total Liabilities

Total current liabilities for the NCEL were \$70 million as of June 30, 2018 decreasing by \$27 million from 2017. The decrease in current liabilities mainly resulted in a decrease in accounts payable. This decrease can be attributed to the timing of transactions encountered in the normal course of business.

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

<u>Beginning</u>	<u>Earned</u>	<u>Used</u>	<u>Ending</u>	<u>Current Liability</u>	<u>Long Term Portion</u>
<u>\$ 1,926</u>	<u>\$ 1,789</u>	<u>\$ 1,926</u>	<u>\$ 1,789</u>	<u>\$ 448</u>	<u>\$ 1,341</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, 2019.

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

Deferred Inflows of Resources

The NCEL recognized deferred inflows of resources as related to pensions and retiree medical insurance during fiscal year 2018, fiscal year 2017, and fiscal year 2016. More information on deferred inflows can be found in Notes 9 and 10 of the Notes to the Financial Statements.

Net Position and Changes in Net Position

As required in the North Carolina State Lottery Act, each month, twenty percent of the previous month's lottery sales is transferred to the NC Education Lottery Fund at the Office of State Budget and Management. Additional quarterly transfers are made to move any additional net income to the Office of State Budget Management. At year-end, net position is (\$44,698) for the NCEL. This change of \$44,698 resulted from an adjustment to net pension liability and the recognition of other post-employment benefits (OPEB) liabilities. More information about these changes can be found in Notes 9 and 10 of the Notes to the Financial Statements.

Condensed Statement of Net Position (in thousands)

	2018	2017	2016
ASSETS			
Total Current Assets	\$ 70,053	\$ 100,151	\$ 128,400
Noncurrent Assets	71,938	65,402	58,678
Capital Assets, Depreciable (Net)	2,063	2,068	1,546
Total Assets	<u>144,054</u>	<u>167,621</u>	<u>188,624</u>
Deferred Outflows of Resources	<u>6,743</u>	<u>6,614</u>	<u>1,327</u>
Liabilities			
Total Current Liabilities	69,830	96,461	124,272
Noncurrent Liabilities	114,129	77,167	64,704
Total Liabilities	<u>183,959</u>	<u>173,628</u>	<u>188,976</u>
Deferred Inflows of Resources	<u>11,536</u>	<u>607</u>	<u>975</u>
Net Position			
Investment in Capital Assets	2,063	2,068	1,546
Restricted	108	-	-
Unrestricted	<u>(46,869)</u>	<u>(2,068)</u>	<u>(1,546)</u>
Total Net Position	<u>\$ (44,698)</u>	<u>\$ -</u>	<u>\$ -</u>

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

Current liabilities consist of "Due to the State" in the amount of \$29.6 million. This amount represents the remaining amount of the "Net Revenues" and "50% of Unclaimed Prizes" for Fiscal Year 2018 not yet transferred to the State of North Carolina as of June 30, 2018. These funds will be transferred to the State during Fiscal Year 2019. Additional information on "Due to the State" is found in Note 6C to the financial statements.

Revenues

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

Sales

The gross lottery ticket sales for fiscal year 2018 totaled \$2.605 billion as compared to \$2.428 billion for fiscal year 2017 and \$2.384 billion for fiscal year 2016. This represents an increase of \$177 million from 2017 and \$221 million from 2016.

Gross instant ticket sales were \$1.783 billion for fiscal year 2018 compared with \$1.695 billion for fiscal year 2017 and \$1.617 billion for fiscal year 2016, an increase of approximately \$88 million from fiscal year 2017 and approximately \$166 million from fiscal year 2016. The increase realized during fiscal year 2018 is attributable to several factors. The increase in instant ticket sales in 2018 was driven by growth at the \$10 and \$20 price points, which experienced a 40% and 18% increases over the previous year, respectively. The introduction of the first oversized ticket, The Big Money Super Ticket™, was a big reason for this growth, contributing over \$60 million in sales. The \$20 game that had the biggest impact on sales was 100X the Cash. This top performing \$20 game accounted for over \$62 million in sales in just 5 months following the launch in February. Despite the great performance of the Super Ticket and 100X the Cash, neither one was the best performing game of the year. That distinction went to the \$30 game, Extreme Millions, which contributed over \$239 million in sales for the year. Family of games continued to play an important role in the instant game portfolio with the introduction of 4 new families, "Frenzy", "Diamond Dazzler", "X the Cash" and "7's". All of these families combined to produce over \$474 million in total sales in 2018.

Draw game sales were \$823 million for fiscal year 2018 compared to \$732 million for fiscal year 2017 and \$766 million for fiscal year 2016, representing a \$91 million increase over fiscal year 2017 and a \$57 million increase over fiscal year 2016. This growth was balanced amongst most of the draw game portfolio, as Pick 3, Pick 4, Powerball, and Mega Millions all experienced year over year growth. The most significant growth came from Mega Millions, the multi-state jackpot game that benefited from an increase in ticket price from \$1 to \$2. Mega Millions was up \$24 million over 2017 with sales for the year of \$79 million. Powerball sales also grew year over year. Sales for the year were \$169 million, which was \$20 million higher than 2017. The two numbers games, Pick 3 and Pick 4 continued their trend of steady growth with year over year increases of 4% and 7% respectively. Combined the two games accounted for \$462 million in sales in 2018, which was \$20 million higher than the previous year.

The most significant contributor to the year over year draw game sales growth was the addition of the newest game in the portfolio, Keno. Keno is a fast paced game that gives players the opportunity to win up to \$100,000 in drawings that occur every 5 minutes. It was launched on October 29th, 2017 and contributed a total of \$28.5 million in the 7 months that it was on sale last fiscal year. As of the end of fiscal year 2018 Keno was sold at 557 retail outlets throughout the state.

NORTH CAROLINA EDUCATION LOTTERY

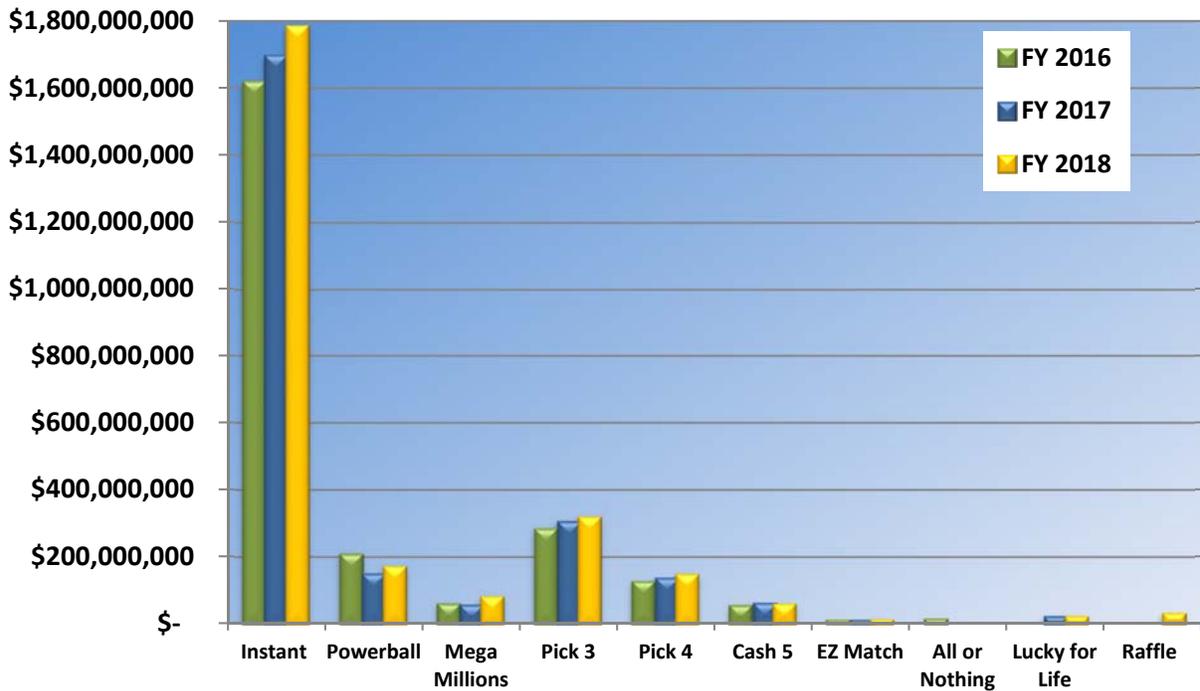
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

There were two draw games that experienced sales declines, Cash 5 and Lucky for Life. Cash 5 sales in 2018 were \$57 million, which was a \$3 million decline over the previous year. Lucky for Life sales were down \$1 million for the year to \$19 million.

The following chart depicts the distribution of sales by product for the fiscal years ended June 30, 2018, 2017, and 2016.

SALES BY GAME FY 2016 TO FY 2018 COMPARISON



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

Expenses

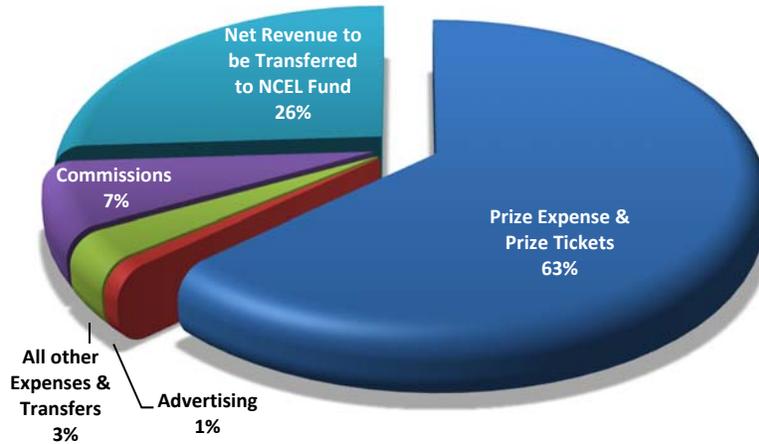
Section 18C-162, NC General Statute stipulates that no more than 8% of the total annual revenues shall be allocated for payment of expenses of the Lottery. Advertising expenses shall not exceed 1% of the total annual revenues.

The following charts show the major components of NCEL operating expenses and transfers as a percentage of total revenues for the fiscal years ended June 30, 2018, 2017, and 2016.

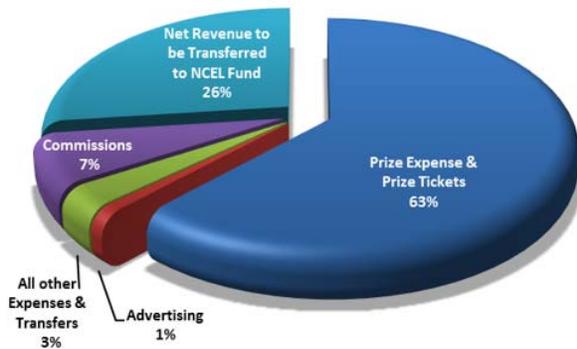
NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

DISTRIBUTION OF REVENUES FY 2018



DISTRIBUTION OF REVENUES FY 2017



DISTRIBUTION OF REVENUES FY 2016



Prizes, commissions and gaming vendor charges all directly relate to sales. As expected, as sales have increased so have these expenses. In fiscal year 2018, total gaming expenses which consist of prizes, retailer commissions and gaming vendor charges (gaming system services), totaled \$1,874 million as compared to \$1,754 million and \$1,698 million for fiscal years 2017 and 2016, respectively. Other operating expenses, which consist of advertising and marketing, salary and benefits, professional fees, rent, maintenance, depreciation and general administrative expenses increased to \$62.9 million in fiscal year 2018, as compared with \$55.6 million and \$54.7 million for fiscal years 2017 and 2016, respectively. Other operating expenses represented 2.5%, 2.3%, and 2.4% of total operating revenues in fiscal years 2018, 2017, and 2016, respectively.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

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

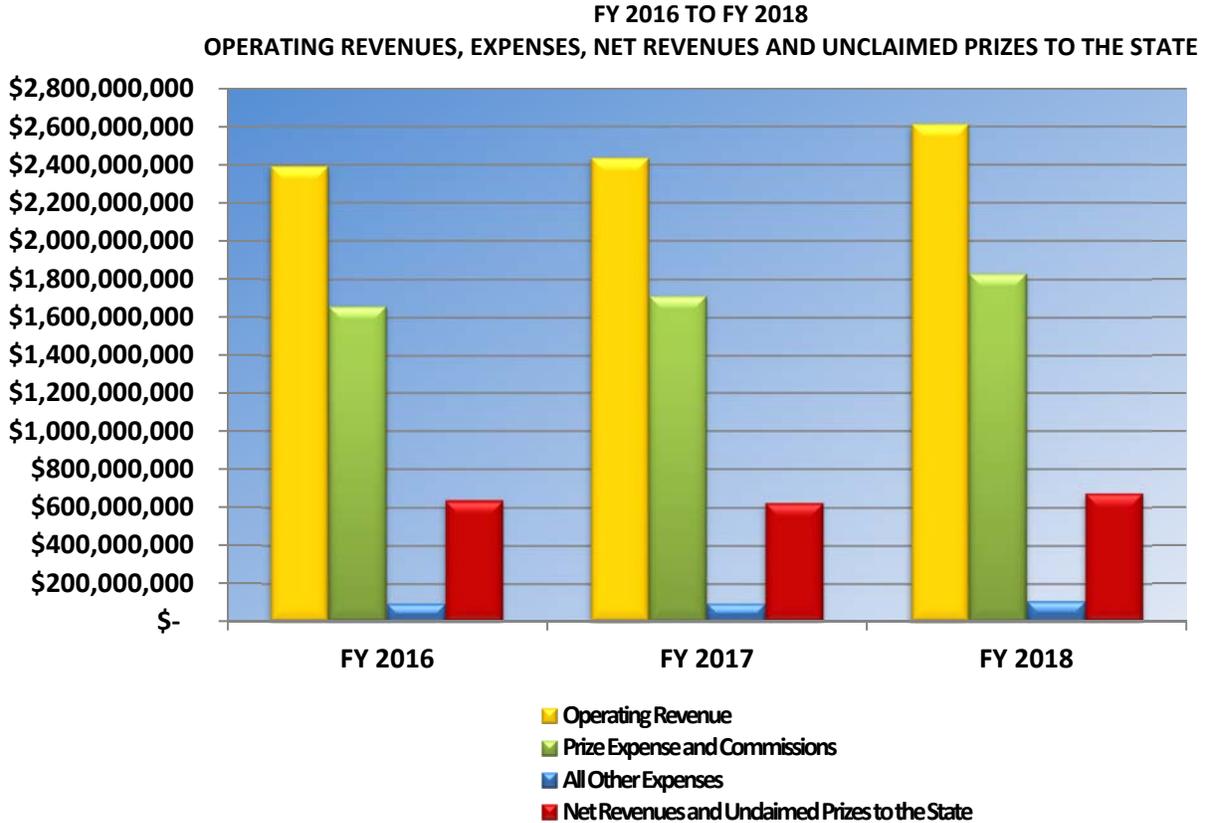
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues:			
Gross Sales:	\$ 2,605,313	\$ 2,428,071	\$ 2,383,591
Sales/Service Bad Debt/Bad Debt Recoveries	(294)	(536)	24
Fees and Licenses	5,399	5,308	5,361
Total Operating Revenues	<u>2,610,418</u>	<u>2,432,843</u>	<u>2,388,976</u>
Operating Expenses:			
Gaming Expenses:			
Lottery Prizes	1,647,828	1,543,158	1,491,031
Retailer Commissions	181,571	169,439	166,437
Gaming Systems Services	44,257	40,326	40,640
Total Gaming Expenses	<u>1,876,465</u>	<u>1,752,923</u>	<u>1,698,108</u>
Other Operating Expenses	64,158	55,598	54,692
Total Operating Expenses	<u>1,937,814</u>	<u>1,808,521</u>	<u>1,752,800</u>
Operating Income	<u>672,604</u>	<u>624,322</u>	<u>636,176</u>
Nonoperating Revenues (Expenses):			
Investment Earnings, Nonoperating Revenue (Expense) and Compulsive Gambling Contribution & ALE	(2,342)	(1,817)	(1,908)
Net Revenues and Unclaimed prizes to the State	(675,470)	(622,505)	(634,268)
Total Nonoperating Revenue (Expenses)	<u>(677,812)</u>	<u>(624,322)</u>	<u>(636,176)</u>
Change in Net Position	<u>(5,208)</u>	<u>-</u>	<u>-</u>
Net Position, Beginning July 1	-	-	-
Cumulative Effect From Change in Accounting Principle	(39,490)	-	-
Net Position, Beginning July 1 (Restated)	<u>(39,490)</u>	<u>-</u>	<u>-</u>
Net Position, Ending June 30	<u>\$ (44,698)</u>	<u>\$ -</u>	<u>\$ -</u>

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

From fiscal year 2016 to fiscal year 2018, the NCEL has achieved annual increases in operating revenues. The following graph depicts revenue and expense trends.



Budget and Economic Outlook

On June 5, 2018, the NCEL Commission approved the Fiscal Year 2019 budget for the NCEL to provide a projected \$667.7 million to the State's Education Lottery Fund. This projected budget is an 8.4% increase over the fiscal year 2018 budget that reflected a \$616.1 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. The General Assembly Fiscal Research Division shows "a forecast for moderate, steady economic growth. Employment growth is projected to continue at its current pace throughout the biennium [2017-2019]." In addition, NCSU economists project continued steady growth, noting that growth to real GDP and growth in payroll employment in North Carolina will match or slightly out-pace that of the nation as-a-whole. Based on this prognosis, the NCEL has constructed an increasing budget and sales forecast for the upcoming fiscal year.

A focus of the NCEL Commission is to ensure sound operations. The existence of this focus is apparent in the opinions issued by external audit firms. For the tenth consecutive year, the State Auditor contracted with an outside CPA firm to conduct the fiscal year financial audit, which resulted in an unmodified opinion.

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

Requests for Information

Any request for information about this report should be sent to the Public Information Officer at the North Carolina Education Lottery, 2728 Capital Boulevard, Suite 144, Raleigh, NC 27604.

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BASIC FINANCIAL STATEMENTS



NORTH CAROLINA EDUCATION LOTTERY

Statements of Net Position (in thousands)
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash	\$ 131	\$ 142
Pooled Cash	37,497	72,882
Receivables:		
Accounts Receivable	25,123	21,065
Interest Receivable	97	93
Investment in Annuity Contracts and Treasury Strips	7,117	5,781
Prepaid Items	41	100
State Treasurer's Security Lending Collateral	47	88
Total Current Assets	70,053	100,151
Noncurrent Assets:		
Investment in Annuity Contracts	71,879	65,361
Prepaid Items	-	41
Net OPEB Asset	59	-
Capital Assets, Depreciable (Net):		
Furniture and Equipment	5,385	6,253
Accumulated Depreciation	(3,322)	(4,185)
Total Capital Assets, Depreciable (Net)	2,063	2,068
Total Assets	144,054	167,621
DEFERRED OUTFLOWS OF RESOURCES	6,743	6,614
LIABILITIES		
Current Liabilities:		
Accounts Payable	31,295	57,605
Accrued Payroll	1,836	1,916
Annuity Prize Award Payable - Current	6,556	5,781
Accrued Paid Time Off - Current	448	280
Due to the State	29,648	30,791
Obligations Under State Treasurer's Security Lending Agreements	47	88
Total Current Liabilities	69,830	96,461
Noncurrent Liabilities:		
Annuity Prize Award Payable	72,440	65,361
Accrued Paid Time Off	1,341	1,646
Net Pension Liability	8,647	10,160
Net OPEB Liability	31,701	-
Total Liabilities	183,959	173,628
DEFERRED INFLOWS OF RESOURCES	11,536	607
NET POSITION		
Investment in Capital Assets	2,063	2,068
Restricted	108	-
Unrestricted	(46,869)	(2,068)
Total Net Position	\$ (44,698)	\$ -

See Notes to the Financial Statements.

NORTH CAROLINA EDUCATION LOTTERY

Statements of Revenues, Expenses, and Changes in Net Position (in thousands) Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues:		
Gross Sales:	\$ 2,605,313	\$ 2,428,071
Sales/Service Bad Debt/Bad Debt Recoveries	(294)	(536)
Fees and Licenses	5,399	5,308
Total Operating Revenues	2,610,418	2,432,843
Operating Expenses:		
Salaries, Wages, and Benefits	22,403	21,299
Lottery Prizes	1,647,828	1,543,158
Retailer Commissions	181,571	169,439
Retailer Incentives	1,253	1,020
Gaming Systems Services	44,257	40,326
Advertising	24,661	20,110
Marketing	4,953	4,129
Other Services	6,109	4,869
Furniture, Fixtures, and Equipment	705	774
Depreciation	520	542
Other General and Administrative Expenses	3,554	2,855
Total Operating Expenses	1,937,814	1,808,521
Operating Income	672,604	624,322
Nonoperating Revenues (Expenses):		
Investment Earnings	1,282	1,106
Compulsive Gambling Contribution	(1,000)	(1,000)
ALE Gaming Enforcement	(2,100)	(2,100)
Unclaimed Prizes to NC Education Lottery Fund	(15,989)	(17,526)
Net Revenues to the State of NC	(659,481)	(604,979)
Miscellaneous Nonoperating Revenues (Expenses)	(524)	177
Total Nonoperating Expenses	(677,812)	(624,322)
Change in Net Position	(5,208)	-
Net Position, Beginning July 1	-	-
Cumulative Effect From Change in Accounting Principle	(39,490)	-
Net Position, Beginning July 1 (Restated)	(39,490)	-
Net Position, Ending June 30	\$ (44,698)	\$ -

See Notes to the Financial Statements.

NORTH CAROLINA EDUCATION LOTTERY

Statements of Cash Flows (in thousands)
Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 2,424,754	\$ 2,262,614
Payments to Employees and Fringe Benefits	(21,151)	(19,463)
Payments for Prizes, Benefits and Claims	(1,678,224)	(1,532,238)
Payments to other funds	5,208	-
Payments to Vendors and Suppliers	(81,296)	(72,219)
Other Receipts	53	-
Net Cash Flows From Operating Activities	649,344	638,694
CASH FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to State	(681,821)	(659,451)
Transfers to Other State Agencies	(3,100)	(3,100)
Net Cash From Noncapital Financing Activities	(684,921)	(662,551)
CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(5,464)	(1,064)
Proceeds from sale of capital assets	4,371	-
Net Cash From Capital and Related Financing Activities	(1,093)	(1,064)
CASH FROM INVESTING ACTIVITIES		
Investment Earnings	1,273	1,085
Net Cash from Investing Activities	1,273	1,085
Net Increase/(Decrease) in Cash and Cash Equivalents	(35,396)	(23,836)
Cash and Cash Equivalents at Beginning of Year	73,024	96,860
Cash and Cash Equivalents at End of Year	\$ 37,628	\$ 73,024
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 672,604	\$ 624,322
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation Expense	520	542
Pension Expense	-	1,955
Other Nonoperating Income	57	-
(Increase) Decrease in Assets:		
Accounts Receivable	(4,057)	(810)
Prepaid Items	100	514
Net OPEB Asset	3	-
Deferred Outflows for Pensions	2,156	(5,287)
Deferred Outflows for OPEB	(1,387)	-
Increase (Decrease) in Liabilities:		
Accounts Payable	(26,310)	12,255
Due to other funds	5,208	-
Accrued Payroll and Related Liabilities	(80)	1,558
Compensated Absences	(137)	(257)
Net Pension Liability	(1,513)	-
Net OPEB Liability	(8,748)	-
Deferred Inflows for OPEB	11,017	-
Deferred Inflows for Pensions	(89)	-
Other Liabilities	-	3,902
Total Cash Provided by Operating Activities	\$ 649,344	\$ 638,694
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital Asset Write-off	\$ 4,949	\$ -
Increase in Receivables related to non-operation income	4	-
Change in Securities Lending Collateral	(41)	(5,275)

See Notes to the Financial Statements.

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NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 1 – ORGANIZATION

The North Carolina State Lottery Commission [aka, North Carolina Education Lottery (NCEL)] was created with the enactment of House Bill 1023, effective August 31, 2005, as an independent, self-supporting, and revenue-raising agency of the State of North Carolina (the State). The NCEL commenced operations on March 30, 2006 with the sale of instant scratch-off tickets. In March 2006, the NCEL joined the Multi-State Lottery Association (MUSL) composed of a group of U.S. lotteries that combine jointly to sell POWERBALL lottery tickets. POWERBALL sales began on May 30, 2006. The current sales portfolio consists of additional draw games introduced as follows:

- Carolina Pick 3 on October 6, 2006
- Carolina Cash 5 on October 27, 2006
- Carolina Pick 3 second daily draw (Monday through Saturday) on March 31, 2008
- Carolina Pick 4 on April 17, 2009
- Mega Millions on January 31, 2010
- Carolina Pick 4 second daily draw and Carolina Pick 3 second Sunday draw on February 27, 2011
- EZ Match on March 30, 2014
- Lucky for Life on February 8, 2016
- Keno on October 29, 2017

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity:

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

B. Basis of Presentation:

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

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued):

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

C. Cash and Cash Equivalents:

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

D. State Treasurer’s Securities Lending Collateral:

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

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

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

Additional details on the State Treasurer’s securities lending program are included in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page <http://www.osc.nc.gov/> and clicking on “Public Information,” or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018 and 2017.

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 – except in the case of software where the initial unit cost threshold is \$100,000. This definition conforms to the policy of the NC Office of State Controller. Depreciation is computed using the straight-line method over the estimated lives of the assets. The NCEL uses the half year convention. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation will be removed from the books and any resulting gain or loss reflected in operations of the period of disposal. Capital assets are carried at cost less accumulated depreciation. The estimated useful lives by general category are as follows:

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

G. Deferred Outflows/Inflows of Resources:

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

H. Game Revenue Recognition:

For the NCEL's draw games, POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, EZ Match, Lucky for Life, and Keno, revenue is recognized at the time of sale on a daily basis. For instant games, revenue is recognized at the time a pack of tickets is settled (See Note 3A.1).

I. Lottery Prize Expense Recognition:

For POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, and Carolina Pick 3, and Lucky for Life, prize expense is recorded at 50 percent of sales on a daily basis. EZ Match is recorded at 63.3571 percent of sales on a daily basis. Keno is recorded at 65.73 percent of sales on a daily basis. For instant games, prize expense is accrued based on the final production prize structure percentage provided by the gaming vendor for each game and recorded daily on the value of packs settled. For the instant games with prize tickets, the final prize structure percentage used is adjusted to eliminate the value of the prize tickets. Prize expense for merchandise prizes is recognized as prizes are fulfilled.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Use of Estimates:

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

K. Retirement Plans:

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

L. Other Post-Employment Benefits:

The net OPEB liability represents the NCEL's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2017 Comprehensive Annual Financial Report. This liability represents the NCEL's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 18 for further information regarding the NCEL's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 3 – REVENUE

A. Operating Revenue:

1. Game Revenue:

Instant packs are settled using the following methodology:

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

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

Game Revenue	<u>2018</u>	<u>2017</u>
Instant	\$ 1,782,807	\$ 1,695,232
Draw	822,506	732,839
Bad debt write off	(288)	(522)
Damaged tickets, sales services	<u>(6)</u>	<u>(14)</u>
Total	<u>\$ 2,605,019</u>	<u>\$ 2,427,535</u>

2. Fees and Licenses:

The majority of Fees and Licenses represent a weekly retailer communication fee charged to active retailers for terminal satellite communications and an application fee for new retailers and changes in ownership. Total Fees and Licenses for fiscal year 2018 and 2017 were \$5,399 and \$5,308 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 \$1,282 and \$1,106 for the years ended June 30, 2018 and 2017, respectively.

The NCEL also has miscellaneous non-operating revenue related to dividends received from MUSL which were \$0 and \$144 for the years ended June 30, 2018 and 2017, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 4 – EXPENSES

A. Operating Expenses:

1. Lottery Prize Expense:

Prize Expense	2018	2017
Instant	\$ 1,232,381	\$ 1,175,153
Draw	399,458	350,479
50% of unclaimed prizes	15,989	17,526
Total	\$ 1,647,828	\$ 1,543,158

2. Retailer Commissions:

Commissions	2018	2017
Instant	\$ 124,623	\$ 118,479
Draw	56,948	50,960
Total	\$ 181,571	\$ 169,439

3. Retailer Incentives:

In fiscal year 2010, the State Lottery Commission approved a retailer incentive program where retailers would receive compensation for selling a top/second tier prize in the Multi-State games POWERBALL and Mega Millions and a top tier prize in Carolina Cash 5. As of December 2011, the retailer incentive program was expanded to include instant ticket prizes of over \$1 million as well. As of February 8, 2016, the program was again expanded to include Lucky for Life. The total payments issued for the retailer incentive program for fiscal years 2018 and 2017 were \$1,253 and \$1,020, respectively.

4. Other Services:

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

	2018	2017
Security services	\$ 16	\$ 55
Communications, including wiring	942	746
Legal services	21	54
Travel	207	174
Other	4,923	3,840
Total	\$ 6,109	\$ 4,869

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 4 – EXPENSES (continued)

5. Furniture, Fixtures, and Equipment:

To operate a lottery, numerous items of equipment, furniture, and ticket dispensers are required. Most of these items were one-time purchases to be replaced as needed at various points in the future. These items were also below our threshold for capitalization (See Note 2F) and therefore expensed. The total expenses for fiscal years 2018 and 2017 were \$705 and \$774, respectively.

6. Leases – Buildings, Offices, and Other Equipment:

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

Projected lease payments for these facilities are:

<u>Year Ending</u>	<u>Amount</u>
2019	\$ 1,921
2020	1,974
2021	2,032
2022	1,944
2023	1,991
<u>2024-2028</u>	<u>6,234</u>
<u>Total</u>	<u>\$ 16,096</u>

The total space rental costs for the fiscal years 2018 and 2017 were \$1,861 and \$1,519, respectively. The NCEL also has several contracts for various equipment leases including instant ticket vending machines (ITVM's).

B. Non-operating Expenses:

The allocable share of the expenses arising from State Treasurer's Securities Lending Collateral program transactions, totaling \$4 and \$15 for the years ended June 30, 2018 and 2017, respectively, are included as non-operating expense.

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, 2018 and 2017 (See Note 7D).

The second transfer was to the Department of Public Safety's Division of Alcohol and Law Enforcement (ALE) in the amount of \$2,100 in fiscal year 2018 and \$2,100 in fiscal year 2017.

The Third transfer was \$15,989 and \$17,526 for the years ended June 30, 2018 and 2017, respectively, from unclaimed prizes during the year. The North Carolina State Lottery Act requires the NCEL to transfer "Fifty percent (50%)" of unclaimed prizes to the NC Education Lottery Fund each year (See Note 7C).

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 4 – EXPENSES (continued)

C. Transfers Out (continued):

The fourth transfer was in compliance with the North Carolina State Lottery Act. This Act requires all “Net Revenues” of the NCEL to be transferred to the NC Education Lottery Fund for the educational purposes set forth in the legislation. “Net Revenues” were \$659,481 for fiscal year 2018 compared with \$604,979 for fiscal year 2017 (see Note 12). However, \$676,613 was transferred to the NC Education Lottery Fund for fiscal year 2018 compared with \$659,452 for fiscal year 2017. The balances remaining (\$29,648 and \$30,791 for fiscal years 2018 and 2017) were recorded as a payable to the State for both fiscal years and were transferred subsequent to fiscal year end. NC General Statute 18C-162 states: “The funds remaining in the North Carolina State Lottery Fund after receipt of all revenues to the Lottery Fund and after accrual of all obligations of the Commission for prizes and expenses shall be considered to be the net revenues of the North Carolina State Lottery Fund.”

NOTE 5 – ASSETS

A. Cash:

The cash and cash equivalents balances as of June 30, 2018 and 2017 include no undeposited receipts on hand.

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

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

At June 30, 2018 and 2017, respectively, \$37,497 and \$72,882 of the amounts shown on the Statement of Net Position as cash and cash equivalents represents the NCEL’s equity position in the STIF. The STIF (a portfolio within the State Treasurer’s Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.4 and 1.6 years, as of June 30, 2018 and 2017, respectively. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The NCEL’s position in the pool is measured and reported at 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 “Public Information” or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 5 – ASSETS (continued)

B. Accounts Receivable:

Accounts Receivable primarily represents amounts due from retailer's ticket sales less commissions and prizes paid by the retailers. Electronic Funds Transfer is used to collect receivables weekly from retailer bank accounts that were set up in trust for the NCEL.

C. Investment in Annuity Contracts and Treasury Strips:

Investments in Annuity Contracts and Treasury Strips represent the present value of the annuity contracts that fund the long term installment prizes contracted through insurance company annuities (See Note 7B) and the market value of treasury strips that fund the long term installment prizes. The current and long term balances are \$7,117 and \$71,879 for fiscal year 2018 and \$5,781 and \$65,361 for fiscal year 2017, respectively.

The policies of the NCEL only allow for direct purchase of annuity contracts and treasury strips from which the proceeds are used to fund long term installment prizes. As the NCEL is not pursuing other forms of investments, they are not currently anticipated under the policy. As a means of limiting exposure to interest rate risk, the policy only allows for direct purchase of annuity contracts and treasury strips which future value payments are pre-negotiated with the providers of the contracts. These contracts are not subject to foreign currency risk because the provider is required by contract to pay the full annuities. Accordingly, the NCEL does not have a policy regarding foreign currency risk since investments in products subject to this risk are not applicable to the NCEL.

The policy of the NCEL restricts direct purchase of annuity contracts to those with companies that hold minimum ratings as follows: AA by Fitch, AA by Moody's or AA by Standard & Poor's. As of June 30, 2018 and June 30, 2017, all annuities carried a rating of Aa/AA.

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

Maturities	2018	2017
Less than 1 year	\$ 7,117	\$ 5,781
1 to 5 years	26,224	22,681
6 to 10 years	26,224	22,681
More than 10 years	19,431	19,999
Total	\$ 78,996	\$ 71,142

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 5 – ASSETS (continued)

D. Capital Assets:

The activity for capital assets for the year ended June 30, 2018 was:

<u>Category</u>	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>
Capital assets, depreciable				
Furniture	\$ 66	\$ -	\$ 17	\$ 49
Equipment	5,097	5,464	6,315	4,246
Motorized equipment	80	-	-	80
Computer software	1,010	-	-	1,010
Total capital assets, depreciable	<u>6,253</u>	<u>5,464</u>	<u>6,332</u>	<u>5,385</u>
Less accumulated depreciation for:				
Furniture	43	-	15	28
Equipment	3,825	391	1,354	2,862
Motorized equipment	75	3	-	78
Computer software	242	126	14	354
Total accumulated depreciation	<u>4,185</u>	<u>520</u>	<u>1,383</u>	<u>3,322</u>
Total capital assets, depreciable, net	<u>2,068</u>	<u>4,944</u>	<u>4,949</u>	<u>2,063</u>
Capital assets, net	<u>\$ 2,068</u>	<u>\$ 4,944</u>	<u>\$ 4,949</u>	<u>\$ 2,063</u>

The activity for capital assets for the year ended June 30, 2017 was:

<u>Category</u>	<u>Balance July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>
Capital assets, depreciable				
Furniture	\$ 46	\$ 20	\$ -	\$ 66
Equipment	4,053	1,044	-	5,097
Motorized equipment	80	-	-	80
Computer software	1,010	-	-	1,010
Total capital assets, depreciable	<u>5,189</u>	<u>1,064</u>	<u>-</u>	<u>6,253</u>
Less accumulated depreciation for:				
Furniture	40	3	-	43
Equipment	3,415	410	-	3,825
Motorized equipment	72	3	-	75
Computer software	116	126	-	242
Total accumulated depreciation	<u>3,643</u>	<u>542</u>	<u>-</u>	<u>4,185</u>
Total capital assets, depreciable, net	<u>1,546</u>	<u>522</u>	<u>-</u>	<u>2,068</u>
Capital assets, net	<u>\$ 1,546</u>	<u>\$ 522</u>	<u>\$ -</u>	<u>\$ 2,068</u>

Equipment expenditures for 2018 mainly consisted of items needed to complete the move of the NCEL's headquarters to a new location. In 2017, mainly comprised of items needed to initiate a move of the NCEL's headquarters to a new location.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

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, 2018 and 2017, the balances were:

<u>Account Type</u>	<u>2018</u>	<u>2017</u>
Prize Liability, Trade payables to vendors and other	\$ 31,295	\$ 57,605
Total Accounts Payable	<u>\$ 31,295</u>	<u>\$ 57,605</u>

B. Annuity Prize Awards Payable:

Annuity prize awards payable represents the present value of the contracts and fair value of the treasury strips that fund the long term installment prizes that are due to NCEL annuity prize winners (See Note 7B). The current and long term balances are \$6,556 and \$72,440 for fiscal year 2018 and \$5,781 and 65,361 for fiscal year 2017, respectively.

Annual activity for both short and long term accounts during fiscal year 2018 are as follows:

	<u>Beginning Balance</u>	<u>Purchases</u>	<u>Appreciation</u>	<u>Disbursements</u>	<u>Reclass to Short Term</u>	<u>Ending Balance</u>
Short Term	\$ 5,781	\$ -	\$ -	\$ (5,955)	\$ 6,382	\$ 6,556
Long Term	65,361	11,903	1,906	-	(6,730)	72,440
Total	<u>\$ 71,142</u>	<u>\$ 11,903</u>	<u>\$ 1,906</u>	<u>\$ (5,955)</u>	<u>\$ (348)</u>	<u>\$ 78,996</u>

Annual activity for both short and long term accounts during fiscal year 2017 are as follows:

	<u>Beginning Balance</u>	<u>Purchases</u>	<u>Appreciation</u>	<u>Disbursements</u>	<u>Reclass to Short Term</u>	<u>Ending Balance</u>
Short Term	\$ 5,316	\$ -	\$ -	\$ (5,140)	\$ 5,605	\$ 5,781
Long Term	58,536	10,369	2,718	-	(6,262)	65,361
Total	<u>\$ 63,852</u>	<u>\$ 10,369</u>	<u>\$ 2,718</u>	<u>\$ (5,140)</u>	<u>\$ (657)</u>	<u>\$ 71,142</u>

C. Due to the State:

As explained in Note 4C, \$29,648 and \$30,791 for the years ended June 30, 2018 and 2017, respectively, represent the amounts of the “Net Revenues” for the year not yet transferred to the State as of June 30, but will be transferred to the State subsequent to fiscal year-end.

D. Accrued Paid Time Off:

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

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 6 – LIABILITIES (continued)

D. Accrued Paid Time Off (continued):

Activity for the year ended June 30, 2018:

<u>Beginning</u>	<u>Earned</u>	<u>Used</u>	<u>Ending</u>	<u>Current Liability</u>	<u>Long Term Portion</u>
\$ 1,926	\$ 1,789	\$ 1,926	\$ 1,789	\$ 448	\$ 1,341

Activity for the year ended June 30, 2017:

<u>Beginning</u>	<u>Earned</u>	<u>Used</u>	<u>Ending</u>	<u>Current Liability</u>	<u>Long Term Portion</u>
\$ 2,182	\$ 1,926	\$ 2,182	\$ 1,926	\$ 280	\$ 1,646

E. Changes in Net Pension Liabilities:

The changes in Net Pension Liability and OPEB Liability during fiscal year 2018 are as follows:

	<u>July 1, 2017 Beginning, restated</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018 Balance</u>
Net Pension Liability	\$ 10,160	\$ -	\$ 1,513	\$ 8,647
Net OPEB Liability	39,490	960	8,749	31,701

The changes in Net Pension Liability during fiscal year 2017 are as follows:

	<u>July 1, 2016 Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017 Balance</u>
Net Pension Liability	\$ 4,133	\$ 3,027	\$ -	\$ 10,160
Net OPEB Liability	-	-	-	-

For more information on Net Pension Liability see Note 9.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

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, 2018, MUSL included 33 state lotteries, the District of Columbia, Loteria Electronica de Puerto Rico and the U.S. Virgin Islands. The chief executive officer of each member lottery serves on the MUSL board of directors.

As a member of MUSL, the NCEL is required to contribute to various prize reserve funds maintained by MUSL. These contributions are included in the 50% prize expense calculated on POWERBALL and Mega Millions sales. The net amount of the 50% prize expense less the amount required to pay low-tier prizes within the State is paid to MUSL. This payment is to cover the NCEL's share of current jackpot prizes based on the NCEL's percent of sales for each drawing and the NCEL's share of the prize reserve fund. The prize reserve fund serves as a contingency reserve to protect all MUSL members including the NCEL from unforeseen prize liabilities. All prize reserve funds remitted, and the related interest earnings, will be returned to the NCEL upon leaving MUSL, less any portion of unanticipated prize claims which may have been paid from the fund. As of June 30, 2018 and 2017, the NCEL had been credited with \$7,948 and \$6,780, respectively, in the MUSL prize reserve funds.

B. Annuity Installment Prizes:

The NCEL funds long term installment prizes through the purchase of insurance company annuities and treasury strips. The contract holders will fund the future value of the installment prize awards over the life of the prize awarded to the player. The NCEL currently holds contracts with Met Life Insurance Company, Prudential Life Insurance Company and Wells Fargo Bank to provide these future prize installment payments. The future value of the annuity prizes awarded as of June 30, 2018 and 2017 were \$91,687 and \$79,914, respectively.

To the extent available, the NCEL's treasury strips are recorded at fair value as of June 30, 2018 and June 30, 2017. GASB Statement No. 72 - Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 7 – OTHER IMPORTANT ITEMS (continued)

B. Annuity Installment Prizes (continued):

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

Level 1: Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2: Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset either directly or indirectly.

Level 3: Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

At year end, June 30, 2018 and 2017, the NCEL's treasury strips had recurring fair value measurements of \$29,826 and \$19,545, respectively, and inputs used to measure fair market value were categorized as Level 1 inputs. The remaining annuity investment balances are composed of insurance company annuity contracts that are recorded at present value as of June 30, 2018 and 2017.

C. Unclaimed Prizes:

As of June 30, 2018 and 2017, the NCEL had unclaimed prizes from both online and instant games. The first POWERBALL draw after the NCEL started selling tickets was on May 31, 2006, and therefore, the NCEL began recognizing unclaimed prizes on November 27, 2006 (180 days after the first draw). The first Carolina Pick 3 unclaimed prizes were recorded on April 4, 2007 and the first unclaimed prizes for Carolina Cash 5 were recorded on April 25, 2007. Unclaimed prizes for Carolina Pick 4 were recorded on November 14, 2009. Unclaimed prizes for Mega Millions were recorded on August 1, 2010. Unclaimed prizes for EZ Match were recorded on September 26, 2014. Unclaimed prizes for All or Nothing were recorded on March 6, 2015. Unclaimed prizes for Lucky for Life were recorded on August 6, 2016. The first unclaimed prizes for Keno were recorded on April 27, 2018. The NCEL closed fifty-four instant games during fiscal year 2018 resulting in \$21,617 in unclaimed prizes. In 2017, the NCEL closed thirty-nine instant games resulting in \$22,847 in unclaimed prizes.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 7 – OTHER IMPORTANT ITEMS (continued)

C. Unclaimed Prizes (continued):

<u>Game Type</u>	<u>2018</u>	<u>2017</u>
Instant	\$ 21,617	\$ 22,847
Powerball	3,554	5,048
Mega Millions	1,035	1,246
Carolina Cash 5	1,234	839
Carolina Pick 4	1,621	1,406
Carolina Pick 3	2,128	2,065
All or Nothing	-	71
EZ Match	250	182
Monopoly Millionaire's Club	-	100
Lucky for Life	469	1,248
Keno	69	-
Total unclaimed prizes	\$ 31,977	\$ 35,052

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.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

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, 2018.

The types of coverage, limits, and deductibles, as of June 30, 2018, are described below (the following chart is not shown in thousands).

Coverage Type	Limits (\$)	Deductible (\$)	Comments
Public officers and employee liability	1,000,000 /10,000,000	The first 150,000 /1,000,000 per person are paid by the Commission.	State is self-insured up to \$1,000,000; excess up to \$10,000,000 is with a private insurer.
All risk – property contents	6,310,116	5,000	
Auto – liability	1,000,000 per person/10,000,000 per accident		
Hired Auto - Physical Damage	40,000 60,000 if GVW > 10,000 lbs.	100 250	Comp. deductible Collision deductible
Theft, disappearance, destruction	250,000	2,500	Inside premises
Theft, disappearance, destruction	50,000	2,500	Outside premises
Computer fraud	5,000,000	100,000	+10% over \$100,000
Employee dishonesty	5,000,000	100,000	+10% over \$100,000
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.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 8 – RISK MANAGEMENT (continued)

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 .1713% of covered payroll for the current fiscal year.

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

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS

A. Retirement Plan:

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

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by a 13-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

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

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

B. Benefits Provided

TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of membership service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of membership. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

B. Benefits Provided (continued)

Funding policy. Plan members are required to contribute 6% of their annual covered salary, and the NCEL is required to contribute at an actuarially determined rate. The fiscal year 2018 rate is 10.78% of the annual covered payroll. The contribution requirements of plan members and the NCEL are established and may be amended by the General Assembly. The following table represents the three-year trend of the annual contributions made by the NCEL to the State retirement system. The NCEL made 100% of its required contributions for the years ended June 30, 2018, 2017, and 2016:

	2018	2017	2016
Retirement Contribution	\$ 1,696	\$ 1,405	\$ 1,190
Percentage of Covered Payroll	10.78%	9.98%	9.15%

Net pension liability. At June 30, 2018, the NCEL reported a liability of \$8,647 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The NCEL's proportion of the net pension liability was based on a projection of the NCEL's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2017 and at June 30, 2016, the NCEL's proportion was 0.10898% and 0.11054%, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

B. Benefits Provided (continued)

Deferred inflows of resources and deferred outflows of resources related to pensions. For the years ended June 30, 2018 and June 30, 2017, the NCEL recognized pension expense of \$2,289 and \$1,955, respectively. At June 30, 2018, the NCEL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	
Difference between actual and expected experience	\$ 187	\$ 283	
Changes of Assumptions	1,366	-	
Net difference between projected and actual earnings on pension plan investments (see note below)	1,170	-	
Change in proportion and differences between the NCEL's contributions and proportionate share of contributions	39	236	
Contributions subsequent to the measurement date	1,696	-	
Total	\$ 4,458	\$ 519	

There were \$1,696 in Deferred Outflows of Resources related to pensions resulting from the NCEL's contributions subsequent to the measurement date. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2019	\$ 424
2020	1,559
2021	728
2022	(468)
2023	-
Total	\$ 2,243

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

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

B. Benefits Provided (continued)

Actuarial assumptions. The total pension liability was determined by an actuarial valuation performed as of December 31, 2016. The total pension liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2016. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal actuarial cost method was utilized. Inflation is assumed to be 3% and salary increases range 3.50% to 8.10% which includes 3.5% inflation and productivity factor. The long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7.20% and is net of pension plan investment expense, including inflation.

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

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies’ return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

B. Benefits Provided (continued)

The information above is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Pool as of June 30, 2017 is 1.3%.

Discount rate. The discount rate used to measure the total pension liability was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the NCEL's proportionate share of the net pension liability calculated using the discount rate of 7.20%, as well as, what the NCEL's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20%) or one percentage-point higher (8.20%) than the current rate:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
NCEL's proportionate share of the net pension liability (asset)	\$ 17,799	\$ 8,647	\$ 978

Pension plan fiduciary net position. Detailed information about the TSERS fiduciary net position is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Public Information", or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

C. Supplemental Retirement Income Plan:

IRC Section 401(k) Plan – All full-time employees are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan participants. The Plan is provided by Prudential Retirement, administered by the NC Department of the State Treasurer and sponsored by the State of North Carolina. The effective date of participation was January 30, 2006. The voluntary contributions by employees amounted to \$309, \$204 and \$207 for the years ended June 30, 2018, 2017, and 2016, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

D. Deferred Compensation Plan:

IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Plan's Board of Trustees. The Board, a part of the North Carolina Department of State Treasurer, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. The effective date of participation was January 30, 2006. The voluntary contributions by employees amounted to \$108, \$96, and \$47, for the years ended June 30, 2018, 2017, and 2016, respectively.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

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

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

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

The General Statute states that a Retiree Health Benefit Fund (RHBF) 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 RHBF 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 RHBF. Contribution rates to the RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the period July 1, 2017 through June 30, 2018, the NCEL contributed 6.05% of the covered payroll under the Teachers' and State Employees' Retirement System. Required contribution rates for the years ended June 30, 2017, and 2016, were 5.825% and 5.6%, respectively. The NCEL made 100% of its annual required contributions to the RHBF for the years ended June 30, 2018, 2017, and 2016, which were \$952, \$819, and \$728, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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 "Public Information", or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Long Term Disability:

The NCEL participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short term and long term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statute, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2018, the NCEL made a statutory contribution of .14% 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, 2018, 2017, and 2016, were .14%, .38%, and .41%, respectively. The NCEL made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2018, 2017, and 2016, which were \$22, \$54, and \$53, respectively. The NCEL assumes no liability for long term disability benefits under the Plan other than its contribution.

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

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2018, the NCEL reported a liability of \$31,701 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The NCEL's proportion of the net OPEB liability was based on the present value of future salaries for the NCEL relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the NCEL's proportion was .09669%.

Net OPEB Asset: At June 30, 2018, the NCEL reported an asset of (\$59) for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The NCEL's proportion of the net OPEB asset was based on the present value of future salaries for the NCEL relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the NCEL's proportion was .09603%.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability (Asset) (continued):

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DI PNC were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

	Health Benefit Fund	Income Plan of N.C.
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.20%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00% - 5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

N/A - Not Applicable

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

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability (Asset) (continued):

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 (the valuation date) was 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of the plan based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability (Asset) (continued):

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the NCEL's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

		Net OPEB Liability (Asset)		
		1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
	RHBF	\$ 37,817	\$ 31,701	\$ 26,850
		1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
	DIPNC	\$ (50)	\$ (59)	\$ (68)

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability (Asset) (continued):

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		1% Decrease (Medical - 4.00 - 5.50%, Pharmacy - 4.00 - 6.25%, Med. Advantage - 3.00 - 4.00%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00 - 6.50%, Pharmacy - 5.00 - 7.25%, Med. Advantage - 4.00 - 5.00%, Administrative - 3.00%)	1% Increase (Medical - 6.00 - 7.50%, Pharmacy - 6.00 - 8.25%, Med. Advantage - 5.00 - 6.00%, Administrative - 4.00%)
RHBF Net OPEB Liability	\$	25,897	\$ 31,701	\$ 39,416
DIPNC Net OPEB Asset		N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the NCEL recognized OPEB expense of \$1,828 for RHBF and \$31 for DIPNC. At June 30, 2018, the NCEL reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ -	\$ 16	\$ 16
Changes of Assumptions	-	-	-
Net Difference Between Projected and Actual Earnings on Plan Investments	-	13	13
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,282	-	1,282
Contributions Subsequent to the Measurement Date	952	22	974
Total	\$ 2,234	\$ 51	\$ 2,285

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability (Asset) (continued):

Employer Balances of Deferred Inflows of Resources
Related to OPEB by Classification:

	RHBFB	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 2,273	\$ -	\$ 2,273
Changes of Assumptions	8,730	-	8,730
Net Difference Between Projected and Actual Earnings on Plan Investments	12	-	12
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	-	2	2
Total	\$ 11,015	\$ 2	\$ 11,017

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability (Asset) (continued):

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in OPEB Expense:

<u>Year Ended June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2019	\$ (1,947)	\$ 8
2020	(1,947)	8
2021	(1,947)	8
2022	(1,947)	3
2023	(1,944)	-
Total	\$ (9,733)	\$ 27

NOTE 11 – LITIGATION

NC Citizens for Free Enterprise, Inc., et al. v. The State of North Carolina, et al. – The NC Attorney General's Office notified the NCEL that their office was officially served the Amended Complaint on behalf of the NCEL, among other defendants. The gist of the complaint, filed on December 29, 2016, alleged that the named defendants worked together to aggressively "shut down" the sweepstakes industry in order to promote the NCEL. The Amended Complaint, filed February 8, 2017 added another plaintiff. The AG's Office filed Motions to Dismiss on April 17, 2017. As of October 5, 2018, Decision on the Motions is pending. The NCEL does not anticipate paying any monetary damages associated with this case.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

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

	<u>2018</u>	
Lottery Ticket Sales	\$ 2,605,019	
Fees and Licenses	5,399	
Investment Earnings and Other Revenues	<u>758</u>	
Total Annual Revenue	<u>2,611,176</u>	
Prize Expense	(1,647,828)	63% Of Total Annual Revenue
Advertising	(24,661)	1% Of Total Annual Revenue
All Other Expenses and Transfers	<u>(86,854)</u>	
Total Section 18C-162.a.3	<u>(111,515)</u>	4% Of Total Annual Revenue
Commissions (per 18C-142)	(181,571)	7% Of Lottery Ticket Sales
Unclaimed Prizes to The State of North Carolina	15,989	
Net Revenues to The State of North Carolina	659,481	
Total Revenues to The State of North Carolina	<u>\$ 675,470</u>	26% Of Total Annual Revenue

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

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

	<u>2017</u>		
Lottery Ticket Sales	\$ 2,427,535		
Fees and Licenses	5,308		
Investment Earnings and Other Revenues	<u>1,283</u>		
Total Annual Revenue	2,434,126		
Prize Expense	(1,543,158)	62%	Of Total Annual Revenue
Advertising	(20,110)	1%	Of Total Annual Revenue
All Other Expenses and Transfers	<u>(78,914)</u>		
Total Section 18C-162.a.3	<u>(99,024)</u>	4%	Of Total Annual Revenue
Commissions (per 18C-142)	(169,439)	7%	Of Lottery Ticket Sales
Unclaimed Prizes to The State of North Carolina	17,526		
Net Revenues to The State of North Carolina	<u>604,979</u>		
Total Revenues to The State of North Carolina	<u>\$ 622,505</u>	26%	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, 2018 and 2017

NOTE 12 – ALLOCATION OF TOTAL NET 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 \$676.6 million to the NC Education Lottery Fund for fiscal year 2018 compared with \$659.4 million for fiscal year 2017. As explained in Note 4C, \$29.6 million and \$30.8 million for fiscal years ended June 30, 2018 and 2017, 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, 2018, the NCEL implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- Statement No. 85, *Omnibus 2017*
- Statement No. 86, *Certain Debt Extinguishment Issues*

GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2018 and 2017

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

This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

NOTE 14 – NET POSITION RESTATEMENT

As of July 1, 2017, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2017 Net Position as Previously Reported	\$ -
Restatements:	
Net Position Restatement (RHBF)	(39,606)
Net Position Restatement (DIPNC)	116
	<hr/>
July 1, 2017 Net Position as Restated	<u>\$ (39,490)</u>

NOTE 15 – SUBSEQUENT EVENTS

The Commission of the NCEL has evaluated all subsequent events for potential recognition and disclosure through October 22, 2018, the date these financial statements will be available.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

Last Five Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>
(1) Proportionate share percentage of collective net pension liability	0.10898%	0.11054%	0.11215%
(2) Proportionate share of TSERS collective net pension liability	\$ 8,647	\$ 10,160	\$ 4,133
(3) Covered-employee payroll	\$ 15,733	\$ 14,093	\$ 13,006
(4) Net pension liability as a percentage of covered-employee payroll	55%	72%	32%
(5) Plan fiduciary net position as a percentage of the total pension liability	89.51%	87.32%	94.64%
	<u>2015</u>	<u>2014</u>	
(1) Proportionate share percentage of collective net pension liability	0.11096%	0.10540%	
(2) Proportionate share of TSERS collective net pension liability	\$ 1,301	\$ 6,399	
(3) Covered-employee payroll	\$ 13,989	\$ 13,706	
(4) Net pension liability as a percentage of covered-employee payroll	9%	47%	
(5) Plan fiduciary net position as a percentage of the total pension liability	98.24%	90.60%	

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

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
(1) Contractually required contribution	\$ 1,696	\$ 1,405	\$ 1,190	\$ 1,279	\$ 1,191
(2) Contributions in relation to the contractually determined contribution	<u>1,696</u>	<u>1,405</u>	<u>1,190</u>	<u>1,279</u>	<u>1,191</u>
(3) Contribution deficiency (excess)	<u>\$ -</u>				
(4) Covered-employee payroll	\$ 15,733	\$ 14,093	\$ 13,006	\$ 13,989	\$ 13,706
(5) Contributions as a percentage of covered-employee payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
(1) Contractually required contribution	\$ 1,094	\$ 955	\$ 592	\$ 425	\$ 378
(2) Contributions in relation to the contractually determined contribution	<u>1,094</u>	<u>955</u>	<u>592</u>	<u>425</u>	<u>378</u>
(3) Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
(4) Covered-employee payroll	\$ 13,139	\$ 12,839	\$ 12,018	\$ 11,968	\$ 11,696
(5) Contributions as a percentage of covered-employee payroll	8.33%	7.44%	4.93%	3.55%	3.23%

Notes to Schedule

Valuation date.

Actuarially determined contribution rates are calculated as of June 30, 2016, one year prior to the end of the fiscal year in which contributions are reported. The total pension liability was determined by an actuarial valuation performed as of December 31, 2016.

Methods and assumptions used to determine contribution rates.

-The entry age normal actuarial cost method was utilized.

-12-year closed, level-dollar percentage of pay amortization method was used. The first amortization base was created for the contribution payable for fiscal year ending 2012.

-Actuarial value of assets is based upon a smoothed market value method. Under this method, asset returns in excess of or less than the expected return on market value of assets will be reflected in the actuarial value of assets over a five-year period.

-Inflation is assumed to be 3% and salary increases range 3.50% to 8.10% which includes 3.5% inflation and productivity factor.

-The long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7.20% and is net of pension plan investment expense, including inflation.

-Mortality tables vary by age, gender, employee group and health status. The current mortality rates are based on published tables and studies that cover significant portions of the US population. The healthy mortality rates also contain a provision to reflect future mortality improvements. All mortality rates are projected from 2014 using generational improvement with Scale MP-2015.

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF CONTRIBUTIONS
RETIREMENT HEALTH BENEFIT FUND (RHBF)**

FY 2018

	<u>2018</u>
(1) Proportionate share percentage of collective net pension liability	0.09669%
(2) Proportionate share of RHBF collective net pension liability	\$ 31,701
(3) Covered-employee payroll	\$ 15,733
(4) Net pension liability as a percentage of covered-employee payroll	201%
(5) Plan fiduciary net position as a percentage of the total pension liability	3.52%

FY 2018

	<u>2018</u>
(1) Contractually required contribution	\$ 952
(2) Contributions in relation to the contractually determined contribution	952
(3) Contribution deficiency (excess)	<u>\$ -</u>
(4) Covered-employee payroll	\$ 15,733
(5) Contributions as a percentage of covered-employee payroll	6.05%

Notes to Schedule

Valuation date.

Actuarially determined contribution rates are calculated as of June 30, 2017, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates.

-The projected unit credit used for actuarially determined contributions.

-30-year open, level-dollar percentage of pay amortization method was used.

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND SCHEDULE OF CONTRIBUTIONS RETIREMENT HEALTH BENEFIT FUND (RHBF)

- Actuarial value of assets is based upon a market value method.
- The preliminary ADC is developed, and the ADC as a percentage of valuation compensation is determined. Then, actual covered payroll for the fiscal year is multiplied by the ADC as a percentage of valuation compensation to account for timing, new participants, and new covered employers (if any). For fiscal 2017 and fiscal 2016, the covered payroll exceeded the valuation compensation.
- Covered payroll and actuarially determined contributions prior to 2017 were provided by the State.

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND SCHEDULE OF CONTRIBUTIONS DISABILITY INCOME PLAN OF NORTH CAROLINA (DIPNC)

FY 2018

	<u>2018</u>
(1) Proportionate share percentage of collective net pension liability	0.09603%
(2) Proportionate share of DIPNC collective net pension liability	\$ (59)
(3) Covered-employee payroll	\$ 15,733
(4) Net pension liability as a percentage of covered-employee payroll	0%
(5) Plan fiduciary net position as a percentage of the total pension liability	116.23%

FY 2018

	<u>2018</u>
(1) Contractually required contribution	\$ 22
(2) Contributions in relation to the contractually determined contribution	<u>22</u>
(3) Contribution deficiency (excess)	<u>\$ -</u>
(4) Covered-employee payroll	\$ 15,733
(5) Contributions as a percentage of covered-employee payroll	0.14%

Notes to Schedule

Valuation date.

Actuarially determined contribution rates are calculated as of June 30, 2017, one year prior to the end of the fiscal year in which contributions are reported. The total pension liability was determined by an actuarial valuation performed as of December 31, 2016.

Methods and assumptions used to determine contribution rates.

-The aggregate actuarial cost method was utilized.

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND SCHEDULE OF CONTRIBUTIONS DISABILITY INCOME PLAN OF NORTH CAROLINA (DIPNC)

- Level-dollar percentage of pay amortization method was used.
- Actuarial value of assets is based upon a smoothed market value method. Under this method, asset returns in excess of or less than the expected return on market value of assets will be reflected in the actuarial value of assets over a five-year period.
- Inflation is assumed to be 3% and salary increases range 3.50% to 8.10% which includes 3.5% inflation and productivity factor.
- The long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 3.75% and is net of pension plan investment expense, including inflation.
- Mortality tables vary by age, gender, employee group, and health status. The current mortality rates are based on published tables and studies that cover significant portions of the US population. The healthy mortality rates also contain a provision to reflect future mortality improvements. All mortality rates are projected from 2014 using generational improvement with Scale MP-2015.

STATISTICAL SECTION



STATISTICAL SECTION

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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's fiscal year begins on July 1st and ends on June 30th of the following calendar year. Fiscal year 2018 information begins on July 1st 2017 and concludes as of June 30th 2018. 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 (in thousands):

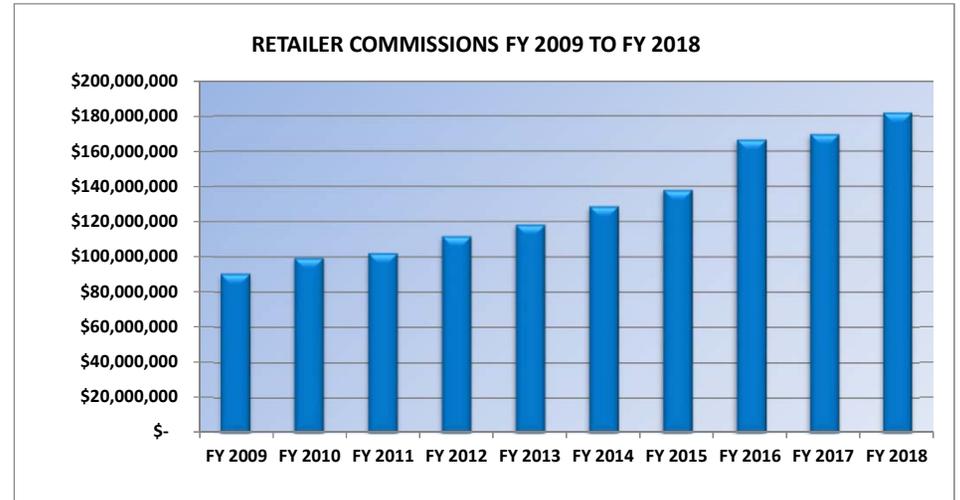
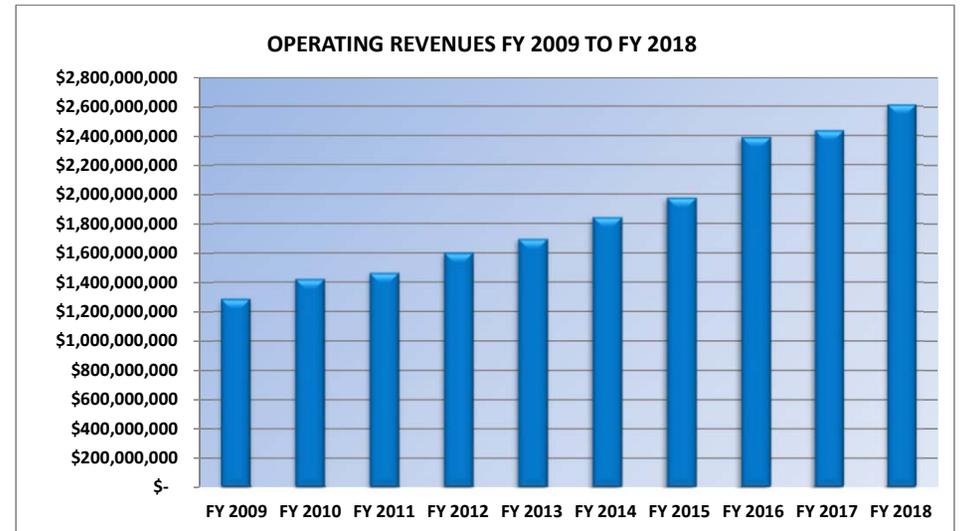
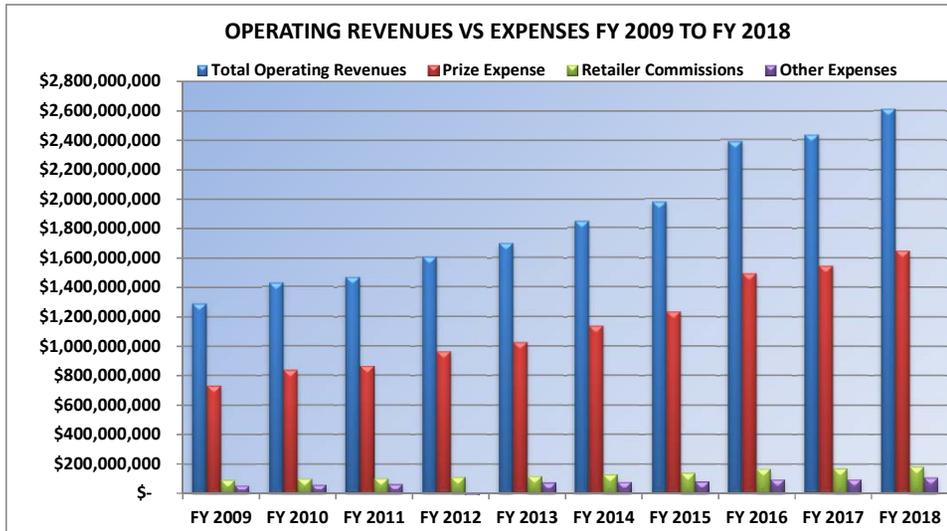
Category	Balance															
	June 30, 2008	Increases	Decreases	June 30, 2009	Increases	Decreases	June 30, 2010	Increases	Decreases	June 30, 2011	Increases	Decreases	June 30, 2012	Increases	Decreases	June 30, 2013
Capital assets, nondepreciable																
Improvements in progress	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total capital assets, nondepreciable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital assets, depreciable																
Furniture	29	-	-	29	-	-	29	-	-	29	-	-	29	17	-	46
Equipment	2,239	367	-	2,606	529	(482)	2,653	211	(60)	2,804	310	(38)	3,076	553	-	3,629
Motorized equipment	67	-	-	67	-	-	67	-	-	67	-	-	67	-	-	67
Computer Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total capital assets, depreciable	2,335	367	-	2,702	529	(482)	2,749	211	(60)	2,900	310	(38)	3,172	570	-	3,742
Less accumulated depreciation for:																
Furniture	11	7	-	18	5	-	23	4	-	27	2	-	29	2	-	31
Equipment	813	523	-	1,336	564	(465)	1,435	609	(53)	1,991	450	(38)	2,403	343	-	2,746
Motorized equipment	24	14	-	38	14	-	52	11	-	63	5	-	68	-	-	68
Computer Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total accumulated depreciation	848	544	-	1,392	583	(465)	1,510	624	(53)	2,081	457	(38)	2,500	345	-	2,845
Total capital assets, depreciable, net	1,487	(177)	-	1,310	(54)	(17)	1,239	(413)	(7)	819	(147)	-	672	225	-	897
Capital assets, net	1,487	(177)	-	1,310	(54)	(17)	1,239	(413)	(7)	819	(147)	-	672	225	-	897
Net Position																
Net investment in capital assets	1,487	(177)	-	1,310	(54)	(17)	1,239	(413)	(7)	819	(147)	-	672	225	-	897
Unrestricted	(1,487)	177	-	(1,310)	54	17	(1,239)	413	7	(819)	147	-	(672)	(225)	-	(897)
Total Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Category	Balance															
	June 30, 2013	Increases	Decreases	June 30, 2014	Increases	Decreases	June 30, 2015	Increases	Decreases	June 30, 2016	Increases	Decreases	June 30, 2017	Increases	Decreases	June 30, 2018
Capital assets, nondepreciable																
Improvements in progress	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total capital assets, nondepreciable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital assets, depreciable																
Furniture	46	-	-	46	-	-	46	-	-	46	19	-	66	-	(17)	49
Equipment	3,629	889	(142)	4,376	111	(778)	3,709	344	-	4,053	1,045	-	5,097	5,464	(6,315)	4,246
Motorized equipment	67	-	-	67	-	-	67	13	-	80	-	-	80	-	-	80
Computer Software	-	-	-	-	983	-	983	27	-	1,010	-	-	1,010	-	-	1,010
Total capital assets, depreciable	3,742	889	(142)	4,489	1,094	(778)	4,805	384	-	5,189	1,064	-	6,253	5,464	(6,332)	5,385
Less accumulated depreciation for:																
Furniture	31	3	-	34	3	-	37	3	-	40	3	-	43	-	(15)	28
Equipment	2,746	436	(126)	3,056	563	(753)	2,866	549	-	3,415	410	-	3,825	391	(1,354)	2,862
Motorized equipment	68	-	-	68	1	-	69	3	-	72	3	-	75	3	-	78
Computer Software	-	-	-	-	-	-	-	116	-	116	126	-	242	126	(14)	354
Total accumulated depreciation	2,845	439	(126)	3,158	567	(753)	2,972	671	-	3,643	542	-	4,185	520	(1,383)	3,322
Total capital assets, depreciable, net	897	450	(16)	1,331	527	(25)	1,833	(287)	-	1,546	522	-	2,068	4,944	(4,949)	2,063
Capital assets, net	897	450	(16)	1,331	527	(25)	1,833	(287)	-	1,546	522	-	2,068	4,944	(4,949)	2,063
Net Position																
Net investment in capital assets	897	450	(16)	1,331	527	(25)	1,833	(287)	-	1,546	522	-	2,068	4,944	(4,949)	2,063
Unrestricted	(897)	(450)	16	(1,331)	(527)	25	(1,833)	287	-	(1,546)	(522)	-	(2,068)	(4,944)	4,949	(2,063)
Total Net Position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

North Carolina Education Lottery Statistics

Revenue and Expenses FY 2009 to FY 2018:

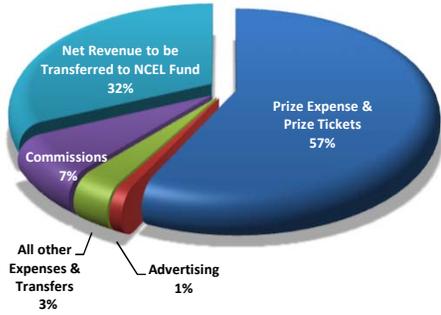
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Total Operating Revenues	\$ 1,288,102,861	\$ 1,424,457,618	\$ 1,464,639,726	\$ 1,601,837,648	\$ 1,695,008,870	\$ 1,844,636,362	\$ 1,977,485,514	\$ 2,388,976,612	\$ 2,432,843,418	\$ 2,610,417,572
Total Operating Expenses	\$ 876,666,966	\$ 993,888,090	\$ 1,028,509,675	\$ 862,996,103	\$ 1,215,924,034	\$ 1,341,206,063	\$ 1,449,483,907	\$ 1,752,801,115	\$ 1,808,521,314	\$ 1,937,813,790
Prize Expense	\$ 731,690,305	\$ 835,302,004	\$ 862,996,103	\$ 961,556,221	\$ 1,024,436,531	\$ 1,135,052,490	\$ 1,231,238,430	\$ 1,491,030,615	\$ 1,543,158,180	\$ 1,647,827,727
Retailer Commissions	\$ 90,366,111	\$ 99,339,830	\$ 102,126,855	\$ 111,624,043	\$ 118,148,409	\$ 128,550,515	\$ 137,767,027	\$ 166,437,296	\$ 169,439,486	\$ 181,571,111
Other Expenses	\$ 54,610,550	\$ 59,246,256	\$ 63,386,717	\$ (210,184,161)	\$ 73,339,094	\$ 77,603,058	\$ 80,478,450	\$ 95,333,204	\$ 95,923,648	\$ 108,414,952



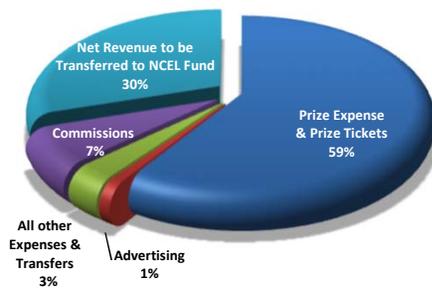
North Carolina Education Lottery Statistics

Distribution of Revenues FY 2009 to FY 2018:

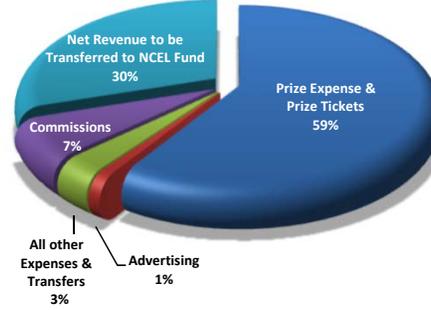
DISTRIBUTION OF REVENUES FY 2009



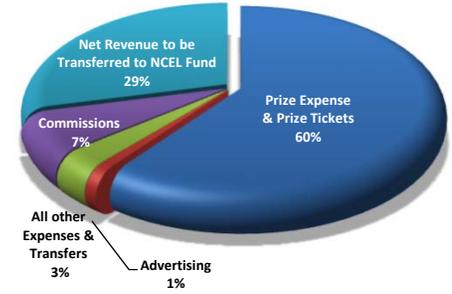
DISTRIBUTION OF REVENUES FY 2010



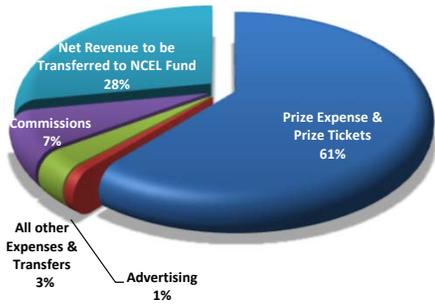
DISTRIBUTION OF REVENUES FY 2011



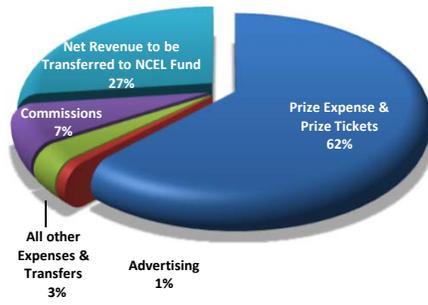
DISTRIBUTION OF REVENUES FY 2012



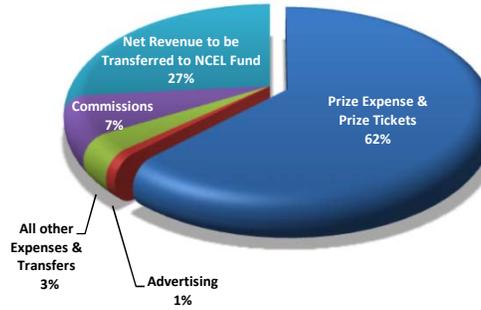
DISTRIBUTION OF REVENUES FY 2013



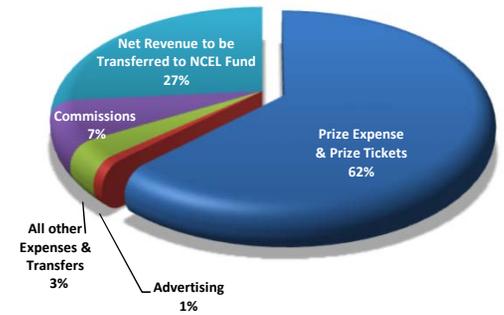
DISTRIBUTION OF REVENUES FY 2014



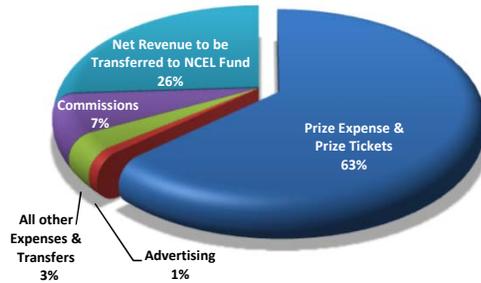
DISTRIBUTION OF REVENUES FY 2015



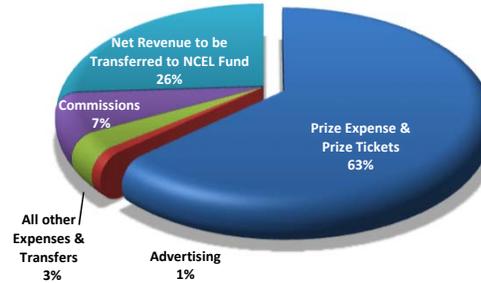
DISTRIBUTION OF REVENUES FY 2016



DISTRIBUTION OF REVENUES FY 2017

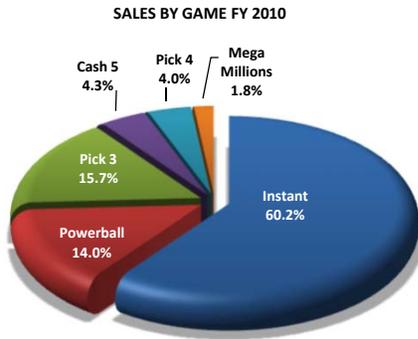


DISTRIBUTION OF REVENUES FY 2018

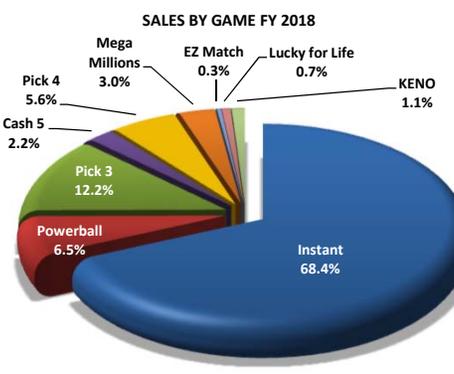
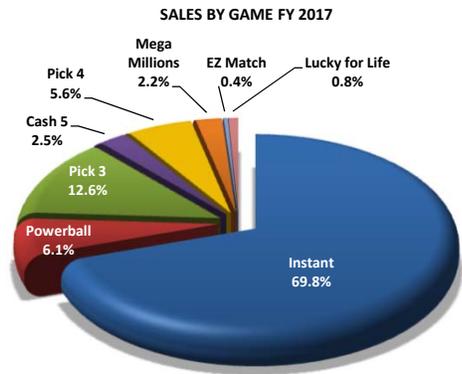
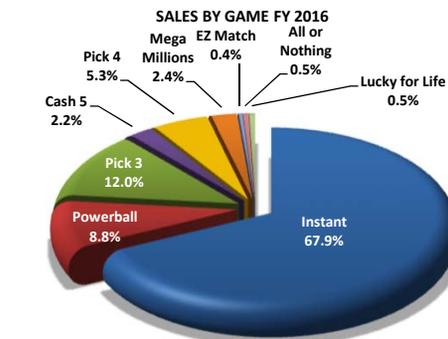
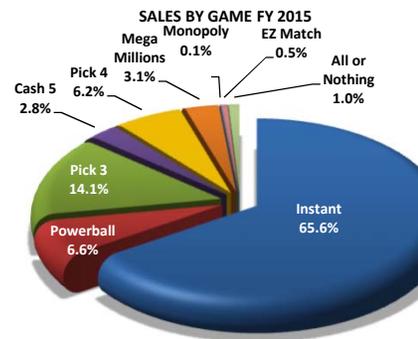
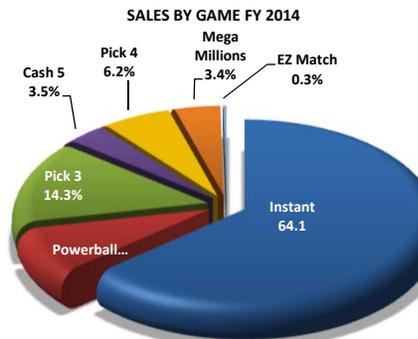
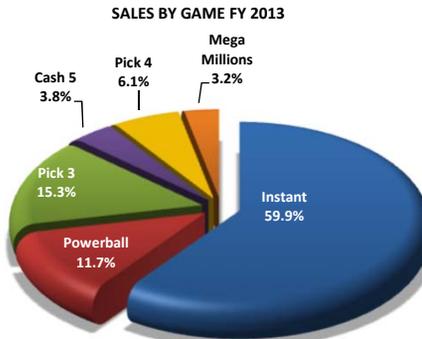
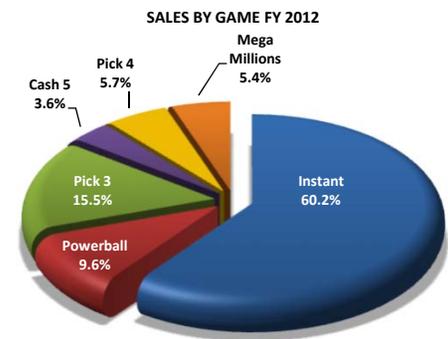
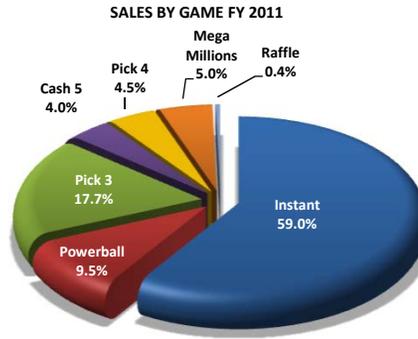


North Carolina Education Lottery Statistics

Sales by Game FY 2009 to FY 2018:



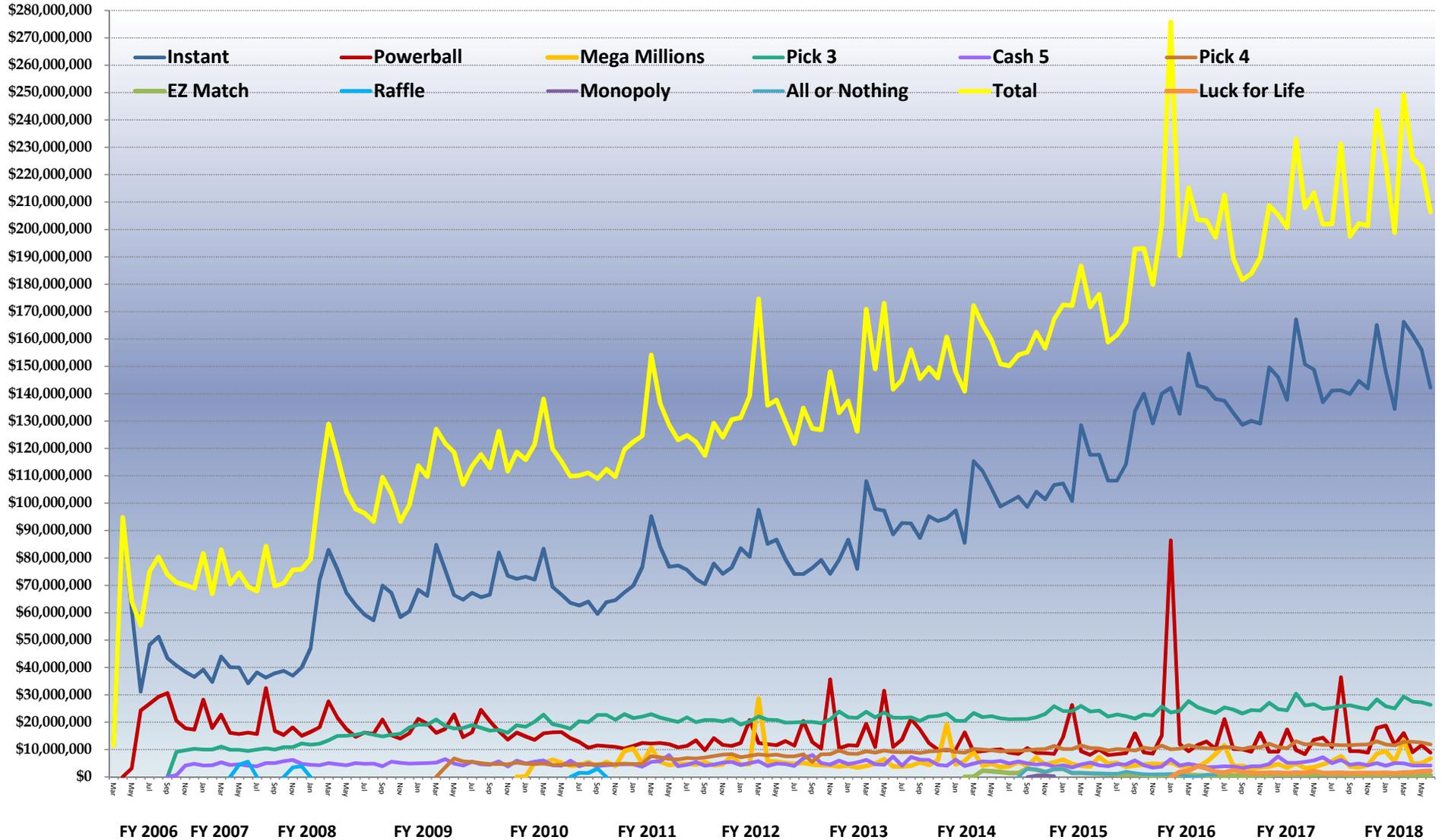
Mega Millions game was launched in Jan '10



North Carolina Education Lottery Statistics

Total Sales Life to Date:

Game Sales - LTD Comparison By Game



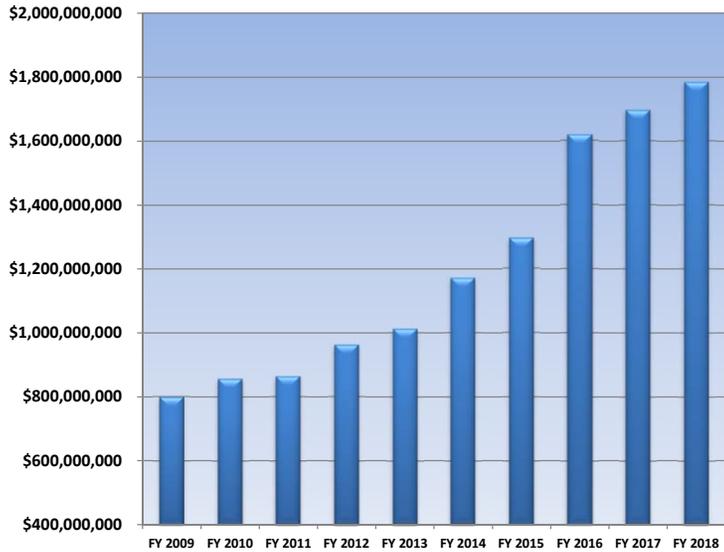
North Carolina Education Lottery Statistics

Instant Tickets FY 2009 to FY 2018:

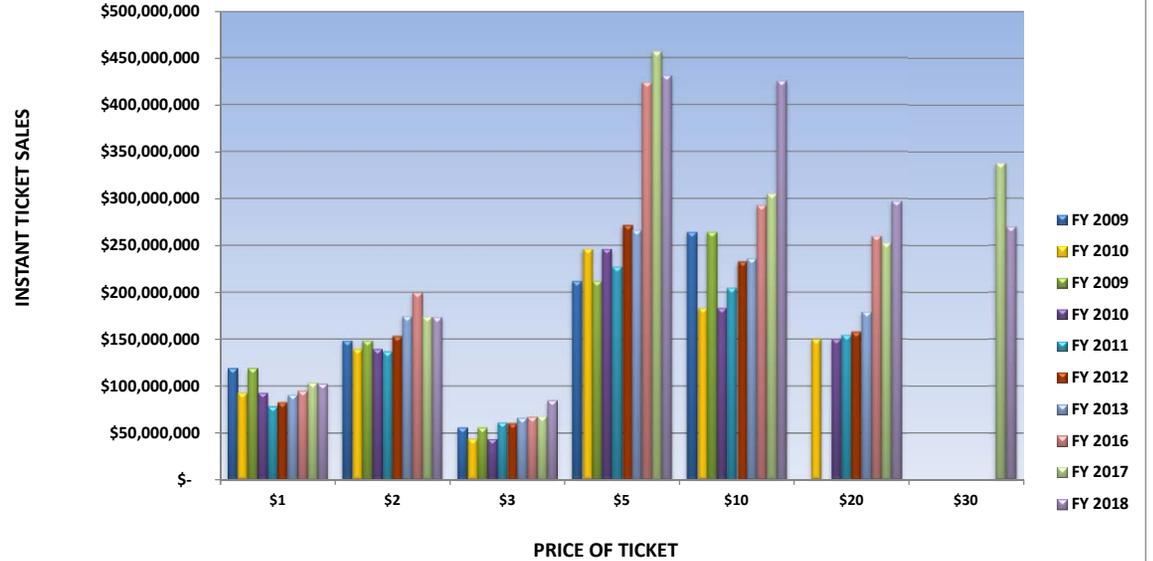
Instant Games by Price of Ticket

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
\$1	\$ 119,083,157	\$ 92,980,150	\$ 78,296,263	\$ 83,189,184	\$ 90,927,671	\$ 95,376,092	\$ 93,679,930	\$ 94,851,413	\$ 103,505,145	\$ 102,456,945
\$2	147,937,906	139,472,210	136,676,260	153,609,582	174,358,200	165,497,798	174,789,492	199,286,716	173,455,040	173,225,540
\$3	55,828,311	43,751,937	61,499,178	60,791,835	65,926,023	77,650,923	57,110,988	66,990,120	67,739,292	84,817,920
\$5	211,778,870	246,081,170	227,038,175	271,630,660	265,910,475	336,937,950	398,449,055	423,456,365	456,356,140	430,960,475
\$10	264,048,160	183,066,660	204,423,280	232,576,800	235,765,240	252,975,900	252,521,190	292,654,680	304,679,880	425,037,870
\$20	-	150,230,140	154,157,320	158,157,300	179,055,580	241,829,580	317,466,160	260,010,060	252,441,300	296,949,620
\$30	-	-	-	-	-	-	-	280,207,590	337,055,310	269,359,110
TOTAL	\$ 798,676,404	\$ 855,582,267	\$ 862,090,476	\$ 959,955,361	\$ 1,011,943,189	\$ 1,170,268,243	\$ 1,294,016,815	\$ 1,617,456,944	\$ 1,695,232,107	\$ 1,782,807,480

INSTANT GAME SALES FY 2009 TO FY 2018



INSTANT GAME SALES BY PRICE OF TICKET FY 2009 TO FY 2018

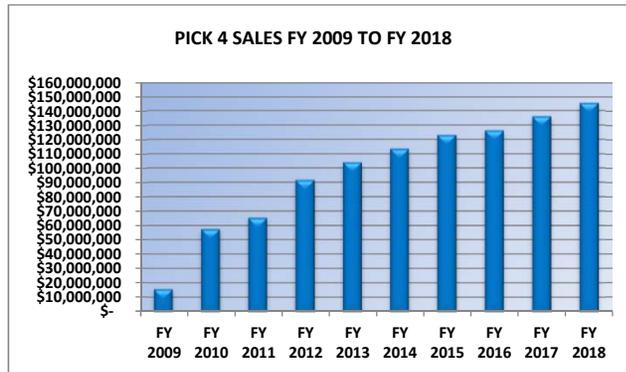
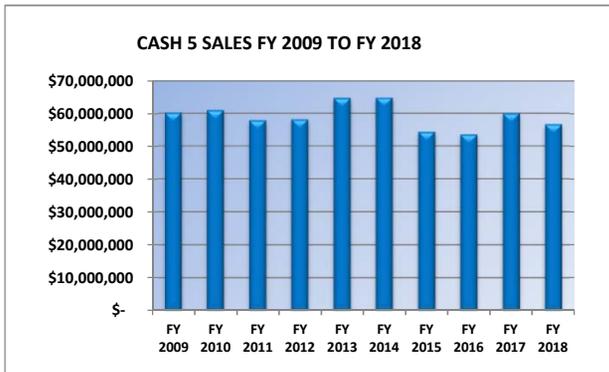
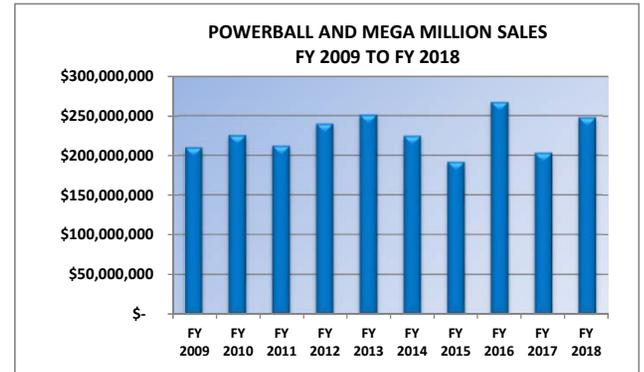
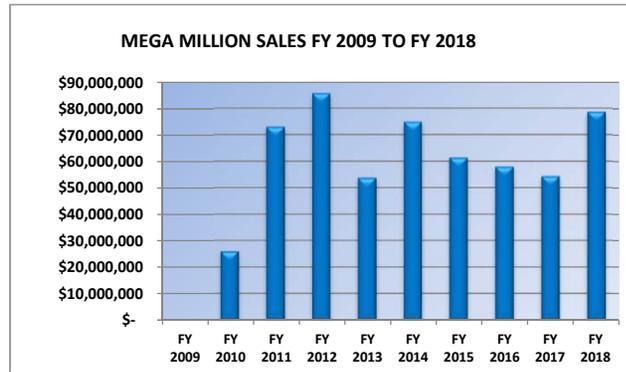
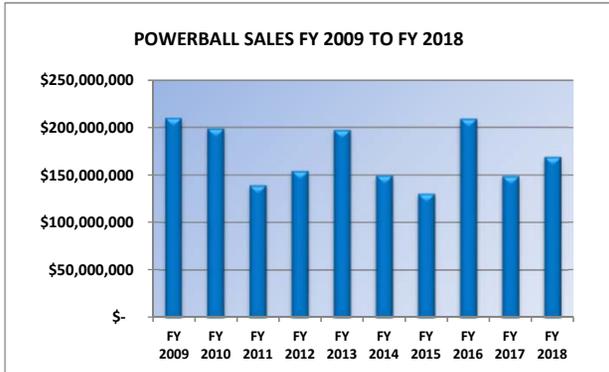
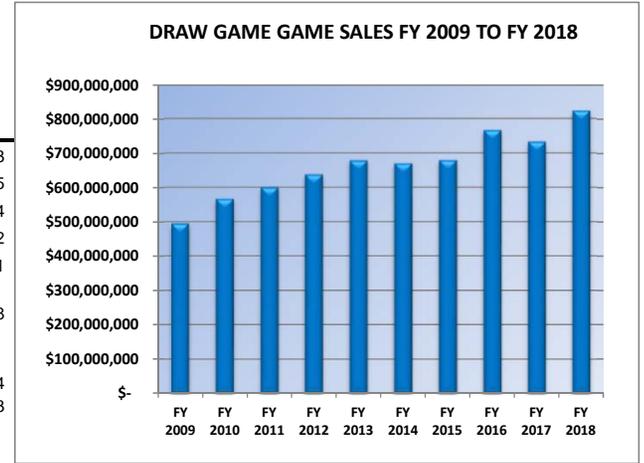


North Carolina Education Lottery Statistics

Draw Game Sales FY 2009 to FY 2018:

North Carolina Education Lottery Draw Game Sales

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Powerball	\$209,746,679	\$ 198,756,717	\$138,670,659	\$153,921,894	\$196,942,790	\$ 149,222,277	\$130,060,064	\$208,736,913	\$ 148,510,627	\$168,683,983
Mega Millions	\$ -	\$ 25,969,303	\$ 72,847,709	\$ 85,564,057	\$ 53,665,710	\$ 74,809,896	\$ 61,314,087	\$ 57,859,391	\$ 54,332,136	\$ 78,565,795
Cash 5	\$ 60,011,218	\$ 60,873,168	\$ 57,757,944	\$ 57,971,905	\$ 64,480,563	\$ 64,620,396	\$ 54,235,978	\$ 53,482,065	\$ 59,812,487	\$ 56,523,254
Pick 4	\$ 15,793,159	\$ 57,370,252	\$ 65,309,804	\$ 91,528,197	\$103,902,120	\$ 113,192,015	\$122,886,664	\$125,975,768	\$135,797,947	\$145,064,522
Pick 3	\$208,883,766	\$ 222,777,592	\$258,443,414	\$247,751,644	\$258,868,250	\$ 260,983,275	\$ 278,083,184	\$286,014,567	\$306,018,460	\$317,137,941
Raffle	\$ -	\$ -	\$ 5,986,380	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EZ Match	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,188,671	\$ 10,691,543	\$ 8,528,306	\$ 8,462,988	\$ 8,834,488
All or Nothing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,549,252	\$ 12,651,658	\$ -	\$ -
Monopoly	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,382,390	\$ -	\$ -	\$ -
Lucky for Life	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,885,532	\$ 19,904,592	\$ 19,176,084
KENO	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,519,473

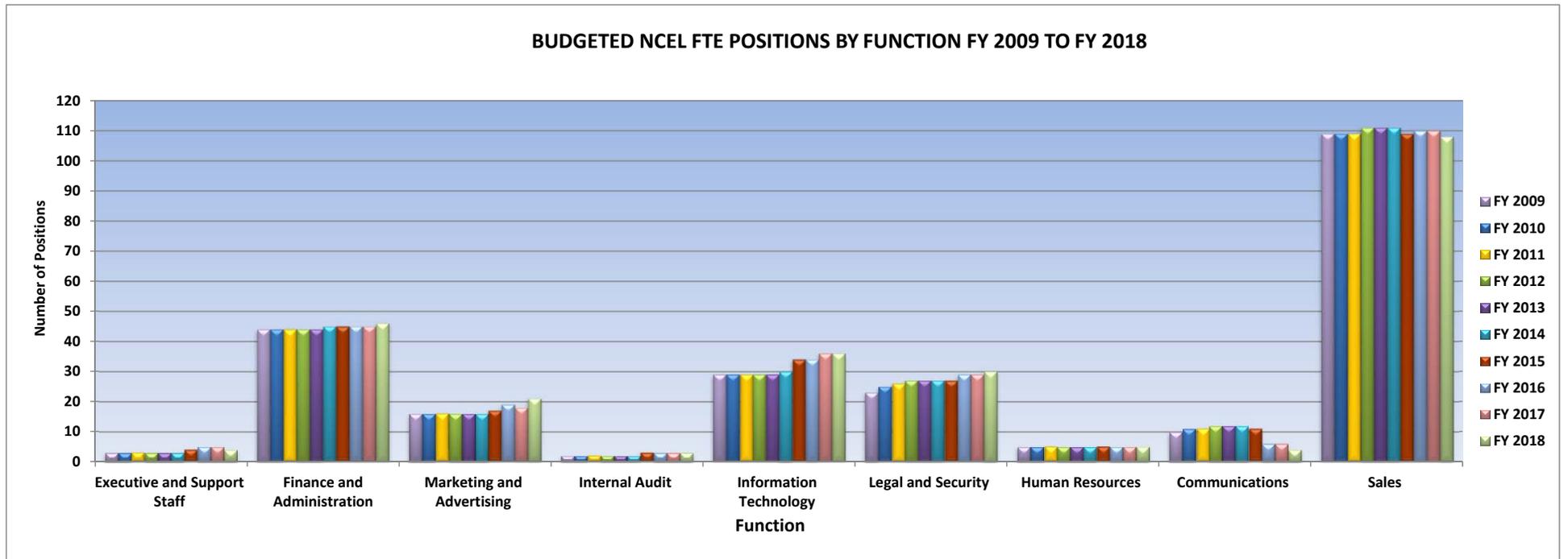


North Carolina Education Lottery Statistics

North Carolina Education Lottery Information:

Budgeted Full Time Equivalent (FTE) Positions by Function

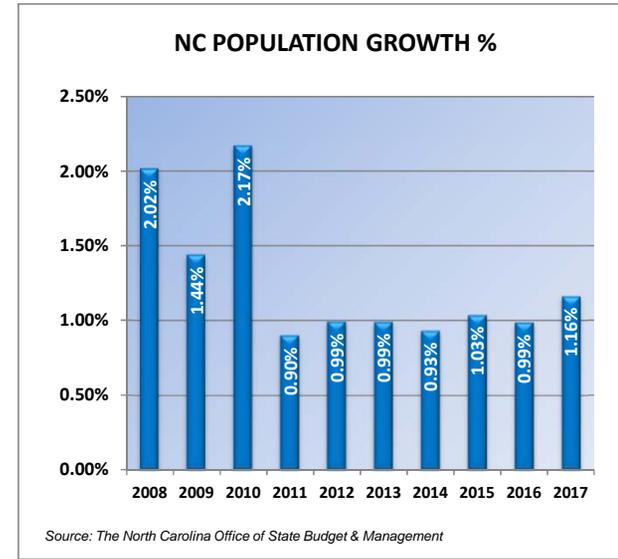
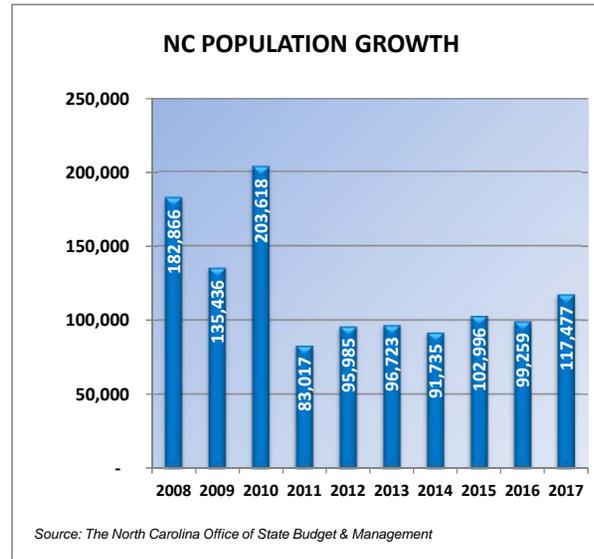
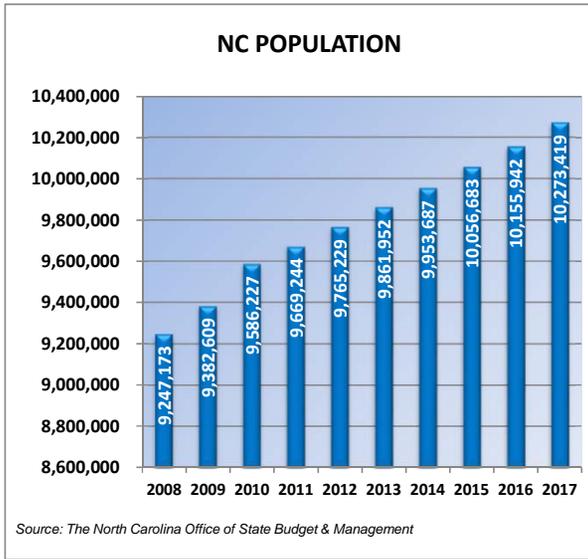
Function	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Executive and Support Staff	3	3	3	3	3	3	4	5	5	4
Finance and Administration	44	44	44	44	44	45	45	45	45	46
Marketing and Advertising	16	16	16	16	16	16	17	19	18	21
Internal Audit	2	2	2	2	2	2	3	3	3	3
Information Technology	29	29	29	29	29	30	34	34	36	36
Legal and Security	23	25	26	27	27	27	27	29	29	30
Human Resources	5	5	5	5	5	5	5	5	5	5
Communications	10	11	11	12	12	12	11	6	6	4
Sales	109	109	109	111	111	111	109	110	110	108
Total	241	244	245	249	249	251	255	256	257	257



North Carolina Population Demographics

Population	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
North Carolina Total Population	9,247,173	9,382,609	9,586,227	9,669,244	9,765,229	9,861,952	9,953,687	10,056,683	10,155,942	10,273,419
North Carolina Population Growth	182,866	135,436	203,618	83,017	95,985	96,723	91,735	102,996	99,259	117,477
North Carolina Population Growth Percentage	2.02%	1.44%	2.17%	0.90%	0.99%	0.99%	0.93%	1.03%	0.99%	1.16%

Source: Estimates from American FactFinder



HOUSEHOLDS BY TYPE	2008		2009		2010		2011		2012	
Total households	3,595,175	100.0%	3,646,095	100.0%	3,670,859	100.0%	3,683,364	100.0%	3,731,325	100.0%
Family households (families)	2,397,731	66.7%	2,430,277	66.7%	2,441,916	66.5%	2,455,564	66.7%	2,472,230	66.3%
With own children under 18 years	1,091,498	30.4%	1,083,501	29.7%	1,075,410	29.3%	1,060,465	28.8%	1,077,533	28.9%
Married-couple family	1,777,054	49.4%	1,791,515	49.1%	1,770,863	48.2%	1,788,142	48.5%	1,795,932	48.1%
With own children under 18 years	730,170	20.3%	712,126	19.5%	702,528	19.1%	675,851	18.3%	697,959	18.7%
Male householder, no wife present, family	154,724	4.3%	158,268	4.3%	159,752	4.4%	155,308	4.2%	171,133	4.6%
With own children under 18 years	78,365	2.2%	82,230	2.3%	79,910	2.2%	81,837	2.2%	87,595	2.3%
Female householder, no husband present, family	465,953	13.0%	480,494	13.2%	511,301	13.9%	512,114	13.9%	505,165	13.5%
With own children under 18 years	282,963	7.9%	289,145	7.9%	292,972	8.0%	302,777	8.2%	291,979	7.8%
Nonfamily households	1,197,444	33.3%	1,215,818	33.3%	1,228,943	33.5%	1,227,800	33.3%	1,259,095	33.7%
Householder living alone	994,766	27.7%	1,009,821	27.7%	1,022,017	27.8%	1,031,543	28.0%	1,040,303	27.9%
65 years and over	313,422	8.7%	318,699	8.7%	339,711	9.3%	337,273	9.2%	367,231	9.8%
Households with one or more people under 18 years	1,212,103	33.7%	1,203,617	33.0%	1,207,752	32.9%	1,189,022	32.3%	1,205,732	32.3%
Households with one or more people 65 years and over	803,471	22.3%	836,822	23.0%	875,841	23.9%	891,946	24.2%	943,637	25.3%
Average household size	2.49		2.49		2.53		2.55		2.55	
Average family size	3.05		3.06		3.10		3.12		3.12	

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

North Carolina Population Demographics

HOUSEHOLDS BY TYPE	2013		2014		2015		2016		2017	
	3,757,480	100.0%	3,790,620	100.0%	3,843,745	100.0%	3,882,423	100.0%	3,955,069	100.0%
Total households	2,474,802	65.9%	2,492,048	65.7%	2,506,215	65.2%	2,542,663	64.3%	2,590,180	65.5%
Family households (families)	1,048,744	27.9%	1,056,105	27.9%	1,056,067	27.5%	1,071,946	27.1%	1,069,914	27.1%
With own children under 18 years	1,786,356	47.5%	1,803,874	47.6%	1,829,450	47.6%	1,864,455	47.1%	1,907,659	48.2%
Married-couple family	674,065	17.9%	685,518	18.1%	698,000	18.2%	704,965	17.8%	709,555	17.9%
With own children under 18 years	168,512	4.5%	171,445	4.5%	169,304	4.4%	168,619	4.3%	178,850	4.5%
Male householder, no wife present, family	83,845	2.2%	87,583	2.3%	84,853	2.2%	83,482	2.1%	90,222	2.3%
With own children under 18 years	519,934	13.8%	516,729	13.6%	507,461	13.2%	509,589	12.9%	503,671	12.7%
Female householder, no husband present, family	290,834	7.7%	283,004	7.5%	273,214	7.1%	283,499	7.2%	270,137	6.8%
With own children under 18 years	1,282,678	34.1%	1,298,572	34.3%	1,337,530	34.8%	1,339,760	33.9%	1,364,889	34.5%
Nonfamily households	1,055,613	28.1%	1,076,536	28.4%	1,106,999	28.8%	1,106,491	28.5%	1,131,150	28.6%
Householder living alone	373,739	9.9%	390,434	10.3%	399,749	10.4%	407,654	10.5%	419,237	10.6%
65 years and over										
Households with one or more people under 18 years	1,178,724	31.4%	1,190,255	31.4%	1,191,561	31.0%	1,203,551	31.0%	1,206,296	30.5%
Households with one or more people 65 years and over	983,564	26.2%	1,021,905	27.0%	1,060,874	27.6%	1,090,961	28.1%	1,139,060	28.8%
Average household size	2.55		2.56		2.55		2.55		2.53	
Average family size	3.13		3.15		3.14		3.14		3.12	

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

North Carolina Occupational and Income Statistics

INCOME AND BENEFITS	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total households	100%									
Less than \$10,000	8.3%	9.0%	9.0%	8.8%	8.2%	8.4%	7.9%	7.4%	7.3%	6.9%
\$10,000 to \$14,999	6.0%	6.6%	6.9%	6.8%	6.3%	6.1%	6.4%	6.1%	5.9%	5.3%
\$15,000 to \$24,999	11.7%	12.8%	12.6%	12.8%	12.0%	12.3%	11.9%	11.9%	10.9%	10.6%
\$25,000 to \$34,999	11.7%	12.4%	12.1%	12.2%	11.8%	11.9%	11.7%	11.5%	10.9%	10.3%
\$35,000 to \$49,999	15.5%	15.1%	15.6%	14.8%	15.0%	15.0%	15.2%	14.7%	14.4%	14.1%
\$50,000 to \$74,999	19.1%	18.1%	18.4%	17.9%	18.4%	18.1%	17.8%	17.8%	18.4%	18.4%
\$75,000 to \$99,999	11.3%	11.1%	10.8%	10.5%	11.4%	11.1%	11.2%	11.4%	12.1%	12.0%
\$100,000 to \$149,999	10.1%	9.4%	9.0%	10.0%	10.3%	10.0%	10.6%	11.2%	11.6%	12.5%
\$150,000 to \$199,999	3.3%	2.8%	2.9%	3.3%	3.4%	3.6%	3.7%	3.9%	4.3%	4.9%
\$200,000 or more	3.0%	2.7%	2.7%	2.9%	3.1%	3.6%	3.6%	4.0%	4.4%	4.9%
Median household income (dollars)	\$ 46,549	\$ 43,674	\$ 43,326	\$ 43,916	\$ 46,291	\$ 45,906	\$ 46,556	\$ 47,830	\$ 50,584	\$ 52,752
Mean household income (dollars)	\$ 63,005	\$ 59,700	\$ 59,053	\$ 60,939	\$ 63,298	\$ 64,106	\$ 65,099	\$ 67,516	\$ 70,544	\$ 74,106

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

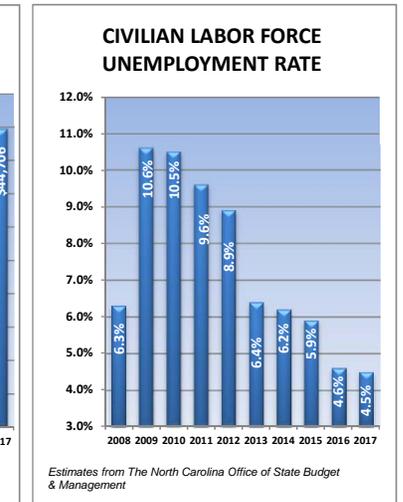
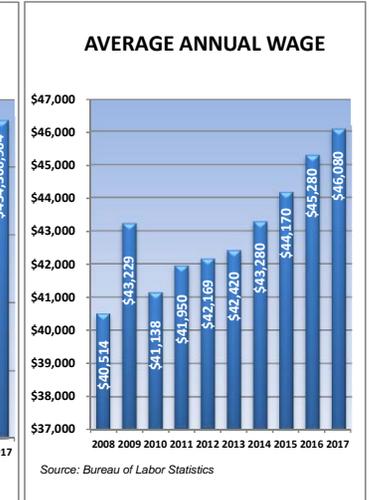
OCCUPATION	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Civilian employed population 16 years and over	100%									
Management, professional, and related occupations	33.9%	35.8%	35.1%	35.6%	35.0%	35.9%	36.0%	36.2%	36.5%	37.6%
Service occupations	16.2%	16.9%	17.3%	17.6%	16.7%	18.4%	17.7%	17.7%	17.6%	17.5%
Sales and office occupations	24.4%	24.2%	24.6%	23.6%	24.2%	23.5%	23.7%	23.4%	23.3%	22.3%
Farming, fishing, and forestry occupations	0.8%	0.7%								1%
Construction, extraction, maintenance and repair occupations	10.6%	9.1%	9.9%	9.5%	10.5%	9.1%	9.4%	9.4%	9.3%	8.7%
Production, transportation, and material moving occupations	14.1%	13.3%	13.1%	13.6%	13.7%	13.1%	13.2%	13.3%	13.3%	13.4%

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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Civilian employed population 16 years and over	100.0%	100%								
Agriculture, forestry, fishing and hunting, and mining	1.5%	1.4%	1.4%	1.4%	1.5%	1.3%	1.3%	1.2%	1.4%	1.2%
Construction	8.7%	7.3%	6.9%	6.6%	7.7%	6.5%	6.4%	7.2%	6.6%	6.9%
Manufacturing	13.5%	13.0%	12.4%	12.8%	13.1%	12.5%	12.1%	12.5%	12.2%	12.8%
Wholesale trade	3.0%	2.8%	3.0%	2.9%	2.9%	2.6%	2.7%	2.6%	2.6%	2.4%
Retail trade	11.8%	11.6%	12.0%	11.5%	11.6%	11.8%	12.2%	11.8%	12.0%	11.6%
Transportation and warehousing, and utilities	4.6%	4.4%	4.2%	4.4%	4.4%	4.3%	4.4%	4.2%	4.5%	4.5%
Information	2.0%	1.9%	1.7%	1.8%	1.9%	1.8%	1.9%	1.8%	1.8%	1.6%
Finance and insurance, and real estate and rental and leasing	6.6%	6.5%	6.4%	6.2%	6.5%	6.3%	6.3%	6.3%	6.5%	6.5%
Professional, scientific, and management, and administrative	8.9%	9.7%	9.5%	10.0%	9.5%	10.3%	10.3%	10.7%	10.3%	11.0%
Educational services, and health care and social assistance	22.3%	23.3%	23.4%	23.7%	22.9%	23.4%	23.1%	23.0%	23.0%	22.7%
Arts, entertainment, and recreation, and accommodation	8.5%	8.8%	9.2%	9.0%	8.7%	9.8%	9.9%	9.5%	9.8%	9.7%
Other services, except public administration	4.6%	5.0%	5.0%	4.9%	4.8%	5.0%	4.9%	4.7%	5.1%	5.0%
Public administration	4.0%	4.4%	4.9%	4.8%	4.4%	4.4%	4.4%	4.3%	4.2%	4.1%

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



North Carolina Employer Statistics

Employer	2018			2008		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina	175,000-179,999	1	3.71%	180,000-184,999	1	4.50%
Federal Government	70,000-74,999	2	1.51%	65,000-69,999	2	1.67%
Wal-Mart Associates, Inc	45,000-59,999	3	1.10%	50,000-54,999	3	1.30%
Duke University	35,000-39,999	4	0.78%	25,000-29,999	4	0.68%
Charlotte-Mecklenburg Hospital Auth	35,000-39,999	5	0.78%	20,000-24,999	6	0.56%
Food Lion LLC	30,000-34,999	6	0.68%	25,000-29,999	5	0.68%
Wells Fargo Bank NA	30,000-34,999	7	0.68%	—	—	—
Lowe's Home Centers, Inc	20,000-24,999	8	0.47%	15,000-19,999	10	0.43%
Wake County Public Schools	20,000-24,999	9	0.47%	20,000-24,999	8	0.56%
Charlotte-Mecklenburg Bd Education	20,000-24,999	10	0.47%	20,000-24,999	7	0.56%
Wachovia Bank NA	—	—	—	15,000-19,999	9	0.43%
Total	480,000-539,990		10.65%	435,000-484,990		11.37%

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	2008	% of Total	2009	% of Total	2010	% of Total	2011	% of Total	2012	% of Total
Population 25 years and over	6,085,315		6,150,247		6,325,621		6,399,357		6,489,883	
Less than 9th grade	383,607	6.3%	364,595	6.0%	354,732	5.6%	364,763	5.7%	374,003	5.8%
9th to 12th grade, no diploma	612,533	10.1%	599,129	9.8%	610,095	9.6%	607,939	9.5%	588,448	9.1%
High school graduate (includes equivalency)	1,680,882	27.6%	1,678,361	27.6%	1,749,642	27.7%	1,747,024	27.3%	1,760,704	27.1%
Some college, no degree	1,324,936	21.8%	1,350,850	22.2%	1,392,117	22.0%	1,395,060	21.8%	1,428,821	22.0%
Associate's degree	497,276	8.2%	524,739	8.6%	545,716	8.6%	556,744	8.7%	562,049	8.7%
Bachelor's degree	1,060,313	17.4%	1,091,506	17.9%	1,123,118	17.8%	1,139,086	17.8%	1,170,056	18.0%
Graduate or professional degree	525,768	8.6%	541,067	8.9%	550,201	8.7%	588,741	9.2%	605,802	9.3%

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

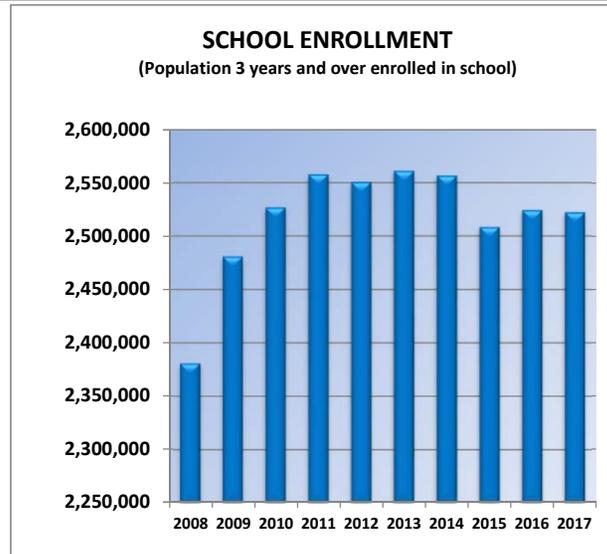
EDUCATIONAL ATTAINMENT	2013	% of Total	2014	% of Total	2015	% of Total	2016	% of Total	2017	% of Total
Population 25 years and over	6,568,110		6,661,937		6,762,644		6,877,185		6,991,185	
Less than 9th grade	354,678	5.4%	333,097	5.0%	340,573	5.0%	319,570	4.6%	314,734	4.5%
9th to 12th grade, no diploma	577,994	8.8%	566,265	8.5%	568,846	8.4%	553,627	8.1%	539,055	7.7%
High school graduate (includes equivalency)	1,740,549	26.5%	1,772,075	26.6%	1,785,510	26.4%	1,775,886	25.8%	1,800,555	25.8%
Some college, no degree	1,444,984	22.0%	1,458,964	21.9%	1,452,845	21.5%	1,482,131	21.6%	1,487,938	21.3%
Associate's degree	577,994	8.8%	612,898	9.2%	623,813	9.2%	654,866	9.5%	658,224	9.4%
Bachelor's degree	1,208,532	18.4%	1,239,120	18.6%	1,277,412	18.9%	1,345,615	19.6%	1,406,739	20.1%
Graduate or professional degree	650,243	9.9%	672,856	10.1%	713,645	10.6%	745,490	10.8%	783,940	11.2%

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

SCHOOL ENROLLMENT

Population 3 years and over enrolled in school

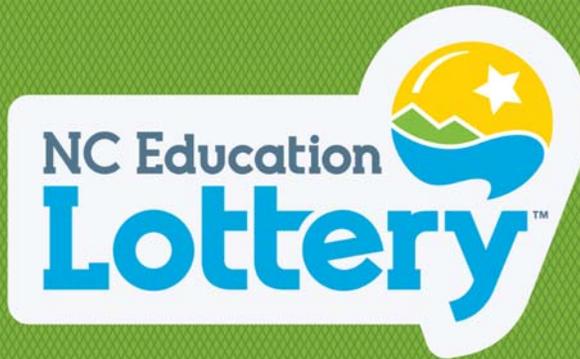
Year	School Enrollment
2008	2,380,186
2009	2,480,531
2010	2,526,366
2011	2,557,304
2012	2,550,114
2013	2,560,742
2014	2,556,055
2015	2,507,958
2016	2,523,926
2017	2,521,781



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