annual report FY 2011

for the 5th year in a row, the n.c. education lottery ended its fiscal year by setting a new record for sales and the amount of money provided for education and our state.

• $1.461 billion in total sales • $446.9 million in revenue for the state

Fifth

HIGHLIGHTS OF **FY2011**

In Fiscal Year 2011, the N.C. Education Lottery ...

- *... Surpassed $6 billion in total sales. As of June 30, total sales were $6,368,807,396*
- *... Achieved highest sales ever, $1.461 billion in ticket sales*
- *... Recorded best week of sales ever, March 20-26; best month of sales ever, March 2011; and best quarter of sales ever, January through March*
- *... Exceeded $2 billion in total contributions to state and education since inception*
- *... Made largest cash transfer to state and education, $446.9 million*
- *... Built the largest sales network, 6,610 retail locations*
- *... Paid out record amount in prizes to players, $863 million*
- *... Supported responsible playing, $1 million for gambling addiction, education and treatment programs, sponsor of National Conference for Problem Gambling*
- *... Named new executive director. On Jan. 18, 2011, Alice Garland, deputy executive director for legislative and corporate communications, became the NCEL's second executive director*

Anniversary

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HIGHLIGHTS OF **FIRST 5 YEARS**

As of its fifth anniversary, March 30,2011, the N.C. Education Lottery had...

... Recorded $5.9 billion in sales

... Exceeded more than $1.7 billion in total contributions to state and education

... Funded the salaries of 8,077 teachers in grades K-3

... Paid for 70,146 four-year-olds, judged at risk of starting school behind their peers, to attend a year of the More at Four program

... Provided $611 million for school construction across the state, funds that help to keep property tax down

... Provided college financial aid, on a need basis, to 91,257 students at state universities and community colleges

... Paid out more than $3.37 billion in prizes to big winners in every county of the state

... Awarded jackpots, ranging in size from $12 million to $141.4 million, to four North Carolinians

... Paid $417 million in commission to retailers on ticket sales

... Signed up 6,470 locations in the state as lottery retailers including gas stations, convenience stores, grocery stores, drug stores and wholesale clubs

Carla Archie
Charlotte
Senior Counsel, Wells Fargo & Co.
Appointed by: Gov. Mike Easley
Term: Jan. 9, 2009 – Aug. 31, 2011

***Norwood Clark**
Raleigh
CPA
Appointed by: Senate President Pro Tem Marc Basnight
Term: Aug. 6, 2009 – Aug. 31, 2012

Bill Dowdy
Raleigh
Retired, State Bureau of Investigation
Appointed by: Gov. Mike Easley
Term: Jan. 2, 2009 – Aug. 31, 2011

***Bridget-Anne Hampden**
Charlotte
President and CEO, JHR & Associates LLC
Appointed by: Senate President Pro Tem Marc Basnight
Term: Sept. 22, 2005 – Dec. 14, 2012

N.C. Education

Robert Farris Jr., Chairman
Wilson
Attorney, Farris and Farris, P.A.
Appointed by: Gov. Mike Easley
Term: Sept. 22, 2005 - Aug. 31, 2013

COMMISSION CHAIR'S NOTE

More than five years ago, in September 2005, I accepted a call to serve on the Education Lottery Commission and went to work with other commissioners to create a new state lottery. This was new for my generation, but looking back in history both our state and local governments have used lotteries to serve the public good. In the 18th and 19th centuries, lotteries were used to raise the money to build roads and bridges, clear waterways and build churches and schools, including the nation's first public university, the University of North Carolina.

This time, in the 21st Century, the mission of the lottery is to raise money for education programs in North Carolina. The lottery games we have launched not only provide much enjoyment, entertainment and additional compensation to our citizens but the money they raise comes without cost to North Carolina taxpayers. We have now passed $2 billion and counting in revenues for the state, dollars that have paid for teacher salaries in grades K-3, the construction and repair of schools in each of the 100 counties in this state, early childhood education for at-risk four-year-olds, and college scholarships and financial aid to students based on need.

Your commissioners work without compensation. We come from different parts of the state and from different backgrounds, but we all serve as volunteers. Our goal is to ensure that your lottery accomplishes its mission of serving the public good. I would like to share with you a couple of the principles that have guided our lottery since Day One.

Marlene Hyatt
Waynesville
Retired Superior Court Judge

Appointed by: Speaker of the House Joe Hackney
Term: Sept. 10, 2009 – Aug. 31, 2013

Lawrence Spears
Raleigh
Owner and broker, Raleigh Investment Real Estate

Appointed by: Gov. Beverly Perdue
Term: March 20, 2009 – Aug. 31, 2011

Pamela Whitaker
Greensboro
President, Key Resources Inc.

Appointed by: Gov. Mike Easley
Term: Feb. 18, 2008 – Aug. 31, 2012

Cullie M. Tarleton
Blowing Rock
Retired television broadcast executive

Appointed by: Speaker of the House Joe Hackney
Term: Jan. 19, 2011 – Aug. 31, 2012

**Has resigned from the commission. New commissioners are Barry Z. Dodson, a CPA from Madison in Rockingham County, and Fern Shubert, a CPA from Marshville in Union County. Both Dodson and Shubert were appointed by the N.C. Senate upon the recommendation of Senate President Pro Tem Phil Berger.*

Lottery Commission

Our business is built on integrity, with a view always to earn and deserve your trust. We employ a plethora of internal, external, announced and unannounced audits and have been blessed with unqualified findings, that is excellent results. Our organization has been repeatedly recognized for quality and transparency, here at home and nationally.

We strive to be good stewards of lottery dollars, always keeping in mind that we serve a public good – education in North Carolina. While we are allowed to spend up to 8 percent of lottery revenues on administrative expenses – from salaries and benefits to advertising and marketing – we have kept those expenses under 4.5 percent. In fact, as our revenues have grown, our administrative expenses, in comparison, have declined. We know every dollar we save in administrative expenses is another dollar that will go to the education programs that we serve.

The declining economic climate during the past few years makes our increase in revenues and payments to our "Beneficiaries" – the school children of North Carolina – simply astounding. If you have watched the lottery grow, as I have, you have witnessed slow and careful steps forward with steady growth both in sales and in the transfers of lottery proceeds to the state. In our first full year of operations, fiscal year 2007, we transferred $315 million. In fiscal year 2011, that increased to $447 million.

Finally, this record of growth could not have occurred without the hard work of our staff. Executive Director Alice Garland and her crew make the work we do as commissioners easier and, on your behalf, we thank them for the dedication they bring to their work providing fair, honest and fun lottery games. We pledge to continue to work to make the next five years of the Education Lottery as successful as the first five years.

The Education Lottery Commission consists of nine members. Five members are appointed by the governor and four by the N.C. General Assembly, of which two are recommended by the speaker of the N.C. House of Representatives, and two by the president pro tem of the N.C. Senate. Commissioners serve five-year terms and can only serve two successive terms. One member must have five years experience in law enforcement, one must be a certified public accountant, and one must have retail sales experience as an owner or manager of a sales company. Commission meetings are held once a quarter.

NCEL

EXECUTIVE DIRECTOR'S NOTE

Alice Garland
Executive Director

If you like a come from behind to win story like I do, then you'll like the story of the Education Lottery during its fifth fiscal year. For the first five months, sales declined. We weren't meeting our budget projections. We were seeing sales drop in year-to-year comparisons. In December, we had no choice but to revise our budget due to lower than expected sales. It wasn't fun looking at daily sales reports.

Now fast forward three months to March. The Education Lottery recorded its best week of sales ever, its best month of sales ever and its best quarter ever. By the end of June, when we closed the books on FY11, we achieved our fifth consecutive year of growth in sales and return for education, setting a new record for annual sales - $1.46 billion – and made the largest transfer ever to the state - $446.9 million.

The turnaround came because we did what a lot of people do during challenging times. We returned to our core business and made it better.

During those tough months in the fall, we put together a new plan for our instant ticket games – the mainstay of the lottery. A beautiful and elegant instant ticket, Carolina Black, went on sale in December. Then in January we launched $200,000 a Year for Life, a game offering the highest top instant prize in NCEL history. We then turned to our draw games, and added afternoon drawings to Carolina Pick 4 and a Sunday afternoon Carolina Pick 3 drawing. The additions meant both games offered drawings twice a day, seven days a week. And in March, following a strategy to give more attention to $5 instant games, we brought back the iconic Ric Flair ticket as WOOOOO! II. The second WOOOOO! game sold better than the first one.

We not only had good products, but we were also slowly and steadily finding more places to sell them. Our sales team never gave up. During a tough economic year we grew our retail base to 6,610 locations, up 6 percent from the year before. Two major retail names in North Carolina – Harris Teeter grocery stores and Rite-Aid drug stores – became lottery retailers.

So by the time our fifth anniversary came around on March 30th, I knew it was going to be another good year for the lottery. I knew then that we had enough momentum going that we would not only meet our original budget goal, but surpass it.

The lottery has succeeded in North Carolina because, while a government agency, it strives as much as possible to work like an entrepreneurial sales organization. Our staff focuses relentlessly on sales so that we can raise as much money as possible for the good cause we serve – public education in North Carolina. I am proud of the staff and glad to be associated with such dedicated people.

The Education Lottery is proud of the success it has had in its first five years, the good luck of our winners, and the benefits the lottery has brought to education in North Carolina, from prekindergarten classes to state universities and community college scholarships. We'll keep working hard to provide fun and honest games to those who choose to play the lottery during our next five years.

Alice Garland

Senior Staff

The Education Lottery's top officer is Alice Garland, who was named executive director in January 2011. She has five years experience with the lottery, serving as deputy executive director for legislative and corporate communications since the lottery began. She previously had 25 years experience in executive posts handling governmental affairs and communications. Four deputy executive directors work with Garland in overseeing the operations of the N.C. Education Lottery. They are:

★★★ Our Leadership Team ★★★

Deborah Doty

Deputy Executive Director, Management Information and Gaming Systems

Has 29 years of experience with lotteries in New York and North Carolina. Is responsible for all technology at the lottery and for contract compliance with the lottery's main vendor, GTECH, which provides the centralized gaming system for the lottery.

Bill Jourdain

Deputy Executive Director, Finance, Administration and Security

Has 34 years of experience with lotteries in New Jersey and North Carolina. Is responsible for oversight of all lottery finances, the administration of contracts, the payout of prizes to winners, the management of lottery facilities, and oversight of lottery security to protect the integrity of its games.

Sam Hammett

Deputy Executive Director, Sales

Has 17 years of experience with lotteries in Georgia and North Carolina. Responsible for all lottery ticket distribution and sales, including the management of lottery relationships with its retail and corporate partners who sell lottery tickets in 6,600 locations, and the operations of the lottery's six regional claims centers and warehouse.

Lou Ann Russell

Deputy Executive Director, Advertising, Marketing and Communications

Has 18 years of experience with lotteries in Georgia and North Carolina. Responsible for the development of the lottery's brand and image as well as the promotion of its games through advertising, marketing and public relations.

Our State

The first lottery ticket was sold on March 30, 2006 to Howard Lee, who was then chairman of the State Board of Education. The ticket was then given to the N.C. Museum of History.

PLAYING LOTTERY BECOMES A FAMILIAR SCENE

In its first five years of operations, the N.C. Education Lottery has become part of the landscape of the state it serves.

From an economic standpoint, it ranks as one of the major sales organizations in the state, recording more than $1.4 billion in sales in fiscal year 2011. Those sales produce a reliable stream of commissions that helped the bottom line for some 6,610 retail partners.

For public education, the lottery plays a major role in financing important education initiatives in North Carolina. This year, the lottery surpassed $2 billion in revenues for education shortly after marking its fifth year anniversary.

Culturally, the playing of the lottery is a daily ritual for many and a familiar scene for others. Every night in North Carolina, at 11:22 p.m., folks watch live drawings on five lottery draw stations to see if their lucky numbers match up with the winning numbers in the Pick 3, Pick 4, or Cash 5 games. Mega Millions players on Tuesdays and

★ March 30, 2006 ★
NCEL begins retail sales

★ October 19, 2006 ★
First transfer to education: $50 million

★ November 29, 2006 ★
First Powerball jackpot winner: $74.5 million

★ May 16, 2008 ★
First sponsorship of NCEL 200 NASCAR truck series race

★ February 26, 2009 ★
Sales Surpass $3 billion

Lottery

Fridays and Powerball players on Wednesdays and Saturdays watch drawings just before the 11 o'clock news to see if they won the jackpots. Others get email alerts of winning numbers on smart phones, call the player's hotline or go online to the lottery's website to see if they are a winner. Stories of winners, their good luck and how they plan to use their winnings are popular news stories across the state.

Overall, about 95 cents of every dollar spent on a lottery ticket in North Carolina is reinvested in some way back into the state's economy. If you consider a dollar spent on a lottery ticket, 59 cents goes to prizes to winners, 29 cents goes to education, and 7 cents go to retailers' commissions.

Roles that the N.C. Education Lottery plays....

... In supporting education: *As of June 30, 2011, thanks to funds raised by the Education Lottery in its first five years, 100,913 teachers have had their salaries paid with lottery dollars; more than 416,800 at-risk four-year-olds have received a year in a quality prekindergarten program; more than 123,827 college students have received scholarships or financial aid; and $711 million have paid for more than 1,000 school construction or repair projects across the state.*

... In awarding prizes to players: *In fiscal year 2011, the lottery paid out on average $2.4 million a day in prizes. Winners give a wide range of answers when asked what they plan to do with their winnings. Some say they will pay bills, buy cars and houses, take vacations or save and invest. Many big winners say they want to use their good luck to give back to their community.*

... In the retail economy: *At the end of fiscal year 2011, lottery tickets were sold at 6,610 locations across the state, up from nearly 5,000 locations on the first day of the lottery in 2006. Tickets are not just sold at gas stations and convenience stores but they can be found in most major grocery and drug store chains, and new types of retailers like BJ's Wholesale Clubs. Retailers earned $102 million in commissions in fiscal year 2011.*

... In the advertising sector of the economy: *The lottery's use of advertising to support its tickets sales makes it one of the major advertisers in the state. The lottery spent $13.8 million on advertising in its last fiscal year.*

... In local communities: *The Education Lottery supports community programs and North Carolina sports teams throughout the state as part of its marketing efforts. Such events range from festivals such as the Azalea Festival in Wilmington to fairs like the Dixie Classic Fair in Winston-Salem and sporting events from minor league baseball to professional hockey and basketball to NASCAR.*

$20

★ October 6, 2009 ★
First $20 instant ticket: $200 Million Extravaganza

★ January 31, 2010 ★
Mega Millions tickets go on sale

★ January 18, 2011★
Alice Garland named new executive director

★ February 27, 2011 ★
Afternoon Pick 3 & Pick 4 held seven days a week

★ June 29, 2011 ★
Earnings for the state exceed $2 billion with record transfer

Education Dollars to Counties

County	FY11 Total	Five Year Total
Alamance	6,439,896	26,190,412
Alexander	1,578,144	6,660,714
Alleghany	525,926	2,370,957
Anson	1,224,214	6,263,103
Ashe	1,193,650	5,377,981
Avery	764,255	3,536,481
Beaufort	2,097,451	8,988,872
Bertie	1,087,583	5,044,601
Bladen	1,830,971	9,217,216
Brunswick	3,838,722	15,881,367
Buncombe	7,760,331	31,712,876
Burke	4,273,387	19,806,145
Cabarrus	9,133,129	39,654,455
Caldwell	3,368,386	14,146,165
Camden	510,919	2,389,619
Carteret	2,358,352	9,940,406
Caswell	874,854	4,133,728
Catawba	6,680,574	27,800,571
Chatham	2,489,975	11,039,086
Cherokee	1,070,005	4,835,610
Chowan	712,139	3,100,602
Clay	426,657	1,897,257
Cleveland	4,989,333	24,346,121
Columbus	3,092,237	15,294,025
Craven	4,124,284	16,663,208
Cumberland	16,951,659	79,412,740
Currituck	973,274	4,046,458
Dare	1,470,593	5,729,954
Davidson	7,020,528	29,479,505
Davie	2,060,369	9,032,225
Duplin	2,776,233	12,464,119
Durham	8,817,923	40,147,987
Edgecombe	2,711,756	12,677,662
Forsyth	14,387,694	63,761,564
Franklin	2,252,349	9,866,498
Gaston	9,600,744	44,873,501
Gates	506,075	2,574,831
Graham	407,117	1,824,018
Granville	2,372,027	10,839,685
Greene	1,065,499	4,988,319
Guilford	22,545,061	102,110,958
Halifax	2,494,287	11,957,211
Harnett	5,206,478	23,053,742
Haywood	2,185,098	8,859,152
Henderson	3,692,253	14,890,955
Hertford	1,174,356	5,532,841
Hoke	3,031,324	12,757,296
Hyde	210,240	954,429
Iredell	6,952,127	28,549,060
Jackson	1,113,765	4,833,087

OUR BENEFICIARIES

Statewide, through the end of fiscal year 2010-11, lottery funds have:

Funded the salaries of 11,808 teachers in order to continue the goal of providing one teacher per 18 students in grades K-3.

Paid for 100,913 four-year-olds, deemed to be "at risk" of starting school behind their peers, in the award-winning More at Four program (now known as NC Pre-K)

Our Mission

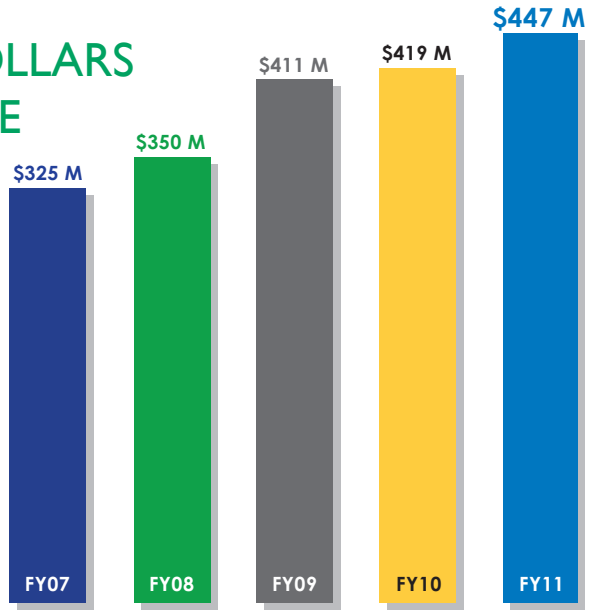
TEACHER PAY, PRE-K PROGRAMS, SCHOOL CONSTRUCTION & SCHOLARSHIPS

From security to sales, every NCEL division plays a vital role in advancing our greatest goal: to responsibly raise money for education. Through the conclusion of FY11, that united effort generated more than $1.8 billion for specific education initiatives in all 100 North Carolina counties.

The $446.9 million in cumulative quarterly transfers for FY11 marked the fifth of five years of increased returns to the state.

How lottery proceeds are allocated to education is determined by the North Carolina General Assembly. Before NCEL operations began in 2006, four programs were identified as lottery fund beneficiaries: school construction, teacher salaries in grades K-3, prekindergarten for at-risk four year olds, and need-based college scholarships.

LOTTERY DOLLARS TO THE STATE

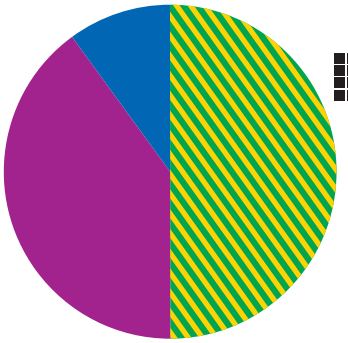


Once every four months, the NCEL transfers its earnings to the State Education Lottery Fund. The amount of money transferred has grown each year.

Provided $711 million for 1,027 school construction projects across the state. In many counties, this money has helped to purchase land, build additions to schools, pay down school bonds, and, ultimately, reduce the need for NC residents' tax dollars to pay for the projects.

Provided college financial aid, on a need basis, to 123,827 students at colleges, universities and community colleges located in North Carolina. To receive an education lottery scholarship, the student must first qualify for the Pell Grant which is a federal grant available to students whose families cannot afford to pay for college.

BENEFICIARY FUNDS



Beneficiary Program Distribution

50% Teacher Salaries & Prekindergarten

40% School Construction

10% Need-Based College Scholarships

★★★ Our Leadership Team ★★★

Margaret Spindola-Bode

Director of Human Resources

Human Resources handles issues related to the lottery staff, such as hiring, compensation and benefits, training, performance management and safety and wellness.

Jaime King

Director of Government Affairs

The Director of Government Affairs represents the interests of the NCEL within state government, both the executive and legislative branches, and monitors all lottery and gaming-related legislation on the state and federal level.

Education Dollars to Counties

County	FY11 Total	Five Year Total
Johnston	8,784,866	38,088,217
Jones	477,773	2,460,199
Lee	3,075,399	13,987,278
Lenoir	2,738,820	13,219,662
Lincoln	3,166,394	13,678,446
Macon	1,432,051	6,068,884
Madison	792,802	3,126,462
Martin	1,174,310	5,417,415
Mcdowell	1,834,953	8,014,594
Mecklenburg	37,875,668	167,341,835
Mitchell	583,461	2,669,995
Montgomery	1,479,457	7,134,157
Moore	2,927,542	11,757,889
Nash	4,746,794	21,305,892
New Hanover	7,684,318	32,680,232
Northampton	962,418	4,712,525
Onslow	7,586,297	29,465,668
Orange	4,952,666	21,918,724
Pamlico	462,302	2,186,282
Pasquotank	1,768,125	7,420,820
Pender	2,308,431	9,628,549
Perquimans	558,385	2,434,351
Person	1,559,965	7,467,763
Pitt	7,152,631	31,719,608
Polk	829,870	3,722,302
Randolph	6,249,780	25,816,769
Richmond	2,358,216	11,800,187
Robeson	8,009,964	38,491,576
Rockingham	3,862,070	18,272,170
Rowan	5,783,542	26,249,867
Rutherford	2,952,450	13,295,565
Sampson	3,690,468	16,841,906
Scotland	2,188,329	10,687,033
Stanly	3,117,779	14,280,497
Stokes	2,116,857	10,333,912
Surry	3,280,290	15,852,671
Swain	691,677	2,889,541
Transylvania	964,081	4,200,021
Tyrrell	180,548	881,431
Union	10,657,029	43,926,154
Vance	2,085,766	9,845,384
Wake	37,828,625	145,850,782
Warren	795,548	3,613,886
Washington	625,002	3,277,351
Watauga	1,327,102	5,910,822
Wayne	6,336,187	29,638,293
Wilkes	3,456,956	16,163,116
Wilson	3,434,340	15,622,124
Yadkin	1,775,166	8,434,167
Yancey	662,824	2,978,862

Alice Garland, executive director of the lottery, made a special appearance as draw host on March 30, 2011, the lottery's fifth anniversary, to announce the winning numbers and thank players for helping raise money for education.

THE EVOLUTION OF OUR GAME PORTFOLIO

In the days of spring 2006, the only lottery tickets in North Carolina stores were for Powerball and a handful of instant games. By October however, early in the NCEL's first full year of operations, Carolina Pick 3 and Carolina Cash 5 were introduced. Fiscal year 2007 concluded with 84.6 percent of sales coming on instant scratch-off and Powerball tickets.

Over the next two years, strong growth was driven by continued expansion of the instant ticket category while two product additions brought the NCEL to a full complement of games. In April 2009, Carolina Pick 4 rounded out the North Carolina draw game selection. Mega Millions, a multistate jackpot game similar to Powerball, arrived in January 2010.

Major developments continued in the lottery's fifth full year. New game initiatives in fiscal year 2011 included:

- The second $20 ticket ever offered – $200,000 a Year for Life – provided players three chances to win the largest instant prize ever offered in the state.
- Fans of Pick 3 and Pick 4 got exciting news in February 2011 when Sunday afternoon Pick 3 and daily afternoon Pick 4 drawings were added.
- The release of popular licensed games featuring second-chance drawings for trips. The World Series of Poker game provided players the chance to win a grand prize package that included a seat at the 2011 World Series of Poker Main Event in Las Vegas. A Price is Right instant game awarded players the opportunity to travel to Las Vegas and compete in a non-broadcast version of the popular TV game show. And the NCEL teamed up again with former professional wrestler Ric Flair for the WOOOOO! II instant ticket.

Just more than five years since launch, the NCEL offers its most robust selection of games. As many as 60 instant tickets, ranging in price from $1 to $20, are available. Afternoon and evening drawings for Pick 3 and Pick 4 drawings are held seven days a week with Cash 5 drawings held each night as well. Powerball and Mega Millions players have the chance to win jackpots four times a week.

Our Games

LIFE-TO-DATE SALES BY FISCAL YEAR

	Instant Games	Powerball	Mega Millions	Pick 3	Pick 4	Cash 5	Raffle	Total
FY 2011 (7/1-6/30)	$862,090,476	$138,670,659	$72,847,709	$258,443,414	$65,309,804	$57,757,944	$5,986,380	**$1,461,106,386**
FY 2010 (7/1-6/30)	$855,566,067	$198,756,717	$25,969,303	$222,777,592	$57,370,252	$60,873,168	-	**$1,421,313,099**
FY 2009 (7/1-6/30)	$798,676,404	$209,746,679	-	$208,883,766	$15,793,159	$60,011,218	-	**$1,293,111,226**
FY 2008 (7/1-6/30)	$635,880,115	$229,255,174	-	$147,158,304	-	$58,516,249	$7,369,240	**$1,078,179,082**
FY 2007 (7/1-6/30)	$490,564,474	$258,967,883	-	$89,541,216	-	$36,501,699	$10,000,000	**$885,575,272**
FY 2006 (3/30-6/30)	$202,204,737	$27,317,594	-	-	-	-	-	**$229,522,331**
Life to Date	**$3,844,982,273**	**$1,062,714,706**	**$98,817,012**	**$926,804,292**	**$138,473,215**	**$273,660,278**	**$23,355,620**	**$6,368,807,396**

★★★ Our Leadership Team ★★★

Tony Chung
Director of MIS

The MIS Department provides IT project management, data security/ delivery, software development, and computing services.

Joe Norman
Director of Gaming Systems

The Department of Gaming Systems provides quality assurance of gaming vendor systems, operates the ICS (Internal Control System) and satisfies gaming related reporting needs.

Our Message

ADVERTISING SUPPORTS TICKET SALES

Advertising plays a major role in the N.C. Education Lottery's efforts to generate ticket sales and raise money for education. NCEL advertisements oftentimes are how many residents are introduced to the lottery's games and informed about the money raised for education. Strategic planning of game messages, media schedules and production services provide for cohesive campaigns that are integrated with other marketing efforts throughout the lottery. Noteworthy initiatives in the fiscal year included:

- **Beneficiary advertising.** Once a quarter, advertisements aired statewide which conveyed how lottery dollars have helped build new schools, paid for college scholarships, supported teacher salaries in grades K-3, and provided opportunities for four-year-olds to attend a quality prekindergarten program. The ads featured testimonials from real people telling real stories of how lottery dollars supported their education program.
- **Exploring new mediums.** A new advertising strategy involved opening new channels for messages focused on beneficiary contributions, winner awareness, jackpot updates for Carolina Cash 5 and Mega Millions, and continued support of instant games. This new strategy included an expanded sponsorship of Monday Night Football with Mega Millions jackpot updates; Video On Demand programming that supported beneficiary programs and winner awareness; Muzak for jackpot awareness at the retail level; and quarterly ads on Public Radio in North Carolina that provided additional support for beneficiary updates.
- **Awards.** The NCEL received finalist awards for advertising in two categories at the North American Association of State and Provincial Lotteries' annual conference in Grand Rapids, Mich. The WOOOOO! II ticket launch featuring Ric Flair was one of three finalists in the "Special Events Promotion" category. The NCEL also received recognition as a finalist in the "TV Spot under $25,000" category for its play responsibly television advertisement, "Numbers." The NCEL and Trone were recognized at the 2010 Printing Industries of the Carolinas (PICA) Awards. The NCEL received the "Best of" award in the category of Digital Printing (Posters) for the Holiday Mini Poster (Hispanic) and the "Best of" award in the category of Point of Purchase Displays (4-color) for the Holiday Back/Front Display.

★ Our Leadership Team ★

Susan Singley
Director of Advertising

The Advertising Department is responsible for the strategic development of advertising messages and media plans to support and promote the NCEL brand, ticket sales, beneficiary and winner awareness.

LUCKE-ZONE LAUNCHES FOR PLAYERS

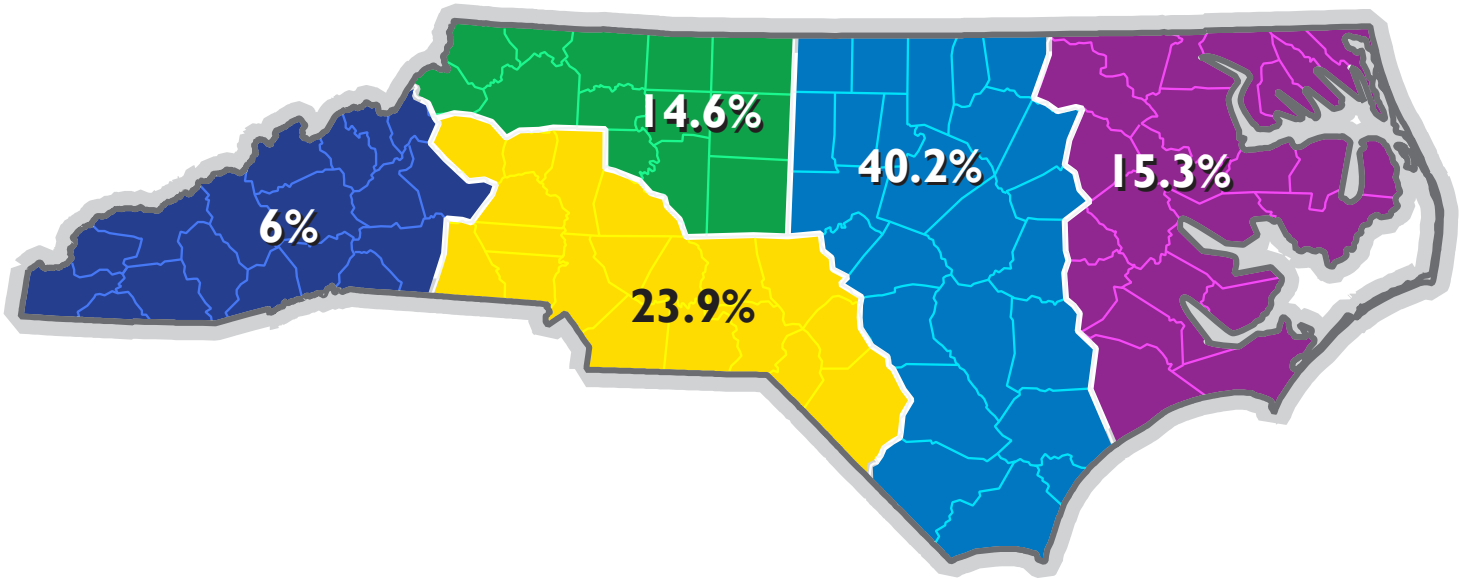
In February 2011, the Education Lottery launched an enhancement to its website called the Lucke-Zone Players Club to share news, information and special features with its players. The free website works similarly to those operated by many sales organizations, the news media, and other state lotteries. After four months, the Lucke-Zone had approximately 40,000 registered members. Players who sign up as members enjoy special features, including:

- Surveys and polls where players can give feedback on lottery games.
- Email alerts that allow players to customize the winning number results to the games they play.
- Interactive game demonstrations that allow players to learn how games work.
- A lucky number feature that allows players to enter their lucky numbers and get an alert if they are drawn as winning numbers in a game.
- News and information including a Lucke-Zone blog, videos and photographs, and listing of lottery events.
- NCEL second-chance drawings in which non-winning tickets in an instant game can be entered into a drawing for prizes.

SOCIAL MEDIA SHARES LOTTERY NEWS

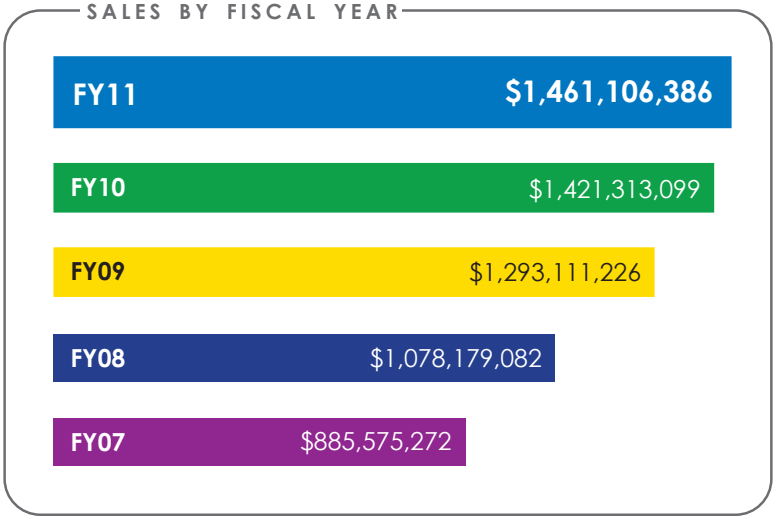
The Education Lottery continued to build a larger social media audience in fiscal year 2011. The three principal social media outlets used are Facebook, Twitter, and YouTube. On Facebook, players can engage in conversations with the lottery's staff and post their own comments about lottery games. The NCEL Facebook page, located at http://facebook.com/nc.educationlottery, also shares information about winners and how lottery dollars support education. Players who follow on Twitter, http://twitter.com/nc_edulottery, can easily get the latest lottery news ranging from where winning tickets were sold to who big winners are. The NCEL's YouTube Channel is where NCEL video clips featuring interviews with big winners as well as NCEL advertisements are broadcast. As of the end of the fiscal year, the NCEL's Facebook page had 8,754 "likes" and its Twitter feed had 2,780 followers.

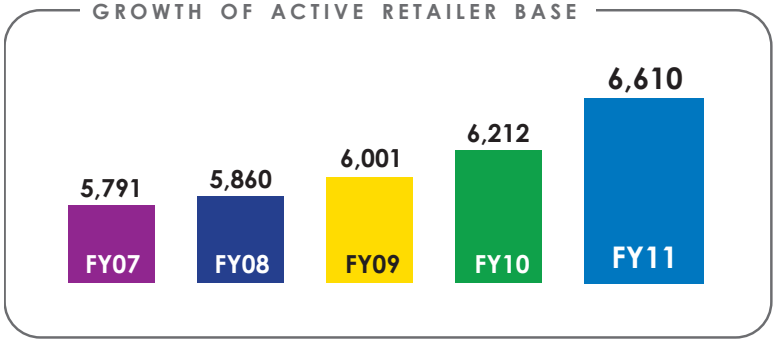
Our Performance



FY 2011 SALES BY REGION

	Region 1 Asheville	Region 2 Greensboro	Region 3 Charlotte	Region 4 Raleigh	Region 5 Greenville	Total	% of Total
Instant	$63,643,637	$131,990,529	$227,926,639	$325,531,516	$112,998,155	**$862,090,476**	**59.00%**
Powerball	$10,130,478	$21,936,962	$41,312,436	$51,049,934	$14,240,849	**$138,670,659**	**9.49%**
Mega Millions	$5,064,699	$12,459,205	$20,326,141	$27,475,987	$7,521,677	**$72,847,709**	**4.99%**
Pick 3	$3,378,830	$28,328,441	$34,159,647	$127,910,577	$64,665,919	**$258,443,414**	**17.69%**
Pick 4	$1,098,370	$8,436,720	$10,242,018	$29,906,401	$15,626,295	**$65,309,804**	**4.47%**
Cash 5	$3,645,980	$9,363,247	$14,406,416	$22,754,613	$7,587,688	**$57,757,944**	**3.95%**
Raffle	$391,520	$948,700	$1,506,500	$2,558,880	$580,780	**$5,986,380**	**0.41%**
TOTAL	***$87,353,514***	***$213,463,804***	***$349,879,797***	***$587,187,908***	***$223,221,363***	***$1,461,106,386***	***100.00%***





★★★ Our Leadership Team ★★★

Terri Avery-Fowler

Director of Field Sales

Field Sales oversees and manages the sales and operations of the NCEL sales regions and regional offices, recruitment of new retailers and the coordination of work flow to the field sales staff.

Walter Ingram

Director of Sales Development

Sales Development oversees all corporate sales accounts, retailers' orders of instant tickets, and the operations of the NCEL Warehouse in receiving, storing and distributing sales supplies.

Top 20 Retailers for FY11

Store Name	City/Town
Rose Mart # 14	Wilson
Reilly Road BP Amoco	**Fayetteville**
Raceway	Tarboro
Bobby Taylor Oil #2	**Fayetteville**
Tony's Friendly Mart #1	Kinston
Church St Convenience Mart	**Rocky Mount**
Catamount Travel Center	Whittier
C Mini Mart #3	**Raleigh**
O'Ryans Quik Stop	Roxboro
Bobby Taylor Oil #4	**Fayetteville**
Eagles Express	Knightdale
Carlton's Tanglewood	**Clemmons**
Fairway One Stop #21	Greensboro
R & H Mini Mart	**Chapel Hill**
Kangaroo Express # 3077	Rocky Mount
Circus Food Store #6	**Durham**
Ethco Service Station	Engelhard
Quick Mart	**Jamestown**
Ponderosa Exxon	Fayetteville
Cross Road Express	**Durham**

Top 20 Retailers March 30, 2006 through June 30, 2011

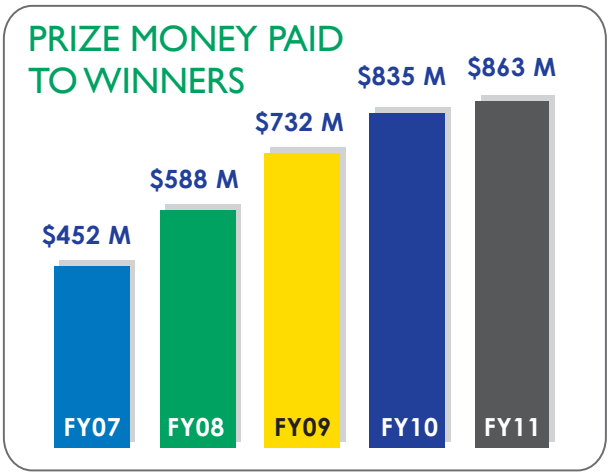
Store Name	City/Town
Rose Mart #14	Wilson
Reilly Road BP Amoco	**Fayetteville**
C Mini Mart # 3	Raleigh
Catamount Travel Center	**Whittier**
O'Ryans Quik Stop	Roxboro
Bobby Taylor Oil #2	**Fayetteville**
Raceway	Tarboro
Ponderosa Exxon	**Fayetteville**
West Webb Curb Market	Burlington
Spring Forest BP/Fiddlestix	**Raleigh**
Fairway One Stop #21	Greensboro
Quick Mart	**Jamestown**
Pinetops Shell Mart	Pinetops
Bobby Taylor Oil #4	**Fayetteville**
Webb's Mini Mart	Garner
Church St Convenience Mart	**Rocky Mount**
Tony's Friendly Mart #1	Kinston
Fuel Doc #12	**Greenville**
Carlton's Tanglewood	Clemmons
The Border Station	***Moyock***

Our Winners

$2.4 MILLION IN PRIZES PAID DAILY

Paying prizes to winners is the largest expense that the N.C. Education Lottery has each year. In fiscal year 2011, the NCEL paid out $863 million, or about 59 percent of its revenues, to winners of lottery games. Overall, the Education Lottery awarded 30 prizes of $1 million or more in the fiscal year, including 13 to players on instant tickets, three $1.47 million prizes to winners of the Cash Splash Millionaires Raffle, seven to Powerball players and seven to Mega Million players. The fiscal year began with Mike Manheim of Greensboro claiming on July 7, 2010 the $12 million jackpot that he won in the Friday, May 28 Mega Millions drawing. Michael Stutts of Morrisville won the top prize in the $200,000 a Year for Life game. The game offered the highest prize of any instant game in NCEL history. Stutts or his estate is guaranteed at least $4 million, receiving $200,000 a year for 20 years. The prize continues paying $200,000 a year as long as the winner is alive. "I hope you will wish me a long and healthy life," said Stutts, who was 53 years old when he claimed the top prize. The year also saw a first in the Carolina Pick 4 game in the afternoon drawing on March 16, 2011 when the winning numbers were a combination of four of the same number, or "quads." Winners with tickets of 2-2-2-2 collected $645,000 in prizes.

Winners who win $100,000 or more collect their winnings at NCEL headquarters in Raleigh. Big winners make up a cross-section of North Carolina. When asked what they plan to do with their winnings, they offer a variety of answers: Pay bills. Buy a new car or house. Save for retirement. Invest. Take a vacation. Save for college for their children. Support a charity or religious organization.



★★★ Our Leadership Team ★★★

Van Denton

Director of Corporate Communications

The Communications Department handles media and public relations, a Players' Hotline, and greets big winners at NCEL headquarters to collect their stories of good luck.

Stacey Askew

Director of Administration

The Administration Department oversees contracts with retailers who sell lottery tickets, operates a telephone hotline for retailers, manages facility services and lottery vehicles, and validates wins and pays prizes to players.

Four jackpots in five years

North Carolinians playing the multi-state jackpot games, Powerball and Mega Millions, have been lucky to claim four jackpots in the lottery's first five years.

Jackie Alston, a correctional officer from Halifax, won $74.5 million in November 2006

Jeff Wilson of Kings Mountain won $88.1 million in June 2009

Frank Griffin, a retired firefighter from Asheville, won $141.4 million in February 2010

Mike Manheim, a retired businessman from Greensboro, won $12 million in May 2010.

Our Security

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INTEGRITY LIES AT HEART OF GAMES

In fiscal year 2011, the N.C. Education Lottery received a clean review in an independent audit of its finances for the fourth year in a row. It also received clean reviews in its fourth security audit and second performance audit. The audits are just one of the ways that the NCEL protects the integrity of its games and finances. The NCEL Security Department also works with independent auditors in all NCEL drawings, working in partnership to ensure all drawing procedures are followed. The team follows extensive security measures to ensure the integrity of the lottery games, including an 88-step process. While an evening drawing only takes 75 seconds, the drawing process involved in preparing, conducting and certifying results can take three hours. The public is allowed to observe drawings, but must provide 72 hours advance notice and clear a security check. Security personnel work with local law enforcement agencies, the State Bureau of Investigation and the state Alcohol Law Enforcement Agency in enforcing lottery laws and investigating any cases of fraud or theft.

★★★ Our Leadership Team ★★★

James Spence

Director of Security

The Security Department conducts fraud investigations, ensures physical security is maintained, ensures that confidentiality and information security is achieved, maintains the integrity of lottery drawings and ensures that a comprehensive disaster recovery program is in place.

Michelle Lassiter

Director of Finance

The Finance Department is responsible for financial and retail accounting which includes payments to vendors, collections from retailers, compilation and reporting of financial data, budgeting, banking activities and the procurement of goods and services.

28

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NCEL INVESTIGATION FINDS RIGHTFUL OWNER OF WINNING CAROLINA CASH 5 TICKET

An investigation by the NCEL's security team not only stopped a retailer from claiming the prize for a winning Carolina Cash 5 ticket that he didn't own, but also led to the identification of the real owner who was not aware she had won. The NCEL determined that Kecia Parker of Dunn was the rightful owner of a ticket that shared half of a $179,438 jackpot in Aug. 16, 2010. The investigation resulted in the arrest of a lottery retailer on charges that he stole the winning ticket and attempted to claim the prize. On March 21, 2011, the NCEL awarded Parker her prize.

March 21, 2011 letter to the N.C. Education Lottery Commission

"I was surprised and very saddened that someone would do this but the emotion that was even more prevalent was gratitude. I have been amazed every day at the professionalism that the Lottery office in Raleigh has shown in dealing with my case. In particular I want to commend Mr. Jeremy Mittag the lottery investigator who handled my case. He has been amazing! I am in awe of the investigation that he did. This man, in just a few short weeks, was able to put together a puzzle that spanned several counties in NC. When I relay the story to everyone they all say the same thing … he should be working for the FBI! I am thankful every day that he does not. This man is worth more money than you could ever pay him. Not only did he show exemplary service to the lottery commission but he also showed a great deal of caring and service to me."

- Kecia Parker

Our Support of Tar Heel

NCEL SUPPORTS FAIRS, FESTIVALS, AND SPORTS TEAMS

Part of the mission of the N.C. Education Lottery's Marketing Division is to build the brand of the N.C. Education Lottery through strategic relationships with many community events across the state. The local events provide opportunities to educate the public about our games and provide beneficiary information about the lottery's support for education.

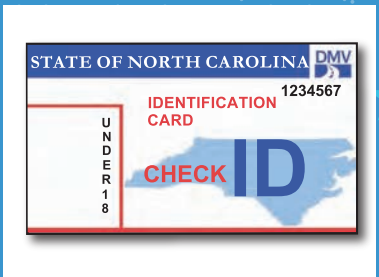
In fiscal year 2011, some new efforts included:

- First partnership with the state's professional football team, the Carolina Panthers, at Bank of America Stadium in Charlotte.
- A first-time agreement with the Greensboro Coliseum sponsoring multiple sporting events, including the ACC Tournament, the Monster Truck Jam and World Wrestling Events.
- Added to spring line-up our sponsorship of a new outdoor county music festival, Rapids Jam, in Roanoke Rapids, N.C.

Communities

Here's a look at some of the regular marketing events that the Education Lottery participates in.

- Sporting events: Carolina Hurricanes, a professional hockey team that plays at the RBC Center in the Triangle, and its affiliate, the Charlotte Checkers, that plays in the Time Warner Cable Arena in Charlotte; the Charlotte Bobcats professional basketball team; the ACC basketball teams of Duke University and Wake Forest University; CIAA basketball tournament; and minor league baseball including the Kinston Indians, Durham Bulls, Kannapolis Intimidators, Hickory Crawdads, Asheville Tourists, Carolina Mudcats, and the Greensboro Grasshoppers.
- Fairs and festivals: Dixie Classic Fair in Winston-Salem, Winterville Watermelon Festival, Cabarrus County Fair, Central Carolina Fair, The Barbecue Festival in Lexington, Azalea Festival in Wilmington, Dogwood Festival in Fayetteville, and the Taste of Charlotte.
- Racing events: the NCEL 200, the Sprint Cup All Star Race, Speed Street, Coca-Cola 600, zMax Dragway events at Charlotte Motor Speedway, Bank of America 500, and the World of Outlaws Dirt Track Race at Charlotte Motor Speedway.



Our Safeguards

NCEL PROGRAMS ENCOURAGE RESPONSIBLE PLAY

The N.C. Education Lottery is committed to meeting the highest standards in the lottery industry in the area of responsible gaming. Here are some of the efforts underway at the Education Lottery aligned with that goal.

- **N.C. Problem Gambling Program.** In fiscal year 2011, the N.C. Education Lottery continued its financial support of the N.C. Problem Gambling Program, providing $1 million in lottery funds to the program. The contribution brings the total amount since the lottery started to $5 million. The program was established to provide and support effective problem gambling prevention, education, outreach and treatment programs throughout the state. It operates a hotline where anyone with a gaming problem or a family member can call for assistance.
- **World Lottery Association Responsible Gaming Framework.** The Education Lottery has committed itself to the responsible gaming principles of the World Lottery Association, which represents 142 lotteries from 90 countries. The principles govern the protection of lottery players, cooperation with stakeholders, advertising practices and the monitoring of game activities.
- **Play Responsibly Program.** Each lottery ticket carries the play responsibly message and provides an 800 number for a state-operated problem gambling helpline.
- **No sales to minor education efforts.** Sales of lottery tickets to minors under the age of 18 are not allowed in North Carolina. The NCEL emphasizes that message through its sales efforts and through communications initiatives. Those efforts include issuing media releases with reminders about the no sales to minors law, and training retailers who sell lottery tickets to check IDs.

★★★ Our Leadership Team ★★★

Nikki Howard
Director of Internal Audit

Internal Audit provides independent appraisals of lottery controls, effectiveness and policy compliance to management and the commission.

Quan Kirk
General Counsel

The general counsel provides legal advice and counsel to all NCEL departments, drafts and reviews contracts, drafts internal policies and procedures, drafts procurement documents, responds to legal claims and actively participates in all civil and criminal litigation.

AMBER ALERT™

HELPING TO FIND MISSING PEOPLE

Lottery terminals across the state carry Amber Alerts whenever they are issued as part of the NCEL's partnership with the N.C. Center for Missing Persons.

The partnership means that more than 6,600 retailers who sell lottery tickets get Amber Alert messages on their lottery terminals. Retailers are asked to print out the Amber Alert and post it at their stores. A scrolling Amber Alert message also appears on the multimedia displays at many lottery retailers where customers can see them. Amber Alerts also are posted on the homepage of the N.C. Education Lottery's website.

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditors' Report

To the Commissioners
North Carolina Education Lottery
Raleigh, North Carolina

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2, the financial statements present only the NCEL and do not purport to, and do not, present fairly the financial position of the State of North Carolina, as of and for the years ended June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

Cherry, Bekaert + Holland L.L.P.

Raleigh, North Carolina
October 31, 2011

North Carolina Education Lottery

Management's Discussion & Analysis - *June 30, 2011 & 2010*

The following is a discussion and analysis of the financial performance of the North Carolina Lottery Commission [aka, North Carolina Education Lottery (NCEL)] for the fiscal years ended June 30, 2011, 2010 and 2009 and should be read in conjunction with the financial statements, including the footnotes. This report consists of three parts: management's discussion and analysis, the basic financial statements and the notes to the financial statements. Included below and on the following pages are the financial highlights, summary of contributions to the state, and summary results of operations for the fiscal years ended June 30, 2011, 2010 and 2009.

Financial Highlights

For fiscal year 2011, gross ticket sales totaled $1.461 billion representing a $39.8 million increase over fiscal year 2010. Total operating income was $436 million, which represented an increase of $5.6 million over fiscal year 2010. Other significant financial highlights included the following:

- North Carolina General Statute Section 18C-164 (a) requires the NCEL to transfer net proceeds from operations and any prior year surplus to the State of North Carolina four times a year. In fiscal year 2011, the sum total of these four cash transfers was $446.9 million, the largest annual total for cash transfers in NCEL's history. Total cash transfers for fiscal years 2010 and 2009 were $419.5 million and $410.8 million, respectively.
- Awarded $1 million or more to an NCEL player for the 94th time.
- Increased the number of retailers to 6,610, representing a 5.5% increase over the prior year, and provided service to our retailers on a regular basis.
- Released 46 new instant scratch-off games into the marketplace generating gross instant ticket sales of $862 million.

Overview of the Financial Statements

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

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

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

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

"(1) A sum equal to fifty percent (50%) to support reduction of class size in early grades to class size allotments not exceeding 1:18 in order to eliminate achievement gaps and to support academic prekindergarten programs for at risk four year olds who would otherwise not be served in a high quality education program in order to help those four year olds be prepared developmentally to succeed in school.

(2) A sum equal to forty percent (40%) to the Public School Building Capital Fund in accordance with G.S. 115C 546.2.

(3) A sum equal to ten percent (10%) to the State Educational Assistance Authority to fund college and university scholarships in accordance with Article 35A of Chapter 115C of the General Statutes."

Total Assets

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

Current assets decreased from $56 million in 2010 to $30 million in 2011, representing a decrease of $26 million. This decline resulted from a decrease in Pooled Cash due to fiscal year 2011 and 2010 surplus earnings held to be dispersed in the subsequent fiscal year. In addition, there was a decrease in the State Treasurer's Securities Lending Collateral. More detailed information can be found in Note 2D in the financial statements. The decrease was partially offset by an increase in accounts receivable in 2011 from 2010. This primarily represents amounts due from retailers for settlement of packs of tickets less commissions and prizes paid by the retailers. The increase is essentially due to the timing of the end of the accounting week for billing and collections from our retailers at fiscal year end. Electronic Funds Transfer is used to collect receivables weekly from retailer bank accounts that are set up in trust for the NCEL.

Current assets were also affected by an $850 thousand increase in investments in annuity contracts.

The Short Term Investment portfolio has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and may withdraw cash at any time without prior notice or penalty. All deposits are combined with other State agencies and invested by the State Treasurer until needed to cover disbursements. Investments are limited to those authorized for the State's General Fund, pursuant to NC General Statute 147-69.1. Interest earned of $1.1 million on these balances is recorded as non-operating revenue. Earnings on the accounts are credited on a monthly basis. The allocable share of the revenues arising from State Treasurer's Securities Lending Collateral program transactions are also included as non-operating revenue.

The NCEL's investment in capital assets, net of accumulated depreciation in 2011 was $819 thousand which is approximately $420 thousand lower than 2010. The majority of capital asset investments were made during our first full year of operation in 2007. The investment in capital assets includes game equipment, data processing equipment, telephone equipment, software and fixtures. The capitalization of all items including equipment, computers, and furniture follows the Office of the State Controller's (OSC) policy. The NCEL defines capital assets as assets with an initial unit cost of $5,000 or greater and an estimated useful life of two or more years. Capital assets are carried at cost less accumulated depreciation.

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

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

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

Total Liabilities

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

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

Beginning	Earned	Used	Ending	Current Liability	Long Term Portion
$ 1,093	**$ 1,204**	**$ 1,135**	**$ 1,162**	**$ 68**	**$ 1,094**

Noncurrent liabilities also includes the present value of the annuity contracts that fund the long term installment prizes that are due to NCEL annuity prize winners that will be paid after June 30, 2012.

Net Assets and Changes in Net Assets

As required in the North Carolina State Lottery Act, net revenues of the NCEL are transferred quarterly to the NC Education Lottery Fund at the Office of State Budget and Management. At year end, Net Revenues/Assets are zero for the NCEL. There are no changes in the Net Assets from year to year.

Condensed Statement of Net Assets (in thousands)

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

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

Revenues

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

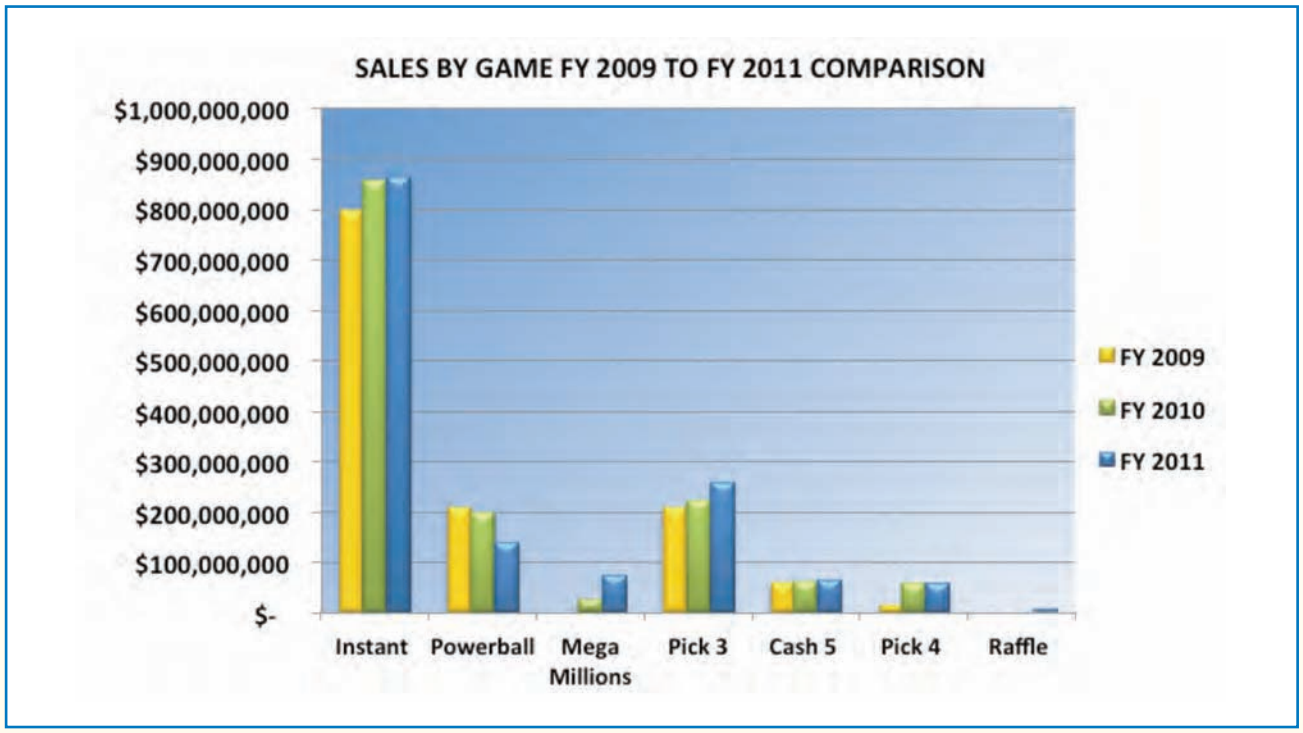
Sales

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

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

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

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

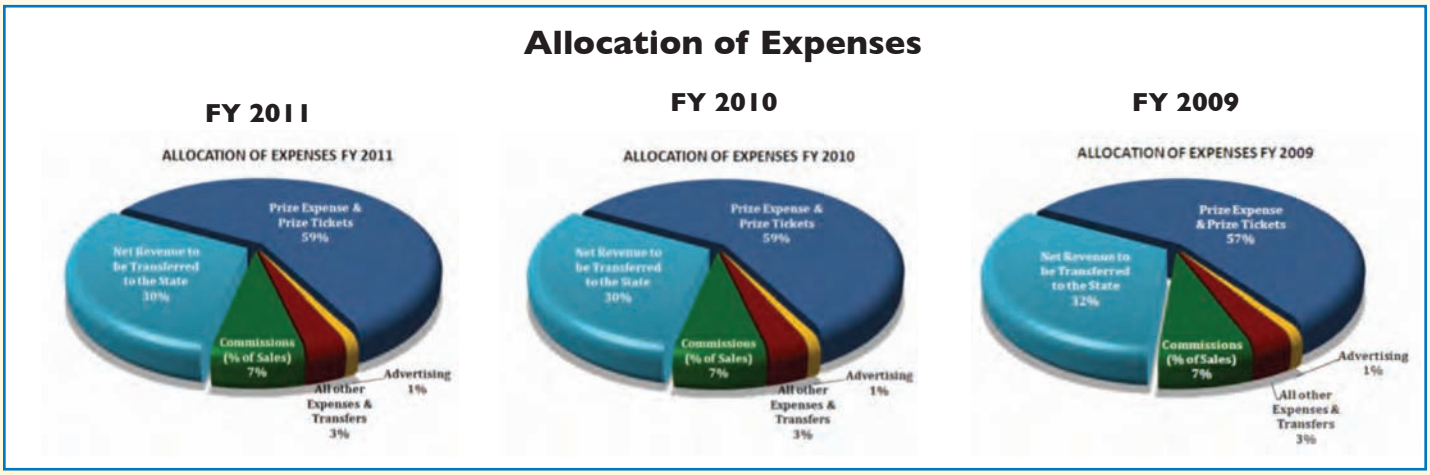


Non-operating Revenues mainly consist of investment earnings on Short-Term Investment Fund (STIF) accounts and security lending transactions, and Multi-State Lottery Association (MUSL) dividends received.

Expenses

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

The following charts show the major components of NCEL operating expenses and transfers as a percentage of total revenues for the fiscal years ended June 30, 2011, 2010 and 2009.



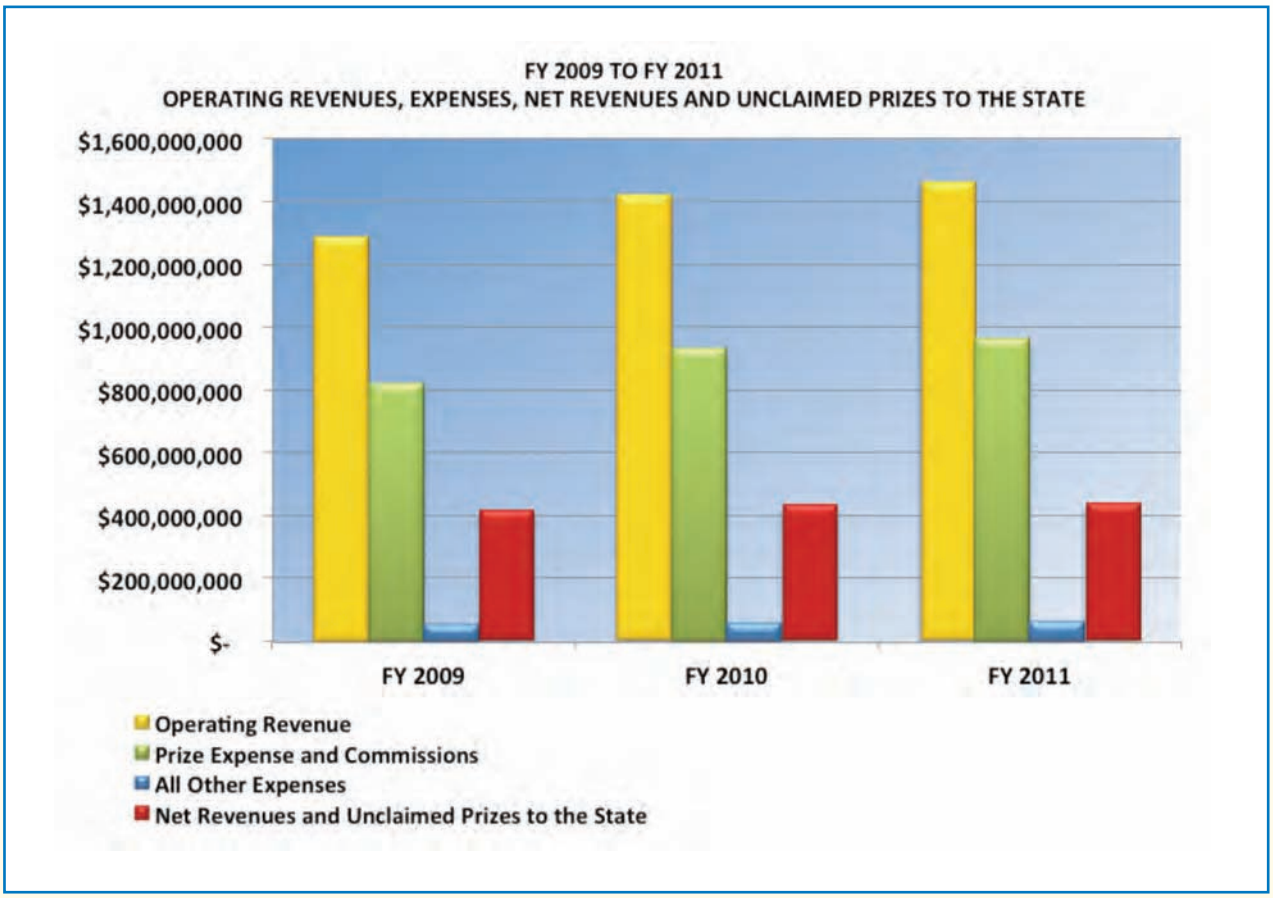
Note: Commissions percentage is calculated based upon the percentage of Sales (all others are calculated based upon the percentage of Total Revenue) per G.S. 18C-162; therefore may not equal 100%.

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

Condensed Statement of Revenues and Expenses (in thousands)

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

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



Budget and Economic Outlook

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

A focus of the NCEL Commission is to ensure sound operations. The existence of this focus is apparent in the opinions issued by external audit firms. The Commission has undergone several audits this fiscal year. Delehanty Consulting LLC, an independent security organization, conducted our fourth security audit and determined that the controls designed by the North Carolina Education Lottery are adequate and operating as intended.

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

Requests for Information

Any request for information about this report should be sent to the Public Information Officer at the North Carolina Education Lottery, 2100 Yonkers Road, Raleigh, North Carolina 27604.

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

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

See Notes to the Financial Statements.

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

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

See Notes to the Financial Statements.

Statements of Cash Flows (in thousands) - Year Ended June 30, 2011 & 2010

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

See Notes to the Financial Statements.

North Carolina Education Lottery

Notes To Financial Statements (in thousands) - *June 30, 2011 & 2010*

NOTE 1 - Organization

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

- Carolina Pick 3 on October 6, 2006
- Carolina Cash 5 on October 27, 2006
- Carolina Pick 3 second daily draw (Monday through Saturday) on March 31, 2008
- Carolina Pick 4 on April 17, 2009
- Mega Millions on January 31, 2010
- Carolina Pick 4 second daily draw and Carolina Pick 3 second Sunday draw on February 27, 2011

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

NOTE 2 - Summary Of Significant Accounting Policies

A. Reporting Entity:

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

B. Basis of Presentation:

The financial statements are prepared on the accrual basis of accounting in a manner similar to a private enterprise. The NCEL elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As permitted by GASB Statement Number 20, the NCEL elected not to apply FASB statements or interpretations issued on or after November 30, 1989, unless specifically adopted by the GASB.

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

C. Cash and Cash Equivalents:

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

D. State Treasurer's Securities Lending Collateral:

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

Based on the authority provided in General Statute 147-69.3(e), the State Treasurer lends securities from its investment pool to brokers-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. The Treasurer's custodian lent U.S. government and agency securities, 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.

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

Additional details on the State Treasurer's securities lending program are included in the State of North Carolina's Comprehensive Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page **http://www.osc.nc.gov/** and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at **(919) 981-5454**.

E. Allowance for Doubtful Accounts:
An allowance for doubtful accounts has not been established because there are no indications of significant delinquencies from the collection of retailer accounts as of June 30, 2011 and 2010.

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

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

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

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

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

NOTE 3 – Revenue

A. Operating Revenue:

1. Game Revenue:

Instant packs are settled using the following methodology:

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

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

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

2. Fees and Licenses:

The majority of Fees and Licenses represent a weekly retailer communication fee charged to active retailers for terminal satellite communications and an application fee for new retailers and changes in ownership. Total Fees and Licenses for fiscal year 2011 and 2010 were $5,061 and $4,859, respectively.

B. Non-operating Revenue:

The cash accounts of the NCEL are Short-Term Investment Fund (STIF) Accounts which are interest bearing accounts held with the NC State Treasurer. Investments are limited to those authorized for the State's General Fund, pursuant to NC General Statute 147-69.1. The investment earnings earned on these accounts and the related security lending collateral transactions is $1,175 and $2,699 for the years ended June 30, 2011 and 2010, respectively.

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

NOTE 4 – Expenses

A. Operating Expenses:

1. Lottery Prize Expense:

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

2. Retailer Commissions:

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

3. Retailer Incentives

In fiscal year 2010, the State Lottery Commission approved a retailer incentive program where retailers would receive compensation for selling a top/second tier prize in the Multi-State games POWERBALL and Mega Millions and a top tier prize in Carolina Cash 5. The total payments issued for the retailer incentive program for fiscal years 2011 and 2010 were $592 and $394, respectively.

4. Other Services:

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

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

5. Furniture, Fixtures, and Equipment:
To operate a lottery, numerous items of equipment, furniture, and ticket dispensers are required. Most of these items were one time purchases to be replaced as needed at various points in the future. These items were also below our threshold for capitalization (See Note 5E) and therefore expensed. The total expenses for fiscal years 2011 and 2010 were $933 and $376, respectively.

6. Leases – Buildings, Offices and Other Equipment:
The NCEL has entered into various operating leases through the North Carolina State Department of Administration for building and office facilities. These leases are for initial terms of seven to ten years.

Projected lease payments for these facilities are:

Year Ending	Amount
2012	$ 958
2013	884
2014	886
2015	897
2016	883
2017-2021	21
Total	**$ 4,529**

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

B. Non-operating Expenses:
The allocable share of the expenses arising from State Treasurer's Securities Lending Collateral program transactions, totaling $21 and $62 for the years ended June 30, 2011 and 2010, respectively, are included as non-operating expense. For the years ended June 30, 2011 and 2010, the remaining non-operating expenses consist of other miscellaneous non-operating items.

C. Transfers Out:
There were four significant transfers from the NCEL. One million dollars was transferred to the NC Department of Health and Human Services for a gambling addiction education and treatment program as stipulated in the North Carolina State Lottery Act for the years ended June 30, 2011 and 2010 (See Note 7D).

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

The third transfer was in compliance with the North Carolina State Lottery Act. This Act requires all "Net Revenues" of the NCEL to be transferred to the NC Education Lottery Fund for the educational purposes set forth in the legislation. "Net Revenues" were $418,248 for fiscal year 2011 compared with $417,311 for fiscal year 2010 (see Note 12). However, $410,916 was transferred to the NC Education Lottery Fund for fiscal year 2011 compared with $398,015 for fiscal year 2010. The balances remaining ($7,332 and $18,059 for fiscal years 2011 and 2010) were recorded as a payable to the State for both fiscal years and were transferred subsequent to fiscal year end. NC General Statute 18C-162 states: "The funds remaining in the North Carolina State Lottery Fund after receipt of all revenues to the Lottery Fund and after accrual of all obligations of the Commission for prizes and expenses shall be considered to be the net revenues of the North Carolina State Lottery Fund."

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

NOTE 5 – Assets

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

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

At June 30, 2011 and 2010, respectively, $15,672 and $38,664 of the amounts shown on the Statement of Net Assets as cash and cash equivalents represents the NCEL's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission

and does not have a credit rating) had a weighted average maturity of 1.9 and 1.6 years, as of June 30, 2011 and 2010, respectively. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value.

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

B. Accounts Receivable:

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

C. Inventory:

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

D. Investment in Annuity Contracts:

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

E. Capital Assets:

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

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

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

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

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

NOTE 6 – Liabilities

A. Accounts Payable:

This primarily represents trade payables to vendors, prize liabilities, and multi state game low-tier liability. At year end, June 30, 2011 and 2010, the balances were:

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

B. Other Liabilities:

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

C. Annuity Prize Awards Payable:

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

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

	Beginning Balance 7/1/2010	Purchases	Annuity Appreciation	Annuity Disbursements	Reclass to Short Term	Ending Balance 6/30/11
Short Term	$ 2,150	$ -	$ -	$ (2,150)	$ 3,000	$ 3,000
Long Term	25,007	12,071	1,542	-	(3,000)	35,620
Total Annuities	**$ 27,157**	**$ 12,071**	**$ 1,542**	**$ (2,150)**	**$ -**	**$ 38,620**

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

	Beginning Balance 7/1/2009	Purchases	Annuity Appreciation	Annuity Disbursements	Reclass to Short Term	Ending Balance 6/30/10
Short Term	$ 1,100	$ -	$ -	$ (1,100)	$ 2,150	$ 2,150
Long Term	12,418	13,726	1,103	-	(2,150)	25,007
Total Annuities	**$ 13,518**	**$ 13,726**	**$ 1,103**	**$ (1,100)**	**$ -**	**$ 27,157**

D. Due to Other Funds:

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

E. Accrued Paid Time Off:

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

Activity for the year ended June 30, 2011:

Beginning	Earned	Used	Ending	Current Liability	Long Term Portion
$ 1,093	$ 1,204	$ 1,135	$ 1,162	$ 68	$ 1,094

Activity for the year ended June 30, 2010:

Beginning	Earned	Used	Ending	Current Liability	Long Term Portion
$ 1,274	$ 1,135	$ 1,316	$ 1,093	$ 65	$ 1,028

NOTE 7 – Other Important Items

A. Deposits with Multi-State Lottery Association (MUSL):

MUSL is a voluntary association created for the purpose of administering joint, multi-jurisdictional lottery games, such as POWERBALL and Mega Millions. As of June 30, 2011, MUSL included 33 state lotteries, the District of Columbia and the U.S. Virgin Islands. The chief executive officer of each member lottery serves on the MUSL board of directors.

As a member of MUSL, the NCEL is required to contribute to various prize reserve funds maintained by MUSL. These contributions are included in the 50% prize expense calculated on POWERBALL and Mega Millions sales. The net amount of the 50% prize expense less the amount required to pay low-tier prizes within the State is paid to MUSL. This payment is to cover the NCEL's share of current jackpot prizes based on the NCEL's percent of sales for each drawing and the NCEL's share of the prize reserve fund. The prize reserve fund serves as a contingency reserve to protect all MUSL members including the NCEL from unforeseen prize liabilities. All prize reserve funds remitted, and the related interest earnings, will be returned to the NCEL upon leaving MUSL, less any portion of unanticipated prize claims which may have been paid from the fund. As of June 30, 2011 and 2010 the NCEL had been credited with $9,176 and $7,921, respectively, in the MUSL prize reserve funds.

B. Annuity Installment Prizes:

The NCEL funds long term installment prizes through the purchase of insurance company annuities. The contract holders will fund the future value of the installment prize awards over the life of the prize awarded to the player. The NCEL currently holds contracts with Met Life Insurance Company and Prudential Life Insurance Company to provide these future prize installment payments. The future value of the annuity prizes awarded as of June 30, 2011 and 2010 were $53,300 and $39,300, respectively.

C. Unclaimed Prizes:

As of June 30, 2011 and 2010, the NCEL had unclaimed prizes from both online and instant games. The first POWERBALL draw after the NCEL started selling tickets was on May 31, 2006, and therefore, the NCEL began recognizing unclaimed prizes on November 27, 2006 (180 days after the first draw). The first Carolina Pick 3 unclaimed prizes were recorded on April 4, 2007 and the first unclaimed prizes for Carolina Cash 5 were recorded on April 25, 2007. Unclaimed prizes for Carolina Pick 4 were recorded on November 14, 2009. Unclaimed prizes for Mega Millions were not recorded as of June 30, 2010, since the end of the fiscal year was less than 180 days after the first draw on February 2, 2010. The NCEL closed thirty-seven instant games during fiscal year 2011 resulting in $8,195 in unclaimed prizes. In 2010, the NCEL closed forty-six instant games resulting in $20,088 in unclaimed prizes.

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

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

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

NOTE 8 – Risk Management

The NCEL is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The NCEL participates in the State's Risk Management Program for property, liability, crime and automobile coverage, and pays an annual premium for this coverage. The Lottery has not experienced any losses during the year ended June 30, 2011.

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

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

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

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

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

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

NOTE 9 – Pension and Deferred Compensation Plans

A. Retirement Plan:

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

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the NC Department of State Treasurer.

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

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

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

B. Supplemental Retirement Income Plan:

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

C. Deferred Compensation Plan:

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

NOTE 10 – Other Postemployment Benefits

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

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

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statute and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

The General Statute states that a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. The General Statute states that the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year 2011, the NCEL contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System. Required contribution rates for the years ended June 30, 2010 and 2009, were 4.5% and 4.5%, respectively. The NCEL made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were $589, $539, and $461, respectively.

The NCEL assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

B. Long-Term Disability:

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2011, the NCEL made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2011, 2010 and 2009, were .52%, .52% and .52%, respectively. The NCEL made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were $62, $62, and $58, respectively. The NCEL assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 11 – Litigation

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

NOTE 12 - Allocation Of Total Annual Revenues/Transfers To NC Education Lottery Fund

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

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

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

(a) The Commission shall allocate revenues to the North Carolina State Lottery Fund in order to increase and maximize the available revenues for education purposes, and to the extent practicable, shall adhere to the following guidelines:

(1) At least fifty percent (50%) of the total annual revenues, as described in this Chapter, shall be returned to the public in the form of prizes.
(2) At least thirty-five percent (35%) of the total annual revenues, as described in this Chapter, shall be transferred as provided in G.S. 18C-164.
(3) No more than eight percent (8%) of the total annual revenues, as described in this Chapter, shall be allocated for payment of expenses of the Lottery. Advertising expenses shall not exceed one percent (1%) of the total annual revenues.
(4) No more than seven percent (7%) of the face value of tickets or shares, as described in this Chapter shall be allocated for compensation paid to lottery game retailers.

(b) To the extent that the expenses of the Commission are less than eight percent (8%) of total annual revenues, the Commission may allocate any surplus funds:

(1) To increase prize payments; or
(2) To the benefit of the public purposes as described in this chapter.

(c) Unclaimed prize money shall be held separate and apart from the other revenues and allocated as follows:

(1) Fifty percent (50%) to enhance prizes under subdivision (a) (1) of this section.
(2) Fifty percent (50%) to the Education Lottery Fund to be allocated in accordance with G.S. 18C-164(c).(2005-344, s. 1; 2005-276, s. 31.1(r); 2007-323, s.5.2(c).)

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

§ 18C-161. Types of income to the North Carolina State Lottery Fund.
(1) All proceeds from the sale of lottery tickets or shares.
(2) The funds for initial start-up costs provided by the State.
(3) All other funds credited or appropriated to the Commission from any sources.
(4) Interest earned by the North Carolina Lottery Fund.

The NCEL transferred $446.9 million to the NC Education Lottery Fund for fiscal year 2011 compared with $419.5 million for fiscal year 2010. As explained in Note 4C, $7.3 million and $18.0 million for fiscal years ended June 30, 2011 and 2010, respectively, were the amounts of the "Net Revenues" and "50% of Unclaimed Prizes" that were transferred to the State subsequent to the end of the respective fiscal year.

NOTE 13 – Changes In Financial Accounting and Reporting

For the fiscal year ended June 30, 2011, the NCEL implemented the following pronouncement issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 59, Financial Instruments Omnibus.

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

NOTE 14 – Subsequent Events

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

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

NOTE 15 – Reclassifications and Restatements

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

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Commissioners
North Carolina Education Lottery
Raleigh, North Carolina

We have audited the accompanying statements of net assets of the North Carolina Education Lottery (NCEL), a major enterprise fund of the State of North Carolina as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years then ended, and have issued our report thereon dated October 31, 2011. 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.

The financial statements present only the NCEL and do not purport to, and do not, present fairly the financial position of the State of North Carolina, as of and for the years ended June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

Management of the NCEL is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the NCEL's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NCEL's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NCEL's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the NCEL's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Commissioners, others within the organization, and the State of North Carolina and is not intended to be and should not be used by anyone other than these specified parties.

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

Cherry, Bekaert + Holland L.L.P.

Raleigh, North Carolina
October 31, 2011

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