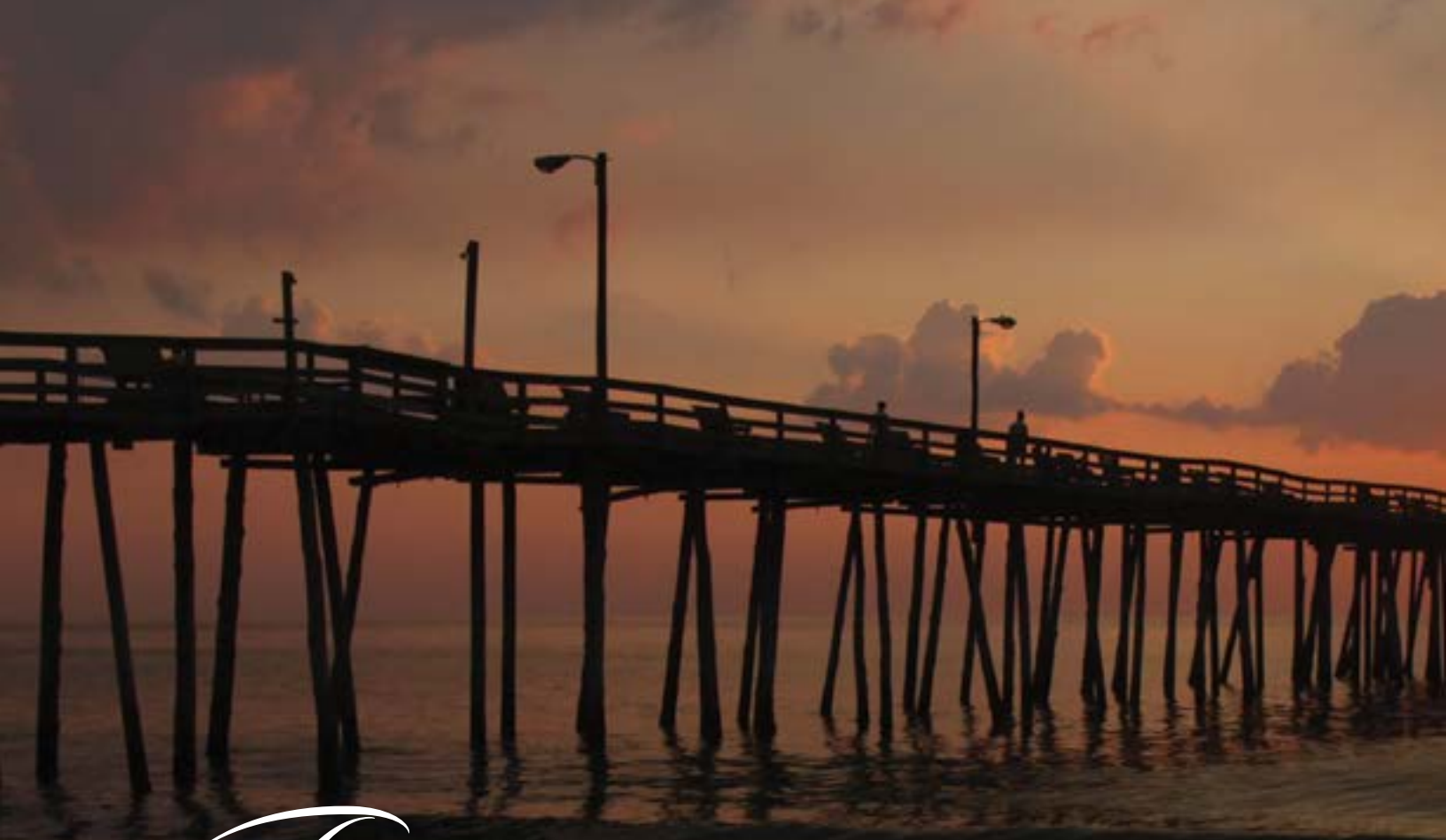
LUCKY *to be in* NORTH CAROLINA

North Carolina Education Lottery 2014 Annual Report



Financial highlights

In fiscal year 2014, the N.C. Education Lottery ...

- Earned for the first time more than half a billion dollars for education, $503.1 million
- Surpassed $3.4 billion in earnings since inception
- Achieved 8th consecutive year of record sales and earnings
- Recorded highest sales ever, $1.84 billion
- Surpassed $11.4 billion in sales since inception
- Set a new quarterly sales record of $475 million in the last quarter of FY14
- Received for eighth year in a row a clean opinion during its annual independent financial audit
- Awarded 45 times a prize of $1 million or more to lottery players
- Paid $129 million in sales commission to retailers
- Collected $8.7 million in state income taxes from prize winnings
- Collected from prize winnings $1.3 million in debts owed to state and local governments
- Supported minority-owned businesses with $10.6 million in contracts either from the NCEL or its vendors
- Provided $1 million to N.C. Problem Gambling Program
- Received award, for the fifth year in a row, for its efforts to clearly communicate its financial information to the public from the Government Finance Officers Association of the United States and Canada.

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Our Commission

"As a businessman, you have to understand what your customers desire, and then you have to develop and market that product in such a way to maintain their interest. That is exactly what the lottery has accomplished by marketing a product that is fun for North Carolinians and, at the same time, meets its goal of providing dollars to supplement the funds designated in the state's budget for education. Our players have enabled the Education Lottery to contribute an additional half a billion dollars - $503.1 million - this year in its mission to support students, teachers and schools. By continuing to operate the business in a manner that allows the lottery to quickly respond to changing market conditions and consumer demands, the North Carolina Education Lottery will be able to achieve continuing growth in sales and bottom line dollars for education."

Keith Ballentine,
chairman, N.C. Education Lottery Commission

Vice president, Daughtridge Gas & Oil Co.
Named chairman by Gov. Pat McCrory. Term: Aug. 12, 2012 – Aug. 31, 2017

Douglas Baker
Chapel Hill
CEO, OfficeMeds of Durham
Appointed by: Speaker of the House Thom Tilllis.
Term:
Sept. 1, 2013 – Aug. 31, 2018

David F. Kirby
Raleigh
Attorney
Appointed by:
Gov. Beverly Perdue
Term:
June 28, 2012 – Aug. 31, 2016

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

Chris L. Shew
Wilkesboro
Sheriff, Wilkes County
Appointed by:
Gov. Pat McCrory
Term:
Oct. 22, 2013 – Aug. 31, 2016

A.J. Daoud
Pilot Mountain
President and CEO,
American Funeral Partners
Appointed by:
Gov. Pat McCrory
Term:
Oct. 22, 2013 – Aug. 31, 2018

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

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

Alice Underhill
New Bern
Retired law librarian & former member, N.C. House of Representatives.
Appointed by: Gov. Beverly Perdue
Term:
Jan. 4, 2013 – Aug. 31, 2016

The Education Lottery Commission consists of nine members. 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.

**Amy Ellis was appointed to replace Commissioner Barry Z. Dodson who resigned in January 2014.*

Our Leadership

"I'm pleased to let North Carolinians know that as the Education Lottery completed its eighth full year of operations in FY 2014, it holds the distinction of being the only lottery in the United States that has increased sales and increased earnings every year of its operations. At $1.8 billion a year in sales, our lottery has grown into one of the most successful sales and marketing organizations in our state. Prizes paid to winners and retailer commissions from lottery ticket sales continue to play an important role in our state's economy. We stay committed to operating our lottery in an efficient, secure and responsible way for the betterment of North Carolina."

Alice Garland,
executive director, N.C. Education Lottery

Senior Management

Pictured left to right - **Frank Suarez,** Deputy Executive Director, Brand Management & Communications; **Quan Kirk,** General Counsel; **Tony Chung**, Deputy Executive Director, MIS/Gaming Systems; **Terri Avery,** Deputy Executive Director, Sales; **Bill Jourdain,** Deputy Executive Director, Finance Administration and Security

Senior Staff

Executive Director's Office

Jamie King Fuquay
Director of Government Affairs

Caryl James
Director of Human Resources

Mike Suggs
Director of Internal Audit

Sales

Reginald Barnes
Director of Sales West

Walter Ingram
Director of Sales Development

Daniel Rose
Director of Sales East

Management Information & Gaming Systems

Joe Norman
Director of Gaming Systems

George Walker
Director of MIS

Finance, Administration & Security

Stacy Askew
Director of Administration

Michelle Lassiter
Director of Finance

Moe McKnight
Director of Security

Brand Management & Communications

Van Denton
Director of Communications

Susan Singley
Director of Advertising

Randy Spielman
Director of Product Development

Tami Wiggs
Director of Marketing

LUCKY IN THE *Coastal Plains*

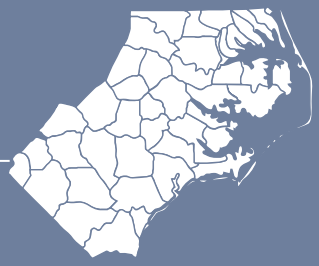
Lottery funds helped Nash County turn a vacant high school building into a new middle school.

Lottery provided $135 million in education dollars to region

The 41 counties that make up the Coastal Plains region, stretching from the Outer Banks across Eastern North Carolina to the Sandhills to create the state's largest land area, received $135 million in education dollars from lottery earnings in fiscal year 2014. The funds, which flow through education programs and the NC Pre-K Program, included:

- $62.2 million to help pay teacher salaries. That was enough to fund 1,100 teaching positions in the region.
- $28.4 million to help counties build and repair schools. Nash County, for example, used $500,000 of its money to transform an old high school into a new middle school. Craven County used $1 million to help pay debt service for construction at two elementary schools and a middle school.

Top lottery retailers: Reilly Road BP Amoco, Fayetteville;



- $29.3 million to provide an academic pre-school for at-risk four-year-olds. That would cover the costs of 5,800 four-year-olds in the Pre-K program.
- $11.8 million in need-based scholarships and grants to help cover the cost of attending a state university or community college. The funds provided 8,200 scholarships and helped pay part of another 15,500 grants to students from the region.

Schools in the region also received $3.1 million in lottery funds to help boost digital learning programs. Some of the funds went to every school system on a per student basis, but another part was awarded as grants on a competitive basis. For example, a $110,000 grant was awarded to New Hanover County schools; a $167,000 grant to Robeson County schools; and a $107,000 grant to a Digital Learning Consortium representing northeastern North Carolina.

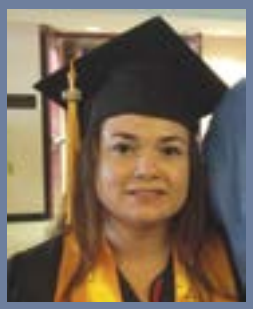
Ticket sales and prize money generate additional benefits

Twelve times in fiscal year 2014 someone in the region won $1 million or more playing lottery games, including some of the biggest wins of the year. A Nash County carpenter, Will Critzer, said he planned to use the $4 million he won playing an instant game, $4,000,000 Gold Bullion, to set up a retirement fund for himself and college funds for his two young children. Marvin Hughes of Fayetteville said he would use a $3 million prize to buy a new home, invest in a business, and save for the future. So the $387 million in prizes paid out over the year in the region generated considerable economic activity.

Todd Edge of Fayetteville had one of 12 $1 million or more wins in the region.

Across the region, more than 2,180 retailers are in the business of selling lottery tickets. Sales totaled $684 million, about 37 percent of sales statewide, earning retail commissions of $48 million. Ten of the Top 20 lottery retailers in the state were located here. The lottery supported several of the region's long-standing community festivals, including the N.C. Seafood Festival in Morehead City, the Azalea Festival in Wilmington and the Dogwood Festival in Fayetteville.

Helping North Carolina students cover the costs of going to a community college or state university is one of the main education programs supported by the Education Lottery.



"It really made a huge difference. I was able to not work while I was in school, which gave me more time to be a mother and take on a full college course load. It really was a blessing. We would not have been able to do that if we did not have the scholarship."

Tonya Jordan, a Harnett County resident who earned an associate degree from Central Carolina Community College with the support of an Education Lottery scholarship. Jordan planned to pursue a teaching degree at East Carolina University.

Rose Mart #14, Wilson; Bobby Taylor Oil #2, Fayetteville

LUCKY IN THE *Piedmont*

Cleveland County schools used lottery funds to renovate a vacant middle school in Shelby.

Lottery provided $256 million in education dollars to region

The Piedmont is home to North Carolina's biggest cities – Charlotte, Raleigh, Greensboro – and much of the state's population so the largest amount of education dollars flow into the region, totaling $256 million in fiscal year 2014. The funds, distributed through education programs and the NC Pre-K Program, included:

- $128.2 million to help pay teacher salaries. That was enough to fund 2,300 teaching positions in the region.
- $59.7 million to help counties build and repair schools. Cleveland County, for example, used $4 million of its money to renovate a 76-year-old school building into a new home for an alternative school, Turning Point Academy, and administrative offices.
- $35 million to provide an academic pre-school for at-risk four-year-olds. That would cover the costs of 6,900 four-year-olds in the Pre-K program.

Top lottery retailers: Winners Food Mart, Roxboro;

- $26.6 million in need-based scholarships and grants to help cover the cost of attending a state university or community college. The funds provided 17,700 scholarships and helped pay part of another 33,000 grants to students from the region.

Schools here also received $6.7 million in lottery funds to support digital learning programs. Some funds went to every school system on a per student basis, but another part was awarded as grants on a competitive basis. For example, a $1 million grant was awarded to Charlotte-Mecklenburg schools and a $500,000 grant to Guilford County schools.

Ticket sales and prize money generate additional benefits

The Piedmont is the place where the most new millionaires were produced. In all, there were 30 lottery wins of $1 million or more. A Rowan County resident, Everette Sloop Jr. of Rockwell, for example, said he planned to use some of the $3 million he won playing Mega Millions to buy a new home, buy a new car for his mom, and start a college fund for his kids. Some $569 million in prizes were paid out over the year to lottery players in the Piedmont. Much of that money went right back into the economy.

Across the 35-county region, there were more than 3,800 places where retailers sell lottery tickets and players gather to play games. Sales totaled $990 million, about 54 percent of sales overall, earning retailers commissions of $69 million. Nine of the Top 20 lottery retailers in the state were located in the region.

Race car driver Kyle Bush wins the NCEL 200 at Charlotte Motor Speedway.

The Piedmont's great variety of culture such as community festivals, fairs and sporting events benefit from the lottery's marketing programs. The lottery supports Charlotte Motor Speedway events and NASCAR races; professional sports teams such as the Carolina Hurricanes in Raleigh and Carolina Panthers in Charlotte; each of the six minor league baseball teams; and fairs such as the Dixie Classic in Winston Salem and community festivals such as the BBQ Festival in Lexington, Bikefest in Raleigh, and Taste of Charlotte.

Half of the funding for the NC Pre-K program in FY14 came from the N.C. Education Lottery.

"I feel that the North Carolina Education Lottery is really the MVP of the NC Pre-K program. The funds from the lottery help the teachers get the training they need, helps the students attend school and helps their parents get the best resources."

Emem Thompson, a Pre-K teacher at Lord of Life Preschool and Kindergarten Academy in Garner, a nationally accredited five-star licensed early childhood program.

C Mini Mart #3, Raleigh; Carlton's Tanglewood, Clemmons.

LUCKY IN THE *Mountains*

Lottery dollars helped Buncombe County Schools renovate a building for a new STEM high school.

Lottery provided $47 million in education dollars to the region

Up in the mountains of North Carolina, defined by mountain ranges where peaks soar more than 6,000 feet high, the 24 counties that make up the region received more than $47 million in education dollars. The funds, which flow through education programs and the NC Pre-K Program, included:

- $21.3 million to help pay teacher salaries. That was enough to fund 381 teaching positions.
- $10.3 million to help counties build and repair schools. Buncombe County, for example, saved up its allocation and used $5 million to renovate administrative offices into a new STEM high school.
- $8.6 million to provide an academic pre-school for at-risk four-year-olds. That would cover the costs of 1,700 four-year-olds in the Pre-K Program.
- $5.5 million in need-based scholarships and grants to help students attend a state university or community college. The funds provided 3,900 scholarships and

Top lottery retailers: Catamount Travel Center,

helped pay part of another 5,600 grants to UNC schools.

Schools here also received $1 million in lottery funds to help support digital learning programs. Some of the funds went to every school system on a per student basis, but another part was awarded as grants on a competitive basis. For example, a $94,000 grant was awarded to Henderson County schools and $58,000 grant to Surry County schools.

Dan Royal celebrates his big lottery win in Forest City.

Ticket sales and prize money generate additional benefits

The region is home to some of the luckiest lottery players in the state. The biggest lottery winner of the year was Dan Royal of Forest City in Rutherford County. Royal, a carpenter, won $5.2 million prize in the $5,000 A Week For Life! game. Farther west is Asheville, the city where the biggest prize in state's lottery history was won. A retired fireman, Frank Griffin, won $141.4 million playing Powerball in 2010.

Royal and other lottery winners use prize money to pay bills, save for retirement or college funds for their kids, buy new homes or cars, and give to their favorite charities. Two other lucky lottery players from Caldwell and Madison counties also claimed wins of $1 million. In all, lottery players in the mountain region collected about $100 million in prize money during the year.

Across the region, there are more than 790 places where retailers sell lottery tickets and players gather to play games. Sales totaled $164 million, about 9 percent of sales overall, earning retailers commissions of $11 million. One mountain retailer, the Catamount Travel Center in Whittier in Jackson County, is among the Top 15 retail locations in the state.

In fiscal year 2014, the lottery participated for the first time as a sponsor of the Historic Morganton Festival. When the mountain's minor league baseball team, the Asheville Tourists, takes the field each summer at McCormick Field, among the fans and supporters is the Education Lottery.

Helping pay the salaries of teachers in grades K-3 is one of the main education programs supported by the Education Lottery.

"I hope that children believe in themselves. I hope that they leave here knowing that they can do anything they want to. They really can. They just have to believe in themselves."

Elena Barnwell, first-grade teacher at Glenn C. Marlowe Elementary School in Henderson County, who was honored in the Thanks to Teacher's program, a partnership of the lottery and WLOS-TV in Asheville.

Whittier; BJ's Food Mart, Asheville; Kounty Line Fletcher, Arden.

Pick 3 and Pick 4 players are introduced to the Front Pair and Back Pair play type for more chances to win

Instant ticket strategy standardizes the release of new scratch-off games on the "First Tuesday" of every month.

FY14 Begins JULY 2013 AUG SEPT

Our Games

FY14 was all about new ways to play

When it comes to having fun in North Carolina, there's no shortage of ways to play. Thanks to classic games and new ways to try their luck, lottery players in FY14 scratched and matched their way to 45 wins of $1 million or more. Members of the Lucke-Zone, the lottery's official players' club, had the opportunity to win cash, unique prize packages and even priceless experiences. By close of the fiscal year, more than 485,270 players joined the club where they could enter lottery tickets to earn Lucke-Rewards points that could be used to enter exclusive drawings.

JAN 2014 FEB MAR

Pick 3 players haul in $3.4 million in prizes when the combination 8-8-8 appears in the Jan. 10 evening drawing

In a first, the Green & Gold game with "Back Scratch" lets players scratch both sides of the ticket

Players won 175 prizes of $100,000 or more.

The $120 Million Cash instant scratch-off game begins with four prizes of $3 million

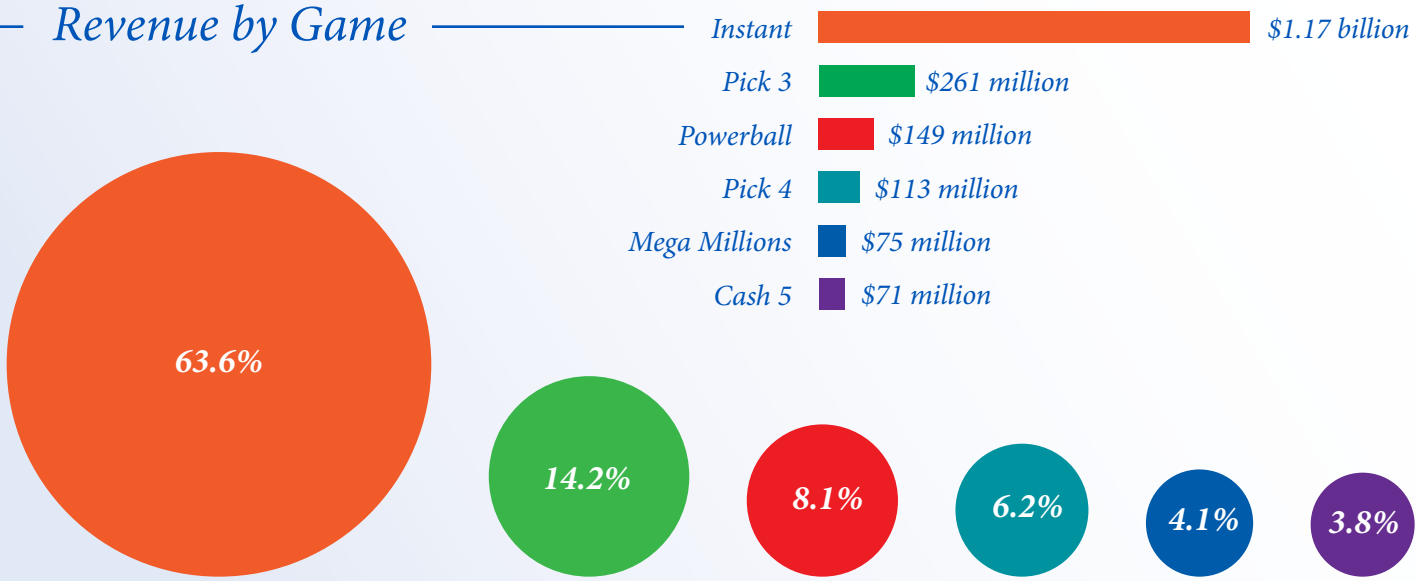
Jacksonville woman says she'll tackle her bucket list after winning the $855,949 Cash 5 jackpot

Fayetteville man becomes first in the nation to win $3 million under new Mega Millions game structure

A web-based subscription service begins for Cash 5, Mega Millions and Powerball

OCT NOV DEC

Revenue by Game



APR MAY JUNE End FY14

EZ Match feature gives Cash 5 players a way to win instantly when they buy a ticket for the nightly drawing

Drawing winners from Fayetteville and Brevard win VIP experiences at the NCEL 200 at Charlotte Motor Speedway

Special drawings send winners to the Pro Football Hall of Fame Fan Festival in Cleveland and on luxury trips to Las Vegas

The biggest prize won in FY14 came in the $5,000 a Week for Life! instant game, worth at least $5.2 million

The lottery awarded $1.14 billion in prizes, a 10.8% increase over FY13.

Our Responsibility

Lottery sales team gets training on best way to help anyone with a problem.

Keeping interests of lottery players uppermost in mind

The N.C. Education Lottery continues to strengthen its responsible gaming program to ensure it uses the best practices in the lottery industry and that it keeps the interests of lottery players uppermost in mind. Highlights in fiscal year 2014 included:

- Provided $1 million to the N.C. Department of Health and Human Services for gambling addiction, education and treatment programs.
- Trained all 249 lottery employees to ensure they knew how to provide help to any lottery players who might need it.
- Worked with National Association of State and Provincial Lotteries to produce a training video on responsible play for lottery retailers and made video available to retailers in North Carolina.
- Sponsored the National Conference on Problem Gambling.
- Added Gambling Helpline button to all lottery terminals to give retailers a new tool to provide the toll-free helpline for the N.C. Problem Gambling program to anyone who might need it.

For more info, visit: www.morethangamenc.com

Primary problem gambling activity reported by the 674 receiving services.

Lottery prints helpline number on every lottery ticket and includes on all advertisements.

Lottery joins public awareness campaign that tickets should not be given as holiday gifts to minors.

Gambling in North Carolina

Forty-eight states in the U.S. have some form of legalized gambling. In North Carolina, there is the state lottery and casinos operated by the Eastern Band of Cherokee Indians. Other types of gambling occurring in the state include video poker or video sweepstakes, online poker, and sports betting.

In its annual report to the N.C. Education Lottery Commission, the N.C. Problem Gambling Program reported:

- Problem gambling affects nearly 2.9 percent of adult population in the state, based on the 2012 North Carolina Behavioral Risk Factors Surveillance Survey.
- Of 5,259 callers to the North Carolina Problem Gambling helpline, 674 problem gamblers and family members received counseling and treatment. Seventy-six percent of callers reported they were problem gamblers and 24 percent reported they were family members or friends of a problem gambler.
- Breakdown of callers showed gender as 51 percent male and 49 percent female and race as 55 percent Caucasian, 38 percent African-American, 4 percent Hispanic, and 1 percent Asian.
- The program's evidence-based curriculum, "Stacked Deck," reached 3,262 middle and high school students in 2014, up from 1,161 the year before.
- A treatment program called Call to Change to help begin the process of stopping gambling is available in every county in the state with service offered in both English and Spanish.

"NCEL has gone way beyond corporate social responsibility with their approach to responsible gaming. They 'talk the talk' but also 'walk the walk.' They clearly think about gambling disorder in conversations across lottery operations and put a high priority on the health and wellness not just of their profits, but also of their employees, vendors, but most importantly, their customers. NCEL could, and should, be held out as a model as to how a lottery can 'do' responsible gaming right...."

Marlene D. Warner
Executive Director,
Massachusetts Council
on Compulsive Gambling

Toll-free number, N.C. Problem Gambling helpline: 1-877-718-5543

An Education Lottery scholarship helped Carl "Andrew" Geathers cover the costs of attending N.C. Central University. He is now pursuing a MBA at the Bryan School of Business and Economics at the University of North Carolina at Greensboro.

Our State Lottery

Earnings for education exceed half a billion for first time

North Carolina chose education as the good cause that its lottery would serve and in fiscal year 2014 profits from ticket sales set a new record, $503.1 million. It was the first time that earnings for education exceeded half a billion dollars.

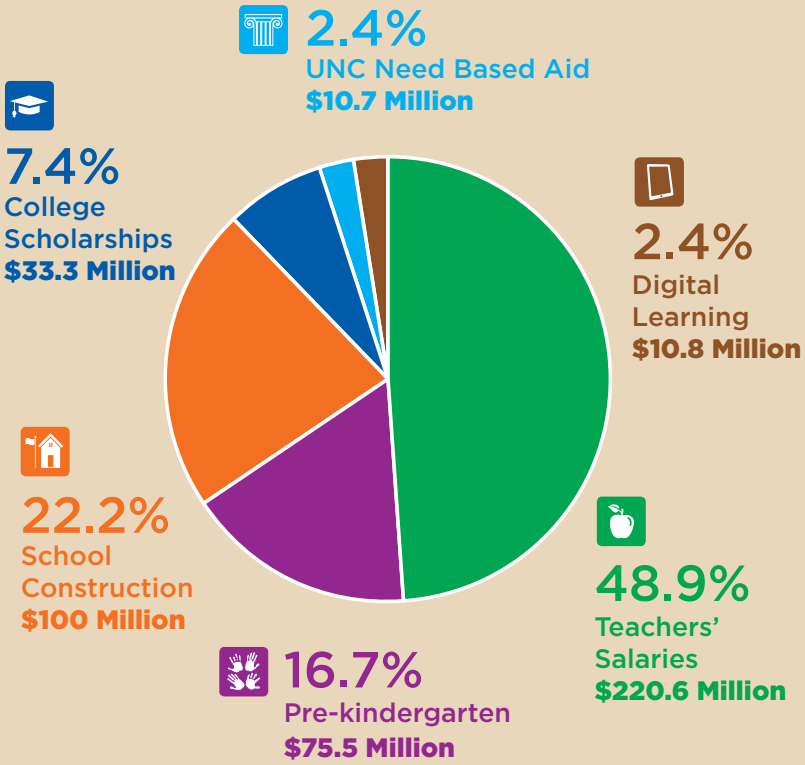
Raising money for education is the mission of the lottery and the main benefit it provides to the state. But other benefits come from the economic activity generated from lottery ticket sales. With $1.8 billion in sales, the lottery has grown into one of the largest sales and marketing organizations in North Carolina.

Across North Carolina, there were more than 6,700 places where lottery tickets were sold in fiscal year 2014. The sales generated $129 million in retail commissions, making the lottery a major player in the retail sector of the state's economy.

Prize money paid out to lottery winners, the biggest expense of the lottery, goes right back into the state's economy as winners buy new houses or cars, take vacations, set up retirement or college funds, and support their own good causes. Winners pay income taxes on their prize money, with the lottery collecting $8.7 million in withholdings, and they pay from their winnings any debts owed to state or local governments, $1.3 million in the fiscal year 2014.

The lottery's marketing program supports longstanding community events that celebrates the state's culture and heritage as well popular sporting events from professional and college sports to minor league baseball. Such activity raises public awareness of the lottery's mission and the benefits it provides to education.

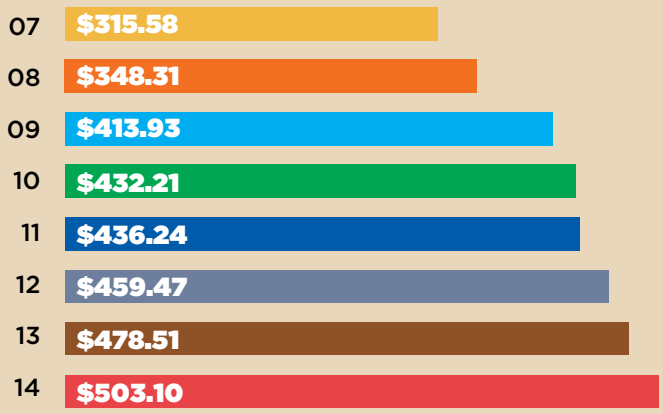
How lottery dollars were allocated in FY14



Monies raised by the lottery for education flow to every county in the state to help support students, teachers and schools. State legislators decide how lottery dollars are used and in fiscal year 2014 allocated all of the lottery's earnings to education programs. Earnings have increased every year. As of June 30, 2014, the total amount raised since the lottery started in March 2006 was $3.4 billion.

Earnings for Education

(in Millions)



County	FY14 Total	Eight Year Total
Alamance	6,846,106	47,386,150
Alexander	1,548,396	11,571,176
Alleghany	522,413	3,907,278
Anson	1,285,053	10,166,601
Ashe	1,212,849	9,015,696
Avery	799,458	5,905,879
Beaufort	2,115,905	15,576,826
Bertie	1,117,995	8,285,367
Bladen	1,764,051	14,598,782
Brunswick	4,082,236	28,070,330
Buncombe	8,618,638	58,272,012
Burke	4,120,184	32,520,360
Cabarrus	9,978,987	69,842,648
Caldwell	3,264,232	24,634,652
Camden	560,267	4,073,875
Carteret	2,659,816	17,995,477
Caswell	791,954	6,626,880
Catawba	7,165,515	49,927,894
Chatham	2,669,496	19,071,167
Cherokee	1,123,545	8,280,016
Chowan	667,372	5,293,845
Clay	431,315	3,280,468
Cleveland	4,915,715	39,660,640
Columbus	2,923,845	24,222,779
Craven	4,548,460	30,516,322
Cumberland	17,028,864	132,887,061
Currituck	1,115,503	7,319,454
Dare	1,481,828	10,365,854
Davidson	6,978,212	51,543,289
Davie	2,048,466	15,310,291
Duplin	3,135,650	21,564,998
Durham	9,812,040	71,069,245
Edgecombe	2,620,551	20,865,212
Forsyth	14,999,803	112,075,791
Franklin	2,392,444	17,421,552
Gaston	10,134,299	75,780,031
Gates	479,316	4,133,085
Graham	423,610	3,128,888
Granville	2,362,051	18,201,745
Greene	973,797	7,987,221
Guilford	24,534,625	178,232,166
Halifax	2,498,517	19,929,580
Harnett	5,733,863	40,111,518
Haywood	2,264,579	15,894,857
Henderson	3,947,517	26,971,111
Hertford	1,187,818	9,157,401
Hoke	3,064,928	21,907,279
Hyde	215,625	1,616,182
Iredell	7,219,372	51,544,634
Jackson	1,028,901	8,182,198

County	FY14 Total	Eight Year Total
Johnston	9,075,850	65,857,591
Jones	508,235	3,935,649
Lee	3,229,612	23,921,366
Lenoir	2,875,020	22,066,319
Lincoln	3,279,116	23,876,456
Macon	1,400,859	10,476,723
Madison	752,559	5,519,619
Martin	1,149,463	8,897,531
Mcdowell	1,969,765	13,863,016
Mecklenburg	42,578,813	297,137,141
Mitchell	548,386	4,418,210
Montgomery	1,417,809	11,423,062
Moore	3,290,293	21,871,501
Nash	4,515,468	35,864,950
New Hanover	8,647,354	58,888,138
Northampton	868,553	7,511,530
Onslow	8,939,680	55,445,638
Orange	5,452,777	38,781,742
Pamlico	455,737	3,646,100
Pasquotank	1,849,868	13,193,874
Pender	2,704,274	17,419,174
Perquimans	541,867	4,120,235
Person	1,493,070	12,247,066
Pitt	7,843,828	55,860,570
Polk	757,706	6,037,596
Randolph	6,320,394	45,482,944
Richmond	2,382,936	19,076,699
Robeson	8,367,154	63,720,356
Rockingham	3,852,036	30,374,758
Rowan	5,585,530	44,144,383
Rutherford	2,816,710	22,203,629
Sampson	3,691,393	28,084,547
Scotland	2,203,382	17,423,187
Stanly	2,998,250	23,636,926
Stokes	2,020,699	16,656,521
Surry	3,422,870	26,265,559
Swain	712,124	5,006,317
Transylvania	980,652	7,233,901
Tyrrell	196,864	1,487,467
Union	10,671,495	77,441,219
Vance	2,098,120	16,354,855
Wake	41,462,188	275,103,714
Warren	879,562	6,197,622
Washington	620,226	5,161,580
Watauga	1,454,920	10,690,609
Wayne	6,234,287	48,977,524
Wilkes	3,548,689	26,790,261
Wilson	3,632,634	26,627,880
Yadkin	1,739,934	13,845,341
Yancey	650,669	5,002,267

Financial Information

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Commissioners
North Carolina Education Lottery
Raleigh, North Carolina

Report on the Financial Statements
We have audited the accompanying statements of net position of the North Carolina Education Lottery ("NCEL"), a major enterprise fund of the State of North Carolina, as of and for the years ended June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows, and the notes to the financial statements which collectively comprise the NCEL's basic financial statements as listed in the table of contents.

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

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

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

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

Opinions
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, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
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, 2014 and 2013, and the changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued our report dated September 23, 2014, on our consideration the NCEL's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NCEL's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Raleigh, North Carolina
September 23, 2014

Cherry Bekaert LLP
CPAs & Advisors

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, 2014, 2013 and 2012 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, 2014, 2013 and 2012.

FINANCIAL HIGHLIGHTS

For fiscal year 2014, gross ticket sales totaled $1.84 billion representing a $149.5 million increase over fiscal year 2013. Total operating income was $503 million, which represented an increase of $24.4 million over fiscal year 2013. Other significant financial highlights included the following:

- North Carolina General Statute Section 18C-164 (a) requires the NCEL to transfer net proceeds from operations and any prior year surplus to the State of North Carolina at least four times a year. In fiscal year 2014, the sum total of these cash transfers was $525.8 million, the largest annual total for cash transfers in NCEL's history. Total cash transfers for fiscal years 2013 and 2012 were $461.4 million and $456.8 million, respectively.
- Awarded $1 million or more to an NCEL player for the 172nd time.
- Provided customer service to our 6,777 retailers on a regular basis.
- Released 46 new instant scratch-off games into the marketplace generating gross instant ticket sales of $1.17 billion.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Included in this report are the Statements of Net Position as of June 30, 2014 and 2013, the Statements of Revenues, Expenses, and Changes in Net Position for the periods ended June 30, 2014 and 2013, and the Statements of Cash Flows for the periods ended June 30, 2014 and 2013.

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

TOTAL ASSETS

Total assets at the end of fiscal year 2014 were $108 million compared to $111 million at the end of fiscal year 2013, representing a decrease of $3 million.

Current assets decreased from $60 million in 2013 to $52 million in 2014, representing a decrease of $8 million. This reduction resulted from a decrease in Pooled Cash due to fiscal year 2014 and 2013 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 2014 from 2013. This primarily represents amounts due from retailers for ticket sales less commissions and prizes paid by the retailers. The increase is essentially due to the timing of the end of the accounting week for billing and collections from our retailers at fiscal year end. Electronic Funds Transfer is used to collect receivables weekly from retailer bank accounts that are set up in trust for the NCEL.

Current assets were also affected by a $450 thousand increase in investments in annuity contracts, and a $274 thousand increase in prepaid items.

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 $669 thousand 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 2014 was $1.3 million which is approximately $434 thousand higher than 2013. The investment in capital assets includes game equipment, data processing equipment, telephone equipment, software and fixtures. The capitalization of all items including equipment, computers, and furniture follows the Office of the State Controller's (OSC) policy. The NCEL defines capital assets as assets with an initial unit cost of $5,000 or greater and an estimated useful life of two or more years. Capital assets are carried at cost less accumulated depreciation.

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

The activity for capital assets for the year ended June 30, 2014 was (in thousands):

Category	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets, depreciable				
Furniture	$ 46	$ -	$ -	$ 46
Equipment	3,629	889	(142)	4,376
Motorized equipment	67	-	-	67
Total capital assets, depreciable	3,742	889	(142)	4,489
Less accumulated depreciation for:				
Furniture	31	3	-	34
Equipment	2,746	436	(126)	3,056
Motorized equipment	68	-	-	68
Total accumulated depreciation	2,845	439	(126)	3,158
Total capital assets, depreciable, net	897	450	(16)	1,331
Capital assets, net	$ 897	$ 450	$ (16)	$ 1,331

Total Liabilities

Total current liabilities for the NCEL were $53 million in 2014 decreasing by $7 million from 2013. The decrease in current liabilities mainly resulted from decreases in due to other funds and the obligations under State Treasurer's security lending collateral agreements. The decrease in 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
$ 1,348	$ 1,542	$ 1,626	$ 1,264	$ 294	$ 970

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, 2015.

Net Position and Changes in Net Position

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

Condensed Statement of Net Position (in thousands)

	2014	2013	2012
ASSETS			
Total Current Assets	$ 51,543	$ 59,643	$ 48,484
Noncurrent Assets	56,351	51,605	47,337
Total Assets	107,894	111,248	95,821
LIABILITIES			
Total Current Liabilities	53,210	60,525	49,338
Noncurrent Liabilities	54,684	50,723	46,483
Total Liabilities	107,894	111,248	95,821
NET POSITION			
Net Investment in Capital Assets	1,331	897	672
Unrestricted	(1,331)	(897)	(672)
Total Net Position	$ -	$ -	$ -

Current liabilities consist of "Due to Other Funds" in the amount of $4.628 million. Of this amount, $4.565 million represents the remaining amount of the "Net Revenues" and "50% of Unclaimed Prizes" for Fiscal Year 2014 not yet transferred to the State of North Carolina as of June 30, 2014. These funds will be transferred to the State during Fiscal Year 2015. 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 6C to the financial statements.

Revenues

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

Sales

The gross lottery ticket sales for fiscal year 2014 totaled $1.839 billion as compared to $1.69 billion for fiscal year 2013 and $1.597 billion in fiscal year 2012. This represents an increase of $149 million from 2013 and $242 million from 2012.

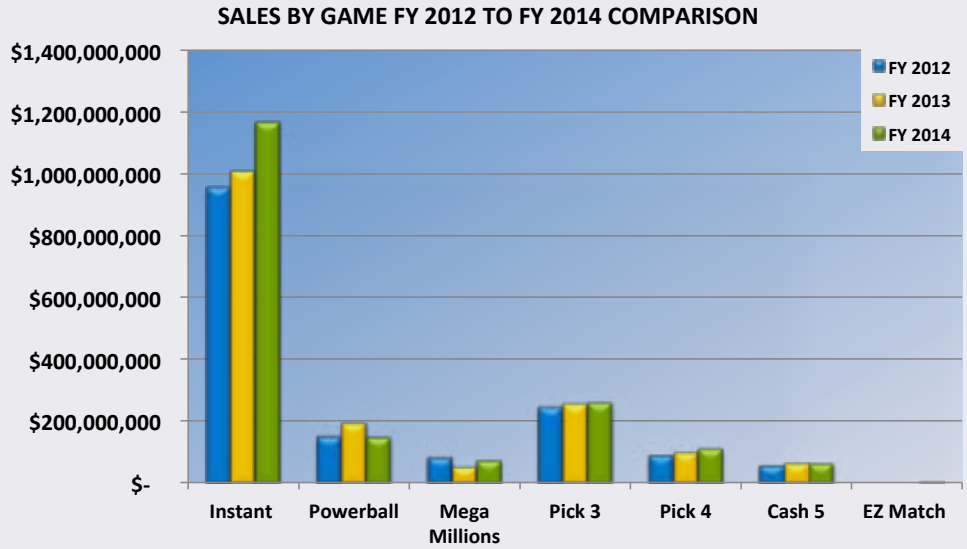
Gross instant ticket sales were $1.17 billion for fiscal year 2014 compared with $1.01 billion for fiscal year 2013 and $960 million in fiscal year 2012, an increase of approximately $158 million from fiscal year 2013 and approximately $210 million from fiscal year 2012. The increase realized during fiscal year 2014 is attributable to several factors. The NCEL launched games with new features such as our "Green & Gold" with Back Scratch game. It was the first time that the NCEL released a game that offered an additional play area on the back of an Instant ticket. The game proved so popular that it had sold through all orderable inventory in just 10 weeks, and had average weekly sales of over $1.9 million. The NCEL also released games with different prize structures than had been seen in the past. "Hit $500" featured a smaller top prize ($500) than a normal $5 Instant ticket but, offered significantly more Top Prizes (2,788 Top Prizes). Players responded very well to the game and it was the second fastest game to sell through orderable inventory in fiscal year 2014, in just 15 weeks. The NCEL also continued to introduce exciting licensed games. The "Caesars" game offered 20 second chance trips to Caesars Palace in Las Vegas. Players could also win a trip to Caesars Palace instantly on their ticket, 8 total trips offered this way. The trip included Airfare for two, a room at Caesars Palace for five days and four nights, transportation, and $1,250 in spending cash. Players responded very well to this game as well, and it became one of the top sellers of the year.

Draw game sales were $669 million for fiscal year 2014 compared to $678 million for fiscal year 2013 and $637 for fiscal year 2012, representing a $9 million decrease from fiscal year 2013 and a $32 million increase from fiscal year 2012. Draw game sales suffered from a lack of high jackpots in the multi-state game Powerball. The Powerball jackpot reached over $500 million twice during the fiscal year 2013, which helped increase Powerball sales to $197 million, from $153 million the previous year. During fiscal year 2014, the highest Powerball jackpot was $448 million, resulting in sales of $149 million, a decrease of $48 million from fiscal year 2013. The NCEL's other multi-state game Mega Millions reached a top jackpot amount for fiscal year 2014 of $636 million, which helped increase its sales to $74 million from $53 million in fiscal year 2013.

The Carolina Cash 5 top prize exceeded half a million dollars eight times during the fiscal year and reached a height of $866 thousand. In addition on March 30th, EZ match was launched as an add-on to a Pick 5 ticket. For an additional dollar, this new feature prints an instant "EZ" match number with a corresponding prize amount. If the EZ match number matches any of pick 5 numbers, the player wins the corresponding prize instantly. The EZ match feature generated over $6 million in sales over the course of just three months.

The Carolina Pick 4 game also had increased sales from the previous year. Carolina Pick 4 sales were over $113.1 million compared to $103.9 million the previous year, and $91.5 million in fiscal year 2012.

The following chart depicts the distribution of sales by product for the fiscal years ended June 30, 2014, 2013 and 2012.



EZ Match sales started on March 30th, and had total sales to the end of the year of $6.2 million.

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.

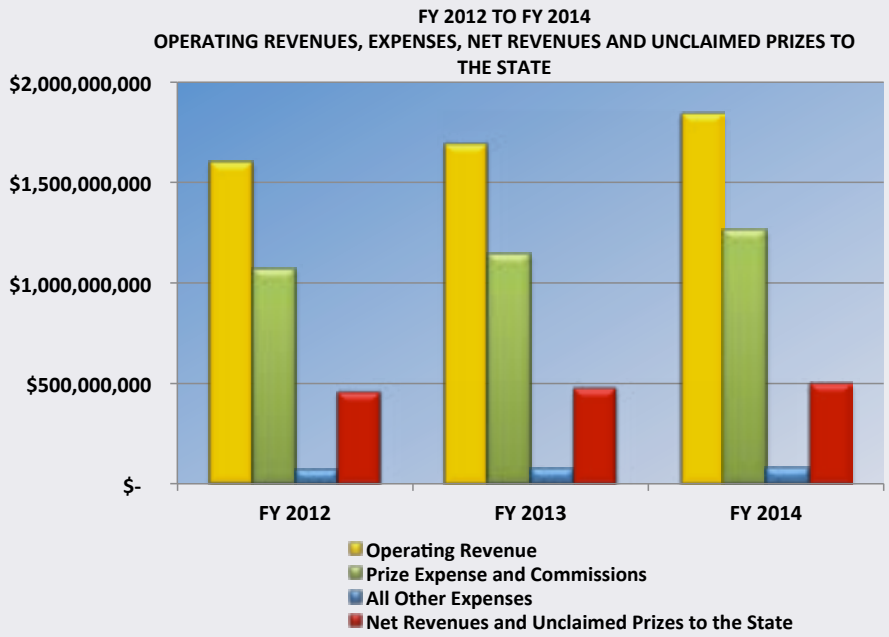
The following charts show the major components of NCEL operating expenses and transfers as a percentage of total revenues for the fiscal years ended June 30, 2014, 2013 and 2012.

Prizes, commissions and gaming vendor charges all directly relate to sales. As expected, as sales have increased so have these expenses. In fiscal year 2014 total gaming expenses which consist of prizes, retailer commissions and gaming vendor charges (gaming system services), totaled $1,294 million as compared to $1,170 million and $1,099 million for fiscal years 2013 and 2012, respectively. Other operating expenses, which consist of advertising and marketing, salary and benefits, professional fees, rent, maintenance, depreciation and general administrative expenses increased to $47.3 million in fiscal year 2014, as compared with $46.1 million and $42.7 million for fiscal years 2013 and 2012, respectively. Other operating expenses represented 2.6%, 2.7% and 2.6% of total operating revenues in fiscal years 2014, 2013 and 2012, respectively.

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

	2014	2013	2012
Operating Revenues:			
Gross Sales:	$ 1,839,259	$ 1,689,803	$ 1,596,693
Less: Prize Tickets	-	-	(181)
Less: Sales/Service Bad Debt	(48)	(90)	(55)
Fees and Licenses	5,425	5,296	5,381
Total Operating Revenues	1,844,636	1,695,009	1,601,838
Operating Expenses:			
Gaming Expenses:			
Lottery Prizes	1,135,052	1,024,437	961,556
Retailer Commissions	128,551	118,148	111,624
Gaming Systems Services	30,343	27,262	26,031
Total Gaming Expenses	1,293,946	1,169,847	1,099,211
Other Operating Expenses	47,260	46,078	42,700
Total Operating Expenses	1,341,206	1,215,925	1,141,911
Operating Income	503,430	479,084	459,927
Nonoperating Revenues (Expenses):			
Investment Earnings, Nonoperating Revenue (Expense) and Compulsive Gambling Contribution	(295)	(576)	(458)
Net Revenues and Unclaimed prizes to the State	(503,135)	(478,508)	(459,469)
Total Nonoperating Revenue (Expenses)	(503,430)	(479,084)	(459,927)
Change in Net Position	-	-	-
Net Position Beginning July 1	-	-	-
Net Position Ending June 30	$ -	$ -	$ -

From fiscal year 2012 to fiscal year 2014, the NCEL has achieved annual increases in revenues and transfers to the State. The following graph depicts these trends.



Budget and Economic Outlook

On August 12, 2014, the NCEL Commission approved the Fiscal Year 2015 budget for the NCEL to provide a projected $521 million to the State's Education Lottery Fund. This projected budget is a 12.8% increase over the fiscal year 2014 budget that reflected a $462 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 national economy continues to strengthen, yet the pace remains stubbornly below average. The economy continues down the path of slow, steady growth. Little change in this scenario is expected over the next twelve months." Also "The State's economic conditions have mirrored the national slow, steady growth scenario. Current economic projections for the rest of the fiscal year and into the next suggest revenues should continue to track close to expectations." Therefore, the NCEL has constructed an increasing budget and sales forecast for the upcoming fiscal year.

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

Requests for Information

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

NORTH CAROLINA EDUCATION LOTTERY

STATEMENTS OF NET POSITION (IN THOUSANDS)
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash	$ 155	$ 99
Pooled Cash	21,002	32,386
Receivables:		
Accounts Receivable	22,069	17,774
Interest Receivable	26	18
Investment in Annuity Contracts	4,604	4,154
Prepaid Items	655	381
State Treasurer's Security Lending Collateral	3,032	4,831
Total Current Assets	51,543	59,643
Noncurrent Assets:		
Investment in Annuity Contracts	53,714	49,666
Prepaid Items	1,306	1,042
Capital Assets, Depreciable (Net):		
Furniture and Equipment	4,489	3,742
Accumulated Depreciation	(3,158)	(2,845)
Total Capital Assets, Depreciable (Net)	1,331	897
Total Assets	107,894	111,248
LIABILITIES		
Current Liabilities:		
Accounts Payable	40,499	23,572
Accrued Payroll	415	431
Annuity Prize Award Payable - Current	4,604	4,154
Accrued Paid Time Off - Current	294	291
Due to Other Funds	4,628	27,317
Obligations Under State Treasurer's Security Lending Agreements	2,770	4,760
Total Current Liabilities	53,210	60,525
Noncurrent Liabilities:		
Annuity Prize Award Payable	53,714	49,666
Accrued Paid Time Off	970	1,057
Total Liabilities	107,894	111,248
NET POSITION		
Net Investment in Capital Assets	1,331	897
Unrestricted	(1,331)	(897)
Total Net Position	$ -	$ -

See Notes to the Financial Statements.

NORTH CAROLINA EDUCATION LOTTERY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (IN THOUSANDS) YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Operating Revenues:		
Gross Sales:	$ 1,839,259	$ 1,689,803
Less: Sales/Service Bad Debt	(48)	(90)
Fees and Licenses	5,425	5,296
Total Operating Revenues	1,844,636	1,695,009
Operating Expenses:		
Salaries, Wages, and Benefits	18,127	17,540
Lottery Prizes	1,135,052	1,024,437
Retailer Commissions	128,551	118,148
Retailer Incentive	825	781
Gaming Systems Services	30,343	27,262
Advertising	15,238	15,278
Marketing	3,602	3,540
Other Services	5,158	4,802
Furniture, Fixtures, and Equipment	1,323	1,307
Depreciation	439	345
Other General and Administrative Expenses	2,548	2,485
Total Operating Expenses	1,341,206	1,215,925
Operating Income	503,430	479,084
Nonoperating Revenues (Expenses):		
Investment Earnings	669	417
Compulsive Gambling Contribution	(1,000)	(1,000)
Unclaimed Prizes to NC Education Lottery Fund	(14,043)	(11,381)
Net Revenues to the State of NC	(489,092)	(467,127)
Miscellaneous Nonoperating Revenues (Expenses)	36	7
Total Nonoperating Expenses	(503,430)	(479,084)
Change in Net Position	-	-
Net Position Beginning, July 1	-	-
Net Position Ending, June 30	$ -	$ -

See Notes to the Financial Statements.

NORTH CAROLINA EDUCATION LOTTERY

STATEMENTS OF CASH FLOWS (IN THOUSANDS)
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$ 1,711,791	$ 1,573,884
Payments to Employees and Fringe Benefits	(18,227)	(17,401)
Payments for Prizes, Benefits and Claims	(1,120,520)	(1,032,548)
Payments to Vendors and Suppliers	(57,182)	(55,480)
Other Receipts	50	25
Net Cash Flows Provided by Operating Activities	515,912	468,480
CASH USED FOR NONCAPITAL FINANCING ACTIVITIES		
Transfers to State	(525,824)	(461,367)
Transfers to Other State Agencies	(1,000)	(1,000)
Total Cash Used for Noncapital Financing Activities	(526,824)	(462,367)
CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(874)	(570)
Total Cash Used for Capital and Related Financing Activities	(874)	(570)
CASH PROVIDED FROM INVESTING ACTIVITIES		
Investment Earnings	458	442
Total Cash Provided from Investing Activities	458	442
Net Increase/(Decrease) in Cash and Cash Equivalents	(11,328)	5,985
Cash and Cash Equivalents at Beginning of Year	32,485	26,500
Cash and Cash Equivalents at End of Year	$ 21,157	$ 32,485
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 503,430	$ 479,084
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation Expense	439	345
Other Nonoperating Income	49	26
(Increase) Decrease in Assets:		
Accounts Receivable	(4,295)	(2,977)
Inventories	-	4
Prepaid Items	(538)	160
Increase (Decrease) in Liabilities:		
Accounts Payable	16,927	(8,039)
Accrued Payroll and Related Liabilities	(16)	19
Other Liabilities	(84)	(142)
Total Cash Provided by Operating Activities	$ 515,912	$ 468,480
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through the Assumption of a Liability	$ 2,699	$ 6,425
Change in Fair Value of Investments	190	22

See Notes to the Financial Statements.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)
JUNE 30, 2014 AND 2013

NOTE 1 - ORGANIZATION

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY:

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

B. BASIS OF PRESENTATION:

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

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

C. CASH AND CASH EQUIVALENTS:

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

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

E. ALLOWANCE FOR DOUBTFUL ACCOUNTS:

An allowance for doubtful accounts has not been established because there are no indications of significant delinquencies from the collection of retailer accounts as of June 30, 2014 and 2013.

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 draw games, POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, EZ Match 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, EZ Match 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. 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.

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

Game Revenue	2014	2013
Instant	$ 1,170,248	$ 1,011,943
Draw	669,017	677,860
Bad debt write off	(48)	(83)
Damaged tickets, sales services	(6)	(7)
Total	$ 1,839,211	$ 1,689,713

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 2014 and 2013 were $5,425 and $5,296, 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 $669 and $417 for the years ended June 30, 2014 and 2013, respectively.

The NCEL also has miscellaneous non-operating revenue related to dividends received from MUSL which were $49 and $26 for the years ended June 30, 2014 and 2013, respectively. The remaining miscellaneous non-operating revenue consisted of sales of surplus property.

NOTE 4 – EXPENSES

A. OPERATING EXPENSES:

1. Lottery Prize Expense:

Prize Expense	2014	2013
Instant	$ 794,282	$ 685,202
Draw	326,727	327,854
50% of unclaimed prizes	14,043	11,381
Total	$ 1,135,052	$ 1,024,437

2. Retailer Commissions:

Commissions	2014	2013
Instant	$ 81,799	$ 70,735
Draw	46,752	47,413
Total	$ 128,551	$ 118,148

3. Retailer Incentives:

In fiscal year 2010, the State Lottery Commission approved a retailer incentive program where retailers would receive compensation for selling a top/second tier prize in the Multi-State games POWERBALL and Mega Millions and a top tier prize in Carolina Cash 5. As of December 2011, the retailer incentive program was expanded to include instant ticket prizes of over $1 million as well. The total payments issued for the retailer incentive program for fiscal years 2014 and 2013 were $825 and $781, 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. The Other category under Other Services also includes payments issued to Alcohol and Law Enforcement (ALE) in the amount of $1,000 in fiscal year 2014 and $948 in fiscal year 2013.

	2014	2013
Security services	$ 17	$ 12
Background checks	1,157	1,016
Communications, including wiring	1,231	1,201
Legal services	21	158
Travel	192	149
Other	2,540	2,266
Total	$ 5,158	$ 4,802

5. Furniture, Fixtures, and Equipment:

To operate a lottery, numerous items of equipment, furniture, and ticket dispensers are required. Most of these items were one time purchases to be replaced as needed at various points in the future. These items were also below our threshold for capitalization (See Note 2F) and therefore expensed. The total expenses for fiscal years 2014 and 2013 were $1,323 and $1,307, 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
2015	$ 1,176
2016	1,164
2017	277
2018	229
2019	164
2020-2024	196
Total	$ 3,206

The total space rental costs for the fiscal years 2014 and 2013 were $1,145 and $1,096, respectively. The NCEL also has several contracts for various equipment leases including instant ticket vending machines (ITVM's).

B. NON-OPERATING EXPENSES:

The allocable share of the expenses arising from State Treasurer's Securities Lending Collateral program transactions, totaling $13 and $18 for the years ended June 30, 2014 and 2013, respectively, are included as non-operating expense. For the years ended June 30, 2014 and 2013, the remaining non-operating expenses consist of other miscellaneous non-operating items.

C. TRANSFERS OUT:

There were three 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, 2014 and 2013 (See Note 7D).

The second transfer was $14,043 and $11,381 for the years ended June 30, 2014 and 2013, 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 $489,092 for fiscal year 2014 compared with $467,127 for fiscal year 2013 (see Note 12). However, $525,823 was transferred to the NC Education Lottery Fund for fiscal year 2014 compared with $439,875 for fiscal year 2013. The balances remaining ($4,565 and $27,253 for fiscal years 2014 and 2013) were recorded as a payable to the State for both fiscal years and were transferred subsequent to fiscal year end. NC General Statute 18C-162 states: "The funds remaining in the North Carolina State Lottery Fund after receipt of all revenues to the Lottery Fund and after accrual of all obligations of the Commission for prizes and expenses shall be considered to be the net revenues of the North Carolina State Lottery Fund."

NOTE 5 – ASSETS

A. CASH:

The cash and cash equivalents balances at June 30, 2014 and 2013 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, 2014 and 2013, respectively, $21,002 and $32,386 of the amounts shown on the Statement of Net Position 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 1.3 and 1.6 years, as of June 30, 2014 and 2013, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. ACCOUNTS RECEIVABLE:

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

C. INVESTMENTS IN ANNUITY CONTRACTS:

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 $4,604 and $53,714 for fiscal year 2014 and $4,154 and $49,666 for fiscal year 2013, respectively.

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

The policy of the NCEL restricts direct purchase of annuity contracts to those with companies that hold minimum ratings as follows: AA by Fitch, Aa by Moody's or AA by Standard & Poor's. As of June 30, 2014, and June 30, 2013 all annuities carried a rating of Aa/AA.

Maturities for investments in annuity contracts are as follows:

Maturities	2014	2013
Less than 1 year	$ 4,604	$ 4,154
1 to 5 years	18,416	20,640
6 to 10 years	18,416	20,640
More than 10 years	16,882	8,386
Total	$ 58,318	$ 53,820

D. CAPITAL ASSETS:

The activity for capital assets for the year ended June 30, 2014 was:

Category	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets, depreciable				
Furniture	$ 46	$ -	$ -	$ 46
Equipment	3,629	889	(142)	4,376
Motorized equipment	67	-	-	67
Total capital assets, depreciable	3,742	889	(142)	4,489
Less accumulated depreciation for:				
Furniture	31	3	-	34
Equipment	2,746	436	(126)	3,056
Motorized equipment	68	-	-	68
Total accumulated depreciation	2,845	439	(126)	3,158
Total capital assets, depreciable, net	897	450	(16)	1,331
Capital assets, net	$ 897	$ 450	$ (16)	$ 1,331

The activity for capital assets for the year ended June 30, 2013 was:

Category	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets, depreciable				
Furniture	$ 29	$ 17	$ -	$ 46
Equipment	3,076	553	-	3,629
Motorized equipment	67	-	-	67
Total capital assets, depreciable	3,172	570	-	3,742
Less accumulated depreciation for:				
Furniture	29	2	-	31
Equipment	2,403	343	-	2,746
Motorized equipment	68	-	-	68
Total accumulated depreciation	2,500	345	-	2,845
Total capital assets, depreciable, net	672	225	-	897
Capital assets, net	$ 672	$ 225	$ -	$ 897

Equipment expenditures for 2014 and 2013 included replacements of aged instant ticket dispensers and computer server equipment.

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, 2014 and 2013, the balances were:

Account Type	2014	2013
Trade payables to vendors and other	$ 6,066	$ 4,074
Instant prize liability	3,734	8,518
Prize liability – unused unclaimed prizes	28,292	7,976
Multi state games low-tier liability	2,287	2,843
Prize liability – breakage	120	161
Total Accounts Payable	$ 40,499	$ 23,572

B. 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 $4,604 and $53,714 for fiscal year 2014 and $4,154 and $49,666 for fiscal year 2013, respectively.

Annuity activity for both short and long term accounts during fiscal year 2014 are as follows:

	Beginning Balance	Purchases	Annuity Appreciation	Annuity Disbursements	Reclass to Short Term	Ending Balance
Short Term	$ 4,154	$ -	$ -	$ (4,128)	$ 4,578	$ 4,604
Long Term	49,666	6,104	2,522	-	(4,578)	53,714
Total	$ 53,820	$ 6,104	$ 2,522	$ (4,128)	$ -	$ 58,318

Annual activity for both short and long term accounts during fiscal year 2013 are as follows:

	Beginning Balance	Purchases	Annuity Appreciation	Annuity Disbursements	Reclass to Short Term	Ending Balance
Short Term	$ 3,750	$ -	$ -	$ (3,750)	$ 4,154	$ 4,154
Long Term	45,417	7,188	1,215	-	(4,154)	49,666
Total	$ 49,167	$ 7,188	$ 1,215	$ (3,750)	$ -	$ 53,820

C. DUE TO OTHER FUNDS:

As explained in Note 4C, $4,565 and $27,253 for the years ended June 30, 2014 and 2013, respectively, represent the amounts of the "Net Revenues" for the year not yet transferred to the State as of June 30, but will be transferred to the State subsequent to fiscal year-end. The remainder is due to other state agencies for services provided to the NCEL.

D. ACCRUED PAID TIME OFF:

Paid time off (PTO) is provided to employees for use whenever vacation, sick leave, personal leave or bereavement leave is requested and approved. Under this policy, every calendar year, on January 1st, a specific amount of PTO will be credited to Directors' and above PTO accounts. All other employees' PTO accounts will be credited on a monthly basis as earned. Employees must be employed at least one year to receive pay for accrued leave balances. Directors and above will be paid 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, 2014:

Beginning	Earned	Used	Ending	Current Liability	Long Term Portion
$ 1,348	$ 1,542	$ 1,626	$ 1,264	$ 294	$ 970

Activity for the year ended June 30, 2013:

Beginning	Earned	Used	Ending	Current Liability	Long Term Portion
$ 1,228	$ 1,666	$ 1,546	$ 1,348	$ 291	$ 1,057

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, 2014, MUSL included 34 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, 2014 and 2013, the NCEL had been credited with $9,682 and $9,992, 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, 2014 and 2013 were $72,872 and $67,982, respectively.

C. UNCLAIMED PRIZES:

As of June 30, 2014 and 2013, the NCEL had unclaimed prizes from both online and instant games. The first POWERBALL draw after the NCEL started selling tickets was on May 31, 2006, and therefore, the NCEL began recognizing unclaimed prizes on November 27, 2006 (180 days after the first draw). The first Carolina Pick 3 unclaimed prizes were recorded on April 4, 2007 and the first unclaimed prizes for Carolina Cash 5 were recorded on April 25, 2007. Unclaimed prizes for Carolina Pick 4 were recorded on November 14, 2009. Unclaimed prizes for Mega Millions were recorded on August 1, 2010. Unclaimed prizes for EZ Match have not been recorded since the first draw occurred less than 180 days from the end of the fiscal year. The NCEL closed sixty-six instant games during fiscal year 2014 resulting in $18,080 in unclaimed prizes. In 2013, the NCEL closed forty-nine instant games resulting in $11,435 in unclaimed prizes.

Game Type	2014	2013
Instant	$ 18,080	$ 11,435
Powerball	3,142	5,025
Mega Millions	1,517	1,723
Carolina Cash 5	2,057	1,434
Carolina Pick 4	1,404	1,410
Carolina Pick 3	1,884	1,735
Total unclaimed prizes	$ 28,084	$ 22,762

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, 2014.

The types of coverage, limits, and deductibles, as of June 30, 2014, are described below (the following chart is not shown in thousands).

COVERAGE TYPE	LIMITS ($)	DEDUCTIBLE ($)	COMMENTS
Public officers and employee liability	1,000,000 /10,000,000	The first 150,000 /1,000,000 per person are paid by the Commission.	State is self-insured up to $1,000,000; excess up to $10,000,000 is with a private insurer.
All risk – property contents	5,601,618	5,000	
Auto – liability	1,000,000 per person/10,000,000 per accident		
Hired Auto - Physical Damage	30,000 50,000 if GVW > 10,000 lbs.	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% of covered payroll for the current fiscal year.

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

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS

A. RETIREMENT PLAN:

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

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

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

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (CONTINUED)

For the years ending June 30, 2014, 2013 and 2012, respectively, the NCEL had a total payroll of $13,706, $13,139, and $12,839, of which $13,706, $13,139 and $12,839 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the years ended June 30, 2014, 2013 and 2012, were $2,013, $1,883 and $1,725, respectively. Required employer contribution rates for the years ended June 30, 2014, 2013 and 2012, were 8.69%, 8.33% and 7.44%, 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, 2014, 2013, and 2012, were $1,191, $1,094 and $955, 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 "Reports", or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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 $123, $138 and $170 for the years ended June 30, 2014, 2013 and 2012, 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 $47, $58 and $85, for the years ended June 30, 2014, 2013 and 2012, respectively.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

A. HEALTH CARE FOR LONG TERM DISABILITY BENEFICIARIES AND RETIREES:

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

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

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

For the current fiscal year 2014, the NCEL contributed 5.4% of the covered payroll under the Teachers' and State Employees' Retirement System. Required contribution rates for the years ended June 30, 2013 and 2012, were 5.3% and 5.0%, respectively. The NCEL made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were $740, $696, and $642, respectively.

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

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

B. LONG TERM DISABILITY:

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2014, the NCEL made a statutory contribution of .44% 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, 2014, 2013 and 2012, were .44%, .44% and .52%, respectively. The NCEL made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were $60, $58, and $66, respectively. The NCEL assumes no liability for long term disability benefits under the Plan other than its contribution.

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

NOTE 11 – LITIGATION

As of June 30, 2014, the NCEL is not, nor anticipates being, a party to any litigation.

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

		2014		
Lottery Ticket Sales	$	1,839,211		
Fees and Licenses		5,425		
Investment Earnings and Other Revenues		705		
Total Annual Revenue		1,845,341		
Prize Expense		(1,135,052)	62%	Of Total Annual Revenue
Advertising		(15,238)	1%	Of Total Annual Revenue
All Other Expenses and Transfers		(63,365)		
Total Section 18C-162.a.3		(78,603)	4%	Of Total Annual Revenue
Commissions (per 18C-142)		(128,551)	7%	Of Lottery Ticket Sales
Unclaimed Prizes to The State of North Carolina		14,043		
Net Revenues to The State of North Carolina		489,092		
Total Revenues to The State of North Carolina	$	503,135	27%	Of Total Annual Revenue

		2013		
Lottery Ticket Sales	$	1,689,713		
Fees and Licenses		5,296		
Investment Earnings and Other Revenues		424		
Total Annual Revenue		1,695,433		
Prize Expense		(1,024,437)	61%	Of Total Annual Revenue
Advertising		(15,278)	1%	Of Total Annual Revenue
All Other Expenses and Transfers		(59,062)		
Total Section 18C-162.a.3		(74,340)	4%	Of Total Annual Revenue
Commissions (per 18C-142)		(118,148)	7%	Of Lottery Ticket Sales
Unclaimed Prizes to The State of North Carolina		11,381		
Net Revenues to The State of North Carolina		467,127		
Total Revenues to The State of North Carolina	$	478,508	28%	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.

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

(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 $525.8 million to the NC Education Lottery Fund for fiscal year 2014 compared with $461.4 million for fiscal year 2013. As explained in Note 4C, $4.6 million and $27.3 million for fiscal years ended June 30, 2014 and 2013, 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, 2014, the NCEL implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

Statement No. 65, Items Previously Reported as Assets and Liabilities,

Statement No. 66, Technical Corrections–2012 (an amendment of GASB Statements No. 10 and No. 62),

Statement No. 67, Financial Reporting for Pension Plans (an amendment of GASB Statement No. 25), and

Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees.

Statements No. 65, No. 66, No. 67 and No. 70 did not result in any significant changes to the financial statements.

NOTE 14 – SUBSEQUENT EVENTS

The Commission of the NCEL has evaluated all subsequent events for potential recognition and disclosure through September 23, 2014, the date these financial statements will be available.

Cherry Bekaert LLP
CPAs & Advisors

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

To the Commissioners
North Carolina Education Lottery
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Carolina Education Lottery ("NCEL"), a major enterprise fund of the State of North Carolina, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprises the NCEL's basic financial statements as listed in the table of contents, and have issued our report thereon dated September 23, 2014.

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, 2014 and 2013, and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

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

Cherry Bekaert LLP

Raleigh, North Carolina
September 23, 2014

Cherry Bekaert LLP
CPAs & Advisors

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