

NORTH CAROLINA EDUCATION LOTTERY

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2023 and 2022

And Reports of Independent Auditor

Financial Statement Audit Report of the
North Carolina Education Lottery
For the Years Ended June 30, 2023 and 2022

Audit Performed Under Contract with the
North Carolina Office of the State Auditor
Beth A. Wood, CPA

NORTH CAROLINA EDUCATION LOTTERY

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Report of Independent Auditor

To the Commissioners
North Carolina Education Lottery
Raleigh, North Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the North Carolina Education Lottery ("NCEL"), an enterprise fund of the State of North Carolina, as of and for the years ended June 30, 2023 and 2022, and the related notes to financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NCEL as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of NCEL and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2, the financial statements present only NCEL and do not purport to, and do not, present fairly the financial position of the state of North Carolina as of June 30, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NCEL's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 NCEL's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NCEL's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 October 17, 2023, on our consideration of 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 that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the NCEL's 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 NCEL's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Raleigh, North Carolina
October 17, 2023

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023 and 2022

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, 2023, 2022, and 2021 and should be read in conjunction with the financial statements, including the notes to financial statements. This report consists of three parts: management's discussion and analysis, the basic financial statements, and the required supplementary information. 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, 2023, 2022, and 2021.

Financial Highlights

For fiscal year 2023, gross ticket sales totaled \$4.343 billion compared to \$3.887 billion for fiscal year 2022 and \$3.805 for fiscal year 2021. Total operating income was \$1,015.8 million, compared to \$932.6 million and \$939 million for fiscal years 2022 and 2021, respectively. 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 2023, the sum total of these cash transfers was \$1.013 billion. Total cash transfers for fiscal years 2022 and 2021 were \$1.037 billion and \$729.4 million, respectively.
- Awarded \$1 million or more to an NCEL player for the 883rd time.
- Provided customer service to our 7,072 retailers on a regular basis.
- Released 50 new instant scratch-off games into the marketplace generating gross scratch ticket sales of \$3 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 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, 2023 and 2022, the Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2023 and 2022, and the Statements of Cash Flows for the years ended June 30, 2023 and 2022.

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

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023 and 2022

Total Assets

Total assets at the end of fiscal year 2023 were \$236 million compared to \$238 million at the end of fiscal year 2022, and \$331 million at the end of fiscal year 2021. This represents a decrease of \$2 million from fiscal year 2022 and a decrease of \$95 million from fiscal year 2021.

Current assets were \$162.4 million as of June 30, 2023, compared to \$158.9 million as of June 30, 2022 and \$242 million as of June 30, 2021. This represents an increase of \$3.5 million over fiscal year 2022 and a decrease of \$79.6 million from fiscal year 2021. The differences resulted, in-part, from changes in Pooled Cash, stemming directly from the timing and frequency of funds transfers to the state.

Current assets were also affected by a \$3.6 million increase in retailer accounts receivable. Retailer accounts receivable primarily represents amounts due from retailer for ticket sales less commissions and prizes paid by the collections from lottery retailers at fiscal year-end.

Pooled cash consists of deposits held by the State Treasurer in the State Treasurer's Short-Term Investment Fund ("STIF"). The STIF has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and may withdraw cash at any time without prior notice or penalty. All deposits are combined with other state agencies and invested by the State Treasurer until needed to cover disbursements. Investments are limited to those authorized for the State's General Fund, pursuant to NC General Statute 147-69.1. Interest earned of \$2.4 million on these balances is recorded as nonoperating 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 nonoperating revenue.

The NCEL's investment in capital assets, net of accumulated depreciation in 2023 was \$4.5 million, representing an increase from \$1.9 million in 2022 and \$2.5 million in 2021. The investment in capital assets includes game equipment, data processing equipment, software, and fixtures. Beginning in fiscal year 2023, the NCEL began recognizing Subscription-Based IT Arrangements (SBITAs) as capital assets. This move was in accordance with GASB 96 and is being implemented with the intent of capturing any subscription-based IT contracts that create a "right-to-use" asset. The capitalization of all items including equipment, computers, SBITAs and furniture follows the Office of the State Controller's (OSC) policy. NCEL defines capital assets as assets with an initial unit cost of \$5,000 or greater and an estimated useful life of two or more years – except in the case of software where the initial unit cost threshold is \$100,000. Capital assets are carried at cost less accumulated depreciation.

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

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023 and 2022

Deferred Outflows of Resources

The NCEL recognized deferred outflows of resources as related to pensions and retiree medical insurance during fiscal year 2023, fiscal year 2022, and fiscal year 2021. More information on deferred outflows can be found in Notes 9 and 10 of the notes to financial statements.

Total Liabilities

Total current liabilities for the NCEL were \$172 million as of June 30, 2023, an increase from \$168 million as of June 30, 2022 and a decrease from \$249 million as of June 30, 2021. The increase in current liabilities mainly resulted from an increase in Due to the State. This increase can be attributed to an increase in Due to the State dollars and the timing of transactions encountered in the normal course of business.

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

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2023 and 2022

Activity for the year ended June 30, 2023 was (in thousands):

| <u>Beginning</u> | <u>Earned</u> | <u>Used</u> | <u>Ending</u> | <u>Current Liability</u> | <u>Long-Term Portion</u> |
|------------------|---------------|-------------|---------------|--------------------------|--------------------------|
| \$ 2,461 | \$ 2,574 | \$ 2,270 | \$ 2,765 | \$ 319 | \$ 2,446 |

Activity for the year ended June 30, 2022 was (in thousands):

| <u>Beginning</u> | <u>Earned</u> | <u>Used</u> | <u>Ending</u> | <u>Current Liability</u> | <u>Long-Term Portion</u> |
|------------------|---------------|-------------|---------------|--------------------------|--------------------------|
| \$ 2,609 | \$ 2,286 | \$ 2,434 | \$ 2,461 | \$ 346 | \$ 2,115 |

Activity for the year ended June 30, 2021 was (in thousands):

| <u>Beginning</u> | <u>Earned</u> | <u>Used</u> | <u>Ending</u> | <u>Current Liability</u> | <u>Long-Term Portion</u> |
|------------------|---------------|-------------|---------------|--------------------------|--------------------------|
| \$ 2,482 | \$ 2,188 | \$ 2,061 | \$ 2,609 | \$ 276 | \$ 2,333 |

Noncurrent liabilities also include 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, 2024.

Deferred Inflows of Resources

The NCEL recognized deferred inflows of resources as related to pensions and retiree medical insurance during fiscal year 2023, fiscal year 2022, and fiscal year 2021. More information on deferred inflows can be found in Notes 9 and 10 of the Notes to Financial Statements.

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023 and 2022

Net Position and Changes in Net Position

As required in the North Carolina State Lottery Act, each month, twenty percent of the previous month's lottery sales is transferred to the NC Education Lottery Fund at the Office of State Budget and Management. Additional quarterly transfers are made to move any additional net income to the Office of State Budget Management. At year-end, net position is (\$44,698) for the NCEL. This represented no change from fiscal year 2022 or fiscal year 2021. Current net position of (\$44,698) resulted from a previous adjustment to net pension liability and the recognition of other post-employment benefits (OPEB) liabilities. More information about these changes can be found in Notes 9 and 10 of the Notes to Financial Statements.

Condensed Statement of Net Position (in thousands)

| | 2023 | 2022 | 2021 |
|-----------------------------------|--------------------|--------------------|--------------------|
| Assets | | | |
| Total Current Assets | \$ 162,428 | \$ 158,860 | \$ 242,461 |
| Noncurrent Assets | 69,278 | 77,335 | 85,976 |
| Capital Assets, Depreciable (Net) | 4,540 | 1,894 | 2,470 |
| Total Assets | <u>236,246</u> | <u>238,089</u> | <u>330,907</u> |
| Deferred Outflows of Resources | <u>20,224</u> | <u>14,637</u> | <u>10,281</u> |
| Liabilities | | | |
| Total Current Liabilities | 172,191 | 167,659 | 249,129 |
| Noncurrent Liabilities | 116,233 | 113,653 | 123,928 |
| Total Liabilities | <u>288,424</u> | <u>281,312</u> | <u>373,057</u> |
| Deferred Inflows of Resources | <u>12,744</u> | <u>16,112</u> | <u>12,829</u> |
| Net Position | | | |
| Investment in Capital Assets | 4,540 | 1,894 | 2,470 |
| Restricted | - | 4 | 32 |
| Unrestricted | <u>(49,238)</u> | <u>(46,596)</u> | <u>(47,200)</u> |
| Total Net Position | <u>\$ (44,698)</u> | <u>\$ (44,698)</u> | <u>\$ (44,698)</u> |

Current liabilities consist of "Due to the State" in the amount of \$130 million. This amount represents the remaining amount of the "Net Revenues" and "50% of Unclaimed Prizes" for fiscal year 2023 not yet transferred to the State of North Carolina as of June 30, 2023. These funds will be transferred to the State during fiscal year 2024. Additional information on "Due to the State" is found in Note 6B to the financial statements. Due to the State was \$128 million for fiscal year ended June 30, 2022 and \$235 million for fiscal year ended June 30, 2021.

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023 and 2022

Revenues

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

Sales

The gross lottery ticket sales for fiscal year 2023 totaled \$4.343 billion as compared to \$3.887 billion for fiscal year 2022 and \$3.805 billion for fiscal year 2021. This represents an increase of \$456 million from 2021 and \$538 million from 2021.

Net scratch ticket sales were \$2.98 billion for fiscal year 2023 compared with \$2.65 billion for fiscal year 2022, a 12.5% increase of \$330 million over fiscal year 2022. The 2023 fiscal year saw players continuing to shift towards higher price point tickets with the percentage of sales for \$20+ price points making up just over 50% of total sales. The \$30 price point, alone, made up 28% of sales - up from 19% in fiscal year 2022. In fiscal year 2023, there were two \$30 games and five \$20 games launched, but no new \$25 game launches as that price point is phased out of the game portfolio. These launches spurred players' penchant for higher price point games, with the launch of \$5,000,000 Ultimate being the most successful game of the year. While the \$1-5 price points declined in sales, the \$10 and \$20 price points each still composed 19% of sales. The decline in the \$5 price point was offset by \$10 growth, as it overtook the \$5 price point, growing at 14% year over year and accounting for 20% of scratch-off sales. Fiscal year 2023 continued the trend from both previous years, with the \$5, \$10, and \$20 price points all eclipsing the \$500 million sales mark. The \$30 price point nearly doubled its sales from fiscal year 2022, crossing the \$800 million threshold.

Draw game sales were \$1.362 billion for fiscal year 2023 compared to \$1.237 billion for fiscal year 2022, representing a \$125 million increase over fiscal year 2022. This marks the third consecutive year that Draw Games sales have exceeded \$1 billion. A large share of the increase can be attributed to multi-state games that had several high jackpots during the year, with the largest Powerball jackpot on record occurring in November 2022 of \$2.04 billion. Powerball sales grew by 28% over 2022, while Mega Millions more than doubled sales with 111% growth over fiscal year 2022. Keno, Lucky for Life and Fast Play all experienced steady growth at 4%, 10%, and 16% increases, respectively. Fast Play had the highest two jackpots ever recorded at \$1,143,007 in May 2023, \$1,120,665 in March 2023.

The other in-state Draw Games, Cash 5, Pick 3 and Pick 4 all experienced year over year declines. Notwithstanding the launch of the Fireball add-on in September 2022, Pick 3 and Pick 4 declined by 6.1% and 1%, respectively. These two games however, still continue to make up the majority of draw game sales despite these declines. Pick 3 and Pick 4 accounted for 58% of total Draw and Fast Play Game sales in fiscal year 2023.

The sales of draw games via the Online Play channel continued to grow year over year. Fiscal year 2023 saw the addition of Pick 3 and Pick 4 to the Online Play game portfolio, with these games debuting online in February 2023. Online sales of these two games were just over \$15 million. The other four draw games offered online, Powerball, Mega Millions, Cash 5 and Lucky for Life, grew by 55% year over year to \$127 million or 24% of total sales for those particular games. Total Online Play sales grew by 74% and made up 10% of all Draw Game sales at \$142 million. A total of 443,485 players made a purchase via Online Play during fiscal year 2023, which was 84% more players compared to fiscal year 2022. While 220,380 new players made a deposit and purchase through the Online Play channel last year, resulting in an increase of 134% over fiscal year 2022.

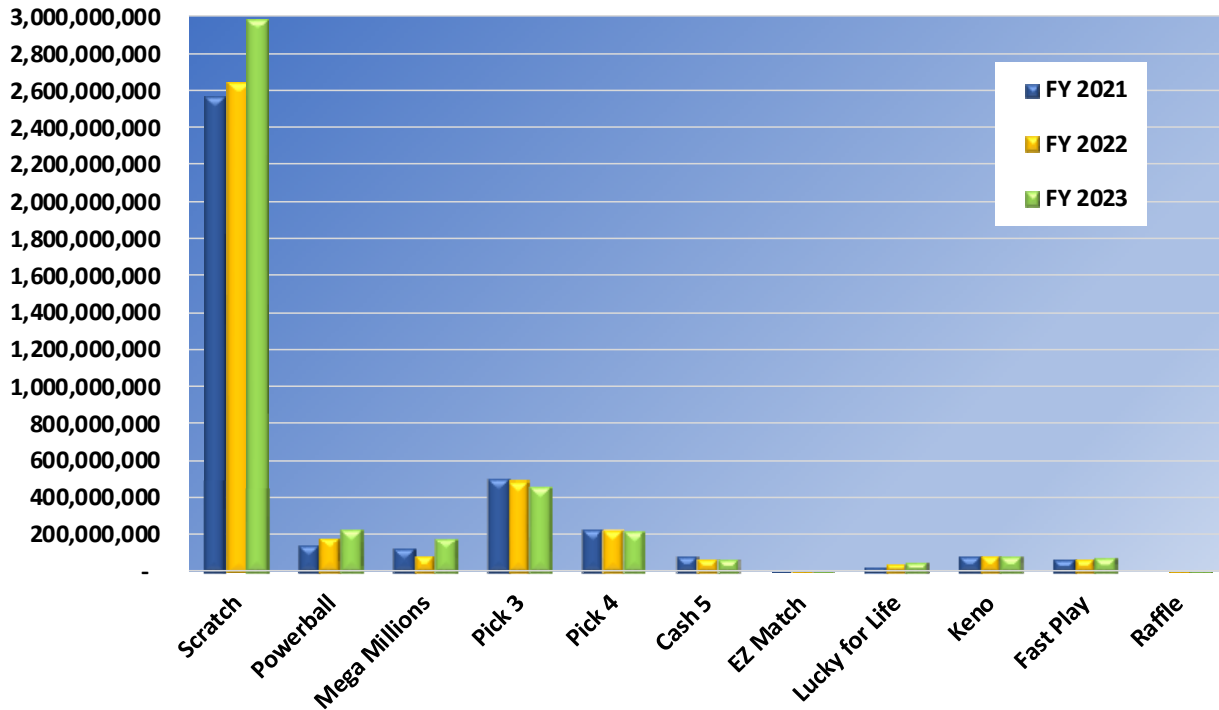
NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023 and 2022

The following chart depicts the distribution of sales by product for the fiscal years ended June 30, 2023, 2022, and 2021.

SALES BY GAME FY 2021 TO FY 2023 COMPARISON



Nonoperating Revenues mainly consist of investment earnings on Short-Term Investment Fund (STIF) accounts and security lending transactions.

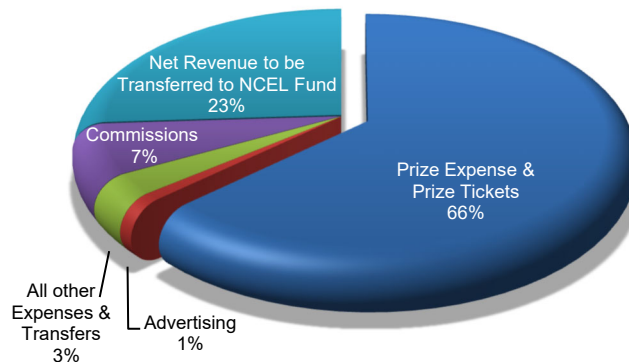
Expenses

Section 18C-162, NC General Statute stipulates that no more than 5% of the total annual revenues shall be allocated for payment of expenses of the lottery.

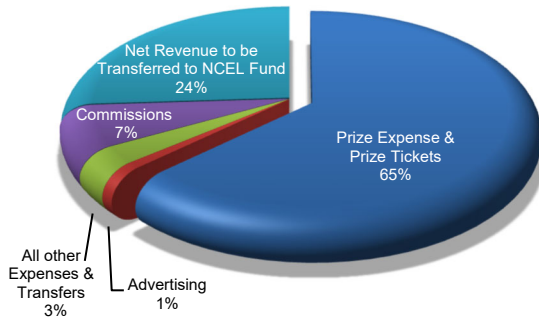
The following charts show the major components of NCEL operating expenses and transfers as a percentage of total revenues for the fiscal years ended June 30, 2023, 2022, and 2021.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2023 and 2022

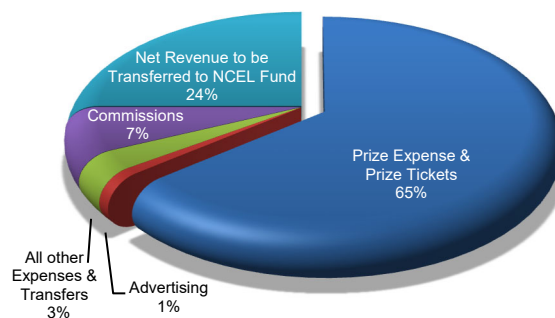
DISTRIBUTION OF REVENUES FY 2023



DISTRIBUTION OF REVENUES FY 2022



DISTRIBUTION OF REVENUES FY 2021



Prizes, commissions, and gaming vendor charges all directly relate to sales. As expected, as sales have increased, so have these expenses. In fiscal year 2023, total gaming expenses, which consist of prizes, retailer commissions, and gaming vendor charges (gaming system services), totaled \$3.247 million as compared to \$2,883 million and \$2,795 million for fiscal years 2022 and 2021, respectively. Other operating expenses, which consist of advertising and marketing, salary and benefits, professional fees, rent, maintenance, depreciation, and general administrative expenses increased to \$84.9 million in fiscal year 2023, as compared with \$76.8 million and \$77 million for fiscal years 2022 and 2021, respectively. Other operating expenses represented 2.0%, 2.0%, and 2.0% of total operating revenues in fiscal years 2023, 2022, and 2021, respectively.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023 and 2022

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

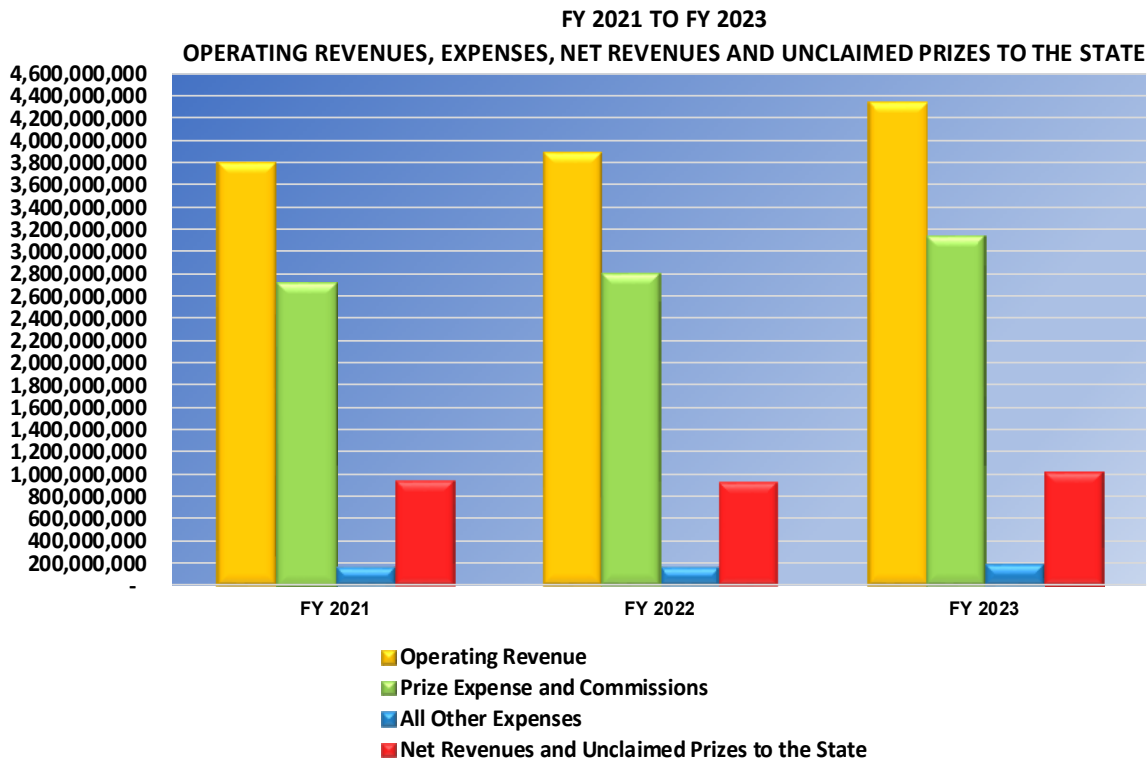
| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|--|--------------------|--------------------|--------------------|
| Operating Revenues: | | | |
| Gross Sales: | \$ 4,342,706 | \$ 3,887,051 | \$ 3,805,352 |
| Sales/Service Bad Debt/Bad Debt Recoveries | (170) | (47) | (26) |
| Fees and Licenses | 5,582 | 5,417 | 5,298 |
| Total Operating Revenues | <u>4,348,118</u> | <u>3,892,421</u> | <u>3,810,624</u> |
| Operating Expenses: | | | |
| Gaming Expenses: | | | |
| Lottery Prizes | 2,863,660 | 2,543,961 | 2,462,425 |
| Retailer Commissions | 293,845 | 266,200 | 261,688 |
| Gaming Systems Services | 89,880 | 72,872 | 70,789 |
| Total Gaming Expenses | 3,247,385 | 2,883,033 | 2,794,902 |
| Other Operating Expenses | 84,900 | 76,837 | 76,997 |
| Total Operating Expenses | <u>3,332,285</u> | <u>2,959,870</u> | <u>2,871,899</u> |
| Operating Income | <u>1,015,833</u> | <u>932,551</u> | <u>938,725</u> |
| Nonoperating Revenues (Expenses): | | | |
| Investment Earnings, Nonoperating Revenues (Expenses) and Compulsive Gambling Contribution & ALE | (584) | (2,718) | (1,906) |
| Total Nonoperating Revenues (Expenses) | <u>(584)</u> | <u>(2,718)</u> | <u>(1,906)</u> |
| Net Revenues and Unclaimed prizes to the State | <u>(1,015,249)</u> | <u>(929,833)</u> | <u>(936,819)</u> |
| Change in Net Position | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Position, Beginning July 1 | <u>(44,698)</u> | <u>(44,698)</u> | <u>(44,698)</u> |
| Net Position, Ending June 30 | <u>\$ (44,698)</u> | <u>\$ (44,698)</u> | <u>\$ (44,698)</u> |

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023 and 2022

From fiscal year 2021 to fiscal year 2023, the NCEL has achieved annual increases in operating revenues. The following graph depicts revenue and expense trends.



Budget and Economic Outlook

On June 21, 2023 the NCEL Commission approved the Fiscal Year 2024 budget for the NCEL to provide a projected \$890 million to the State's Education Lottery Fund. This projected budget is a 6.7% increase over the fiscal year 2023 budget that reflected a \$834 million transfer to the State's Education Lottery Fund. The NCEL continues to monitor the current economic conditions in the state and any potential impact upon lottery ticket sales. A recent Barings/UNC Charlotte economic forecast adds that after an early 2023 rebound from inflation-related declines in GDP, for both the U.S. and North Carolina, "it's quite possible that that we will see a mild slow down during the second half of 2023." NCSU economists predict a slowing of economic growth for late 2023 and point to the prospects of reducing inflation while dodging a recession. Despite modest GDP growth, the ongoing issue of inflation and worries of a possible recession related to reducing that inflation, both create uncertainty around the continued growth of the economy.

A focus of the NCEL Commission is to ensure sound operations. The prominence of this focus is apparent in the opinions issued by the external audit firm. For the fifteenth 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 Director of Corporate Communication at the North Carolina Education Lottery, 2728 Capital Boulevard, Suite 144, Raleigh, NC 27604.

NORTH CAROLINA EDUCATION LOTTERY

Statements of Net Position (in thousands) June 30, 2021 and 2020

| | <u>2023</u> | <u>2022</u> |
|---|--------------------|--------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents: | | |
| Cash | \$ 93 | \$ 95 |
| Pooled Cash | 123,886 | 122,168 |
| Receivables: | | |
| Accounts Receivable | 28,176 | 24,753 |
| Interest Receivable | 226 | 14 |
| Investment in Annuity Contracts and Treasury Strips | 7,671 | 7,621 |
| State Treasurer's Security Lending Collateral | 2,376 | 4,209 |
| Total Current Assets | <u>162,428</u> | <u>158,860</u> |
| Noncurrent Assets: | | |
| Investment in Annuity Contracts | 66,514 | 73,395 |
| Prepaid Items | 2,764 | 3,923 |
| Net OPEB Asset | - | 17 |
| Capital Assets (Net): | | |
| Furniture and Equipment | 6,518 | 6,483 |
| Right to Use - Subscriptions | 3,395 | - |
| Accumulated Depreciation and Amortization | (5,373) | (4,589) |
| Total Capital Assets (Net) | <u>4,540</u> | <u>1,894</u> |
| Total Noncurrent Assets | <u>73,818</u> | <u>79,229</u> |
| Total Assets | <u>236,246</u> | <u>238,089</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>20,224</u> | <u>14,637</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | 28,974 | 25,533 |
| Accrued Payroll | 1,782 | 2,105 |
| Annuity Prize Award Payable - Current | 7,671 | 7,621 |
| Accrued Paid Time Off - Current | 319 | 345 |
| Due to the State | 130,250 | 127,834 |
| Obligation for Workers' Compensation | 26 | 12 |
| Subscription Liability | 793 | - |
| Obligations Under State Treasurer's Security | 2,376 | 4,209 |
| Total Current Liabilities | <u>172,191</u> | <u>167,659</u> |
| Noncurrent Liabilities: | | |
| Annuity Prize Award Payable | 66,514 | 73,395 |
| Accrued Paid Time Off | 2,446 | 2,115 |
| Subscription Liability | 1,848 | - |
| Net Pension Liability | 18,679 | 5,608 |
| Net OPEB Liability | 26,746 | 32,535 |
| Total Noncurrent Liabilities | <u>116,233</u> | <u>113,653</u> |
| Total Liabilities | <u>288,424</u> | <u>281,312</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>12,744</u> | <u>16,112</u> |
| NET POSITION | | |
| Net Investment in Capital Assets | 4,540 | 1,894 |
| Restricted | - | 4 |
| Unrestricted | (49,238) | (46,596) |
| Total Net Position | <u>\$ (44,698)</u> | <u>\$ (44,698)</u> |

NORTH CAROLINA EDUCATION LOTTERY

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

Years Ended June 30, 2021 and 2020

| | 2023 | 2022 |
|--|---------------------------|---------------------------|
| Operating Revenues: | | |
| Gross Sales: | \$ 4,342,706 | \$ 3,887,051 |
| Less: Sales/Service Bad Debt/Bad Debt Recoveries | (170) | (47) |
| Fees and Licenses | 5,582 | 5,417 |
| Total Operating Revenues | <u>4,348,118</u> | <u>3,892,421</u> |
| Operating Expenses: | | |
| Salaries, Wages, and Benefits | 27,728 | 25,271 |
| Lottery Prizes | 2,863,660 | 2,543,961 |
| Retailer Commissions | 293,845 | 266,200 |
| Retailer Incentives | 1,391 | 1,708 |
| Gaming Systems Services | 89,880 | 72,872 |
| Advertising | 32,783 | 30,177 |
| Marketing | 4,487 | 3,780 |
| Other Services | 9,874 | 9,258 |
| Furniture, Fixtures, and Equipment | 1,291 | 2,046 |
| Depreciation and Amortization | 1,173 | 461 |
| Other General and Administrative Expenses | 6,173 | 4,136 |
| Total Operating Expenses | <u>3,332,285</u> | <u>2,959,870</u> |
| Operating Income | <u>1,015,833</u> | <u>932,551</u> |
| Nonoperating Revenues (Expenses): | | |
| Investment Earnings | 2,499 | 213 |
| Compulsive Gambling Contribution | (1,000) | (1,000) |
| ALE Gaming Enforcement | (2,100) | (2,100) |
| Inter-Agency Transfer In | - | - |
| Nonoperating Expense | - | - |
| Unclaimed Prizes to NC Education Lottery Fund | (22,092) | (20,030) |
| Net Revenues to the State of NC | (993,157) | (909,803) |
| Miscellaneous Nonoperating Revenues (Expenses) | (186) | (28) |
| Noncapital Contributions | 203 | 197 |
| Total Nonoperating Expenses | <u>(1,015,833)</u> | <u>(932,551)</u> |
| Change in Net Position | - | - |
| Net Position, Beginning July 1 | <u>(44,698)</u> | <u>(44,698)</u> |
| Cumulative Effect From | | |
| Change in Accounting Principle | <u>-</u> | <u>-</u> |
| Net Position, Beginning July 1 | - | - |
| Net Position, Ending June 30 | <u><u>\$ (44,698)</u></u> | <u><u>\$ (44,698)</u></u> |

NORTH CAROLINA EDUCATION LOTTERY

Statements of Cash Flows (in thousands) Years Ended June 30, 2021 and 2020

| | 2023 | 2022 |
|--|----------------------------|--------------------------|
| CASH FROM OPERATING ACTIVITIES | | |
| Receipts from Customers | \$ 4,050,563 | \$ 3,617,776 |
| Payments to Employees and Fringe Benefits | (29,201) | (29,205) |
| Payments for Prizes, Benefits, and Claims | (2,864,341) | (2,524,801) |
| Payments to Vendors and Suppliers | (140,789) | (120,060) |
| Other Receipts | 295 | 215 |
| Net Cash From Operating Activities | <u>1,016,527</u> | <u>943,925</u> |
| CASH FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers to State | (1,012,833) | (1,037,072) |
| Transfers to Other State Agencies | (3,100) | (3,100) |
| Net Cash From Noncapital Financing Activities | <u>(1,015,933)</u> | <u>(1,040,172)</u> |
| CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and Construction of Capital Assets | (483) | (258) |
| Principal and Interest Paid on Capital Debt | (793) | - |
| Net Cash From Capital and Related Financing Activities | <u>(1,276)</u> | <u>(258)</u> |
| CASH FROM INVESTING ACTIVITIES | | |
| Investment Earnings | 2,398 | 200 |
| Net Cash From Investing Activities | <u>2,398</u> | <u>200</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,716 | (96,305) |
| Cash and Cash Equivalents at Beginning of Year | 122,263 | 218,568 |
| Cash and Cash Equivalents at End of Year | <u><u>\$ 123,979</u></u> | <u><u>\$ 122,263</u></u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES | | |
| Operating Income | \$ 1,015,833 | \$ 932,551 |
| Adjustments to Reconcile Operating Income to Net Cash From Operating Activities: | | |
| Depreciation and Amortization Expense | 1,173 | 461 |
| Other Nonoperating Income | (198) | 344 |
| Deferred Outflows for Pensions | (4,883) | (728) |
| Deferred Outflows for OPEB | (704) | (3,628) |
| Deferred Inflows for Pensions | (6,830) | 7,045 |
| Deferred Inflows for OPEB | 3,461 | (3,761) |
| (Increase) Decrease in Assets: | | |
| Accounts Receivable | (3,423) | (8,234) |
| Prepaid Items | 1,160 | 1,216 |
| Net OPEB Asset | 17 | 31 |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable | 3,441 | 21,860 |
| Due to Other Funds | - | - |
| Accrued Payroll and Related Liabilities | (323) | (575) |
| Workers' Compensation | 13 | (43) |
| Compensated Absences | 304 | (148) |
| Net Pension Liability | 13,072 | (8,126) |
| Net OPEB Liability | (5,586) | 5,660 |
| Total Cash From Operating Activities | <u><u>\$ 1,016,527</u></u> | <u><u>\$ 943,925</u></u> |

NORTH CAROLINA EDUCATION LOTTERY

Statements of Cash Flows (in thousands) Years Ended June 30, 2021 and 2020

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | | | | |
|--|----|---------|----|-------|
| Assets Acquired through the Assumption of a Liability | \$ | 3,395 | \$ | - |
| Disposal of Capital Assets | \$ | 60 | \$ | (16) |
| Increase in Receivables related to nonoperating income | \$ | 211 | \$ | 12 |
| Change in Securities Lending Collateral | \$ | (1,833) | \$ | 4,207 |
| Decrease in net OPEB liability related to noncapital contributions | \$ | 203 | \$ | 197 |

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

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 scratch-off tickets. In March 2006, the NCEL joined the Multi-State Lottery Association (“MUSL”), a group of U.S. lotteries that combine jointly to sell POWERBALL lottery tickets. POWERBALL sales began on May 30, 2006. The current sales portfolio consists of additional draw games introduced as follows:

- Carolina Pick 3 on October 6, 2006
- Carolina Cash 5 on October 27, 2006
- Carolina Pick 3 second daily draw (Monday through Saturday) on March 31, 2008
- Carolina Pick 4 on April 17, 2009
- Mega Millions on January 31, 2010
- Carolina Pick 4 second daily draw and Carolina Pick 3 second Sunday draw on February 27, 2011
- EZ Match on March 30, 2014
- Lucky for Life on February 8, 2016
- Carolina Keno on October 29, 2017
- Fast Play on September 13, 2020

The purpose of the NCEL is to generate funds to further the goal of providing enhanced educational opportunities, supporting school construction, and funding 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 *Annual Comprehensive Financial Report* (ACFR) 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.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued):

As an enterprise fund, the NCEL is accounted for using the “economic resources” measurement focus. This means that all the assets, deferred outflow of resources, liabilities, and deferred inflow of resources 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 nonoperating 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 nonoperating. The principal operating revenues of the NCEL are for the sales of lottery products. The significant operating expenses include the cost of prizes, commissions, gaming system vendor charges, personnel, advertising and other administrative expenses.

C. Cash and Cash Equivalents:

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

D. State Treasurer’s Securities Lending Collateral:

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

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

The collateral is initially pledged at 102% of the market value of the securities lent, and additional collateral is required if its value falls to less than 100% 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 *Annual Comprehensive Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page <http://www.osc.nc.gov/> and clicking on “Public Information”, or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Allowance for Doubtful Accounts:

An allowance for doubtful accounts has not been established because there are no indications of significant delinquencies from the collection of retailer accounts as of June 30, 2023 and 2022.

F. Capital Assets:

The NCEL defines capital assets as assets with an initial unit cost of \$5 or greater and an estimated useful life of two or more years – except in the case of software where the initial unit cost threshold is \$100. 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 and amortization will be removed from the books and any resulting gain or loss reflected in operations of the period of disposal. Capital assets are carried at cost less accumulated depreciation. The estimated useful lives by general category are as follows:

| <u>Category</u> | <u>Years</u> |
|------------------------------|---------------------|
| Computer software | 3 to 5 |
| Furniture | 5 |
| Equipment | 5 to 7 |
| Motorized equipment | 5 to 7 |
| Right to Use - Subscriptions | 2 to 5 |

G. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to future periods and so will not be recognized until then. The NCEL has two items that meet this criterion - pension related deferrals and other postemployment benefits ("OPEB") related deferrals. In addition to liabilities, the statement of net position also reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period and so will not be recognized until then. The NCEL has two items that meets this criterion - pension related deferrals and OPEB related deferrals.

H. Game Revenue Recognition:

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

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Lottery Prize Expense Recognition:

For POWERBALL, Mega Millions, Carolina Cash 5, Carolina Pick 4, Carolina Pick 3, and Lucky for Life, prize expense is recorded at 50 percent of sales on a daily basis. EZ Match is recorded at 63.36 percent of sales on a daily basis. Keno is recorded at 65.73 percent of sales on a daily basis. Fast Play prize expense is recorded daily based on each game's particular prize structure percentage. 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.

J. Use of Estimates:

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

K. Retirement Plans:

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

L. Other Postemployment Benefits:

For purposes of measuring the net OPEB asset and liability, deferred outflows of resources, and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net positions of the Retiree Health Benefit Fund ("RHBF") and the Disability Income Plan of North Carolina ("DIPNC"), and additions to/deductions from RHBF and DIPNC's fiduciary net positions have been determined on the same basis as they are reported by RHBF and DIPNC. For this purpose, plan member contributions are recognized in the period in which the contributions are due. NCEL's employer contributions are recognized when due and NCEL has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of RHBF and DIPNC. Investments are reported at fair value.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

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 | 2023 | 2022 |
|---------------------------------|---------------------|---------------------|
| Instant | \$ 2,979,939 | \$ 2,649,697 |
| Draw | 1,362,767 | 1,237,354 |
| Bad debt write off | (159) | (40) |
| Damaged tickets, sales services | (11) | (7) |
| Total | <u>\$ 4,342,536</u> | <u>\$ 3,887,004</u> |

2. Fees and Licenses:

The majority of Fees and Licenses represent a weekly retailer communication fee charged to retailers for terminal satellite communications and an application fee for new retailers and changes in ownership. Total Fees and Licenses for fiscal years 2023 and 2022 were \$5,582 and \$5,417 respectively.

B. Nonoperating Revenue:

The cash accounts of the NCEL are Short-Term Investment Fund ("STIF") accounts which are interest-bearing accounts held with the 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 on these accounts and the related security lending collateral transactions were \$2,499 and \$213 for the years ended June 30, 2023 and 2022, respectively.

In the year ended June 30, 2023, the NCEL recognized \$203 in noncapital contribution. This recognition stemmed from a fiscal year 2022 State Health Plan ("SHP") transfer of \$181,000 in cost savings to the Retiree Health Benefit Fund ("RHBF"). This cost savings to the SHP was realized over a span of six years. The transfer of the \$181,000 from SHP to the RHBF impacted the OPEB liability allocated in the year ended June 30, 2023. For the year ended June 30, 2022, the NCEL recognized \$197 in noncapital contribution stemming from a SHP cost savings of \$187,000. The contribution from SHP to RHBF was allocated to each employer in the RHBF by reducing their OPEB liability and increasing a revenue. The SHP has authority to move funds pursuant to NC General Statute 135-48.5. Additional information related to the RHBF can be found in Note 10 – Other Postemployment Benefits.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 3 – REVENUE (continued)

B. Nonoperating Revenue (continued):

The NCEL, on occasion, will also have miscellaneous nonoperating revenue related to dividends received from MUSL. There were, however, no dividends to report the years ended June 30, 2023 and 2022, respectively.

NOTE 4 – EXPENSES

A. Operating Expenses:

1. Lottery Prize Expense:

| Prize Expense | 2023 | 2022 |
|-------------------------|---------------------|---------------------|
| Instant | \$ 2,158,634 | \$ 1,900,527 |
| Draw | 682,934 | 623,404 |
| 50% of unclaimed prizes | 22,092 | 20,030 |
| Total | <u>\$ 2,863,660</u> | <u>\$ 2,543,961</u> |

2. Retailer Commissions:

| Commissions | 2023 | 2022 |
|-------------|-------------------|-------------------|
| Instant | \$ 208,444 | \$ 185,340 |
| Draw | 85,401 | 80,860 |
| Total | <u>\$ 293,845</u> | <u>\$ 266,200</u> |

3. Retailer Incentives:

In fiscal year 2010, the State Lottery Commission approved a retailer incentive program where retailers would receive compensation for selling a top/second tier prize in the Multi-State games POWERBALL and Mega Millions and a top tier prize in Carolina Cash 5. As of December 2011, the retailer incentive program was expanded to include scratch ticket prizes of over \$1 million as well. As of February 8, 2016, the program was again expanded to include Lucky for Life. The total payments issued for the retailer incentive program for fiscal years 2023 and 2022 were \$1,391 and \$1,708, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 4 – EXPENSES (continued)

4. Other Services:

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

| | 2023 | 2022 |
|----------------------------------|-----------------|-----------------|
| Security services | \$ 11 | \$ 3 |
| Communications, including wiring | 974 | 581 |
| Legal services | 73 | 82 |
| Travel | 192 | 105 |
| Other | 8,624 | 8,487 |
| Total | <u>\$ 9,874</u> | <u>\$ 9,258</u> |

5. Furniture, Fixtures, and Equipment:

To operate a lottery, numerous units 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 2023 and 2022 were \$1,291 and \$2,046, respectively.

6. Rent Expense – Buildings, Offices, and Other Equipment:

The NCEL pays rent expense for various building and office facilities, which are leased by the North Carolina State Department of Administration (“NC DOA”). As the NC DOA is listed as the identified lessee on these agreements, the NCEL has no long-term legal obligation for these lease payments. These agreements vary in term length from seven to 10 years. The total space rental costs for the fiscal years 2023 and 2022 were \$2,165 and \$2,108, respectively, as recorded in ‘Other General and Administrative Expenses’ on the Statement of Revenues, Expenses, and Changes in Net Position.

The NCEL also has several contract arrangements for various equipment including scratch ticket vending machines (STVM). These costs are variable costs billed monthly to cover maintenance and communication fees.

The allocable share of the expenses arising from State Treasurer’s Securities Lending Collateral program transactions, totaling \$110 and \$4 for the years ended June 30, 2023 and 2022, respectively, are included as nonoperating expenses.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 4 – EXPENSES (continued)

B. Transfers Out:

There were four significant transfers from the NCEL. \$1,000 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, 2023 and 2022 (See Note 7D).

The second transfer was to the Department of Public Safety's Division of Alcohol and Law Enforcement (ALE) in the amount of \$2,100 as stipulated in the North Carolina State Lottery Act for the ended years 2023 and 2022.

The Third transfer was \$22,092 and \$20,030 for the years ended June 30, 2023 and 2022, respectively, from unclaimed prizes during the year. The North Carolina State Lottery Act requires the NCEL to transfer "Fifty percent (50%)" of unclaimed prizes to the NC Education Lottery Fund each year (See Note 7C).

The fourth transfer was in compliance with the North Carolina State Lottery Act. This Act requires all "Net Revenues" of the NCEL to be transferred to the NC Education Lottery Fund for educational purposes set forth in the legislation. Net Revenues were \$993,157 for fiscal year 2023 compared to \$909,803 for fiscal year 2022 (See Note 12). However, \$1,012,883 was transferred to the NC Education Lottery Fund for fiscal year 2023 compared with \$1,037,072 for fiscal year 2022. The balances remaining \$130,250 and \$127,834 for fiscal years 2023 and 2022, respectively, 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."

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 5 – ASSETS

A. Cash:

The cash and cash equivalents balance as of June 30, 2023 and 2022 include no undeposited receipts on hand.

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

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

At June 30, 2023 and 2022, \$123,886 and \$122,168, respectively, of the amounts shown on the Statement of Net Position as cash and cash equivalents represents the NCEL's equity position in the STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of .7 and .9 years, as of June 30, 2023 and 2022, respectively. Ownership interests of the STIF are determined on a net asset value basis as of the fiscal year end in accordance with STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value. The NCEL's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy. See Note 7B for the defined fair value hierarchy.

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

B. Accounts Receivable:

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

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 5 – ASSETS (continued)

C. Investment in Annuity Contracts and Treasury Strips:

Investments in Annuity Contracts and Treasury Strips represent the present value of the annuity contracts that fund the long-term installment prizes contracted through insurance company annuities (See Note 7B) and the market value of treasury strips that fund the long-term installment prizes. The current and long-term balances are \$7,671 and \$66,514 for fiscal year 2023, respectively, and \$7,621 and \$73,395 for fiscal year 2022, respectively.

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

The policy of the NCEL restricts direct purchase of annuity contracts to those with companies that hold minimum ratings as follows: AA by Fitch, AA by Moody's, or AA by Standard & Poor's. As of June 30, 2023 and 2022, all annuities carried a rating of Aa/AA.

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

| <u>Maturities</u> | <u>2023</u> | <u>2022</u> |
|--------------------|------------------|------------------|
| Less than 1 year | \$ 7,671 | \$ 7,621 |
| 1 to 5 years | 30,684 | 30,484 |
| 6 to 10 years | 30,684 | 30,484 |
| More than 10 years | 5,146 | 12,427 |
| Total | <u>\$ 74,185</u> | <u>\$ 81,016</u> |

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 5 – ASSETS (continued)

D. Capital Assets:

The activity for capital assets for the year ended June 30, 2023 was:

| <u>Category</u> | <u>Balance June 30, 2022</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2023</u> |
|---|---|-------------------------|-------------------------|---|
| Capital assets | | | | |
| Furniture | \$ 49 | \$ - | \$ - | \$ 49 |
| Equipment | 5,344 | 483 | 448 | 5,379 |
| Motorized equipment | 80 | - | - | 80 |
| Computer software | 1,010 | - | - | 1,010 |
| Right to Use - Subscriptions | - | 3,395 | - | 3,395 |
| Total capital assets | <u>6,483</u> | <u>3,878</u> | <u>448</u> | <u>9,913</u> |
| Less accumulated depreciation and amortization for: | | | | |
| Furniture | 29 | - | - | 29 |
| Equipment | 3,620 | 343 | 389 | 3,574 |
| Motorized equipment | 80 | - | - | 80 |
| Computer software | 860 | 126 | - | 986 |
| Right to Use - Subscriptions | - | 704 | - | 704 |
| Total accumulated depreciation and amortization | <u>4,589</u> | <u>1,173</u> | <u>389</u> | <u>5,373</u> |
| Total capital assets, net | <u>1,894</u> | <u>2,705</u> | <u>59</u> | <u>4,540</u> |

The activity for capital assets for the year ended June 30, 2022 was:

| <u>Category</u> | <u>Balance June 30, 2021</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2022</u> |
|------------------------------------|---|-------------------------|-------------------------|---|
| Capital assets | | | | |
| Furniture | \$ 49 | \$ - | \$ - | \$ 49 |
| Equipment | 5,475 | 257 | 388 | 5,344 |
| Motorized equipment | 80 | - | - | 80 |
| Computer software | 1,010 | - | - | 1,010 |
| Total capital assets | <u>6,614</u> | <u>257</u> | <u>388</u> | <u>6,483</u> |
| Less accumulated depreciation for: | | | | |
| Furniture | 29 | - | - | 29 |
| Equipment | 3,301 | 335 | 16 | 3,620 |
| Motorized equipment | 80 | - | - | 80 |
| Computer software | 734 | 126 | - | 860 |
| Total accumulated depreciation | <u>4,144</u> | <u>461</u> | <u>16</u> | <u>4,589</u> |
| Total capital assets, net | <u>2,470</u> | <u>(204)</u> | <u>372</u> | <u>1,894</u> |
| Capital assets, net | <u>\$ 2,470</u> | <u>\$ (204)</u> | <u>\$ 372</u> | <u>\$ 1,894</u> |

Equipment expenditures for 2023 and 2022 mainly consisted of printer and computer equipment.

E. Subscription-Based Information Technology Arrangements (SBITAs)

As mentioned in Note 13, the NCEL adopted GASB 96 as of July 1, 2023. The NCEL enters SBITAs for the right to use information technology software and cloud computing assets from both external and related parties. The SBITAs expire at various dates, and some have renewal options.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 5 – ASSETS (continued)

Subscription liabilities and the related right-to-use subscription assets are recorded based on the present value of expected payments over the term of the respective SBITA. The expected payments are discounted using the interest rate stated per the SBITA contract, or the NCEL's estimated incremental borrowing rate if there is no stated contractual interest rate.

Measurement of the subscription liability excluded the following variable payment amounts: 1) the increase or decrease in payments after the initial measurement of the subscription liability that depend on changes in an index or rate (such as the Consumer Price Index) and 2) payments based on future performance or usage of the underlying assets. During fiscal year 2023, the NCEL recognized expenses of \$38 for these changes in variable payments not previously included in the measurement of the subscription liability. There has been no change in subscription liability related to impairment loss.

The NCEL's SBITAs at June 30, 2023, are summarized below (excluding short-term SBITAs):

| SBITA | Subscription (SBITA) Liabilities June 30, 2023 | Current Portion | SBITA Terms and Conditions | Interest Rate/ Ranges |
|----------------------------|---|--------------------|--|--------------------------|
| Digital Support Contract | \$ 222 | \$ 150 | 2 yr term / termination option / option to extend | 4.85 |
| Marketing Cloud Engagement | 319 | 215 | 2 yr term / termination option / option to extend | 4.85 |
| Product Support Services | 675 | 196 | 5 yr term / termination option / option to extend | 4.85 |
| Sales Support | 1,425 | 232 | 10 yr term / termination option / option to extend | 4.85 |
| Total | \$ 2,641 | \$ 793 | | |

Annual Requirements - The annual requirements to pay principal and interest on leases and SBITAs at June 30, 2023, are as follows:

| Fiscal Year | Principal | Interest |
|---------------------------|-----------------|---------------|
| 2024 | \$ 755 | \$ 38 |
| 2025 | 729 | 37 |
| 2026 | 628 | 32 |
| 2027 | 401 | 21 |
| 2028 | - | - |
| 2029-2033 | - | - |
| 2034-2038 | - | - |
| 2039-2043 | - | - |
| Total Requirements | \$ 2,513 | \$ 128 |

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 6 – LIABILITIES

A. Annuity Prize Awards Payable:

Annuity prize awards payable represents the present value of the contracts and fair value of the treasury strips that fund the long-term installment prizes that are due to NCEL annuity prize winners (See Note 7B). The current and long-term balances are \$7,621 and \$66,514 for fiscal year 2023, respectively, and \$7,621 and \$73,395 for fiscal year 2022, respectively.

Annual activity for both short and long-term accounts during fiscal year 2023 are as follows:

| | Beginning Balance | Purchases | Appreciation | Disbursements | Reclass to Short-Term | Ending Balance |
|------------|----------------------|---------------|---------------|-------------------|--------------------------|-------------------|
| Short-Term | \$ 7,621 | \$ - | \$ - | \$ (7,945) | \$ 7,995 | \$ 7,671 |
| Long-Term | 73,395 | 761 | 353 | - | (7,995) | 66,514 |
| Total | <u>\$ 81,016</u> | <u>\$ 761</u> | <u>\$ 353</u> | <u>\$ (7,945)</u> | <u>\$ -</u> | <u>\$ 74,185</u> |

Annual activity for both short and long-term accounts during fiscal year 2022 are as follows:

| | Beginning Balance | Purchases | Appreciation | Disbursements | Reclass to Short-Term | Ending Balance |
|------------|----------------------|-----------------|-------------------|-------------------|--------------------------|-------------------|
| Short-Term | \$ 7,371 | \$ - | \$ - | \$ (7,345) | \$ 7,595 | \$ 7,621 |
| Long-Term | 80,788 | 3,926 | (3,724) | - | (7,595) | 73,395 |
| Total | <u>\$ 88,159</u> | <u>\$ 3,926</u> | <u>\$ (3,724)</u> | <u>\$ (7,345)</u> | <u>\$ -</u> | <u>\$ 81,016</u> |

B. Due to the State:

As explained in Note 4C, \$130,250 and \$127,834 for the years ended June 30, 2023 and 2022, 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.

C. Accrued Paid Time Off:

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

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 6 – LIABILITIES (continued)

C. Accrued Paid Time Off (continued):

Activity for the year ended June 30, 2023:

| <u>Beginning</u> | <u>Earned</u> | <u>Used</u> | <u>Ending</u> | <u>Current Liability</u> | <u>Long-Term Portion</u> |
|------------------|-----------------|-----------------|-----------------|--------------------------|--------------------------|
| <u>\$ 2,461</u> | <u>\$ 2,574</u> | <u>\$ 2,270</u> | <u>\$ 2,765</u> | <u>\$ 319</u> | <u>\$ 2,446</u> |

Activity for the year ended June 30, 2022:

| <u>Beginning</u> | <u>Earned</u> | <u>Used</u> | <u>Ending</u> | <u>Current Liability</u> | <u>Long-Term Portion</u> |
|------------------|-----------------|-----------------|-----------------|--------------------------|--------------------------|
| <u>\$ 2,609</u> | <u>\$ 2,285</u> | <u>\$ 2,434</u> | <u>\$ 2,460</u> | <u>\$ 345</u> | <u>\$ 2,115</u> |

D. Changes in Net Pension Liabilities:

The changes in Net Pension Liability and OPEB Liability during fiscal year 2023 are as follows:

| | <u>June 30, 2022</u> | | | <u>June 30, 2023</u> |
|-----------------------|----------------------|------------------|------------------|----------------------|
| | <u>Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> |
| Net Pension Liability | \$ 5,608 | \$ 13,071 | \$ - | \$ 18,679 |
| Net OPEB Liability | 32,535 | - | 5,789 | 26,746 |

The changes in Net Pension Liability and OPEB Liability during fiscal year 2022 are as follows:

| | <u>June 30, 2021</u> | | | <u>June 30, 2022</u> |
|-----------------------|----------------------|------------------|------------------|----------------------|
| | <u>Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> |
| Net Pension Liability | \$ 13,734 | \$ - | \$ 8,126 | \$ 5,608 |
| Net OPEB Liability | 27,073 | 5,462 | - | 32,535 |

For more information on Net Pension Liability and Net OPEB Liability see Notes 9 and 10, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

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, 2023, MUSL included 36 state lotteries, the District of Columbia, Loteria Electronica de Puerto Rico, and the US 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, 2023 and 2022, the NCEL had been credited with \$9,641 and \$9,507, respectively, in the MUSL prize reserve funds.

B. Annuity Installment Prizes:

The NCEL funds long-term installment prizes through the purchase of insurance company annuities and treasury strips. The contract holders will fund the future value of the installment prize awards over the life of the prize awarded to the player. The NCEL currently holds contracts with Met Life Insurance Company, Prudential Life Insurance Company, and Wells Fargo Bank to provide these future prize installment payments. The future value of the annuity prizes awarded as of June 30, 2023 and 2022 were \$87,409 and \$92,865, respectively.

To the extent available, the NCEL's treasury strips are recorded at fair value as of June 30, 2023 and 2022. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 7 – OTHER IMPORTANT ITEMS (continued)

B. Annuity Installment Prizes (continued):

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

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

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

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

At year-end, June 30, 2023 and 2022, the NCEL's treasury strips had recurring fair value measurements of \$38,948 and \$42,839, respectively, and inputs used to measure fair market value were categorized as Level 1 inputs. The remaining annuity investment balances are composed of insurance company annuity contracts that are recorded at present value as of June 30, 2023 and 2022.

C. Unclaimed Prizes:

As of June 30, 2023 and 2022, the NCEL had unclaimed prizes from both draw and instant games. The first POWERBALL draw after the NCEL started selling tickets was on May 31, 2006 and, subsequently, the NCEL began recognizing unclaimed prizes on November 27, 2006 (180 days after the first draw). The first Carolina Pick 3 unclaimed prizes were recorded on April 4, 2007 and the first unclaimed prizes for Carolina Cash 5 were recorded on April 25, 2007. Unclaimed prizes for Carolina Pick 4 were recorded on November 14, 2009. Unclaimed prizes for Mega Millions were recorded on August 1, 2010. Unclaimed prizes for EZ Match were recorded on September 26, 2014. Unclaimed prizes for All or Nothing were recorded on March 6, 2015. Unclaimed prizes for Lucky for Life were recorded on August 6, 2016. The first unclaimed prizes for Keno were recorded on April 27, 2018. Unclaimed prizes for Fast Play were recorded beginning on March 12, 2021. The NCEL closed forty-seven (47) instant games during fiscal year 2023 resulting in \$26,457 in unclaimed prizes. In 2022, the NCEL closed forty-six (46) instant games resulting in \$23,150 in unclaimed prizes.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 7 – OTHER IMPORTANT ITEMS (continued)

C. Unclaimed Prizes (continued):

| Game Type | 2023 | 2022 |
|------------------------|-------------|-------------|
| Instant | \$ 26,457 | \$ 23,150 |
| Powerball | 5,517 | 3,628 |
| Mega Millions | 2,222 | 2,843 |
| Carolina Cash 5 | 1,013 | 1,847 |
| Carolina Pick 4 | 2,363 | 2,575 |
| Carolina Pick 3 | 3,015 | 3,676 |
| EZ Match | 187 | 269 |
| Lucky for Life | 555 | 554 |
| Keno | 481 | 544 |
| Raffle | 216 | - |
| Fast Play | 2,159 | 974 |
| Total Unclaimed Prizes | \$ 44,185 | \$ 40,060 |

D. Compulsive Gambling Contribution:

The NC General Statute states, the NCEL must make “a transfer of \$1,000 annually to the North Carolina 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 NC General Statute 18C-162(a)(3); “No more than five percent (5%) of the total annual revenues, as described in this Chapter, shall be allocated for payment of expenses of the Lottery.” Total annual revenues include proceeds from the sale of lottery tickets, interest earned by the NCEL, and all other funds credited to the Lottery from any source.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

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 years ended June 30, 2023, 2022, and 2021.

The types of coverage, limits, and deductibles as of June 30, 2023 are described below (the following chart is not shown in thousands).

| Coverage Type | Limits (\$) | Deductible (\$) | Comments |
|---|--|--|--|
| Master Excess Liability | 2,000,000/ 5,000,000 | 1,000,000 | |
| Master Excess Aggregate Liability | 2,000,000/ 5,000,000 | 1,000,000 | Per occurrence and aggregate |
| All risk – property contents | - | 5,000 | |
| Auto – liability | 1,000,000 per person/10,000,000 per accident | | Per Person - Per accident |
| Hired Auto - Physical Damage | 40,000 60,000 if GVW > 10,000 lbs. | 0 0 | |
| Master Crime – Theft and Forgery | 500,000 | 2,500 | |
| Employee dishonesty, Funds Transfer Fraud, Computer Fraud | 5,000,000 | 100,000 - 5,100,000 | |
| Cyber and breach response | 3,000,000 - 250,000 - 2,000,000 | 33% - 500,000 (5% malware coinsurance) | Aggregate Limit – eCrime Loss – Ransomware/Malware |

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. The NCEL recognized a future liability based on current workers' compensation expense in the amount of \$26 and \$12 for the years ended June 30, 2023 and 2022, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 8 – RISK MANAGEMENT (continued)

Term life insurance of \$25 to \$50 is provided to eligible employees. This self-insured death benefit program is administered by the North Carolina Department of the State Treasurer and funded via employer contributions. The total employer contribution rate was 0.13% of covered payroll for the fiscal year 2023. The total employer contribution rate was 0.13% of covered payroll for the fiscal year 2022.

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

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS

A. Retirement Plan:

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

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

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

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

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

B. Benefits Provided:

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

Funding policy. Plan members are required to contribute 6% of their annual covered salary, and the NCEL is required to contribute at an actuarially determined rate. The fiscal year 2023 rate is 17.38% of the annual covered payroll. The fiscal year 2022 rate was 16.38% of covered payroll. The contribution requirements of plan members and the NCEL are established and may be amended by the General Assembly. The following table represents the three-year trend of the annual contributions made by the NCEL to the State retirement system. The NCEL made 100% of its required contributions for the years ended June 30, 2022, 2021, and 2020:

| | 2023 | 2022 | 2021 |
|-------------------------------|----------|----------|----------|
| Retirement Contribution | \$ 2,965 | \$ 3,361 | \$ 2,577 |
| Percentage of Covered Payroll | 17.38% | 16.38% | 14.78% |

Net pension liability. At June 30, 2023, the NCEL reported a liability of \$18,679 for its proportionate share of the net pension liability. For the fiscal year ended 2022, this proportionate share was \$5,608. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2021. The total pension liability was then rolled forward to the measurement date of June 30, 2022 utilizing update procedures incorporating the actuarial assumptions. The NCEL's proportion of the net pension liability was based on a projection of the NCEL's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2022 and 2021, the NCEL's proportion was 0.12585% and 0.11975%, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

B. Benefits Provided (continued):

Deferred inflows of resources and deferred outflows of resources related to pensions. For the years ended June 30, 2023 and 2022, the NCEL recognized pension expense of \$4,319 and \$1,784, respectively.

At June 30, 2023, the NCEL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Difference between actual and expected experience | \$ 81 | \$ 255 |
| Changes of assumptions | 1,474 | - |
| Net difference between projected and actual earnings on pension plan investments (see note below) | 6,135 | - |
| Change in proportion and differences between the NCEL's contributions and proportionate share of contributions | 764 | - |
| Contributions subsequent to measurement date | 2,965 | - |
| Total | <u>\$ 11,419</u> | <u>\$ 255</u> |

At June 30, 2022, the NCEL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Difference between actual and expected experience | \$ 315 | \$ 127 |
| Changes of assumptions | 2,104 | - |
| Net difference between projected and actual earnings on pension plan investments (see note below) | - | 6,948 |
| Change in proportion and differences between the NCEL's contributions and proportionate share of contributions | 757 | 9 |
| Contributions subsequent to measurement date | 3,360 | - |
| Total | <u>\$ 6,536</u> | <u>\$ 7,084</u> |

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

B. Benefits Provided (continued):

For fiscal year 2023, there were \$2,965 in Deferred Outflows of Resources related to pensions resulting from the NCEL's contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2024. Contributions subsequent to the measurement date for fiscal year 2022 were \$3,360 and were recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | | |
|------------------------------|----|--------------|
| <u>Years ending June 30:</u> | | |
| 2024 | \$ | 2,420 |
| 2025 | | 2,088 |
| 2026 | | 751 |
| 2027 | | 2,940 |
| Total | \$ | <u>8,199</u> |

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

Actuarial assumptions. The total pension liability was determined by an actuarial valuation performed as of December 31, 2021. The total pension liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2022. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal actuarial cost method was utilized. Inflation is assumed to be 2.5% and salary increases range 3.25% to 8.05% which includes 3.25% inflation and productivity factor. The investment rate of return used was 6.50% and is net of pension plan investment expense, including inflation.

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

The actuarial assumptions used in the December 31, 2021 valuations were based on the results of an actuarial experience study that was prepared as of December 31, 2019.

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

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

B. Benefits Provided (continued):

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2022 are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------------|---|
| Fixed Income | 1.1% |
| Global Equity | 6.5% |
| Real Estate | 5.9% |
| Alternatives | 7.5% |
| Opportunistic Fixed Income | 5.0% |
| Inflation Sensitive | 2.7% |

The information above is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.25%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Pool as of June 30, 2022 was .78%.

Discount rate. The discount rate used to measure the total pension liability was 6.5% for the December 31, 2021 valuation. The discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

B. Benefits Provided (continued):

Sensitivity of the net pension liability to changes in the discount rate. The following presents the NCEL's proportionate share of the net pension liability as of June 30, 2023, calculated using the discount rate of 6.5%, as well as, what the NCEL's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.5%) or one percentage-point higher (7.5%) than the current rate:

| | 1% Decrease (5.5%) | Discount Rate (6.5%) | 1% Increase (7.5%) |
|---|-----------------------|-------------------------|-----------------------|
| NCEL's proportionate share of the net pension liability | \$ 33,025 | \$ 18,679 | \$ 6,837 |

Sensitivity of the net pension liability to changes in the discount rate. The following presents the NCEL's proportionate share of the net pension liability as of June 30, 2022, calculated using the discount rate of 6.5%, as well as, what the NCEL's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.5%) or one percentage-point higher (7.5%) than the current rate:

| | 1% Decrease (5.5%) | Discount Rate (6.5%) | 1% Increase (7.5%) |
|---|-----------------------|-------------------------|-----------------------|
| NCEL's proportionate share of the net pension liability | \$ 18,809 | \$ 5,608 | \$ (5,367) |

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

C. Supplemental Retirement Income Plan:

IRC Section 401(k) Plan – All full-time employees are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan participants. The Plan is provided by Prudential Retirement, administered by the NC Department of the State Treasurer and sponsored by the State. The effective date of participation was January 30, 2006. The voluntary contributions by employees amounted to \$639, \$691, and \$557 for the years ended June 30, 2023, 2022, and 2021, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

D. Deferred Compensation Plan:

IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the “Plan”). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Plan’s Board of Trustees. The board, a part of the North Carolina Department of State Treasurer, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. The effective date of participation was January 30, 2006. The voluntary contributions by employees amounted to \$307, \$216, and \$172, for the years ended June 30, 2023, 2022, and 2021, 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 postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers’ and State Employees’ Retirement System. Coverage eligibility varies depending on years of contributory membership service in the retirement system prior to disability or retirement.

The plan’s benefit and contribution provisions are established by Chapter 135-7, Article 1, of the NC 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 NC General Statute states that a Retiree Health Benefit Fund (RHBF) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. The NC General Statute states that the RHBF is administered by the Board of Trustees Teachers’ and State Employees’ Retirement System and contributions to the fund are irrevocable. Also, by law, fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the RHBF. Contribution rates to the RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the period July 1, 2021 through June 30, 2023, the NCEL contributed 6.89% of the covered payroll under the Retiree Health Benefit Fund (RHBF) and the Disability Income Plan of North Carolina (DIPNC). Required contribution rates for the years ended June 30, 2022 and 2021 were 6.29% and 6.68%, respectively. The NCEL made 100% of its annual required contributions to the RHBF for the years ended June 30, 2023, 2022, and 2021 which were \$1,175, \$1,291, and \$1,164, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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

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

B. Long-Term Disability:

The NCEL participates in the Disability Income Plan of North Carolina ("DIPNC"), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the NC 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 North Carolina General Assembly. For the fiscal year ended June 30, 2023, the NCEL made a statutory contribution of .10% of covered payroll under the Retiree Health Benefit Fund (RHBF) and the Disability Income Plan of North Carolina (DIPNC). Required contribution rates for the years ended June 30, 2023, 2022, and 2021 were .10%, .09%, and .09%, respectively. The NCEL made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2023, 2022, and 2021, which were \$17, \$18, and \$16, 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 Annual Comprehensive Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Public Information", or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

C. Net OPEB Liability (Asset):

Net OPEB Liability – At June 30, 2023, the NCEL reported a liability of \$26,714 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total OPEB liability to June 30, 2022. The NCEL's proportion of the net OPEB liability was based on the present value of future salaries for the NCEL relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the NCEL's proportional share was 0.11249%, an increase from .10524% as of June 30, 2021.

Net OPEB Liability (Asset) – At June 30, 2023, the NCEL reported a liability of \$32 for its proportionate share of the collective net OPEB liability (asset) for DIPNC. For fiscal year 2022, the NCEL recorded an liability (asset) of \$17. The net OPEB liability (asset) was measured as of June 30, 2022. The total OPEB liability (asset) used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of December 31, 2021, and update procedures were used to roll forward the total OPEB liability (asset) to June 30, 2022. The NCEL's proportion of the net OPEB liability (asset) was based on the present value of future salaries for the NCEL relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2022, the NCEL's proportional share was 0.1092%, an increase from .10482% as of June 30, 2021.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2022 utilizing update procedures incorporating the actuarial assumptions.

| | Retiree Health Benefit Fund | Disability Income Plan of N.C. |
|---|------------------------------------|--------------------------------------|
| | (1) | (1) |
| Valuation Date | 12/31/2021 | 12/31/2021 |
| Inflation | 2.5% | 2.5% |
| Salary Increases | 3.25%-8.05% | 3.25%-8.05% |
| Investment Rate of Return (2) | 6.50% | 3.00% |
| Healthcare Cost Trend Rate – Medical (3) | 6.0% grading down to 5% by 2027 | N/A |
| Healthcare Cost Trend Rate - Prescription Drug (3) | 9.5% grading down to 5% by 2031 | N/A |
| Healthcare Cost Trend Rate - Medicare Advantage (3) | 0% through 2025, 5% thereafter | N/A |
| Healthcare Cost Trend Rate – Administrative (3) | 3% | N/A |

(1) - Salary Increase includes 3.25% inflation and productivity factor

(2) - Investment rate of return is net of OPEB plan investment expense, including inflation.

(3) - Disability Income Plan of NC eliminated employer reimbursements from the plan (which included State Health Plan premiums) effective July 1, 2019.

N/A - Not Applicable

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

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2022.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 20, 2022 (the measurement date) are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------------|---|
| Fixed Income | 1.1% |
| Global Equity | 6.5% |
| Real Estate | 5.9% |
| Alternatives | 7.5% |
| Opportunistic Fixed Income | 5.0% |
| Inflation Sensitive | 2.7% |

The information in the preceding table is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, and is part of the asset, liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.25%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2022 is 0.78%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The results of the valuations fluctuate from year to year as actual experience differs from assumptions. This includes demographic experiences (i.e., mortality and retirement) that differ from expected. This also includes financial experiences (i.e., member medical costs and contributions) that vary from expected trends. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

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

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Prior to July 1, 2019, employers received a reimbursement from DIPNC for employer costs, including the employer's share of the State Health Plan premiums, incurred during the second six months of the first year of a member's short-term disability coverage. With the elimination of the reimbursement to employers, State Health Plan premiums are no longer reimbursed by DIPNC for the benefits that were effective on or after July 19, 2019.

The actuarial assumptions used in the December 31, 2021 valuations were based on the results of an actuarial experience study prepared as of December 31, 2020, as amended for updates to certain assumptions (such as medical claims and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Discount Rate – The discount rate used to measure the total OPEB liability for RHBF was 3.54% as of June 30, 2022 compared to 2.16% at June 30, 2021. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.54% was used as the discount rate used to measure the total OPEB liability. The 3.54% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2022.

The discount rate used to measure the total OPEB liability for DIPNC was 3.08% as of June 30, 2022 and 3.00% as of June 30, 2021. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was not projected to be available to make all projected future benefit payments to the current plan members. In order to develop the blended discount rate of 3.08%, 3% was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.54% was used during the period that the plan was projected to have no fiduciary net position. The 3.54% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2022.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate – The following presents the NCEL's proportionate share of the net OPEB liability (asset) of the plans as of June 30, 2023, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

| Net OPEB Liability (Asset) | | | | | |
|-----------------------------------|----------------------------|----|--------------------------------------|----|----------------------------|
| | <u>1% Decrease (2.54%)</u> | | <u>Current Discount Rate (3.54%)</u> | | <u>1% Increase (4.54%)</u> |
| RHBF | \$ 31,465 | \$ | 26,714 | \$ | 22,832 |
| | | | | | |
| | <u>1% Decrease (2.08%)</u> | | <u>Current Discount Rate (3.08%)</u> | | <u>1% Increase (4.08%)</u> |
| DIPNC | \$ 40 | \$ | 32 | \$ | 25 |

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate – The following presents the NCEL's proportionate share of the net OPEB liability (asset) of the plans as of June 30, 2022, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

| Net OPEB Liability (Asset) | | | | | |
|-----------------------------------|----------------------------|----|--------------------------------------|----|----------------------------|
| | <u>1% Decrease (1.16%)</u> | | <u>Current Discount Rate (2.16%)</u> | | <u>1% Increase (3.16%)</u> |
| RHBF | \$ 38,701 | \$ | 32,535 | \$ | 27,543 |
| | | | | | |
| | <u>1% Decrease (2%)</u> | | <u>Current Discount Rate (3%)</u> | | <u>1% Increase (4%)</u> |
| DIPNC | \$ (11) | \$ | (17) | \$ | (23) |

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates – The following presents the net OPEB liability (asset) of the plans as of June 30, 2023, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trends (dollars in thousands):

| | 1% Decrease (Medical - 4.0 - 5.0% Pharmacy - 4.0 - 8.5% Med. Advantage - 0.0% - 4.0% Administrative - 2.0%) | Current healthcare Cost Trend Rates (Medical - 5.0 - 6.0% Pharmacy - 5.0 - 9.5% Med. Advantage - 0.0 - 5.0% Administrative - 3.0%) | 1% Increase (Medical - 6.0 - 7.0% Pharmacy - 6.0 - 10.5% Med. Advantage - 0.0% - 6.0 % Administrative - 4.0%) |
|-------------------------|---|---|---|
| RHBF Net OPEB Liability | \$ 21,989 | \$ 26,714 | \$ 32,819 |

Effective with the actuarial valuation as of December 31, 2021, the liability for the State's potential reimbursement of costs incurred by employers was removed because the reimbursement by DIPNC was eliminated for disabilities occurring on or after July 1, 2019. Thus, the sensitivity to changes in the healthcare cost trend rates is not applicable for DIPNC.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2023, the NCEL recognized OPEB expense (gain) of (\$1,651) for RHBF and \$45 for DIPNC, resulting in a total OPEB expense (gain) of (\$1,606).

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates – The following presents the net OPEB liability (asset) of the plans as of June 30, 2022, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trends (dollars in thousands):

| | 1% Decrease (Medical - 4.0 - 5.0% Pharmacy - 4.0 - 8.5% Med. Advantage - 4.0% Administrative - 2.0%) | Current healthcare Cost Trend Rates (Medical - 5.0 - 6.0% Pharmacy - 5.0 - 9.5% Med. Advantage - 5.0% Administrative - 3.0%) | 1% Increase (Medical - 6.0 - 7.0% Pharmacy - 6.0 - 10.5% Med. Advantage - 6.0 % Administrative - 4.0%) |
|-------------------------|--|---|--|
| RHBF Net OPEB Liability | \$ 26,348 | \$ 32,535 | \$ 40,744 |

| | 1% Decrease (Medical - 4.0 - 5.0% Pharmacy - 4.0 - 8.5% Administrative - 2.0%) | Current healthcare Cost Trend Rates (Medical - 5.0 - 6.0% Pharmacy - 5.0 - 9.5% Administrative - 3.0%) | 1% Increase (Medical - 6.0 - 7.0% Pharmacy - 6.0 - 10.5% Administrative - 4.0%) |
|----------------------|---|--|--|
| DIPNC Net OPEB Asset | \$ (18) | \$ (17) | \$ (16) |

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2022, the NCEL recognized OPEB expense (gain) of (\$319) for RHBF and \$37 for DIPNC, resulting in a total OPEB expense (gain) of (\$282).

At June 30, 2023 and 2022, the NCEL reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources
Related to OPEB by Classification
For the Year Ended June 30, 2023

| | RHBF | DIPNC | Total |
|--|-----------------|--------------|-----------------|
| Difference between actual and expected experience | \$ 259 | \$ 36 | \$ 295 |
| Changes of assumptions | 2,139 | 2 | 2,141 |
| Net difference between projected and actual earnings on pension plan investments | 231 | 34 | 265 |
| Change in proportion and differences between the NCEL's contributions and proportionate share of contributions | 4,908 | 1 | 4,909 |
| Contributions subsequent to the measurement date | 1,176 | 17 | 1,193 |
| Total | <u>\$ 8,713</u> | <u>\$ 90</u> | <u>\$ 8,803</u> |

Employer Balances of Deferred Outflows of Resources
Related to OPEB by Classification
For the Year Ended June 30, 2022

| | RHBF | DIPNC | Total |
|--|-----------------|--------------|-----------------|
| Difference between actual and expected experience | \$ 192 | \$ 44 | \$ 236 |
| Changes of assumptions | 2,661 | 3 | 2,664 |
| Net difference between projected and actual earnings on pension plan investments | - | 2 | 2 |
| Change in proportion and differences between the NCEL's contributions and proportionate share of contributions | 3,888 | 2 | 3,890 |
| Contributions subsequent to the measurement date | 1,291 | 18 | 1,309 |
| Total | <u>\$ 8,032</u> | <u>\$ 69</u> | <u>\$ 8,101</u> |

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Employer Balances of Deferred Inflows of Resources
Related to OPEB by Classification
For the Year Ended June 30, 2023

| | RHBF | DIPNC | Total |
|--|------------------|--------------|------------------|
| Difference between actual and expected experience | \$ 74 | \$ - | \$ 74 |
| Changes of assumptions | 12,158 | 6 | 12,164 |
| Net difference between projected and actual earnings on pension plan investments | - | - | - |
| Change in proportion and differences between the NCEL's contributions and proportionate share of contributions | 243 | 8 | 251 |
| Contributions subsequent to the measurement date | - | - | - |
| Total | <u>\$ 12,475</u> | <u>\$ 14</u> | <u>\$ 12,489</u> |

Employer Balances of Deferred Inflows of Resources
Related to OPEB by Classification
For the Year Ended June 30, 2022

| | RHBF | DIPNC | Total |
|--|-----------------|--------------|-----------------|
| Difference between actual and expected experience | \$ 606 | \$ - | \$ 606 |
| Changes of assumptions | 7,907 | 6 | 7,913 |
| Net difference between projected and actual earnings on pension plan investments | 17 | - | 17 |
| Change in proportion and differences between the NCEL's contributions and proportionate share of contributions | 485 | 7 | 492 |
| Contributions subsequent to the measurement date | - | - | - |
| Total | <u>\$ 9,015</u> | <u>\$ 13</u> | <u>\$ 9,028</u> |

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of \$1,176 in the net OPEB liability related to RHBF and an increase of \$17 in the net OPEB asset related to DIPNC in the subsequent fiscal period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Outflows of resources and deferred inflows of resources that will be recognized in OPEB expense:

| Years ending June 30: | RHBF | DIPNC |
|-----------------------|-------------------|-----------|
| 2024 | \$ (2,298) | \$ 16 |
| 2025 | (893) | 18 |
| 2026 | (1,265) | 13 |
| 2027 | (482) | 10 |
| 2028 | - | 1 |
| Thereafter | - | 1 |
| Total | <u>\$ (4,938)</u> | <u>59</u> |

NOTE 11 – LITIGATION

NC Citizens for Free Enterprise, Inc., et al. v. The State of North Carolina, et al. – The NC Attorney General's Office notified the NCEL that their office was officially served the Amended Complaint on behalf of the NCEL, among other defendants. The complaint, filed on December 29, 2016, alleges that the named defendants worked together to aggressively "shut down" the sweepstakes industry in order to promote the NCEL. The Amended Complaint filed February 8, 2017 added another plaintiff. The counts have been transferred to a 3-judge panel in Wake County Superior Court where the case is on hold. The NCEL does not anticipate paying any monetary damages associated with this case.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

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

| | 2023 | |
|---|---------------------|-----------------------------|
| Lottery Ticket Sales | \$ 4,342,536 | |
| Fees and Licenses | 5,582 | |
| Investment Earnings and Other Revenues | 2,516 | |
| Total Annual Revenue | <u>4,350,634</u> | |
| Prize Expense | <u>(2,863,660)</u> | 65% of Total Annual Revenue |
| Advertising | (32,783) | 1% of Total Annual Revenue |
| All Other Expenses and Transfers | <u>(145,097)</u> | |
| Total Section 18C-162.a.3 | <u>(177,880)</u> | 3% of Total Annual Revenue |
| Commissions (per Section 18C-142) | <u>(293,845)</u> | 7% of Lottery Ticket Sales |
| Unclaimed Prizes to the State of North Carolina | 22,092 | |
| Net Revenues to the State of North Carolina | 993,157 | |
| Total Revenues to the State of North Carolina | <u>\$ 1,015,249</u> | 24% of Total Annual Revenue |

| | 2022 | |
|---|--------------------|-----------------------------|
| Lottery Ticket Sales | \$ 3,887,004 | |
| Fees and Licenses | 5,417 | |
| Investment Earnings and Other Revenues | 382 | |
| Total Annual Revenue | <u>3,892,803</u> | |
| Prize Expense | <u>(2,543,961)</u> | 65% of Total Annual Revenue |
| Advertising | (30,177) | 1% of Total Annual Revenue |
| All Other Expenses and Transfers | <u>(122,632)</u> | |
| Total Section 18C-162.a.3 | <u>(152,809)</u> | 3% of Total Annual Revenue |
| Commissions (per Section 18C-142) | <u>(266,200)</u> | 7% of Lottery Ticket Sales |
| Unclaimed Prizes to the State of North Carolina | 20,030 | |
| Net Revenues to the State of North Carolina | 909,803 | |
| Total Revenues to the State of North Carolina | <u>\$ 929,833</u> | 24% of Total Annual Revenue |

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

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

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-eight percent (38%) of the total annual revenues, as described in this chapter, shall be transferred as provided in G.S. 18C-164.
 - (3) No more than five percent (5%) of the total annual revenues, as described in this Chapter, shall be allocated for payment of expenses of the Lottery.
 - (4) No more than seven percent (7%) of the face value of tickets or shares, as described in this chapter shall be allocated for compensation paid to lottery game retailers.
- (b) *To the extent that the expenses of the Commission are less than eight percent (8%) of total annual revenues, the Commission may allocate any surplus funds:*
 - (1) To increase prize payments; or
 - (2) To the benefit of the public purposes as described in this chapter.
- (c) Unclaimed prize money shall be held separate and apart from the other revenues and allocated as follows:
 - (1) Fifty percent (50%) to enhance prizes under subdivision (a) (1) of this section.
 - (2) Fifty percent (50%) to the Education Lottery Fund to be allocated in accordance with G.S.18C-164(c) (2005-344, s. 1; 2005-276, s. 31.1(r); 2007-323, s.5.2(c); 2009-357, s. 12; 2021-180, s. 4.3(b).)

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 no more than seven percent (7%) of the retail price of the tickets or shares sold for each lottery game."

Section 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 \$1,012,883 to the NC Education Lottery Fund during fiscal year 2023 compared with \$1,037,072 for fiscal year 2022. As explained in Note 4C, \$130,250 and \$127,834 for fiscal years ended June 30, 2023 and 2022, 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.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO FINANCIAL STATEMENTS (in thousands)

June 30, 2023 and 2022

NOTE 13 – CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2023, the NCEL implemented the following pronouncements issued by the Governmental Accounting Standards Board:

- *GASB 96, Subscription-Based Information Technology Arrangements*
- *GASB 94, PPP or P3 (Public-Private and Public-Public Partnerships and Availability Payment Arrangements)*
- *GASB 91, Conduit Debt Obligations*
- *GASB 99, Omnibus 2022*, the requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter

Of these, only GASB 96 had any bearing or relevance to the operations, accounting or reporting for the NCEL for the year ended June 30, 2023. GASB Statement No. 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). Net position was not restated due to the implementation; however, assets and liabilities were restated as a result of the implementation. See Note 5 for details on the restated balances related to capital assets and lease liabilities.

NOTE 14 – SUBSEQUENT EVENTS

The Commission of the NCEL has evaluated all subsequent events for potential recognition and disclosure through October 17, 2023, the date these financial statements will be available.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|-----------|-----------|-----------|-----------|-----------|
| (1) Proportionate share percentage of collective net pension liability | 0.12585% | 0.11975% | 0.11367% | 0.10671% | 0.10799% |
| (2) Proportionate share of TSERS collective net pension liability | \$ 18,679 | \$ 5,608 | \$ 13,734 | \$ 11,063 | \$ 10,752 |
| (3) Covered payroll | \$ 20,521 | \$ 17,432 | \$ 16,653 | \$ 14,907 | \$ 15,733 |
| (4) Net pension liability as a percentage of covered payroll | 91% | 32% | 82% | 74% | 68% |
| (5) Plan fiduciary net position as a percentage of the total pension liability | 84.14% | 94.86% | 85.98% | 87.56% | 87.61% |
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| (1) Proportionate share percentage of collective net pension liability | 0.10898% | 0.11054% | 0.11096% | 0.11096% | 0.10540% |
| (2) Proportionate share of TSERS collective net pension liability | \$ 8,647 | \$ 10,160 | \$ 1,301 | \$ 1,301 | \$ 6,399 |
| (3) Covered payroll | \$ 14,093 | \$ 13,989 | \$ 13,989 | \$ 13,706 | \$ 13,139 |
| (4) Net pension liability as a percentage of covered payroll | 61% | 73% | 9% | 9% | 49% |
| (5) Plan fiduciary net position as a percentage of the total pension liability | 89.51% | 87.32% | 94.64% | 98.24% | 90.60% |

* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|--|--------------|--------------|--------------|--------------|--------------|
| (1) Contractually required contribution | \$ 2,965 | \$ 3,361 | \$ 2,577 | \$ 2,160 | \$ 1,832 |
| (2) Contributions in relation to the contractually determined contribution | <u>2,965</u> | <u>3,361</u> | <u>2,577</u> | <u>2,160</u> | <u>1,832</u> |
| (3) Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| (4) Covered payroll | \$ 17,061 | \$ 20,521 | \$ 17,432 | \$ 16,653 | \$ 14,907 |
| (5) Contributions as a percentage of covered payroll | 17.38% | 16.38% | 14.78% | 12.97% | 12.29% |

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|--------------|--------------|--------------|
| (1) Contractually required contribution | \$ 1,696 | \$ 1,405 | \$ 1,190 | \$ 1,279 | \$ 1,191 |
| (2) Contributions in relation to the contractually determined contribution | <u>1,696</u> | <u>1,405</u> | <u>1,190</u> | <u>1,279</u> | <u>1,191</u> |
| (3) Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| (4) Covered payroll | \$ 15,733 | \$ 14,093 | \$ 13,006 | \$ 13,989 | \$ 13,706 |
| (5) Contributions as a percentage of covered payroll | 10.78% | 9.97% | 9.15% | 9.15% | 8.69% |

Notes to Schedule

Valuation date.

The total pension liability was determined by actuarial valuations as of December 31, 2021. The total pension liability was then rolled forward to June 30, 2022 utilizing update procedures incorporating the actuarial assumptions. The actuarial assumptions used in the December 31, 2021 valuations were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2019.

Methods and assumptions used to determine contribution rates.

- Salary increases are assumed to be 3.25%-8.05% which includes 3.25% inflation and productivity factor.
- Investment expected rate of return is 6.50% net of pension plan investment expense, including inflation.
- Fiscal year 2022 saw a one-time cost-of-living adjustment of 2% for retirees. Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.
- Mortality tables vary by age, gender, employee group, and health status. The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The mortality rates also contain a provision to reflect future mortality improvements.

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY AND SCHEDULE OF CONTRIBUTIONS RETIREMENT HEALTH BENEFIT FUND

LAST SIX FISCAL YEARS

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|-----------|-----------|-----------|----------|-----------|
| (1) Proportionate share percentage of collective net OPEB liability | 0.11249% | 0.10524% | 0.09759% | 0.09401% | 0.09339% |
| (2) Proportionate share of RHBF collective net OPEB liability | \$ 26,714 | \$ 32,535 | \$ 27,073 | \$29,745 | \$ 26,606 |
| (3) Covered payroll | \$ 20,521 | \$ 17,432 | \$ 16,653 | \$14,907 | \$ 15,733 |
| (4) Net OPEB liability as a percentage of covered payroll | 130% | 187% | 163% | 200% | 169% |
| (5) Plan fiduciary net position as a percentage of the total OPEB liability | 10.58% | 7.72% | 6.92% | 4.40% | 4.40% |
| | <hr/> | | | | |
| | 2018 | | | | |
| (1) Proportionate share percentage of collective net OPEB liability | 0.09669% | | | | |
| (2) Proportionate share of RHBF collective net OPEB liability | \$ 31,701 | | | | |
| (3) Covered payroll | \$ 14,093 | | | | |
| (4) Net OPEB liability as a percentage of covered payroll | 225% | | | | |
| (5) Plan fiduciary net position as a percentage of the total OPEB liability | 3.52% | | | | |

* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY AND SCHEDULE OF CONTRIBUTIONS RETIREMENT HEALTH BENEFIT FUND

LAST SIX FISCAL YEARS

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|-------------|-------------|-------------|-------------|-------------|
| (1) Contractually required contributions | \$ 1,175 | \$ 1,291 | \$ 1,164 | \$ 1,077 | \$ 935 |
| (2) Contributions in relation to the contractually determined contributions | 1,175 | 1,291 | 1,164 | 1,077 | 935 |
| (3) Contributions deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| (4) Covered payroll | \$ 17,061 | \$ 20,521 | \$ 17,432 | \$ 16,653 | \$ 14,907 |
| (5) Contributions as a percentage of covered payroll | 6.89% | 6.29% | 6.68% | 6.47% | 6.27% |
| | <u>2018</u> | | | | |
| (1) Contractually required contributions | \$ 952 | | | | |
| (2) Contributions in relation to the contractually determined contributions | 952 | | | | |
| (3) Contributions deficiency (excess) | <u>\$ -</u> | | | | |
| (4) Covered payroll | \$ 15,733 | | | | |
| (5) Contributions as a percentage of covered payroll | 6.05% | | | | |

* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to Schedule

Valuation date.

The total OPEB liability was determined by actuarial valuations as of December 31, 2021. The total pension liability was then rolled forward to June 30, 2022 utilizing update procedures incorporating the actuarial assumptions.

Methods and assumptions used to determine contribution rates.

- The discount rate used to measure total OPEB liability for RHBF was 3.54%, mirroring the municipal bond rate. The rate is based on the Bond-Buyer 20-year General Obligation index as of June 30, 2022.
- Salary increases are assumed to be 3.25%-8.05% which includes 3.25% inflation and productivity factor.
- Investment expected rate of return is 6.50% net of pension plan investment expense, including inflation.
- General inflation is assumed to be 2.50%
- Mortality tables vary by age, gender, employee group and health status. The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The mortality rates also contain a provision to reflect future mortality improvements.

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY AND SCHEDULE OF CONTRIBUTIONS DISABILITY INCOME PLAN OF NORTH CAROLINA

LAST SIX FISCAL YEARS

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|-----------|-----------|-----------|-----------|-----------|
| (1) Proportionate share percentage of collective net OPEB liability | 0.1092% | 0.10482% | 0.09848% | 0.09333% | 0.09435% |
| (2) Proportionate share of DIPNC collective net OPEB liability | \$ 32 | \$ (17) | \$ (48) | \$ (40) | \$ (29) |
| (3) Covered payroll | \$ 20,521 | \$ 17,432 | \$ 16,653 | \$ 14,907 | \$ 15,733 |
| (4) Net OPEB liability as a percentage of covered payroll | 0.16% | -0.10% | -0.29% | -0.27% | -0.18% |
| (5) Plan fiduciary net position as a percentage of the total OPEB liability | 90.34% | 105.18% | 115.57% | 113% | 108.47% |
| | <hr/> | | | | |
| | 2018 | | | | |
| (1) Proportionate share percentage of collective net OPEB liability | 0.09603% | | | | |
| (2) Proportionate share of DIPNC collective net OPEB liability | \$ (59) | | | | |
| (3) Covered payroll | \$ 14,093 | | | | |
| (4) Net OPEB liability as a percentage of covered payroll | -0.42% | | | | |
| (5) Plan fiduciary net position as a percentage of the total OPEB liability | 116.23% | | | | |

* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY AND SCHEDULE OF CONTRIBUTIONS DISABILITY INCOME PLAN OF NORTH CAROLINA

LAST SIX FISCAL YEARS

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|-------------|-------------|-------------|-------------|-------------|
| (1) Contractually required contributions | \$ 17 | \$ 18 | \$ 16 | \$ 17 | \$ 21 |
| (2) Contributions in relation to the contractually determined contributions | 17 | 18 | 16 | 17 | 21 |
| (3) Contributions deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| (4) Covered payroll | \$ 17,061 | \$ 20,521 | \$ 17,432 | \$ 16,653 | \$ 14,907 |
| (5) Contributions as a percentage of covered payroll | 0.10% | 0.09% | 0.09% | 0.10% | 0.14% |
| | <u>2018</u> | | | | |
| (1) Contractually required contributions | \$ 22 | | | | |
| (2) Contributions in relation to the contractually determined contributions | 22 | | | | |
| (3) Contributions deficiency (excess) | <u>\$ -</u> | | | | |
| (4) Covered payroll | \$ 15,733 | | | | |
| (5) Contributions as a percentage of covered payroll | 0.14% | | | | |

* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to Schedule

Valuation date.

The total OPEB liability was determined by actuarial valuations as of December 31, 2021. The total pension liability was then rolled forward to June 30, 2022 utilizing update procedures incorporating the actuarial assumptions. The actuarial assumptions used in the December 31, 2021 valuations were based on an investigation of demographic and economic experience over the five-year period from January 1, 2015 to December 31, 2019.

Methods and assumptions used to determine contribution rates.

- The discount rate used to measure total OPEB liability for DIPNC was 3.08%.
- The long-term expected real rate of return on plan investments was used on all periods for projecting benefit payments and determining the total liability.
- Salary increases are assumed to be 3.25%-8.05% which includes 3.25% inflation and productivity factor.
- Investment expected rate of return is 3.00% net of pension plan investment expense, including inflation.
- General inflation is assumed to be 2.5%
- Mortality tables vary by age, gender, employee group, and health status. The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The mortality rates also contain a provision to reflect future mortality improvements.

**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 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”), an enterprise fund of the state of North Carolina, as of and for the year ended June 30, 2023 and the related notes to the financial statements and have issued our report thereon dated October 17, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered NCEL’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NCEL’s internal control. Accordingly, we do not express an opinion on the effectiveness of 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 entity’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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 financial statements. 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
October 17, 2023

The audit report required 400 audit hours at a cost of \$65,000.