

NORTH CAROLINA EDUCATION LOTTERY

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2024 and 2023

And Reports of Independent Auditor

Financial Statement Audit Report of the
North Carolina Education Lottery
For the Years Ended June 30, 2024 and 2023

Audit Performed Under Contract with the
North Carolina Office of the State Auditor
Jessica N. Holmes, J.D.

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, 2024 and 2023, 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, 2024 and 2023, 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 ("U.S. GAAP").

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, 2024 and 2023, 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.

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.

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 30, 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.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The script is cursive and fluid, with the letters "Cherry" and "Bekaert" being more prominent than "LLP".

Raleigh, North Carolina
October 30, 2024

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2024 and 2023

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, 2024 and 2023 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, 2024 and 2023.

Financial Highlights

For fiscal year 2024, gross ticket sales totaled \$5.376 billion compared to \$4.343 billion for fiscal year 2023. For fiscal year 2024, total operating income was \$1,090.5 million compared to \$1,015.8 million for fiscal years 2023. Administrative expenses were 3.75% of revenue during fiscal year 2024 compared to 3.96% for fiscal year 2023. 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 2024, the sum total of these cash transfers was \$1.061 billion. Total cash transfers for fiscal year 2023 were \$1.013 billion.
- Awarded \$1 million or more to an NCEL player for the 958th time.
- Provided customer service to our 7,123 retailers which earned \$284.2 million in commissions.
- Released 48 new scratch games into the marketplace generating gross scratch ticket sales of \$2.9 billion.
- Released Digital Instants, a new type of game, generating \$1.1 billion in gross sales.

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, 2024 and 2023, the Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2024 and 2023, and the Statements of Cash Flows for the years ended June 30, 2024 and 2023.

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, 2024 and 2023

Total Assets

Total assets at the end of fiscal year 2024 were \$303.5 million compared to \$236.2 million at the end of fiscal year 2023. This represents an increase of \$67.3 million over fiscal year 2023.

Current assets were \$231.5 million as of June 30, 2024, compared to \$162.4 million as of June 30, 2023. This represents an increase of \$69.1 million over fiscal year 2023. 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 \$10.5 million increase in retailer accounts receivable. Retailer accounts receivable primarily represents amounts due from retailers 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 \$6 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 2024 was \$3.7 million, representing a decrease from \$4.5 million in 2023. 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.

Deferred Outflows of Resources

The NCEL recognized deferred outflows of resources as related to pensions and retiree medical insurance during fiscal year 2024, fiscal year 2023. More information on deferred outflows can be found in Notes 9 and 10 of the Notes to the Financial Statements.

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2024 and 2023

Total Liabilities

Total current liabilities for the NCEL were \$241 million as of June 30, 2024, an increase from \$172 million as of June 30, 2023. The increase in current liabilities mainly resulted from an increase in Due to the State, Accounts Payable, 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.

Activity for the year ended June 30, 2024 was (in thousands):

<u>Beginning</u>	<u>Earned</u>	<u>Used</u>	<u>Ending</u>	<u>Current Liability</u>	<u>Long-Term Portion</u>
\$ 2,765	\$ 2,764	\$ 2,760	\$ 2,769	\$ 550	\$ 2,219

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

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, 2025.

Deferred Inflows of Resources

The NCEL recognized deferred inflows of resources as related to pensions and retiree medical insurance during fiscal year 2024, fiscal year 2023. More information on deferred inflows can be found in Notes 9 and 10 of the Notes to the Financial Statements.

Net Position and Changes in Net Position

As required in the North Carolina State Lottery Act, each month, twenty percent of the previous month's lottery sales is transferred to the NC Education Lottery Fund at the Office of State Budget and Management. Additional quarterly transfers are made to move any additional net income to the Office of State Budget Management. At year-end, net position was (\$44,698) for the NCEL. This represented no change from fiscal year 2023. 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 the Financial Statements.

NORTH CAROLINA EDUCATION LOTTERY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2024 and 2023

Condensed Statement of Net Position (in thousands)

	2024	2023	2022
Assets			
Total Current Assets	\$ 231,461	\$ 162,428	\$ 158,860
Noncurrent Assets	68,347	69,278	77,335
Capital Assets, Depreciable (Net)	3,735	4,540	1,894
Total Assets	<u>303,543</u>	<u>236,246</u>	<u>238,089</u>
Deferred Outflows of Resources	<u>21,234</u>	<u>20,224</u>	<u>14,637</u>
Liabilities			
Total Current Liabilities	240,703	172,191	167,659
Noncurrent Liabilities	119,937	116,233	113,653
Total Liabilities	<u>360,640</u>	<u>288,424</u>	<u>281,312</u>
Deferred Inflows of Resources	<u>8,835</u>	<u>12,744</u>	<u>16,112</u>
Net Position			
Investment in Capital Assets	1,823	4,540	1,894
Restricted	-	-	4
Unrestricted	<u>(46,521)</u>	<u>(49,238)</u>	<u>(46,596)</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 \$161 million. This amount represents the remaining amount of the "Net Revenues" and "50% of Unclaimed Prizes" for fiscal year 2024 not yet transferred to the State of North Carolina as of June 30, 2024. These funds will be transferred to the State during fiscal year 2025. Additional information on "Due to the State" is found in Note 6B to the financial statements. Due to the state was \$130 million for fiscal year ended June 30, 2023.

Revenues

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

Sales

Gross lottery ticket sales for fiscal year 2024 totaled \$5.376 billion as compared to \$4.343 billion for fiscal year 2023. This represents an increase of \$1.033 billion from 2023.

The NCEL set another sales record in FY24 of \$5.5 billion fueled by the addition of the new digital instant category of games, which added \$1.1 billion in sales in the seven and half months since their start. Digital Instants quickly became the second most popular category of games among lottery players, accounting for 20% of overall sales for the fiscal year.

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2024 and 2023

Net scratch ticket sales were \$2.92 billion for fiscal year 2024 compared with \$2.98 billion for fiscal year 2023, a 1.9% decrease of approximately \$58 million from fiscal year 2023. The 2024 fiscal year saw player's shift towards higher price point tickets continue with the introduction of the new \$50 price point. The percentage of sales for \$20+ price points accounted for just over 57% of total sales. The new \$50 price point, which was launched in December 2023 contributed \$384 million in sales or 13% of overall scratch sales in just seven months in the market. The new \$50 game, \$10 Million Spectacular, became the bestselling scratch game ever by a wide margin, as well as one of the top-performing \$50 games in the country. The \$30 price point continued to contribute the highest percentage of sales, generating over \$683 million in tickets sales last fiscal year. This was lower than fiscal year 2023 due to the cannibalization caused by the \$50 game launch. Lower price point games, including the \$5 price point continued the recent trend of year over year declines coming off of recent highs during the pandemic.

Draw game sales were \$1.319 billion for fiscal year 2024 compared to \$1.362 billion for fiscal year 2023, down \$43 million year over year. Only one draw game experienced year over year growth, Powerball sales were up by 11% driven by multiple \$1B+ jackpots throughout the year. The rest of the draw game portfolio experienced lower sales than fiscal year 2023 ranging from Fast Play (-25%) to Pick 4 (-1%). Multiple factors contributed to these declines including increased competitive pressure, general economic conditions, and jackpot fatigue.

Pick 3 continues to be the largest contributor to draw game portfolio, accounting for 34% of sales for the category. The growth of Powerball last year led to it being the second largest contributor to sales at just under 20%. Pick 3 and Pick 4 combined still account for over 50% of draw games sales, which was a up slightly from fiscal year 2023.

Draw game sales via the Online Play channel grew to \$179 million in fiscal year 2024. This was \$37 million higher (+26%) than the sales generated through that channel in fiscal year 2023. The year over year growth can be attributed to the first full year of sales of Pick 3 and Pick 4 online, which added \$34 million in incremental sales. The online channel now accounts for 6% and 9% of those games overall sales, up from 2% and 3% in FY23. The game with the highest penetration online continues to be Lucky for Life at 37% of overall sales.

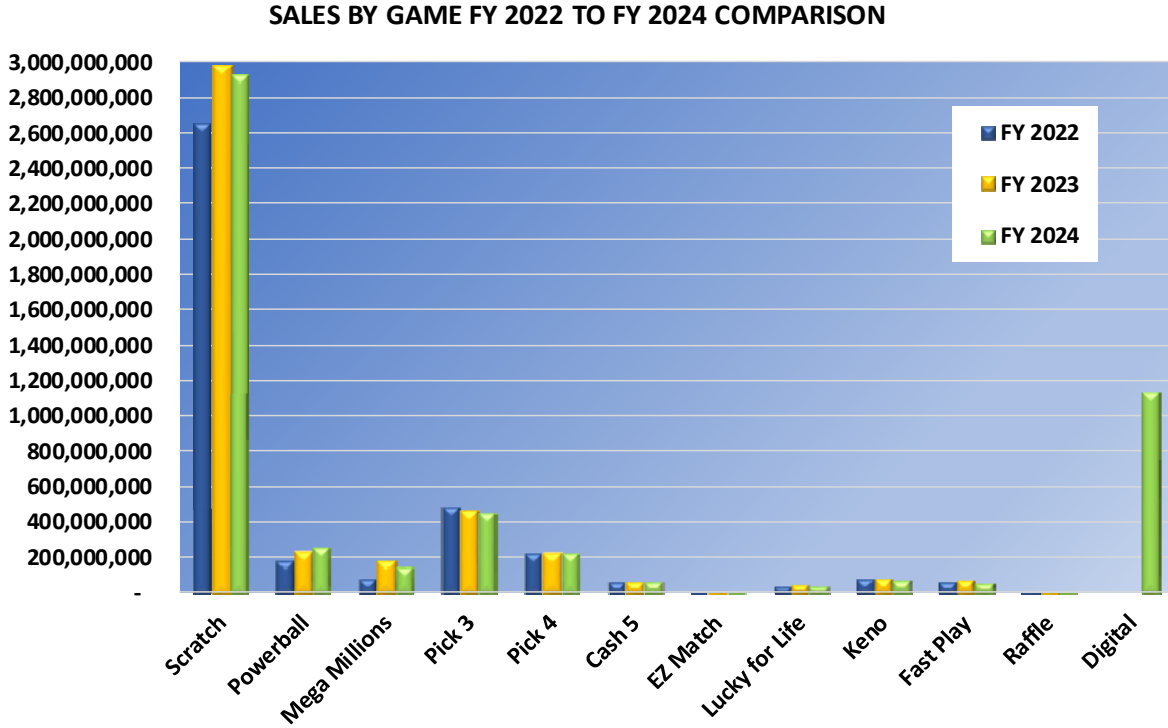
The addition of digital instant games to the Online Play offering in November 2023 had a big impact on overall sales in FY24. The category launched with 8 games and ended the fiscal year with a total of 23 games available on the website and mobile app. In seven and a half months the games generated \$1.13 billion in sales. The Lamp, one of the 8 games that was included in the initial launch of the category, has been the most successful game by a wide margin contributing \$283 million in sales or 25% of overall digital instant sales. The top 4 digital instant games accounted 55% of the overall sales for the category.

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2024 and 2023

The following chart depicts the distribution of sales by product for the fiscal years ended June 30, 2024, 2023, and 2022.



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.

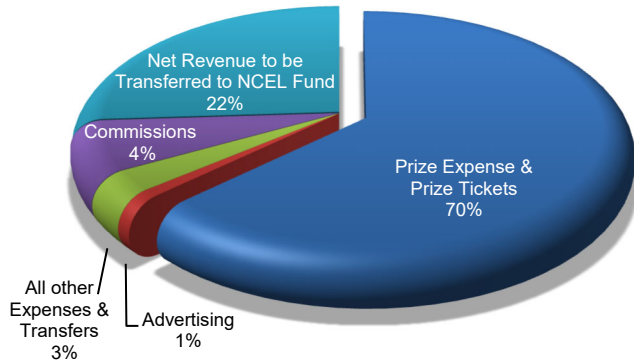
NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

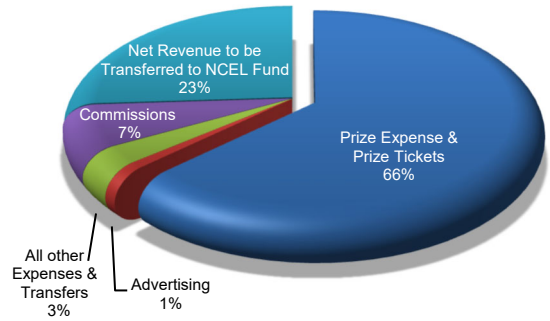
June 30, 2024 and 2023

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, 2024, 2023, and 2022.

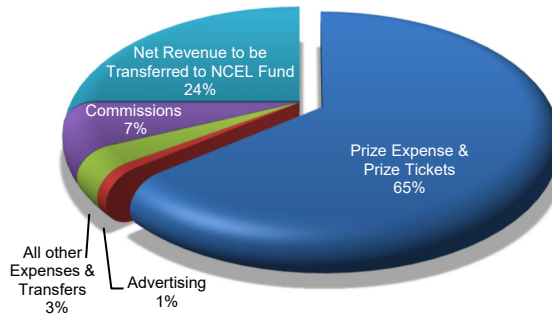
DISTRIBUTION OF REVENUES FY 2024



DISTRIBUTION OF REVENUES FY 2023



DISTRIBUTION OF REVENUES FY 2022



Prizes, commissions, and gaming vendor charges all directly relate to sales. As expected, as sales have increased, so have these expenses. In fiscal year 2024, total gaming expenses, which consist of prizes, retailer commissions, and gaming vendor charges (gaming system services), totaled \$4,187 million as compared to \$3,247 million for fiscal year 2023. The commission paid to lottery retailers is set, statutorily, to 7% of sales. These commissions are not paid on digital instant sales which take place on-line and do not rely on a retailer. The commissions paid to retailers for fiscal year 2024 remained at 7% of retailer sales. Other operating expenses, which consist of advertising and marketing, salary and benefits, professional fees, rent, maintenance, depreciation, and general administrative expenses increased to \$103.2 million in fiscal year 2024, as compared with \$84.9 million for fiscal year 2023. Other operating expenses represented 2.0% and 2.0% of total operating revenues in fiscal years 2024 and 2023, respectively.

NORTH CAROLINA EDUCATION LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2024 and 2023

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

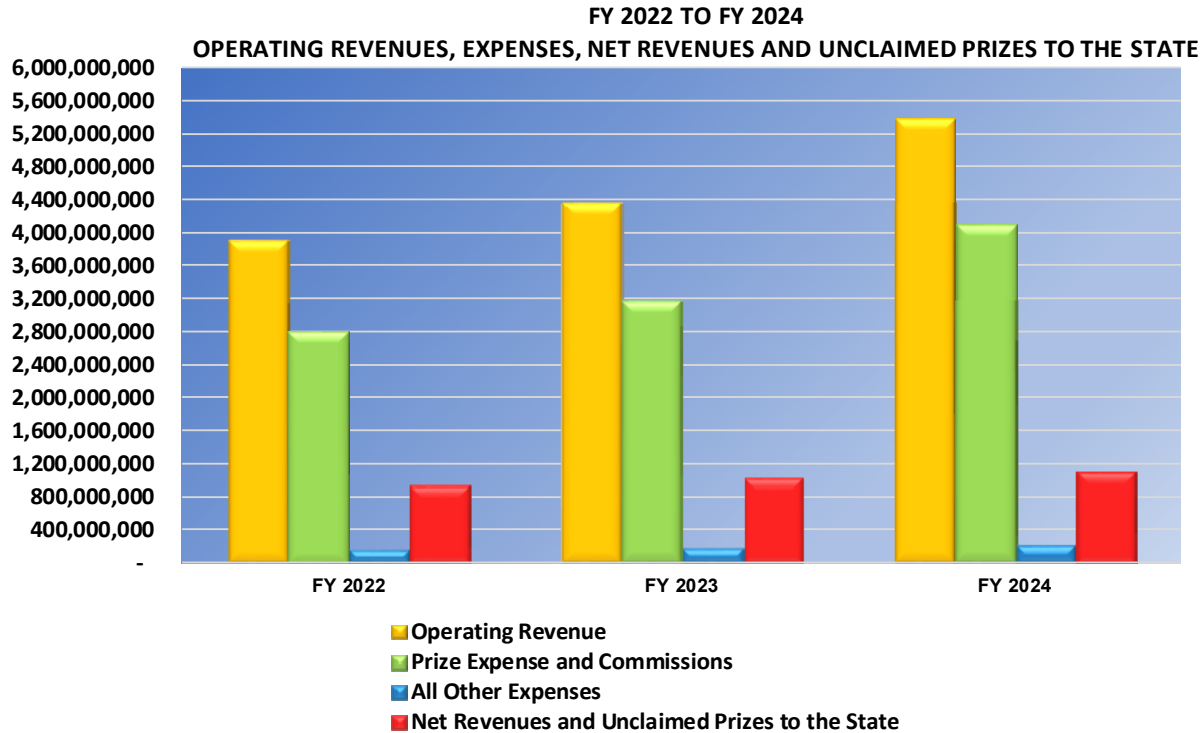
	<u>2024</u>	<u>2023</u>	<u>2022</u>
Operating Revenues:			
Gross Sales:	\$ 5,375,520	\$ 4,342,706	\$ 3,887,051
Sales/Service Bad Debt/Bad Debt Recoveries	(156)	(170)	(47)
Fees and Licenses	5,554	5,582	5,417
Total Operating Revenues	<u>5,380,918</u>	<u>4,348,118</u>	<u>3,892,421</u>
Operating Expenses:			
Gaming Expenses:			
Lottery Prizes	3,802,659	2,863,660	2,543,961
Retailer Commissions	284,178	293,845	266,200
Gaming Systems Services	100,375	89,880	72,872
Total Gaming Expenses	<u>4,187,212</u>	<u>3,247,385</u>	<u>2,883,033</u>
Other Operating Expenses	<u>103,178</u>	<u>84,900</u>	<u>76,837</u>
Total Operating Expenses	<u>4,290,390</u>	<u>3,332,285</u>	<u>2,959,870</u>
Operating Income	<u>1,090,528</u>	<u>1,015,833</u>	<u>932,551</u>
Nonoperating Revenues (Expenses):			
Investment Earnings, Nonoperating Revenues			
(Expenses) and Compulsive Gambling	<u>(1,786)</u>	<u>(584)</u>	<u>(2,718)</u>
Contribution & ALE & Sports Betting			
Total Nonoperating Revenues (Expenses)	<u>(1,786)</u>	<u>(584)</u>	<u>(2,718)</u>
Net Revenues and Unclaimed prizes			
to the State	<u>(1,092,314)</u>	<u>(1,015,249)</u>	<u>(929,833)</u>
Change in Net Position	-	-	-
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, 2024 and 2023

From fiscal year 2022 to fiscal year 2024, the NCEL has achieved annual increases in operating revenues. The following graph depicts revenue and expense trends.



Budget and Economic Outlook

On June 18, 2024 the NCEL Commission approved the Fiscal Year 2025 budget for the NCEL to provide a projected \$1.016 billion to the State's Education Lottery Fund. This projected budget is a 12.14% increase over the fiscal year 2024 budget that projected a \$906 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 projects modest increases in both GDP and jobs for North Carolina for the remainder of 2024 and into 2025. For North Carolina, and the US as a whole, 2025 will also bring a level of uncertainty related to a new presidential administration and the potential for increased inflation or a recession. NCSU economists add that a Fed reduction to the interest rate could lead to growth, especially in sectors that may have been hurt by the higher rates of 2023. The ongoing issue of inflation and worries of a possible recession related to reducing that inflation, both create a level of 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 sixteenth 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, 2024 and 2023

	2024	2023
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash	\$ 118	\$ 93
Pooled Cash	168,437	123,886
Receivables:		
Accounts Receivable	38,691	28,176
Interest Receivable	502	226
Investment in Annuity Contracts and Treasury Strips	8,146	7,671
State Treasurer's Security Lending Collateral	15,567	2,376
Total Current Assets	<u>231,461</u>	<u>162,428</u>
Noncurrent Assets:		
Investment in Annuity Contracts	66,601	66,514
Prepaid Items	1,746	2,764
Capital Assets (Net):		
Furniture and Equipment	6,514	6,518
Right to Use - Subscription	3,395	3,395
Accumulated Depreciation and Amortization	(6,174)	(5,373)
Total Capital Assets (Net)	<u>3,735</u>	<u>4,540</u>
Total Noncurrent Assets	<u>72,082</u>	<u>73,818</u>
Total Assets	<u>303,543</u>	<u>236,246</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>21,234</u>	<u>20,224</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	52,874	28,974
Accrued Payroll	997	1,782
Annuity Prize Award Payable - Current	8,146	7,671
Accrued Paid Time Off - Current	550	319
Due to the State	161,314	130,250
Obligation for Workers' Compensation	22	26
Funds Held for Others	605	-
Subscription Liability	628	793
Obligations Under State Treasurer's Security	15,567	2,376
Total Current Liabilities	<u>240,703</u>	<u>172,191</u>
Noncurrent Liabilities:		
Annuity Prize Award Payable	66,601	66,514
Accrued Paid Time Off	2,219	2,446
Subscription Liability	1,284	1,848
Net Pension Liability	20,247	18,679
Net OPEB Liability	29,586	26,746
Total Noncurrent Liabilities	<u>119,937</u>	<u>116,233</u>
Total Liabilities	<u>360,640</u>	<u>288,424</u>
DEFERRED INFLOWS OF RESOURCES	<u>8,835</u>	<u>12,744</u>
NET POSITION		
Net Investment in Capital Assets	1,823	4,540
Unrestricted	(46,521)	(49,238)
Total Net Position	<u>\$ (44,698)</u>	<u>\$ (44,698)</u>

The accompanying notes to the financial statements are an integral part of these statements.

NORTH CAROLINA EDUCATION LOTTERY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (in thousands)

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Operating Revenues:		
Gross Sales:	\$ 5,375,520	\$ 4,342,706
Less: Sales/Service Bad Debt/Bad Debt Recoveries	(156)	(170)
Fees and Licenses	5,554	5,582
Total Operating Revenues	<u>5,380,918</u>	<u>4,348,118</u>
Operating Expenses:		
Salaries, Wages, and Benefits	34,043	27,728
Lottery Prizes	3,802,659	2,863,660
Retailer Commissions	284,178	293,845
Retailer Incentives	1,436	1,391
Gaming Systems Services	100,375	89,880
Advertising	42,187	32,783
Marketing	4,259	4,487
Other Services	12,523	9,874
Furniture, Fixtures, and Equipment	1,112	1,291
Depreciation and Amortization	949	1,173
Other General and Administrative Expenses	6,669	6,173
Total Operating Expenses	<u>4,290,390</u>	<u>3,332,285</u>
Operating Income	<u>1,090,528</u>	<u>1,015,833</u>
Nonoperating Revenues (Expenses):		
Investment Earnings	6,267	2,499
Compulsive Gambling Contribution	(1,000)	(1,000)
ALE Gaming Enforcement	(2,100)	(2,100)
Unclaimed Prizes to NC Education Lottery Fund	(22,314)	(22,092)
Net Revenues to the State of NC	(1,070,000)	(993,157)
Miscellaneous Nonoperating Revenues (Expenses)	3,154	(186)
Transfer for Sports Betting	(4,574)	-
Noncapital Contributions	39	203
Total Nonoperating Expenses	<u>(1,090,528)</u>	<u>(1,015,833)</u>
Change in Net Position	-	-
Net Position, Beginning July 1	<u>(44,698)</u>	<u>(44,698)</u>
Net Position, Ending June 30	<u>\$ (44,698)</u>	<u>\$ (44,698)</u>

The accompanying notes to the financial statements are an integral part of these statements.

NORTH CAROLINA EDUCATION LOTTERY

STATEMENTS OF CASH FLOWS (in thousands)

Years Ended June 30, 2024 and 2023

	2024	2023
CASH FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 5,086,075	\$ 4,050,563
Payments to Employees and Fringe Benefits	(33,707)	(29,201)
Payments for Prizes, Benefits, and Claims	(3,780,217)	(2,864,341)
Payments to Vendors and Suppliers	(161,768)	(140,789)
Other Receipts (Expenses)	(1,593)	295
Net Cash From Operating Activities	<u>1,108,790</u>	<u>1,016,527</u>
CASH FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to State	(1,061,250)	(1,012,833)
Transfers to Other State Agencies	(7,674)	(3,100)
Net Cash From Noncapital Financing Activities	<u>(1,068,924)</u>	<u>(1,015,933)</u>
CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(515)	(483)
Principal and Interest Paid on Capital Debt	(765)	(793)
Net Cash From Capital and Related Financing Activities	<u>(1,280)</u>	<u>(1,276)</u>
CASH FROM INVESTING ACTIVITIES		
Investment Earnings	5,990	2,398
Net Cash From Investing Activities	<u>5,990</u>	<u>2,398</u>
Net Increase in Cash and Cash Equivalents	44,576	1,716
Cash and Cash Equivalents at Beginning of Year	<u>123,979</u>	<u>122,263</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 168,555</u></u>	<u><u>\$ 123,979</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income	\$ 1,090,528	\$ 1,015,833
Adjustments to Reconcile Operating Income to Net Cash From Operating Activities:		
Depreciation and Amortization Expense	949	1,173
Other Nonoperating Income	3,562	(198)
Deferred Outflows for Pensions	(802)	(4,883)
Deferred Outflows for OPEB	(208)	(704)
Deferred Inflows for Pensions	180	(6,830)
Deferred Inflows for OPEB	(4,088)	3,461
(Increase) Decrease in Assets:		
Accounts Receivable	(10,514)	(3,423)
Prepaid Items	1,018	1,160
Net OPEB Asset	-	17
Increase (Decrease) in Liabilities:		
Funds Held for Others	605	-
Accounts Payable	23,899	3,441
Accrued Payroll and Related Liabilities	(785)	(323)
Workers' Compensation	(4)	13
Compensated Absences	4	304
Net Pension Liability	1,567	13,072
Net OPEB Liability	2,879	(5,586)
Total Cash From Operating Activities	<u><u>\$ 1,108,790</u></u>	<u><u>\$ 1,016,527</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

NORTH CAROLINA EDUCATION LOTTERY

STATEMENTS OF CASH FLOWS (in thousands) (continued)

Years Ended June 30, 2024 and 2023

	2024	2023
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through the Assumption of a Liability	\$ -	\$ 3,395
Disposal of Capital Assets	\$ 430	\$ 60
Increase in Receivables related to nonoperating income	\$ 276	\$ 211
Change in Securities Lending Collateral	\$ 13,191	\$ (1,833)
Decrease in net OPEB liability related to noncapital contributions	\$ 39	\$ 203

The accompanying notes to the financial statements are an integral part of these statements.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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 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
- Digital Instants on November 15, 2024

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 THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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, FNMAs, corporate bonds and notes for collateral. The Treasurer’s custodian is permitted to receive cash, U.S. government and agency securities, or irrevocable letters of credit as collateral for the securities lent.

The collateral is initially pledged at 102% 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 THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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, 2024 and 2023.

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 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 10

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 Digital Instants, 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 scratch ticket games, revenue is recognized at the time a pack of tickets is settled (See Note 3A.1).

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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 scratch 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 scratch-off games with prize tickets, the final prize structure percentage used is adjusted to eliminate the value of the prize tickets. Digital Instant's prize expense is recorded daily based on each game's particular return to player (RTP) structure; all currently, have the RTP set to 87 percent of sales. Prize expense for merchandise prizes is recognized as prizes are fulfilled.

J. 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.

K. 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 THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 3 – REVENUE

A. Operating Revenue:

1. Game Revenue:

Scratch ticket-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

	2024	2023
Scratch	\$ 2,922,346	\$ 2,979,939
Draw	1,319,606	1,362,767
Digital Instant	1,133,568	-
Bad debt write off	(147)	(159)
Damaged tickets, sales services	(9)	(11)
Total	<u>\$ 5,375,364</u>	<u>\$ 4,342,536</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 2024 and 2023 were \$5,554 and \$5,582 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 \$6,267 and \$2,499 for the years ended June 30, 2024 and 2023, respectively.

In the year ended June 30, 2024, the NCEL recognized \$39 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, 2023, the NCEL recognized \$203 in noncapital contribution stemming from the same SHP cost savings of \$181,000. 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 THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 3 – REVENUE (continued)

B. Nonoperating Revenue (continued):

The NCEL, on occasion, will also have miscellaneous nonoperating revenue related to dividends received from MUSL. For fiscal year 2024, there was a dividend of \$503. There were no dividends to report the year ended June 30, 2023.

NOTE 4 – EXPENSES

A. Operating Expenses:

1. Lottery Prize Expense:

Prize Expense

	2024	2023
Scratch	\$ 2,137,256	\$ 2,158,634
Draw	648,701	682,934
Digital Instant	994,388	-
50% of unclaimed prizes	22,314	22,092
Total	<u>\$ 3,802,659</u>	<u>\$ 2,863,660</u>

2. Retailer Commissions:

Commissions

	2024	2023
Scratch	\$ 204,381	\$ 208,444
Draw	79,797	85,401
Total	<u>\$ 284,178</u>	<u>\$ 293,845</u>

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 4 – EXPENSES (continued)

A. Operating Expenses (continued):

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 2024 and 2023 were \$1,436 and \$1,391, respectively.

4. Other Services:

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

	2024	2023
Security services	\$ 3	\$ 11
Communications, including wiring	427	974
Legal services	67	73
Travel	317	192
Other	11,709	8,624
Total	<u>\$ 12,523</u>	<u>\$ 9,874</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 2024 and 2023 were \$1,112 and \$1,291, 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 2024 and 2023 were \$2,281 and \$2,165, 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 instant ticket vending machines (ITVM). 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 \$272 and \$110 for the years ended June 30, 2024 and 2023, respectively, are included as nonoperating expenses.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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, 2024 and 2023 (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 2024 and 2023.

The third transfer was \$22,314 and \$22,092 for the years ended June 30, 2024 and 2023, 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 \$1,070,000 for fiscal year 2024 compared to \$993,157 for fiscal year 2023 (See Note 12). However, \$1,061,250 was transferred to the NC Education Lottery Fund for fiscal year 2024 compared with \$1,012,883 for fiscal year 2023. The balances remaining were \$161,314 and \$130,250 for fiscal years 2024 and 2023, 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."

NOTE 5 – ASSETS

A. Cash:

The cash and cash equivalents balance as of June 30, 2024 and 2023 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, 2024 and 2023, \$168,437 and \$123,886, respectively, of the amounts shown on the Statement of Net Position as cash and cash equivalents represent the NCEL's equity position in the STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.4 and .7 years, as of June 30, 2024 and 2023, 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.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 5 – ASSETS (continued)

A. Cash (continued):

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.

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 \$8,146 and \$66,601 for fiscal year 2024, respectively, and \$7,671 and \$66,514 for fiscal year 2023, 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+ for long-term bonds and A+ by Fitch, A+ by Moody's, or A+ by Standard & Poor's. As of June 30, 2024 and 2023, all annuities carried a rating of A+ or higher.

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

Maturities:

Less than 1 year

1 to 5 years

6 to 10 years

More than 10 years

Total

	2024	2023
	\$ 8,146	\$ 7,671
	32,584	30,684
	32,584	30,684
	1,433	5,146
	<u>\$ 74,747</u>	<u>\$ 74,185</u>

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 5 – ASSETS (continued)

D. Capital Assets:

The activity for capital assets for the year ended June 30, 2024 was:

Category	Balance June 30, 2023	Increases	Decreases	Balance June 30, 2024
Capital assets, depreciable				
Furniture	\$ 49	\$ 14	\$ -	\$ 63
Equipment	5,379	501	519	5,361
Motorized equipment	80	-	-	80
Computer software	1,010	-	-	1,010
Subscription (SBITA)	3,395	-	-	3,395
Total capital assets, depreciable	9,913	515	519	9,909
Less accumulated depreciation and amortization for:				
Furniture	29	1	-	30
Equipment	3,574	244	149	3,669
Motorized equipment	80	-	-	80
Computer software	986	-	-	986
Subscription (SBITA)	704	704	-	1,409
Total accumulated depreciation and amortization	5,373	949	149	6,174
Total capital assets, depreciable, net	\$ 4,540	\$ (434)	\$ 370	\$ 3,735

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

Category	Balance June 30, 2022	Increases	Decreases	Balance June 30, 2023
Capital assets, depreciable				
Furniture	\$ 49	\$ -	\$ -	\$ 49
Equipment	5,344	483	448	5,379
Motorized equipment	80	-	-	80
Computer software	1,010	-	-	1,010
Subscription (SBITA)	-	3,395	-	3,395
Total capital assets, depreciable	6,483	3,878	448	9,913
Less accumulated depreciation and amortization for:				
Furniture	29	-	-	29
Equipment	3,620	342	388	3,574
Motorized equipment	80	-	-	80
Computer software	860	126	-	986
Subscription (SBITA)	-	704	-	704
Total accumulated depreciation and amortization	4,589	1,172	388	5,373
Total capital assets, depreciable, net	\$ 1,894	\$ 2,706	\$ 60	\$ 4,540

Equipment expenditures for 2024 and 2023 mainly consisted of printer and computer equipment.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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 \$8,146 and \$66,601 for fiscal year 2024, respectively, and \$7,671 and \$66,514 for fiscal year 2023, respectively.

Annual activity for both short and long-term accounts during fiscal year 2024 are as follows:

	<u>Beginning Balance</u>	<u>Purchases</u>	<u>Appreciation</u>	<u>Disbursement</u>	<u>Short-Term</u>	<u>Balance</u>
Short-Term	\$ 7,671	\$ -	\$ -	\$ (7,779)	\$ 8,254	\$ 8,146
Long-Term	66,514	11,825	(3,484)	-	(8,254)	66,601
Total	<u>\$ 74,185</u>	<u>\$ 11,825</u>	<u>\$ (3,484)</u>	<u>\$ (7,779)</u>	<u>\$ -</u>	<u>\$ 74,747</u>

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

	<u>Beginning Balance</u>	<u>Purchases</u>	<u>Appreciation</u>	<u>Disbursement</u>	<u>Short-Term</u>	<u>Balance</u>
Short-Term	\$ 7,671	\$ -	\$ -	\$ (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>

B. Due to the State:

As explained in Note 4B, \$161,314 and \$130,250 for the years ended June 30, 2024 and 2023, 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. Compensated Absences:

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 THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 6 – LIABILITIES (continued)

C. Accrued Paid Time Off (continued):

Activity for the year ended June 30, 2024:

<u>Beginning</u>	<u>Earned</u>	<u>Used</u>	<u>Ending</u>	<u>Current Liability</u>	<u>Long-Term Portion</u>
<u>\$ 2,765</u>	<u>\$ 2,764</u>	<u>\$ 2,760</u>	<u>\$ 2,769</u>	<u>\$ 550</u>	<u>\$ 2,219</u>

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>

D. Changes in Net Pension Liabilities:

The changes in Net Pension Liability and OPEB Liability during fiscal year 2024 are as follows:

	<u>Balance June 30, 2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2024</u>
Net Pension Liability	\$ 18,679	\$ 1,568	\$ -	\$ 20,247
Net OPEB Liability	26,746	2,845	5	29,586

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

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

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

E. Subscription-Based Information Technology Agreements:

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. 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.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 6 – LIABILITIES (continued)

E. Subscription-Based Information Technology Agreements (continued):

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 2024 and 2023, the NCEL recognized expenses of \$37 and \$38, respectively, 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.

NCEL's SBITAs at June 30, 2024, are summarized below (excluding short-term SBITAs):

SBITA	Subscription (SBITA) Liabilities June 30, 2024	Current Portion	SBITA Terms and Conditions	Interest Rate/ Ranges
Digital Support Contract	\$ 362	\$ 119	2 yr term / termination option / option to extend	4.85
Marketing Cloud	519	171	2 yr term / termination option / option to extend	4.85
Product Support Services	472	155	5 yr term / termination option / option to extend	4.85
Sales Support	559	183	10 yr term / termination option / option to extend	4.85
Total	\$ 1,912	\$ 628		

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	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		

The changes in SBITA Liability during fiscal year 2024 are as follows:

	Balance June 30, 2023	Additions	Deletions	Balance June 30, 2024
Subscription (SBITA Liability)	\$ 2,641	\$ -	\$ 729	\$ 1,912

The changes in SBITA Liability during fiscal year 2023 are as follows:

	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023
Subscription (SBITA Liability)	\$ -	\$ 2,641	\$ -	\$ 2,641

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 6 – LIABILITIES (continued)

E. Subscription-Based Information Technology Agreements (continued):

Annual Requirements - The annual requirements to pay principal and interest on leases and SBITAs at June 30, 2024, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2025	\$ 628	37
2026	660	32
2027	624	20
	<u>\$ 1,912</u>	<u>\$ 89</u>

NOTE 7 – OTHER IMPORTANT ITEMS

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

MUSL is a voluntary association created for the purpose of administering joint, multi-jurisdictional lottery games, such as Powerball and Mega Millions. As of June 30, 2024, 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, 2024, and 2023, the NCEL had been credited with \$9,738 and \$9,641, respectively, in the MUSL prize reserve funds.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 7 – OTHER IMPORTANT ITEMS (continued)

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, 2024 and 2023 were \$90,128 and \$87,409 respectively.

To the extent available, the NCEL's treasury strips are recorded at fair value as of June 30, 2024 and 2023. 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.

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, 2024 and 2023, the NCEL's treasury strips had recurring fair value measurements of \$42,012 and \$38,948, 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, 2024 and 2023.

C. Unclaimed Prizes:

As of June 30, 2024, and 2023, the NCEL had unclaimed prizes from both draw and scratch games. 50% of unclaimed prizes are transferred to NC Education Lottery Fund as discussed in Note 4. 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.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 7 – OTHER IMPORTANT ITEMS (continued)

Unclaimed prizes for Fast Play were recorded beginning on March 12, 2021. Unclaimed prizes for digital instant games were recorded beginning on May 30, 2024. The NCEL closed forty-four (44) scratch games during fiscal year 2024 resulting in \$27,106 in unclaimed prizes. In 2023, the NCEL closed forty-seven (47) scratch games resulting in \$26,457 in unclaimed prizes.

<u>Game Type</u>	<u>2024</u>	<u>2023</u>
Scratch	\$ 27,434	\$ 26,457
Powerball	5,067	5,517
Mega Millions	2,424	2,222
Carolina Cash 5	1,481	1,013
Carolina Pick 4	2,600	2,363
Carolina Pick 3	3,541	3,015
EZ Match	164	187
Lucky for Life	546	555
Keno	478	481
Raffle	115	216
Fast Play	772	2,159
Digital Instant	3	-
Total Unclaimed Prizes	<u>\$ 44,625</u>	<u>\$ 44,185</u>

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 4B)

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 THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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, 2024, 2023, and 2022.

The types of coverage, limits, and deductibles as of June 30, 2024 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 - 3,000,000	500,000	Aggregate Limit – eCrime Loss – Ransomware/Malw are

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 \$22 and \$26 for the years ended June 30, 2024 and 2023, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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 2024. The total employer contribution rate was 0.13% of covered payroll for the fiscal year 2023.

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 THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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 unreduced 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 reduced 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 in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. The plan does not provide for automatic post-retirement benefit increases.

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 2024 rate is 17.64% of the annual covered payroll. The fiscal year 2023 rate was 17.38% 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, 2024, and 2023.

	2024	2023
Retirement contribution	\$ 3,869	\$ 2,965
Percentage of covered payroll	17.64%	17.38%

Net pension liability. At June 30, 2024, the NCEL reported a liability of \$20,247 for its proportionate share of the net pension liability. For the fiscal year ended 2023, this proportionate share was \$18,679. The total pension liability used to calculate the net pension was determined by an actuarial valuation as of December 31, 2022. The total pension liability was then rolled forward to the measurement date of June 30, 2023 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, 2023 and 2022, the NCEL's proportion was 0.12144% and 0.12585%, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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 year ended June 30, 2024, the NCEL reported deferred outflows and inflows of resources; both comprised of an amount related to pensions and an amount related to OPEB. The totals for deferred outflows are show here followed by discussion of deferred outflows/inflows related to pension. Information regarding deferred outflows/inflows related to OPEB can be found in Note 10C.

At June 30, 2024, the NCEL reported deferred outflows of resources and deferred inflows of resources related to pensions and related to OPEB, broken down as follows.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pensions	\$ 12,222	\$ 434
OPEB	9,012	8,401
Total	<u>\$ 21,234</u>	<u>\$ 8,835</u>

At June 30, 2023, the NCEL reported deferred outflows of resources and deferred inflows of resources related to pensions and related to OPEB, broken down as follows.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pensions	\$ 11,419	\$ 255
OPEB	8,805	12,489
Total	<u>\$ 20,224</u>	<u>\$ 12,744</u>

For the years ended June 30, 2024 and 2023, the NCEL recognized pension expense of \$5,538 and \$4,319, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

B. Benefits Provided (continued):

At June 30, 2024, the NCEL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 1,651	\$ 149
Changes of assumptions	711	-
Net difference between projected and actual earnings on pension plan investments	5,638	-
Change in proportion and differences between the NCEL's contributions and proportionate share of contributions	353	285
Contributions subsequent to measurement date	3,869	-
	<u>\$ 12,222</u>	<u>\$ 434</u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 81	\$ 255
Changes of assumptions	1,474	-
Net difference between projected and actual earnings on pension plan investments	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	-
	<u>\$ 11,419</u>	<u>\$ 255</u>

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 9 – PENSION AND DEFERRED COMPENSATION PLANS (continued)

B. Benefits Provided (continued):

For fiscal year 2024, there were \$3,869 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, 2025. Contributions subsequent to the measurement date for fiscal year 2023 were \$2,965 and were recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30:

2025	\$	2,719
2026		1,425
2027		3,534
2028		242
Total	\$	<u>7,920</u>

Actuarial assumptions. The total pension liability was determined by an actuarial valuation performed as of December 31, 2022. 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, 2023. 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. public plan population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2022 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 THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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 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 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, 2023 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	33.0%	0.9%
Global Equity	38.0%	6.5%
Real Estate	8.0%	5.9%
Alternatives	8.0%	8.2%
Opportunistic Fixed Income	7.0%	5.0%
Inflation Sensitive	6.0%	2.7%
	<u>100.0%</u>	

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 Investment Pool as of June 30, 2023 is 0.78%.

Discount rate. The discount rate used to measure the total pension liability was 6.5% for the December 31, 2022 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 those 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 THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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:

	<u>1% Decrease (5.5%)</u>	<u>Discount Rate (6.5%)</u>	<u>1% Increase (7.5%)</u>
NCEL's proportionate share of the net pension liability	\$ 34,758	\$ 20,247	\$ 8,275

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:

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

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. On April 1, 2022, Empower acquired the full-service retirement business of Prudential. The effective date of participation was January 30, 2006. The voluntary contributions by employees amounted to \$820 and \$639 for the years ended June 30, 2024 and 2023 respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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 \$318 and \$307, for the years ended June 30, 2024 and 2023, 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 of the 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 North Carolina General Assembly.

For the period July 1, 2023 through June 30, 2024 NCEL contributed 7.14% of the covered payroll. Required contribution rates for the years ended June 30, 2023 was 6.89%. The NCEL made 100% of its annual required contributions to the RHBF for the years ended June 30, 2024 and 2023, which were \$1,566 and \$1,175, respectively.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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, 2024, the NCEL made a statutory contribution of .11% of covered payroll. Required contribution rates for the years ended June 30, 2024, 2023, and 2022 were .11%, .10%, and .09%, respectively. The NCEL made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2024, 2023, and 2022, which were \$24, \$17, and \$18, 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:

Net OPEB Liability – At June 30, 2024, the NCEL reported a liability of \$29,558 for its proportionate share of the collective net OPEB liability for RHBF. For fiscal year 2023, the NCEL recorded a liability of \$26,714. The net OPEB liability was measured as of June 30, 2023. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2022, and update procedures were used to roll forward the total OPEB liability to June 30, 2023. 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, 2023, the NCEL's proportional share was 0.11092%, a decrease from .11249 as of June 30, 2022.

Net OPEB Liability – At June 30, 2024, the NCEL reported a liability of \$28 for its proportionate share of the collective net OPEB liability for DIPNC. For fiscal year 2023, the NCEL recorded a liability of \$32. The net OPEB liability was measured as of June 30, 2023. The total OPEB asset used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2022, and update procedures were used to roll forward the total OPEB liability to June 30, 2023. 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, 2023, the NCEL's proportional share was 0.10497%, an increase from .1092 as of June 30, 2022.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability (continued):

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2022, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2023 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
	(1)	(1)
Valuation Date	12/31/2022	12/31/2022
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)	6.5% grading down to 5% by 2029	N/A
Healthcare Cost Trend Rate - Prescription Drug (3)	10% grading down to 5% by 2033	N/A
Healthcare Cost Trend Rate - Prescription Drug Rebates (3)	7% grading down to 5% by 2033	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 or not disabled). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. public plan population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability (continued):

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 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2023.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 20, 2023 (the measurement date) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	33.0%	0.9%
Global Equity	38.0%	6.5%
Real Estate	8.0%	5.9%
Alternatives	8.0%	8.2%
Opportunistic Fixed Income	7.0%	5.0%
Inflation Sensitive	6.0%	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, 2023 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.

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability (continued):

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 the historical pattern of sharing of benefit costs between the employer and plan members to that point. The RHBF is funded solely by employer contributions and 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 1, 2019.

The actuarial assumptions used in the December 31, 2022 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, 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.

Discount Rate – The discount rate used to measure the total OPEB liability for RHBF was 3.65% at June 30, 2023 compared to 3.54% at June 30, 2022. The projection of cash flows used to determine the discount rate assumed that contributions from employers would 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 to current plan members. As a result, a municipal bond rate of 3.65% was used as the discount rate used to measure the total OPEB liability. The 3.65% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2023.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00% at June 30, 2023 compared to 3.08% at June 30, 2022. 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 3.00%, 3.00% was used during the period that the plan was projected to have a fiduciary net position, and a municipal bond rate of 3.65% was used during the period that the plan was projected to have no fiduciary net position. The 3.65% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2023.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following presents the NCEL's proportionate share of the net OPEB liability of the plans as of June 30, 2024, as well as what the plans' net OPEB liability 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:

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability (continued):

Net OPEB Liability					
	<u>1% Decrease (2.65%)</u>		<u>Current Discount Rate (3.65%)</u>		<u>1% Increase (4.65%)</u>
RHBF	\$ 34,868	\$	29,558	\$	25,232
	<u>1% Decrease (2%)</u>		<u>Current Discount Rate (3%)</u>		<u>1% Increase (4%)</u>
DIPNC	\$ 34	\$	28	\$	22

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following presents the NCEL's proportionate share of the net OPEB liability of the plans as of June 30, 2023, as well as what the plans' net OPEB liability 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					
	<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 to Changes in the Healthcare Cost Trend Rates – The following presents the net OPEB liability of the plans as of June 30, 2024, as well as what the plans' net OPEB liability 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 – 5.5% Pharmacy – 4.0 – 9.0% Pharmacy Rebate – 4.0 – 6.0% Med. Advantage – 0.0% - 4.0% Administrative – 2.0%)	Current Healthcare Cost Trend Rates (Medical – 5.0 – 6.5% Pharmacy – 5.0 – 10.0% Pharmacy Rebate – 5.0 – 7.0% Med. Advantage – 0.0 – 5.0% Administrative – 3.0%)	1% Increase (Medical – 6.0 - 7.5% Pharmacy – 6.0 – 11.0% Pharmacy Rebate – 6.0 – 8.0% Med. Advantage – 0.0% - 6.0 % Administrative - 4.0%)
RHBF Net OPEB Liability	\$ 24,402	\$ 29,558	\$ 36,205

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability (continued):

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, 2024, the NCEL recognized OPEB expense (gain) of \$415 for RHBF and \$38 for DIPNC, resulting in a total OPEB expense (gain) of 454.

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the net OPEB liability of the plans as of June 30, 2023, as well as what the plans' net OPEB liability 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

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).

At June 30, 2024 and 2023, 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, 2024

	RBH	DIPNC	Total
Difference between actual and expected experience	\$ 325	\$ 25	\$ 350
Changes of assumptions	3,202	2	3204
Net difference between projected and actual earnings on OPEB plan investments	236	36	272
Change in proportion and differences between the NCEL's contributions and proportionate share of contributions	3,594	2	3596
Contributions subsequent to measurement date	1,566	24	1590
	<u>\$ 8,923</u>	<u>\$ 89</u>	<u>\$ 9,012</u>

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability (continued):

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

	RBH	DIPNC	Total
Difference between actual and expected experience	\$ 259	\$ 37	\$ 296
Changes of assumptions	2,139	2	2141
Net difference between projected and actual earnings on OPEB plan investments	231	35	266
Change in proportion and differences between the NCEL's contributions and proportionate share of contributions	4,908	1	4909
Contributions subsequent to measurement date	1,176	17	1193
	<u>\$ 8,713</u>	<u>\$ 92</u>	<u>\$ 8,805</u>

Employer Balances of Deferred Inflows of Resources Related to OPEB by Classification For the Year Ended June 30, 2024

	RBH	DIPNC	Total
Difference between actual and expected experience	\$ 29	\$ 15	\$ 44
Changes of assumptions	7,886	5	7,891
Net difference between projected and actual earnings on OPEB plan investments	-	7	7
Change in proportion and differences between the NCEL's contributions and proportionate share of contributions	459	-	459
Contributions subsequent to measurement date	-	-	-
	<u>\$ 8,374</u>	<u>\$ 27</u>	<u>\$ 8,401</u>

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

	RBH	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 OPEB plan investments	-	-	-
Change in proportion and differences between the NCEL's contributions and proportionate share of contributions	243	8	251
Contributions subsequent to measurement date	-	-	-
	<u>\$ 12,475</u>	<u>\$ 14</u>	<u>\$ 12,489</u>

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Net OPEB Liability (continued):

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of \$1,566 of the net OPEB liability related to RHBH and an increase of \$24 in the net OPEB liability 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:

<u>Years Ending June 30:</u>	<u>RHBH</u>	<u>DIPNC</u>
2025	\$ -	\$ 13
2026	(479)	8
2027	(846)	11
2028	(76)	3
2029	384	1
Thereafter	-	1
Total	<u>\$ (1,017)</u>	<u>\$ 37</u>

NOTE 11 – LITIGATION

Charles Morris, Jr. v. NC Education Lottery, – The Plaintiff in this case filed this federal case without the assistance of counsel on April 9, 2024. He asserts that lottery games “have been compromised after a math equation [he] posted via [his] Twitter/Instagram influenced the NC Lottery Companies to set each lottery amount.” This case is assigned to the NCEL’s NC Department of Justice Attorney who filed a Motion to Dismiss. Pro se Plaintiff filed a response to the Motion to Dismiss on May 30, 2024. The NCEL currently awaits a ruling from the Court or a scheduled hearing. The NCEL does not anticipate any losses related to this case.

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

	<u>2024</u>	
Lottery Ticket Sales	\$ 5,375,364	
Fees and Licenses	5,554	
Investment Earnings and Other Revenues	9,460	
Total Annual Revenue	<u>5,390,378</u>	
Prize Expense	<u>(3,802,659)</u>	71% of Total Annual Revenue
Advertising	(42,187)	1% of Total Annual Revenue
All Other Expenses and Transfers	<u>(169,040)</u>	
Total Section 18C-162.a.3	<u>(211,227)</u>	4% of Total Annual Revenue
Commissions (per Section 18C-142)	<u>(284,178)</u>	7% of Traditional Ticket Sales
Unclaimed Prizes to the State of North Carolina	22,314	
Net Revenues to the State of North Carolina	<u>1,070,000</u>	
Total Revenues to the State of North Carolina	<u>\$ 1,092,314</u>	20% of Total Annual Revenue

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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

	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 Traditional 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

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).)

NORTH CAROLINA EDUCATION LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (in thousands)

June 30, 2024 and 2023

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

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 \$1,061,250 to the NC Education Lottery Fund during fiscal year 2024 compared with \$1,012,883 for fiscal year 2023. As explained in Note 4B, \$161,314 and \$130,250 for fiscal years ended June 30, 2024 and 2023, respectively, were the amounts of the Net Revenues and "50% of Unclaimed Prizes that were transferred to the State subsequent to the end of the respective fiscal year.

NOTE 13 – CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2024, the NCEL implemented the following pronouncements issued by the Governmental Accounting Standards Board:

- GASB 100, *Accounting Changes and Error Correction*

GASB 100 did not have any bearing or relevance to the operations, accounting or reporting of the NCEL for the year ended June 30, 2024.

NOTE 14 – SUBSEQUENT EVENTS

The Commission of the NCEL has evaluated all subsequent events for potential recognition and disclosure through October 30, 2024, 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 *

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Proportionate share percentage of collective net pension liability	0.12144%	0.12585%	0.11975%	0.11367%	0.10671%
Proportionate share of TSERS collective net pension liability	\$ 20,247	\$ 18,679	\$ 5,608	\$ 13,734	\$ 11,063
Covered payroll	\$ 17,061	\$ 20,521	\$ 17,432	\$ 16,653	\$ 14,907
Net pension liability as a percentage of covered payroll	119%	91%	32%	82%	74%
Plan fiduciary net position as a percentage of the total pension liability	82.97%	84.14%	94.86%	85.98%	87.56%
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportionate share percentage of collective net pension liability	0.10799%	0.10898%	0.11054%	0.11096%	0.11096%
Proportionate share of TSERS collective net pension liability	\$ 10,752	\$ 8,647	\$ 10,160	\$ 1,301	\$ 1,301
Covered payroll	\$ 15,733	\$ 14,093	\$ 13,989	\$ 13,989	\$ 13,706
Net pension liability as a percentage of covered payroll	68%	61%	73%	9%	9%
Plan fiduciary net position as a percentage of the total pension liability	87.61%	89.51%	87.32%	94.64%	98.24%

*The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Contractually required contribution	\$ 3,869	\$ 2,965	\$ 3,361	\$ 2,577	\$ 2,160
Contributions in relation to the contractually determined contribution	<u>3,869</u>	<u>2,965</u>	<u>3,361</u>	<u>2,577</u>	<u>2,160</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered payroll	 \$ 21,931	 \$ 17,061	 \$ 20,521	 \$ 17,432	 \$ 16,653
 Contributions as a percentage of covered payroll	 17.64%	 17.38%	 16.38%	 14.78%	 12.97%

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,832	\$ 1,696	\$ 1,405	\$ 1,190	\$ 1,279
Contributions in relation to the contractually determined contribution	<u>1,832</u>	<u>1,696</u>	<u>1,405</u>	<u>1,190</u>	<u>1,279</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered payroll	 \$ 14,907	 \$ 15,733	 \$ 14,093	 \$ 13,006	 \$ 13,989
 Contributions as a percentage of covered payroll	 12.29%	 10.78%	 9.97%	 9.15%	 9.15%

Notes to Schedule

Valuation date.

The total pension liability was determined by actuarial valuations as of December 31, 2022. The total pension liability was then rolled forward to June 30, 2023 utilizing update procedures incorporating the actuarial assumptions. The actuarial assumptions used in the December 31, 2022 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.
- 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. public plan population. The mortality rates also contain a provision to reflect future mortality improvements.

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF NET OPEB LIABILITY RETIREMENT HEALTH BENEFIT FUND

LAST SEVEN FISCAL YEARS

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Proportionate share percentage of collective net OPEB liability	0.11092%	0.11249%	0.10524%	0.09759%	0.09401%
Proportionate share of RHBF collective net OPEB liability	\$ 29,558	\$ 26,714	\$ 32,535	\$ 27,073	\$ 29,745
Covered payroll	\$ 17,061	\$ 20,521	\$ 17,432	\$ 16,653	\$ 14,907
Net OPEB liability as a percentage of covered payroll	173%	130%	187%	163%	200%
Plan fiduciary net position as a percentage of the total OPEB liability	10.73%	10.58%	7.72%	6.92%	4.40%
	<u>2019</u>	<u>2018</u>			
Proportionate share percentage of collective net OPEB liability	0.09339%	0.09669%			
Proportionate share of RHBF collective net OPEB liability	\$ 26,606	\$ 31,701			
Covered payroll	\$ 15,733	\$ 14,093			
Net OPEB liability as a percentage of covered payroll	169%	225%			
Plan fiduciary net position as a percentage of the total OPEB liability	4.40%	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 CONTRIBUTIONS RETIREMENT HEALTH BENEFIT FUND

LAST SEVEN FISCAL YEARS

	2024	2023	2022	2021	2020
Contractually required contributions	\$ 1,566	\$ 1,175	\$ 1,291	\$ 1,164	\$ 1,077
Contributions in relation to the contractually determined contributions	1,566	1,175	1,291	1,164	1,077
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 21,931	\$ 17,061	\$ 20,521	\$ 17,432	\$ 16,653
Contributions as a percentage of covered payroll	7.14%	6.89%	6.29%	6.68%	6.47%
	2019	2018			
Contractually required contributions	\$ 935	\$ 952			
Contributions in relation to the contractually determined contributions	935	952			
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>			
Covered payroll	\$ 14,907	\$ 15,733			
Contributions as a percentage of covered payroll	6.27%	6.05%			

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

* 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, 2022. The total OPEB liability was then rolled forward to June 30, 2023 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 3.65%, mirroring the municipal bond rate. The rate is based on the Bond-Buyer 20-year General Obligation index as of June 30, 2023.
- 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 OPEB 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. public plan population. The mortality rates also contain a provision to reflect future mortality improvements.

NORTH CAROLINA EDUCATION LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF NET OPEB LIABILITY (ASSET) DISABILITY INCOME PLAN OF NORTH CAROLINA

LAST SEVEN FISCAL YEARS

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Proportionate share percentage of collective net OPEB liability (asset)	0.10497%	0.1092%	0.10482%	0.09848%	0.09333%
Proportionate share of DIPNC collective net OPEB liability (asset)	\$ 28	\$ 32	\$ (17)	\$ (48)	\$ (40)
Covered payroll	\$ 17,061	\$ 20,521	\$ 17,432	\$ 16,653	\$ 14,907
Proportionate share of the net OPEB liability (asset) as a percent of covered payroll	0.16%	0.16%	-0.10%	-0.29%	-0.27%
Plan fiduciary net position as a percentage of the total OPEB liability	90.61%	90.34%	105.18%	115.57%	113%
	<u>2019</u>	<u>2018</u>			
Proportionate share percentage of collective net OPEB liability (asset)	0.09435%	0.09603%			
Proportionate share of DIPNC collective net OPEB liability (asset)	\$ (29)	\$ (59)			
Covered payroll	\$ 15,733	\$ 14,093			
Proportionate share of the net OPEB liability (asset) as a percent of covered payroll	-0.18%	-0.42%			
Plan fiduciary net position as a percentage of the total OPEB liability	108.47%	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 CONTRIBUTIONS DISABILITY INCOME PLAN OF NORTH CAROLINA

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Contractually required contributions	\$ 24	\$ 17	\$ 18	\$ 16	\$ 17
Contributions in relation to the contractually determined contributions	24	17	18	16	17
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 21,931	\$ 17,061	\$ 20,521	\$ 17,432	\$ 16,653
Contributions as a percentage of covered payroll	0.11%	0.10%	0.09%	0.09%	0.10%
	<u>2019</u>	<u>2018</u>			
Contractually required contributions	\$ 21	\$ 22			
Contributions in relation to the contractually determined contributions	21	22			
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>			
Covered payroll	\$ 14,907	\$ 15,733			
Contributions as a percentage of covered payroll	0.14%	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, 2022. The total OPEB liability was then rolled forward to June 30, 2023 utilizing update procedures incorporating the actuarial assumptions. The actuarial assumptions used in the December 31, 2022 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 3.00%.
- 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 OPEB 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. public plan 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, 2024 and the related notes to the financial statements and have issued our report thereon dated October 30, 2024.

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.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The script is cursive and fluid, with the letters "Cherry" and "Bekaert" being more prominent than "LLP".

Raleigh, North Carolina
October 30, 2024

The audit report required 375 audit hours at a cost of \$69,000.