

**AUDIT REPORT  
OF THE  
NEBRASKA LOTTERY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**Issued on October 27, 2014**

# NEBRASKA LOTTERY

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# NEBRASKA LOTTERY

## BACKGROUND

The Legislature created the Lottery Division of the Nebraska Department of Revenue in 1991. Nebraska voters passed a constitutional amendment allowing the creation of a State lottery in November 1992, and the Legislature established the State lottery in 1993. As the 37<sup>th</sup> lottery in the nation, the Nebraska Lottery began scratch ticket sales on September 11, 1993. Sales of on-line products began on July 21, 1994.

The Nebraska Lottery is responsible for contracting for scratch ticket production, on-line equipment, advertising, security, and related services. In addition, the Nebraska Lottery recruits and screens Nebraska Lottery retailers, develops Nebraska Lottery products, and collects Nebraska Lottery revenues.

Currently, the Nebraska Lottery offers Powerball®, Nebraska Pick 5®, Nebraska Pick 3®, 2by2®, MyDaY®, Mega Millions®, and instant games.

The Nebraska Constitution establishes the basic requirements for the transfer of lottery ticket sales to certain beneficiary funds. The portion designated for the education beneficiary can be amended by the Legislature. Neb. Rev. Stat. § 9-812 (Supp. 2013) identifies the specific requirements, as follows: A portion of the dollar amount of the lottery tickets, which have been sold on an annualized basis, is to be transferred to the beneficiary funds. The dollar amount transferred must equal the greater of (a) the dollar amount transferred to the funds in fiscal year 2002-2003 or (b) any amount that constitutes at least twenty-two percent and no more than twenty-five percent of the dollar amount of the lottery tickets sold on an annualized basis. Section 9-812 further requires the following: Of the money remaining after the payment of prizes and operating expenses, the first five hundred thousand dollars is to be transferred to the Compulsive Gamblers Assistance Fund. Of the money remaining after the payment of prizes, operating expenses, and transfer to the Compulsive Gamblers Assistance Fund, nineteen and three-fourths percent is to be transferred to the Education Innovation Fund, twenty-four and three-fourths percent is to be transferred to the Nebraska Opportunity Grant Fund, forty-four and one-half percent is to be transferred to the Nebraska Environmental Trust Fund, ten percent is to be transferred to the Nebraska State Fair Support and Improvement Cash Fund, and one percent is to be transferred to the Compulsive Gamblers Assistance Fund.

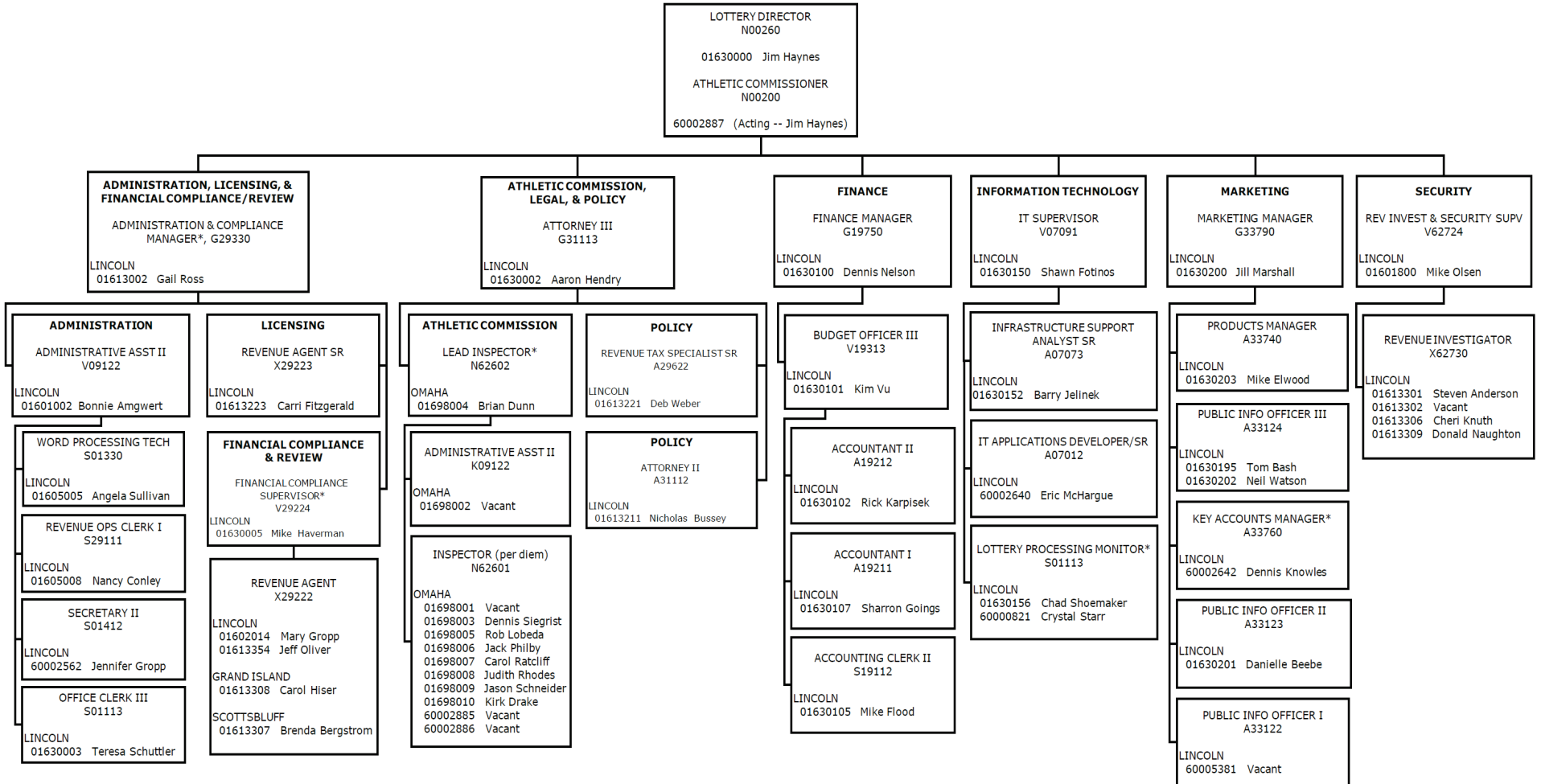
## MISSION STATEMENT

The mission of the Nebraska Lottery is to generate proceeds for good causes, as determined by the voters and the Legislature, while providing quality entertainment options to Nebraskans.

# NEBRASKA LOTTERY

## ORGANIZATIONAL CHART

### NEBRASKA DEPARTMENT OF REVENUE LOTTERY & CHARITABLE GAMING DIVISION ATHLETIC COMMISSION July 2014



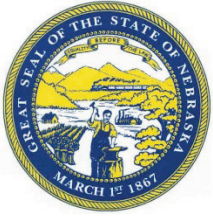
\* Working Title

## NEBRASKA LOTTERY

### EXIT CONFERENCE

An exit conference was held October 14, 2014, with the Nebraska Lottery (Lottery) to discuss the results of our examination. Those in attendance for the Lottery were:

NAME	TITLE
Kim Conroy	Tax Commissioner
James Haynes	Lottery Director
Dennis Nelson	Lottery Finance Manager
Jill Marshall	Marketing Manager
Aaron Hendry	Legal Counsel
Kim Vu	Budget Officer III



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### NEBRASKA LOTTERY

### INDEPENDENT AUDITOR'S REPORT

State Tax Commissioner  
Nebraska Department of Revenue, Lottery Division

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Nebraska Lottery (Lottery), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, as listed in the Table of Contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities of the Lottery, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of the Lottery are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of June 30, 2014, and the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 - 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 Information*

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

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



Zachary Wells, CPA, CISA  
Audit Manager

October 23, 2014



## NEBRASKA LOTTERY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Lottery annual audit presents management's discussion and analysis of the financial performance of the Nebraska Lottery for the fiscal period ended June 30, 2014. This discussion should be read in conjunction with the accompanying financial statements and related notes. The financial statements, notes, and this discussion are the responsibility of the Nebraska Lottery's management.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The Nebraska Legislature established the Nebraska Lottery (Lottery) on February 24, 1993. The Lottery is to provide instant win games and on-line random number selection games. The Lottery began selling instant (scratch) tickets on September 11, 1993, and began selling on-line (lotto) tickets on July 21, 1994. The Lottery is a division of the Nebraska Department of Revenue and, as such, the financial summaries presented here and the related comments are for the Lottery's activities only and do not include the Department of Revenue's activities or statements.

The Lottery accounts for its financial transactions as an enterprise fund. Enterprise funds are used to account for governmental operations that are financed and operated in a manner similar to private business. The Lottery uses the accrual basis of accounting. In the annual report issued by the Lottery, there are three financial reports.

1) **Statement of Net Position**

This report will show the assets, liabilities, and net position ("equity") of the Lottery as of June 30, 2014. This report is basically the balance sheet for a private business.

2) **Statement of Revenues, Expenses, and Changes in Net Position**

This report will show the revenue, expenses, transfers to other funds, and changes in net position for the Lottery for the fiscal year. This report would be similar to an income statement or a profit-loss statement for a private business.

3) **Statement of Cash Flows**

This report is an analysis of the sources of cash flows into the Lottery and out of the Lottery for the fiscal year.

#### **DISCUSSION OF NET POSITION**

While reviewing the Summary of Net Position, it must be compared to the prior year's Summary to see the changes in the various classifications (see Table A below). The largest asset change was a decrease in the Cash and Cash Equivalents of about \$1.6 million. This decrease is the result of lower Prizes Payable, about \$700,000, and the Lottery transferred about \$900,000 more to the beneficiary trust funds than the profit generated during the year. The combination of these two items resulted in the lower cash balance.

The largest liability change was the Prize Payable classification again this year. There was a decrease of about \$700,000, most of which was from Mega Millions (about \$900,000) and Powerball (about \$100,000), and an increase in Prizes Payable from scratch products (approximately \$300,000). During June 2013, there was \$1 million Mega Millions with Megaplier winner. At that fiscal year-end, the Lottery had not recorded the payment from the Multi-State Lottery Association (MUSL), nor had payment been made to the winner by the

# NEBRASKA LOTTERY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Lottery. During July 2013, the payment receipt was recorded and the payment was made to the winner, which decreased the Prizes Payable amount. For the scratch increase, there was about \$1.3 million more of scratch sales than last year, and the scratch payout was about .37% higher than last year. The higher sales and slightly higher payout led to the increase in scratch prizes payable.

In the Net Position section, the Unrestricted Assets went down about \$975,000. Most of this is the result of transferring more money to the beneficiary trust funds than the profit that had been generated this year.

Table A  
Summary of Net Position

	FY 2014	FY 2013	Change
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$5,803,806	\$7,422,584	(\$1,618,778)
Accounts Receivable and Reserves on Deposit	6,451,291	6,513,431	(62,140)
Prepaid Prizes and Costs	40,266	426	39,840
<b>TOTAL CURRENT ASSETS</b>	<b>12,295,363</b>	<b>13,936,441</b>	<b>(1,641,078)</b>
<b>NONCURRENT ASSETS</b>			
Reserves on Deposit	2,421,851	2,338,956	82,895
Furniture, Fixtures, Equipment (Net)	35,240	31,549	3,691
<b>TOTAL NONCURRENT ASSETS</b>	<b>2,457,091</b>	<b>2,370,505</b>	<b>86,586</b>
<b>TOTAL ASSETS</b>	<b>\$14,752,454</b>	<b>\$16,306,946</b>	<b>(\$1,554,492)</b>
<b>CURRENT LIABILITIES</b>			
Accounts Payable, as adjusted see footnote 11	\$1,708,993	\$1,615,256	\$93,737
Compensated Absences and Accrued Payroll Payable	69,065	67,268	1,797
Prize Payable	6,673,242	7,394,554	(721,312)
Other Accrued Liabilities	212,125	257,041	(44,916)
<b>TOTAL CURRENT LIABILITIES</b>	<b>8,663,425</b>	<b>9,334,119</b>	<b>(670,694)</b>
<b>NONCURRENT LIABILITIES</b>			
Compensated Absences Payable	239,974	231,438	8,536
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>239,974</b>	<b>231,438</b>	<b>8,536</b>
<b>TOTAL LIABILITIES</b>	<b>\$8,903,399</b>	<b>\$9,565,557</b>	<b>(\$662,158)</b>
<b>NET POSITION</b>			
Invested in Capital Assets	\$35,240	\$31,549	\$3,691
Restricted for Future Prizes	2,421,851	2,338,956	82,895
Unrestricted Assets	3,391,964	4,370,884	(978,920)
<b>TOTAL NET POSITION</b>	<b>\$5,849,055</b>	<b>\$6,741,389</b>	<b>(\$892,334)</b>

# NEBRASKA LOTTERY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### **DISCUSSION OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

The Lottery encountered decreased sales for the first time in 13 years. Overall, revenues decreased by about \$2.9 million (see Table B below). On the lotto side, sales decreased \$4.1 million. Powerball sales decreased almost \$9.2 million, but Mega Millions had increased sales of \$4.9 million. The Powerball jackpot runs were similar; however, in fiscal year 2013, there were two large jackpots of \$550 million and \$600 million. This year did not have similarly large jackpot amounts. Mega Millions sales went up, as there were two additional jackpot runs – one of which led to a record \$636 million jackpot. The number of large jackpot runs and the size of the jackpots materially affect weekly lotto sales.

On the scratch side, sales increased about \$1.3 million. The largest increase was in the \$10 and \$20 price points, \$1.8 million and \$1.2 million, respectively. The largest decrease was \$2.5 million in the \$3 price point. The remaining difference was spread across the other price points.

The Contractual Services Expense (costs related to GTECH that are based on a percentage of sales) was about \$250,000 more than last year, even though sales were less. This is attributed to a year-end accrual adjustment, which corrected the actual liability owed to GTECH. The Marketing Expense was about \$500,000 more this year due to a new sponsorship agreement and the timing of the summer promotion. Some of the advertising costs for last summer's promotion fell into this year; however, this year's promotion started earlier. Overall, therefore, this year had more summer promotion advertising.

The Transfers to Other Funds had a large decrease, almost \$2.0 million. With lower lotto sales, the Lottery had reduced profits, so the transfers to the beneficiary trust funds were less this year.

(Continued on Next Page)

# NEBRASKA LOTTERY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Concluded)

Table B

<b>Statement of Revenues, Expenses and Changes in Net Position</b>			
	<u>FY 2014</u>	<u>FY 2013</u>	<u>Change</u>
<b>REVENUES</b>			
Sales	\$160,195,694	\$163,663,092	(\$3,467,398)
Sales Returns	(2,299,160)	(2,910,018)	610,858
<b>OPERATING REVENUE</b>	<u>157,896,534</u>	<u>160,753,074</u>	<u>(2,856,540)</u>
Interest Income	249,355	299,017	(49,662)
Multi-State Lottery Assoc. Income	8,187	29,120	(20,933)
<b>NON-OPERATING REVENUE</b>	<u>257,542</u>	<u>328,137</u>	<u>(70,595)</u>
<b>TOTAL REVENUES</b>	<u>\$158,154,076</u>	<u>\$161,081,211</u>	<u>(\$2,927,135)</u>
<b>EXPENSES</b>			
Prize Expense	\$92,821,370	\$93,092,437	(\$271,067)
Retailer Commissions	10,130,100	10,054,179	75,921
Contractual Services, as adjusted see footnote 11	10,621,477	10,387,328	234,149
Marketing Expense	5,723,270	5,228,469	494,801
Lottery Operating Expense	1,750,101	1,751,981	(1,880)
<b>TOTAL EXPENSES</b>	<u>\$121,046,318</u>	<u>\$120,514,394</u>	<u>\$531,924</u>
<b>NET INCOME BEFORE TRANSFERS</b>	<u>\$37,107,758</u>	<u>\$40,566,817</u>	<u>(\$3,459,059)</u>
<b>TRANSFERS TO OTHER FUNDS</b>	<u>\$38,000,092</u>	<u>\$40,014,701</u>	<u>(\$2,014,609)</u>
<b>CHANGE IN NET POSITION</b>	<u>(\$892,334)</u>	<u>\$552,116</u>	<u>(\$1,444,450)</u>

### OTHER ITEMS OF NOTE

The unpredictability of the Powerball, Mega Millions, and Pick 5 jackpots, along with external forces that affect player purchases (fuel prices, economic situations, international tensions, other entertainment options, etc.), could have a material effect on future sales and future transfers to the beneficiary trust funds.

### CONTACTING LOTTERY MANAGEMENT

This financial report is required as part of Governmental Accounting Standards Board (GASB) Statement 34 and is prepared to provide the readers, such as the Legislature, the public, and other interested parties, with an overview of the financial results of the Nebraska Lottery's activities. If you have any questions about this report, please contact the Nebraska Lottery at PO Box 98901, Lincoln, NE, 68509-8901.

NEBRASKA LOTTERY  
**STATEMENT OF NET POSITION**  
As of June 30, 2014

**ASSETS**

**CURRENT ASSETS:**

Cash and Cash Equivalents	\$ 5,803,806
Accounts Receivable, Net of Allowance (Note 4)	5,975,493
Prepaid Prizes	40,266
Reserves on Deposit (Note 6)	475,798

<b>TOTAL CURRENT ASSETS</b>	12,295,363
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**NONCURRENT ASSETS:**

Reserves on Deposit (Note 6)	2,421,851
Capital Assets:	
Furniture, Fixtures, and Equipment (Note 5)	229,264
Less: Accumulated Depreciation	194,024
Total Capital Assets, Net	35,240

<b>TOTAL NONCURRENT ASSETS</b>	2,457,091
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<b>TOTAL ASSETS</b>	\$ 14,752,454
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**LIABILITIES**

**CURRENT LIABILITIES:**

Accounts Payable	\$ 334,085
Vendors Payable	1,374,908
Compensated Absences Payable (Note 7)	18,063
Accrued Payroll Payable	51,002
Withheld Taxes on Prizes Paid	33,775
Prize Payable	6,673,242
Due to Other Funds	27,399
Other Accrued Liabilities	150,951

<b>TOTAL CURRENT LIABILITIES</b>	8,663,425
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**NONCURRENT LIABILITIES:**

Compensated Absences Payable (Note 7)	239,974
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<b>TOTAL NONCURRENT LIABILITIES</b>	239,974
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<b>TOTAL LIABILITIES</b>	8,903,399
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**NET POSITION**

Invested in Capital Assets	35,240
Restricted for Future Prizes (Note 6)	2,421,851
Unrestricted (Note 10)	3,391,964

<b>TOTAL NET POSITION</b>	5,849,055
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<b>TOTAL LIABILITIES AND NET POSITION</b>	\$ 14,752,454
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The accompanying Notes to the Financial Statements are an integral part of this statement.

NEBRASKA LOTTERY  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
For the Year Ended June 30, 2014

**OPERATING REVENUE:**

Sales	\$ 160,195,694
Less: Sales Returns	<u>2,299,160</u>
<b>TOTAL OPERATING REVENUE</b>	<u>157,896,534</u>

**OPERATING EXPENSES:**

Prize Expense	92,821,370
Retailer Commissions	10,130,100
Contractual Services Expense	10,621,477
Marketing	5,723,270
Lottery Operating	<u>1,750,101</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>121,046,318</u>

<b>OPERATING INCOME</b>	36,850,216
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**NONOPERATING REVENUE:**

Interest Income	249,355
Multi-State Lottery Association Income	<u>8,187</u>
<b>TOTAL NONOPERATING REVENUE</b>	<u>257,542</u>

<b>INCOME BEFORE OPERATING TRANSFERS</b>	37,107,758
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<b>TRANSFERS TO OTHER FUNDS (Note 9)</b>	<u>(38,000,092)</u>
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<b>CHANGE IN NET POSITION</b>	(892,334)
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<b>TOTAL NET POSITION - ADJUSTED, BEGINNING OF YEAR (Note 11)</b>	<u>6,741,389</u>
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<b>TOTAL NET POSITION, END OF YEAR</b>	<u><u>\$ 5,849,055</u></u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

**NEBRASKA LOTTERY**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2014

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Ticket Sales	\$ 157,668,597
Prizes Paid to Winners	(93,095,366)
Commissions Paid to Retailers	(10,133,267)
Paid to Contractors for Goods and Services	(16,587,693)
Paid to Employees	(1,327,600)
Other Operating Expenses	(379,923)
Powerball® Grand Prize Winner Receipts from MUSL	39,212,986
Payments to Powerball® Grand Prize Winners	(39,212,986)
Net Cash Provided by Operating Activities	<u>36,144,748</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Paid to Education Innovation Fund	(7,406,269)
Paid to Nebraska Opportunity Grant Fund	(9,281,274)
Paid to Nebraska State Fair Support and Improvement Cash Fund	(3,750,007)
Paid to Nebraska Environmental Trust Fund	(16,687,541)
Paid to Compulsive Gamblers Assistance Fund	(875,001)
Net Cash Used in NonCapital Financing Activities	<u>(38,000,092)</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Purchase of Property and Equipment	(20,976)
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**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest on Cash	249,355
Multi-State Lottery Association Income	8,187
Net Cash Provided by Investing Activities	<u>257,542</u>

<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,618,778)
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<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>7,422,584</u>
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<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 5,803,806</u>
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(Continued)

NEBRASKA LOTTERY  
**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2014

**RECONCILIATION OF OPERATING INCOME TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating Income	\$ 36,850,216
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	17,285
Changes in Assets (Increase) Decrease in:	
Reserves on Deposit	(51,548)
Prepaid Prizes	(39,866)
Accounts Receivable (Net)	30,793
Prepaid Contract Costs - Instant	26
Changes in Liabilities Increase (Decrease) in:	
Other Accrued Liabilities	11,998
Accounts Payable and Due to Other Funds	218,497
Prizes Payable	(721,312)
Compensated Absences and Accrued Payroll Payable	10,333
Withheld Taxes on Prizes Paid	(52,685)
Vendors Payable	(128,989)
Total Adjustments	<u>(705,468)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 36,144,748</u></u>

(Concluded)

The accompanying Notes to the Financial Statements are an integral part of this statement.



# NEBRASKA LOTTERY

## NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2014

### 1. **Summary of Significant Accounting Policies**

#### **A. Basis of Presentation**

The accompanying basic financial statements of the Nebraska Lottery (Lottery) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. As the Lottery is a business-type activity, the financial statements presented are the financial statements required by Governmental Accounting Standards Board (GASB) Statement Number 34 for an enterprise fund. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements have been prepared primarily from data maintained by the Lottery on computer systems provided by the lottery-services vendor and from accounts maintained by the State Accounting Administrator of the Department of Administrative Services (DAS).

#### **B. Reporting Entity**

The Lottery was established on February 24, 1993, by the Nebraska Legislature as a division of the Nebraska Department of Revenue, established under and governed by the laws of the State of Nebraska. As such, the Lottery is exempt from State and Federal income taxes. The financial statements include all funds of the Lottery. The Lottery is to provide an instant win and a random number selection on-line lottery. The net proceeds, as outlined in Neb. Rev. Stat. § 9-812 (Supp. 2013), are to be transferred to the Education Innovation Fund, the Nebraska Opportunity Grant Fund, the Nebraska Environmental Trust Fund, the Compulsive Gamblers Assistance Fund, and the Nebraska State Fair Support and Improvement Cash Fund, a fund of the State Fair Board. The financial statements include only the Lottery and are not intended to present the financial position of the Nebraska Department of Revenue (Department) or the results of operations and changes in net positions of the Department as a whole. The Nebraska Department of Revenue is part of the primary government for the State of Nebraska's reporting entity.

The Lottery has also considered all potential component units for which it is financially accountable, and other organizations that are fiscally dependent on the Lottery, or the significance of their relationship with the Lottery is such that exclusion would be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Lottery to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Lottery. The Lottery is also financially accountable if an organization is fiscally dependent on it, and there is a potential for the

# NEBRASKA LOTTERY

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. Summary of Significant Accounting Policies (Continued)

organization to provide specific financial benefits to, or impose specific financial burdens on, the Lottery, regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

These financial statements present the Lottery. No component units were identified.

#### **C. Measurement Focus, Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Lottery's financial statements were reported using the economic resources measurement focus and the accrual basis of accounting. With the economic resources measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Net Position is segregated into restricted and unrestricted. The Lottery's operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

Revenues generated from the sale of lottery tickets are reported as operating revenues. Transactions that are capital financing, non-capital financing, or investing related are reported as non-operating revenues. All expenses related to operating the Lottery are reported as operating expenses. All other expenses are reported as non-operating expenses.

Instant ticket revenue is recognized when tickets are sold to the retailer, and on-line revenue is recognized after the drawing is completed for the respective wagers. A 5% to 6% retailer commission and a prize expense are recognized at the same time. Revenues from the sale of on-line tickets for future drawings and the related agent commission and prize expense are deferred until the drawings are held.

# NEBRASKA LOTTERY

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. Summary of Significant Accounting Policies (Continued)

Prize expense is recognized in the same period ticket revenue is recognized based on the predetermined prize structure for each game. Because the instant prize winning tickets are randomly distributed throughout the tickets and because some winning tickets will be lost, destroyed, or unredeemed for other reasons, there will be differences between amounts accrued and the amounts actually paid. These differences, denoted as unclaimed prizes, are recognized as a reduction of prize expense 181 days after the close of each instant game and 181 days after each draw for on-line games as prizes unclaimed for 180 days expire. Total unclaimed prizes for the fiscal year ended June 30, 2014, were \$2,475,683.

The activities of the Lottery are accounted for as an enterprise fund. Enterprise funds are used to account for governmental operations that are financed and operated in a manner similar to private business enterprises and where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net position is appropriate.

#### **D. Cash and Cash Equivalents**

In addition to bank accounts and petty cash, this classification includes all short-term investments, such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months; however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at June 30, 2014, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

Cash and cash equivalents are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

#### **E. Budgetary Process**

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Lottery and all other State agencies must submit their budget requests for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

## NEBRASKA LOTTERY

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 1. **Summary of Significant Accounting Policies** (Continued)

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and presents the appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The approved appropriations will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. Appropriations are usually made for each year of the biennium, with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary expenditures for the enterprise fund type are made pursuant to the appropriations, which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major objects of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total appropriations must also be approved by the Legislature as a deficit appropriations bill. Revenues are not budgeted.

#### **F. Receivables**

Receivables are reported net of estimated allowances for uncollectible amounts, which is estimated based upon past collection experience and current economic conditions.

#### **G. Capital Assets**

Capital assets include equipment that is valued at cost when historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

Generally, equipment that has a cost in excess of \$1,500 at the date of acquisition and has an expected useful life of more than one year is capitalized.

Equipment is depreciated using the straight line method over the estimated useful lives of three to seven years.

#### **H. Compensated Absences**

All permanent employees working for the Lottery earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime.

# NEBRASKA LOTTERY

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. **Summary of Significant Accounting Policies** (Concluded)

Temporary and intermittent employees are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

Lottery employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year. Employees accrue sick leave at a variable rate based on years of service.

In general, accrued sick leave cannot exceed 180 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon death or upon reaching the retirement eligibility age of 55, or at a younger age if the employee meets all criteria necessary to retire under the primary retirement plan covering his/her State employment, at which time the State is liable for 25 percent of the employee's accumulated sick leave. Employees under certain labor contracts can only be paid a maximum of 60 days.

The Lottery's financial statements recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

#### **I. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the reporting period and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### 2. **Contingencies and Commitments**

**Risk Management.** The Lottery is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Lottery, as part of the primary government for the State, participates in the State's risk management program. DAS is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability, employee health care, employee indemnification, and workers' compensation. The State has chosen to purchase insurance for:

## NEBRASKA LOTTERY

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2. **Contingencies and Commitments** (Concluded)

- A. Motor vehicle liability, which is insured for the first \$5,000,000 of exposure per accident with a self-insured retention of \$300,000 per accident, including for accidents involving vehicular pursuit, which also have a \$300,000 self-insured retention per accident. Insurance is also purchased, with various limits and deductibles, for physical damage and uninsured and underinsured motorists. State agencies have the option to purchase coverage for physical damage to vehicles.
- B. Life insurance for eligible employees.
- C. Crime coverage, with a limit of \$31,000,000 for each loss, and a \$25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$10,000,000 for 120 days and after 120 days, if the property has not been reported, the limit decreases to \$5,000,000. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various insurance coverages are available from DAS - Risk Management Division.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Lottery's financial statements.

**Litigation.** The Lottery is not involved in any pending litigation and has no notice of any contemplated litigation. To the extent any contemplated litigation exists, the potential amount of liability cannot be determined at this time. However, it is the Lottery's opinion that final settlement of those matters should not have an adverse effect on the Lottery's ability to administer current programs. Any judgment against the Lottery would have to be processed through the State Claims Board and be approved by the Legislature.

## NEBRASKA LOTTERY

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3. **State Employees Retirement Plan (Plan)**

The single-employer plan became effective by statute on January 1, 1964. The plan consists of a defined contribution option and a cash balance benefit. The cash balance benefit is a type of defined benefit plan. Each member employed and participating in the retirement system prior to January 1, 2003, elected to either continue participation in the defined contribution option or begin participation in the cash balance benefit. The defined contribution option is closed to new entrants. All new members of the Plan on and after January 1, 2003, become members of the cash balance benefit. The benefits and funding policy of the Plan is established and can only be amended by the Nebraska Legislature.

All permanent full-time employees are required to begin participation in the retirement system upon employment. All permanent part-time employees who have attained the age of 18 may exercise the option to begin participation in the retirement system.

**Contribution.** Per statute, each member contributes 4.8% of his or her monthly compensation. The Lottery matches the member's contribution at a rate of 156%. The employee's and employer's contributions are kept in separate accounts.

The employee's account is fully vested. The employer's account is fully vested after a total of three years of participation in the system, including credit for participation in another Nebraska governmental plan prior to actual contribution to the Plan.

**Defined Contribution Option.** Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the sum of the employee and employer account. Members have several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

**Cash Balance Benefit.** Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the accumulated employee and employer cash balance accounts, including interest credits, annuitized for payment in the normal form. The normal form of payment is single-life annuity with five-year certain, payable monthly. Members will have the option to convert their member cash balance account to a monthly annuity with built in cost-of-living adjustments of 2.5% annually. Also available are additional forms of payment allowed under the Plan, which are actuarially equivalent to the normal form, including the option of lump-sum or partial lump-sum.

For the fiscal year ended June 30, 2014, employees contributed \$50,355, and the Lottery contributed \$78,553. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

# NEBRASKA LOTTERY

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

### 3. State Employees Retirement Plan (Plan) (Concluded)

The State of Nebraska Comprehensive Annual Financial Report (CAFR) also includes pension-related disclosures. The CAFR report is available from the Nebraska Department of Administrative Services – Accounting Division or on the Nebraska Auditor of Public Accounts website at <http://www.auditors.nebraska.gov>.

### 4. Receivables

Retailers comprised principally of grocery stores, convenience stores, and off-sale liquor stores serve as the primary distribution channel for lottery sales to the general public. No one retailer accounts for a significant amount of the Lottery's sales or accounts receivable. Retailers must pay for instant lottery tickets 45 days after activation or when the pack is 70% validated, whichever comes first. Retailers pay for on-line tickets each Wednesday for balances due through the previous Saturday. The retailers' accounts receivable is net of allowance for uncollectible in the amount of \$15,223.

Accounts Receivable	
Retailers (net)	\$ 5,943,693
Other	31,800
Total	<u>\$ 5,975,493</u>

### 5. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets: Furniture, Fixtures, and Equipment	\$ 362,430	\$ 20,976	\$ 154,142	\$ 229,264
Less: Accumulated Depreciation	330,881	17,285	154,142	194,024
Total Capital Assets, Net	<u>\$ 31,549</u>	<u>\$ 3,691</u>	<u>\$ -</u>	<u>\$ 35,240</u>

### 6. On-Line Lotto Games

During the fiscal year ended June 30, 2014, the Lottery offered a variety of on-line games, as described in the following table.



# NEBRASKA LOTTERY

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 6. On-Line Lotto Games (Concluded)

Game Name	Operated by	Nebraska's Share of Prize Reserves
Powerball®	MUSL	\$ 1,764,371
Nebraska Pick 5®	Nebraska Lottery	N/A
Nebraska Pick 3®	Nebraska Lottery	N/A
MyDaY®	Nebraska Lottery	N/A
Mega Millions®	MUSL	529,798
2by2®	MUSL	127,682
		<u>\$ 2,421,851</u>

The Lottery is a member of the Multi-State Lottery Association (MUSL), which operates games on behalf of participating state lotteries. Each MUSL member sells on-line game tickets through its agents and makes weekly payments to MUSL in an amount equal to each game's prize structure, less amounts retained for prizes paid directly to the winners by each member lottery. MUSL maintains prize reserve funds on each game to serve as a contingency reserve to protect from unforeseen prize liabilities. The money in these reserve funds is to be used at the discretion of the MUSL Board of Directors. The prize reserve funds are refundable to MUSL members if MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share of the prize reserve funds.

In addition, the Lottery has \$475,798 held by MUSL, reported on the Statement of Net Position as Reserves on Deposit (Current), which can be used to pay the Lottery's portion of MUSL's operating budget, any MUSL legal expenses, and other expenses incurred by MUSL. These funds are not tied directly to any MUSL game.

The Powerball® and Mega Millions® grand prizes can be paid either as annual installments or a lump sum cash payment, depending on the selection of the winner when claiming the prize. If the winner selects annual installments, MUSL purchases bonds which are held in trust to fund the future installments. Maturities are staggered in order to provide adequate cash flow for each installment. MUSL is responsible for paying amounts owed to the grand prize winners. The assets and related liabilities are reflected in MUSL's financial statements and, therefore, are not reflected in the Lottery's financial statements.

# NEBRASKA LOTTERY

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 7. Non-current Liabilities

Changes in non-current liabilities for the year ended June 30, 2014, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 248,858	\$ 9,179	\$ -	\$ 258,037	\$ 18,063

### 8. Lease Commitments

The minimum annual lease payments for operating leases as of June 30, 2014, are as follows:

Year	Amount
2015	\$ 63,881
2016	65,066
2017	66,289
Total	\$ 195,236

Total operating lease payments for the year ended June 30, 2014, were \$62,732.

### 9. Significant Compliance Requirements

The Nebraska Constitution establishes the basic requirements for the transfer of lottery ticket sales to certain beneficiary funds. The portion designated for the education beneficiary can be amended by the Legislature. Neb. Rev. Stat. § 9-812 (Supp. 2013) identifies the specific requirements, as follows: A portion of the dollar amount of the lottery tickets, which have been sold on an annualized basis, is to be transferred to the beneficiary funds. The dollar amount transferred must equal the greater of (a) the dollar amount transferred to the funds in fiscal year 2002-2003 or (b) any amount that constitutes at least twenty-two percent and no more than twenty-five percent of the dollar amount of the lottery tickets sold on an annualized basis. To the extent that funds are available, the Tax Commissioner and Lottery Director may authorize a transfer exceeding twenty-five percent. Section 9-812 further requires the following: Of the money remaining after the payment of prizes and operating expenses, the first five hundred thousand dollars is to be transferred to the Compulsive Gamblers Assistance Fund. Of the money remaining after the payment of prizes, operating expenses, and transfer to the Compulsive Gamblers Assistance Fund, nineteen and three-fourths percent is to be transferred to the Education Innovation Fund, twenty-four and three-fourths percent is to be transferred to the Nebraska Opportunity Grant Fund, forty-four and one-half percent is to be transferred to the Nebraska Environmental Trust Fund, ten percent is to be transferred to the Nebraska State Fair Support and Improvement Cash Fund, and one percent is to be transferred to the Compulsive Gamblers Assistance Fund.

# NEBRASKA LOTTERY

## NOTES TO THE FINANCIAL STATEMENTS (Concluded)

### 9. **Significant Compliance Requirements** (Concluded)

As required under its enabling legislation, transfers of \$38,000,092 were made to other funds during the fiscal year.

The Lottery develops game structures to comply with the minimum prize provision of its enabling legislation, which requires a minimum of forty percent to be paid in prizes.

The Lottery compares the social security number of each winner who has a per-wager prize in excess of \$500 against a list of social security numbers having an outstanding State tax liability or delinquent child support payments. Any delinquent payments are withheld from winnings and forwarded to the appropriate State agency. During the fiscal year, the Lottery collected \$5,898 in delinquent State taxes and \$13,075 in delinquent child support payments.

Operating Transfers In/Out will not balance and Due To/From Other Funds will not balance, within the Lottery's financial statements, as the Lottery represents only part of the State's primary government.

### 10. **Net Position**

The Lottery's unrestricted net position represents funds not legally restricted for any specific purpose. The funds, however, may only be used to fund additional prize pay-outs, transfers to the beneficiary funds, or additional operating expenses of the Lottery. It is management's intention to use the unrestricted net position to fund additional prize pay-outs, retailer incentives, and other game enhancements.

### 11. **Prior Period Adjustment**

The Beginning Net Position on the Statement of Revenues, Expenses, and Changes in Net Position was adjusted in order to correct an understatement in the prior year report. The prior year Contractual Services Expense and Vendors Payable were overstated by \$521,436 which resulted in the prior year ending balance being understated by \$521,436. The Beginning Net Position on the Statement of Revenues, Expenses, and Changes in Net Position was adjusted to accurately reflect the beginning net position.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA LOTTERY  
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditor's Report

State Tax Commissioner  
Nebraska Department of Revenue, Lottery Division

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Nebraska Lottery (Lottery), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated October 23, 2014. The report was modified to emphasize that the financial statements present only the funds of the Lottery.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lottery'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Lottery'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; therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

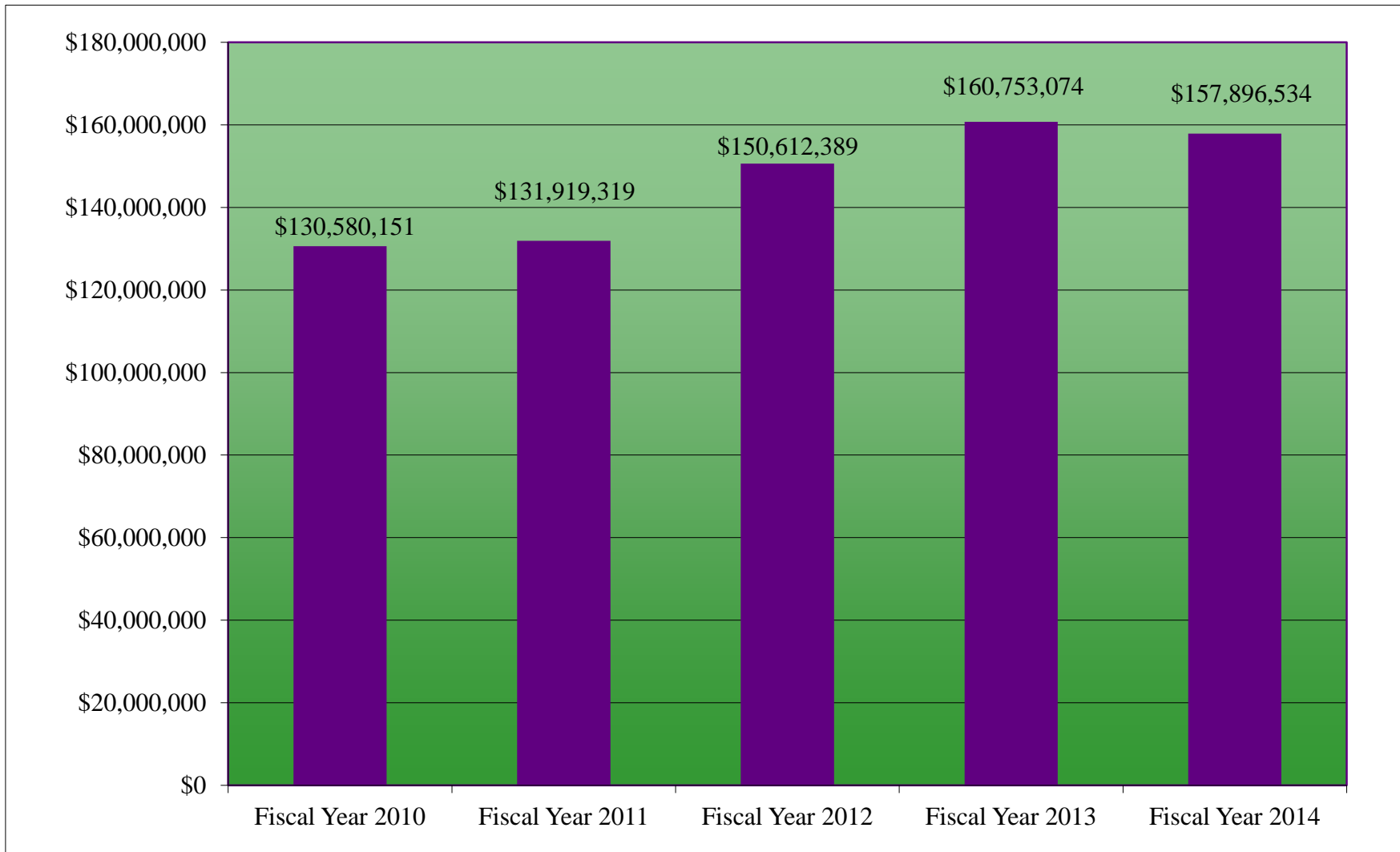
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, not to provide an opinion on the effectiveness of the Lottery's internal control or on compliance. This report is an integral part of an audit performed in accordance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



Zachary Wells, CPA, CISA  
Audit Manager

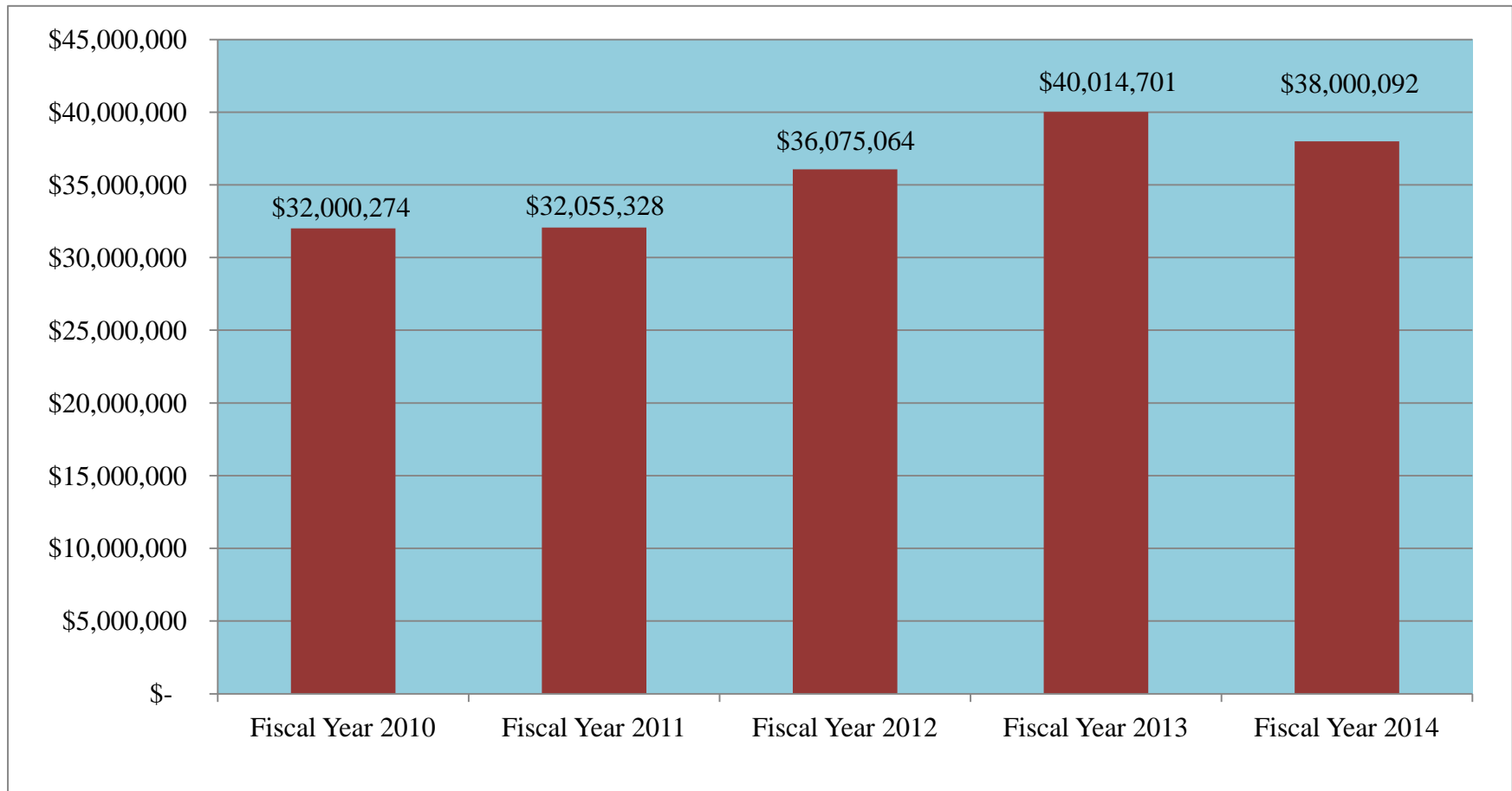
October 23, 2014

**NEBRASKA LOTTERY**  
**LOTTERY TICKET SALES**  
For the Fiscal Years 2010 through 2014



Note: These sales are shown on an accrual basis.

**NEBRASKA LOTTERY**  
**TOTAL OPERATING TRANSFERS TO BENEFICIARY FUNDS**  
For the Fiscal Years 2010 through 2014



Note: The Total Operating Transfers include transfers to the Nebraska Environmental Trust Fund, the Education Innovation Fund, the Nebraska Opportunity Grant Fund, the Compulsive Gamblers Assistance Fund, and the Nebraska State Fair Support and Improvement Cash Fund. These transfers are shown on a cash basis.

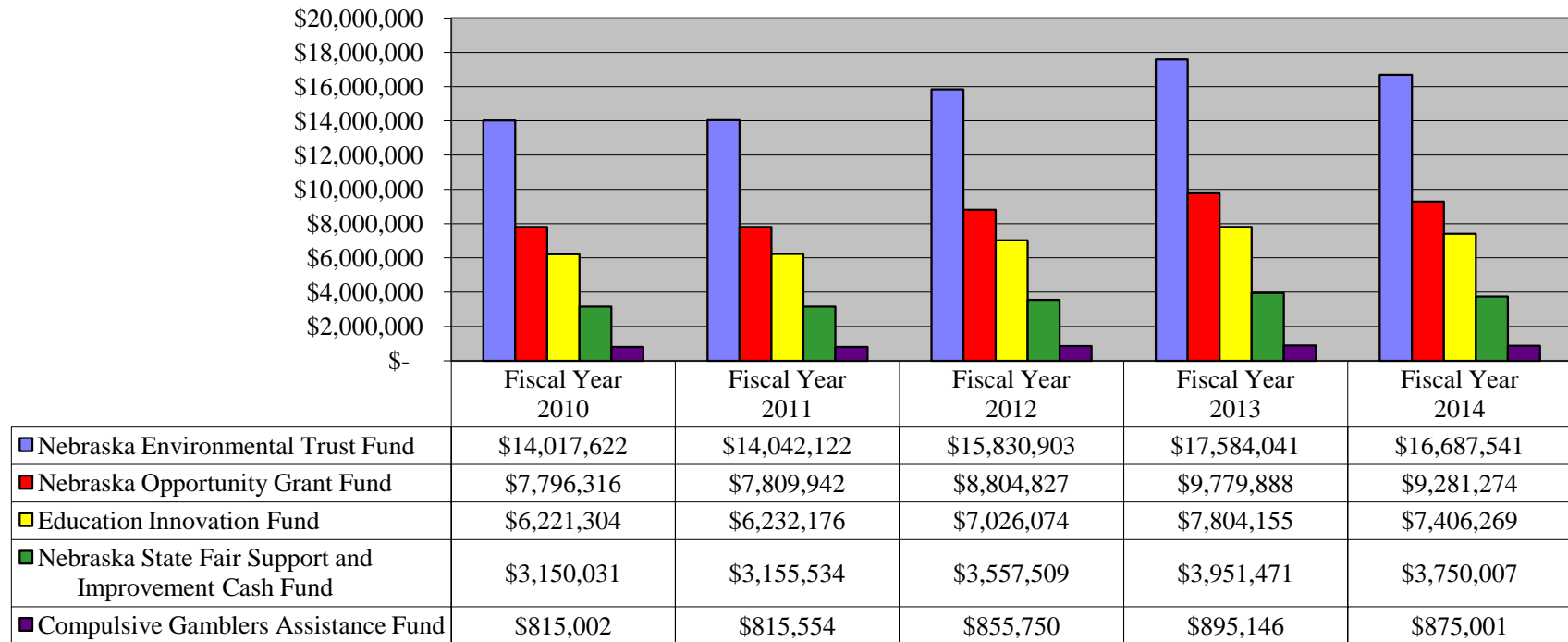
**NEBRASKA LOTTERY**  
**SCHEDULE OF CUMULATIVE OPERATING TRANSFERS**  
**TO BENEFICIARY FUNDS**

Fiscal Year	Transfer Amount
1994	\$10,931,811
1995	\$19,308,170
1996	\$20,486,304
1997	\$23,363,387
1998	\$18,740,463
1999	\$17,581,026
2000	\$17,887,538
2001	\$16,596,397
2002	\$18,235,952
2003	\$20,098,664
2004	\$20,807,945
2005	\$27,195,478
2006	\$27,601,895
2007	\$29,266,219
2008	\$31,008,281
2009	\$30,245,118
2010	\$32,000,274
2011	\$32,055,328
2012	\$36,075,064
2013	\$40,014,701
2014	\$38,000,092
Total Cumulative Transfers	\$527,500,107

Note: Total Cumulative Transfers includes transfers to the Solid Waste Landfill Closure Fund (final allocation made in July 1997), the Nebraska Environmental Trust Fund, the Education Innovation Fund, the Nebraska Opportunity Grant Fund (beginning October 1, 2003) (LB 956 (2010) changed the Nebraska Scholarship Fund to the Nebraska Opportunity Grant Fund as of July 1, 2010), the Compulsive Gamblers Assistance Fund, and the Nebraska State Fair Support and Improvement Cash Fund (beginning January 1, 2005). These transfers are shown on a cash basis except for an adjustment of \$2,342,407 increasing the Fiscal Year 2000 transfer amount and decreasing the Fiscal Year 2001 transfer amount to better reflect the transfer in the year it relates to. The 2005 transfer amount includes a \$5,000,000 transfer from the State Lottery Operation Trust Fund to the General Fund in July 2004, as required by LB 1091.

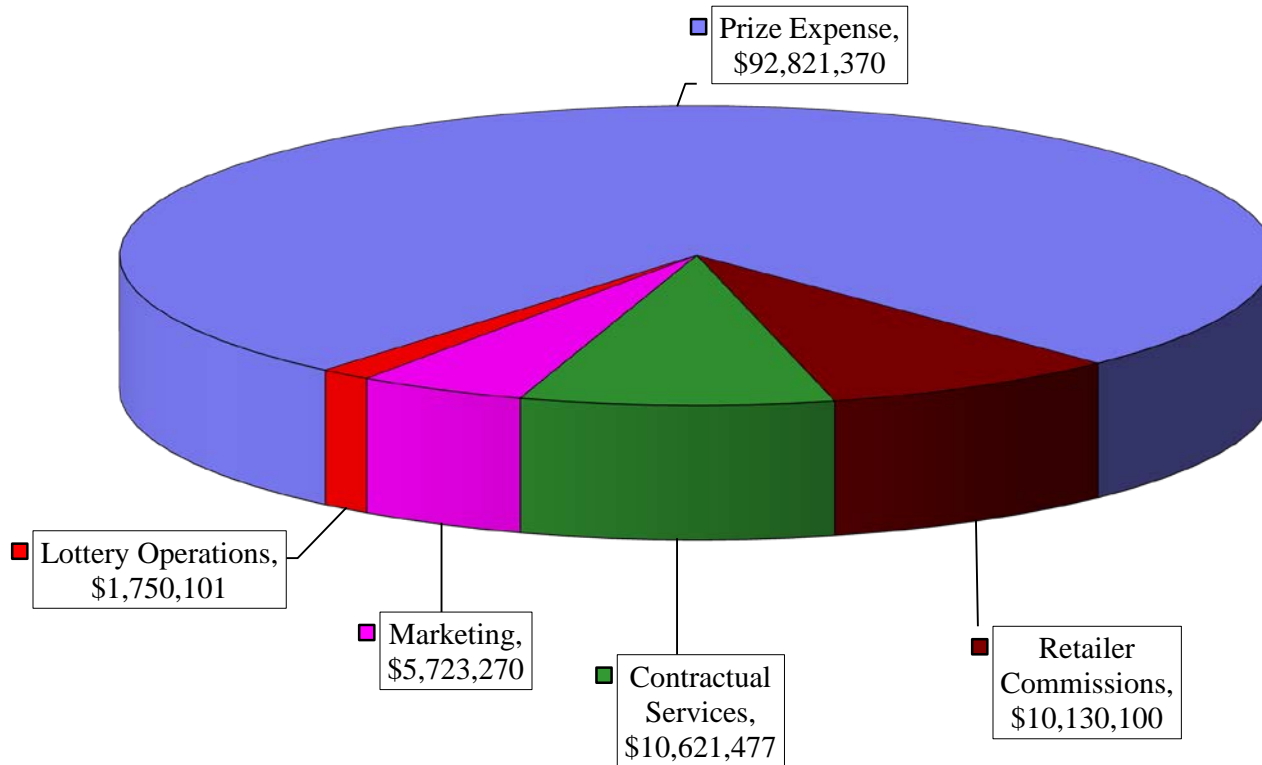


**NEBRASKA LOTTERY**  
**OPERATING TRANSFERS TO BENEFICIARY FUNDS**  
For the Fiscal Years 2010 through 2014



Note: The Nebraska Constitution establishes the basic requirements for the transfer of the lottery ticket sales to certain beneficiary funds. The portion designated for the education beneficiary can be amended by the Legislature. Neb. Rev. Stat. § 9-812 (Supp. 2013) identifies the specific requirements, as follows: Beginning October 1, 2003, a portion of the dollar amount of the lottery tickets, which have been sold on an annualized basis, is to be transferred to the beneficiary funds. The dollar amount transferred must equal the greater of (a) the dollar amount transferred to the funds in fiscal year 2002-2003 or (b) any amount that constitutes at least twenty-two percent and no more than twenty-five percent of the dollar amount of the lottery tickets sold on an annualized basis. To the extent that funds are available, the Tax Commissioner and Lottery Director may authorize a transfer exceeding twenty-five percent. Section 9-812 further requires the following: Of the money remaining after the payment of prizes and operating expenses, the first five hundred thousand dollars is to be transferred to the Compulsive Gamblers Assistance Fund. Of the money remaining after the payment of prizes, operating expenses, and transfer to the Compulsive Gamblers Assistance Fund, nineteen and three-fourths percent is to be transferred to the Education Innovation Fund, twenty-four and three-fourths percent is to be transferred to the Nebraska Opportunity Grant Fund (LB 956 (2010) changed the Nebraska Scholarship Fund to the Nebraska Opportunity Grant Fund as of July 1, 2010), forty-four and one-half percent is to be transferred to the Nebraska Environmental Trust Fund, ten percent is to be transferred to the Nebraska State Fair Support and Improvement Cash Fund, and one percent is to be transferred to the Compulsive Gamblers Assistance Fund.

**NEBRASKA LOTTERY  
OPERATING EXPENSES**  
For the Fiscal Year Ended June 30, 2014



**Total Operating Expenses \$121,046,318**

**Breakdown of Expenses**

**Prize Expense:**

Instant Prize Expense	\$57,642,128
On-Line Prize Expense	\$37,654,925
Unclaimed Prizes	<u>(\$2,475,683)</u>
Total	\$92,821,370

**Retailer Commissions:**

Instant Commissions	\$5,751,982
On-line Commissions	\$4,213,756
Misc. Retailer Expense	<u>\$164,362</u>
Total	\$10,130,100

**Contractual Services:**

Gtech	\$10,125,991
Other Contractors	<u>\$495,486</u>
Total	\$10,621,477

**Marketing Expense:**

Advertising Expense	\$5,149,868
Promotions Expense	<u>\$573,402</u>
Total	\$5,723,270

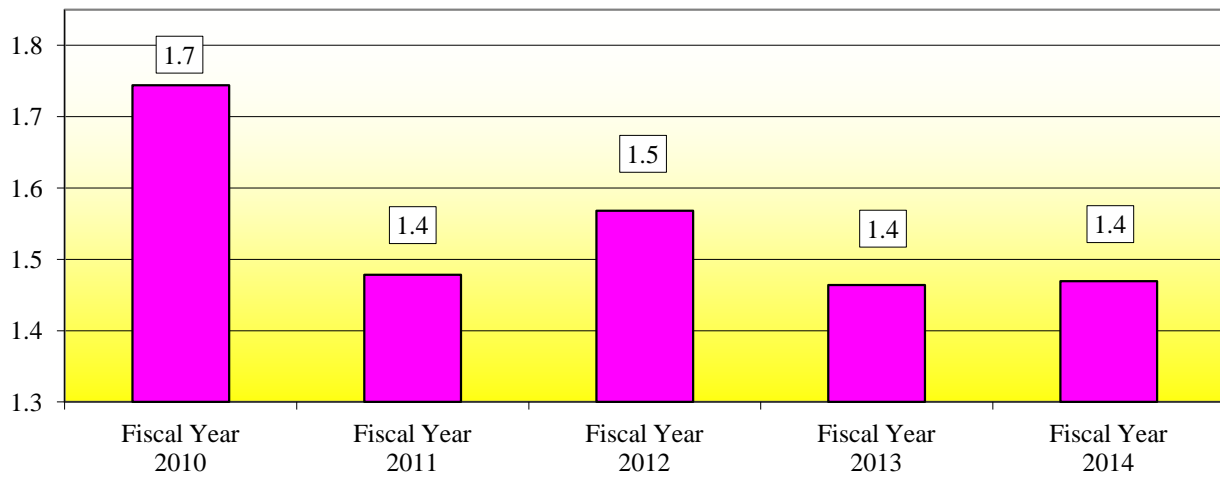
**Lottery Operations:**

Payroll Expense	\$1,054,120
Other Operating Expense	<u>\$695,981</u>
Total	\$1,750,101

## NEBRASKA LOTTERY

### CURRENT RATIO

For the Fiscal Years 2010 through 2014

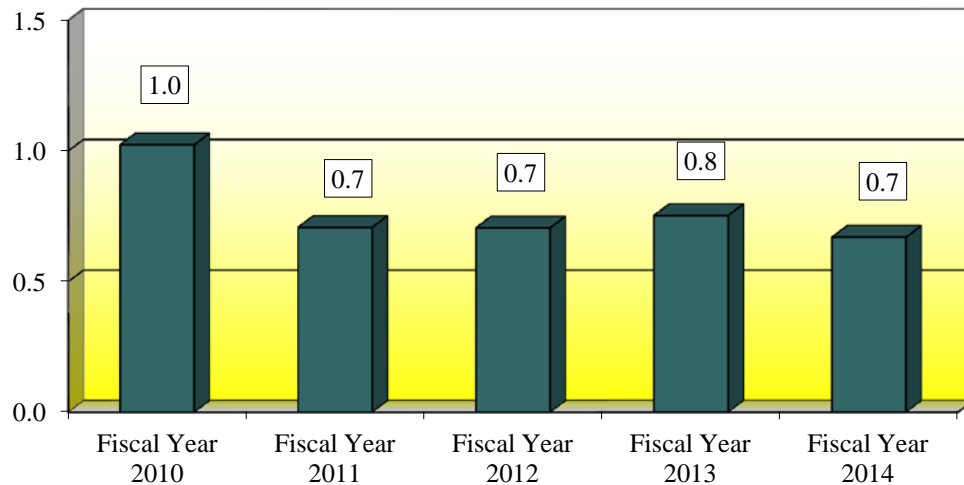


	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Current Assets	\$12,162,851	\$10,844,794	\$11,742,549	\$13,936,441	\$12,295,363
Current Liabilities	\$7,179,611	\$7,591,576	\$7,735,906	\$9,855,555	\$8,663,425

Note: The Current Ratio is an assessment of the Nebraska Lottery's current assets to current liabilities.

### QUICK RATIO

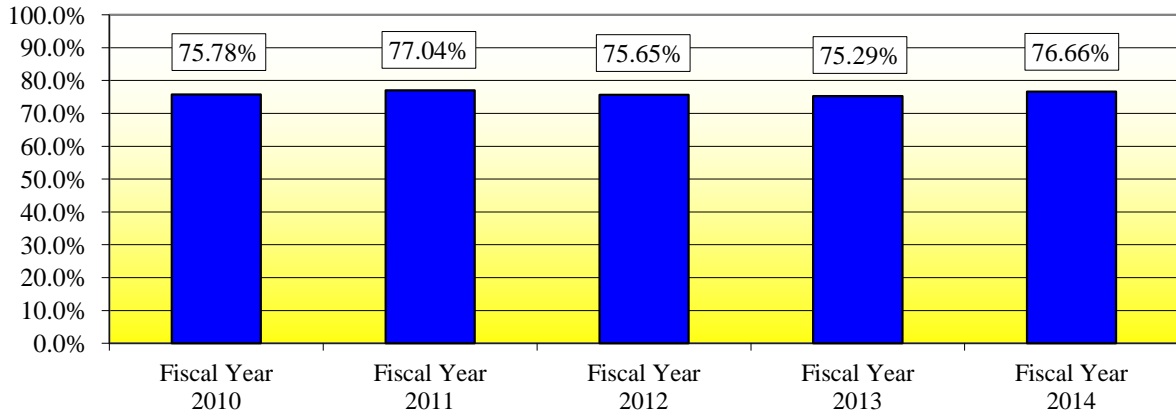
For the Fiscal Years 2010 through 2014



	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Cash & Cash Equivalents	\$7,349,896	\$5,371,770	\$5,460,097	\$7,422,584	\$5,803,806
Current Liabilities	\$7,179,611	\$7,591,576	\$7,735,906	\$9,855,555	\$8,663,425

Note: The Quick Ratio is an assessment of the Nebraska Lottery's cash to current liabilities.

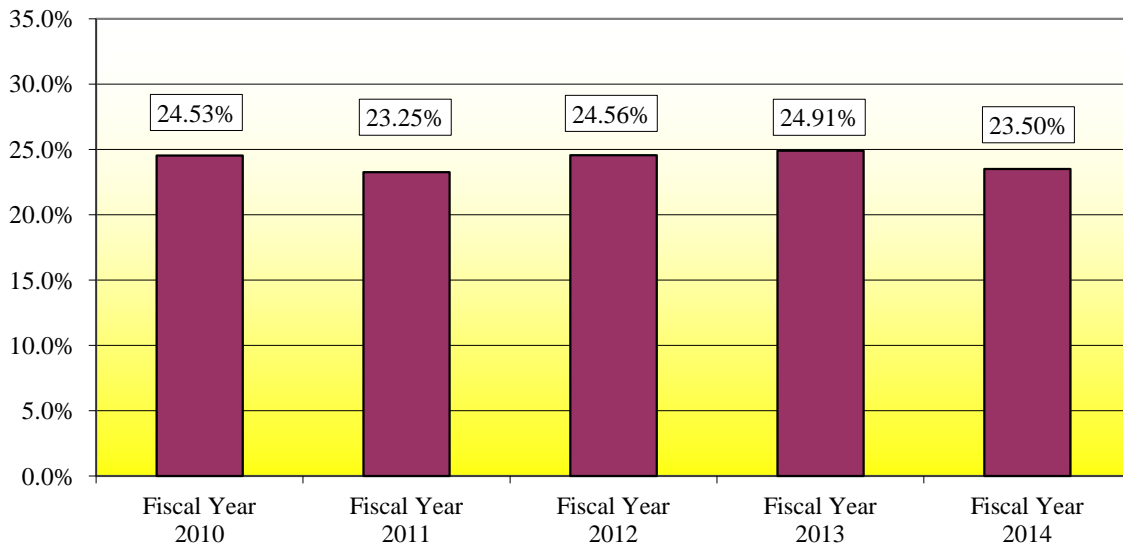
**NEBRASKA LOTTERY**  
**PERCENTAGE OF OPERATING EXPENSES TO REVENUES**  
For the Fiscal Years 2010 through 2014



	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Total Operating Expense	\$98,948,594	\$101,624,897	\$113,934,937	\$121,035,830	\$121,046,318
Total Operating Revenue	\$130,580,151	\$131,919,319	\$150,612,389	\$160,753,074	\$157,896,534

Note: The graph represents the percentage of operating expenses to revenues.

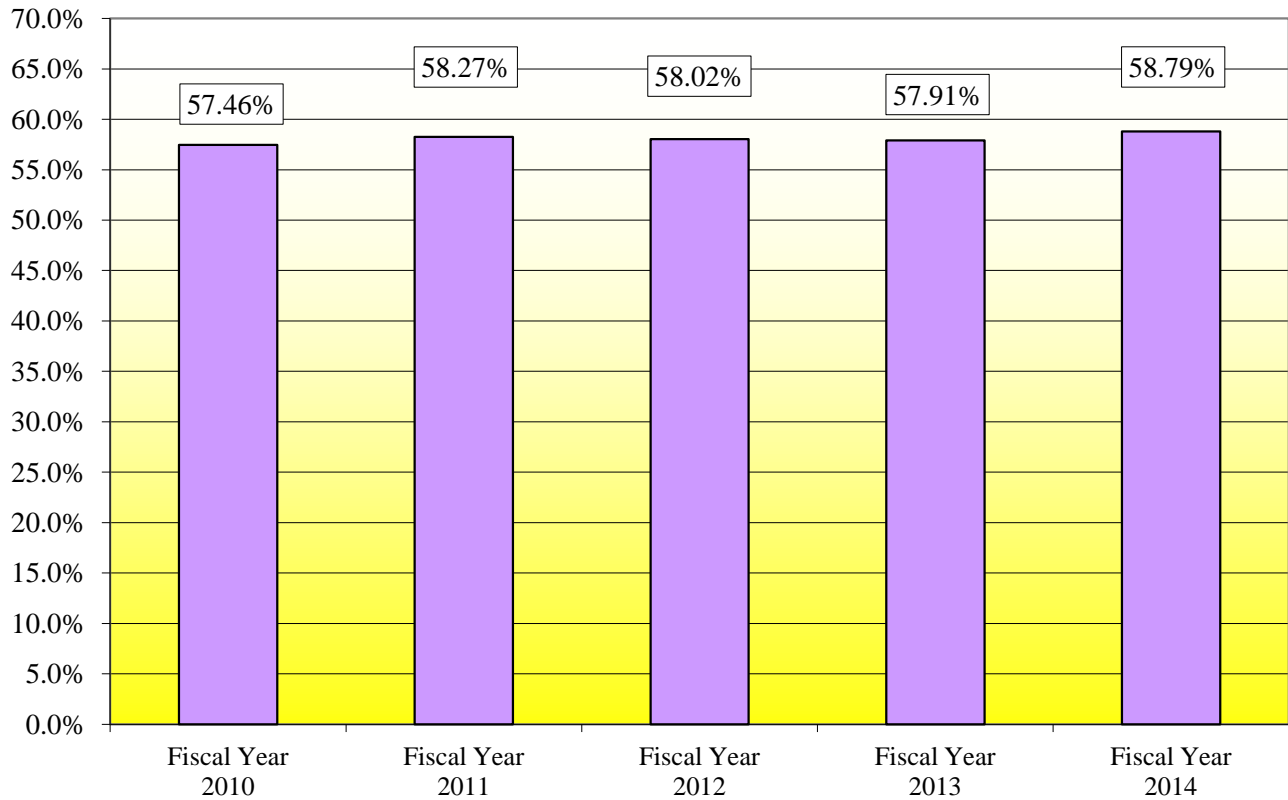
**NET INCOME BEFORE TRANSFERS COMPARED TO OPERATING  
REVENUE**  
For the Fiscal Years 2010 through 2014



	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Net Income Before Transfers	\$32,028,995	\$30,671,320	\$36,983,244	\$40,045,381	\$37,107,758
Total Operating Revenue	\$130,580,151	\$131,919,319	\$150,612,389	\$160,753,074	\$157,896,534

Note: The graph represents the percentage of net income before operating transfers compared to total operating revenue.

**NEBRASKA LOTTERY**  
**PRIZE PERCENTAGE OF SALES**  
For the Fiscal Years 2010 through 2014



	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Prize Expense	\$75,034,151	\$76,871,012	\$87,392,819	\$93,092,437	\$92,821,370
Total Operating Revenue	\$130,580,151	\$131,919,319	\$150,612,389	\$160,753,074	\$157,896,534

Note: The graph represents the percentage of net sales paid out in prizes.