

**AUDIT REPORT
OF THE
NEBRASKA LOTTERY**

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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the Auditor of Public Accounts.**

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Issued on October 23, 2015

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 37th 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 (Cum. Supp. 2014), as amended, identifies the specific requirements and they are as follows: A portion of the dollar amount of the lottery tickets, which have been sold on an annualized basis, shall be transferred to the beneficiary funds. The dollar amount transferred shall 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. Neb. Rev. Stat. § 9-812 (Cum. Supp. 2014) as amended, further requires the following: Of the money remaining after the payment of prizes and operating expenses; the first five hundred thousand dollars shall 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 shall be transferred to the Education Innovation Fund, twenty-four and three-fourths percent shall be transferred to the Nebraska Opportunity Grant Fund, forty-four and one-half percent shall be transferred to the Nebraska Environmental Trust Fund, ten percent shall be transferred to the State Fair Support and Improvement Cash Fund, and one percent shall be transferred to the Compulsive Gamblers Assistance Fund.

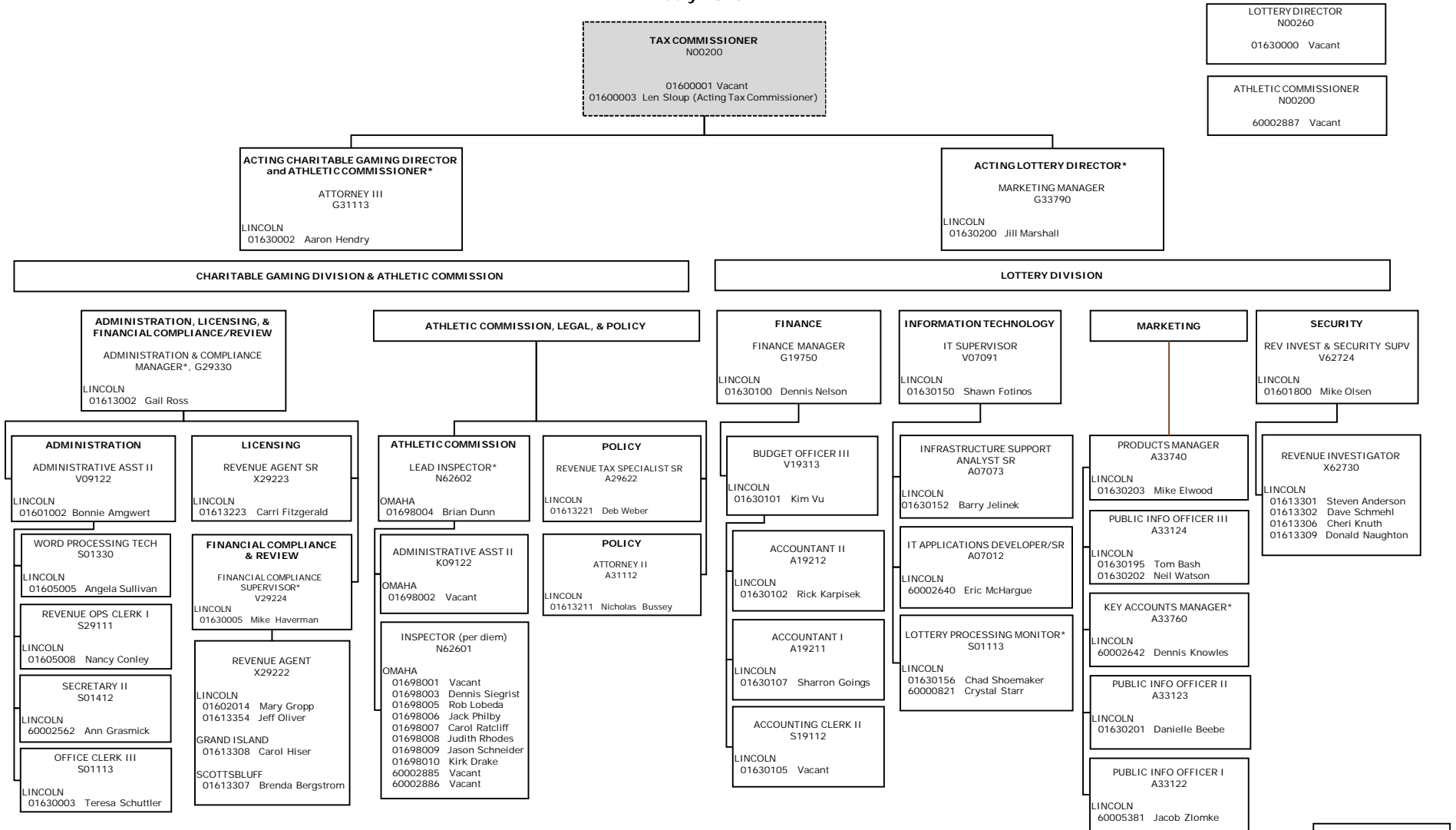
MISSION STATEMENT

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 DIVISIONS
ATHLETIC COMMISSION
July 2015**



*Working Title

40 Total Positions
37 Filled
3 Vacant
7 Per Diem Employees
Updated 7/1/2015

NEBRASKA LOTTERY

EXIT CONFERENCE

An exit conference was held October 20, 2015, with the Nebraska Lottery (Lottery) to discuss the results of our examination. Those in attendance for the Lottery were:

NAME	TITLE
Len Sloup	Acting Tax Commissioner
Jill Marshall	Acting Lottery Director
Dennis Nelson	Finance Manager
Aaron Hendry	Legal Counsel
Kim Vu	Budget Officer III

NEBRASKA LOTTERY

COMMENT AND RECOMMENDATION

Service Organization Control Report

The Nebraska Lottery (Lottery) utilizes the services of GTECH Inc. (GTECH), to help support the Lottery's operations. GTECH supports the machines used at Nebraska retailers, tracks the tickets sold, and maintains the information used to bill retailers. Due to the significance of the services provided, sound business practices require the Lottery to gain assurance that the vendor has controls in place to ensure the accuracy and completeness of Lottery data. Generally, this would be addressed by a Service Organization Control (SOC) report, performed by an independent auditor, which would identify specific control objectives, descriptions of the vendor's controls in place to ensure the objectives are met, the procedures performed by the independent auditor, the results of those procedures, and an opinion by the independent auditor on the effectiveness of those controls in order to meet the objectives. A SOC report also identifies certain internal control responsibilities that the vendor believes should be present for user organizations, such as the Lottery. The user organization controls are generally considered by the vendor when developing the vendor controls identified in the SOC report.

In the past several years, the Auditor of Public Accounts (APA) has discussed with the Lottery the necessity of receiving and reviewing a SOC report for GTECH. In those discussions, the APA was told this would be included when the contract was renegotiated. The contract extension was signed on July 21, 2015. Based upon discussions with the Lottery and review of the recent extension of the GTECH contract until June 30, 2021, no such requirement for a SOC report was included as part of the latest extension.

Based upon the Lottery's responses to auditor inquiries, our understanding is that other State lotteries that contract with GTECH to provide lottery services obtain a SOC report.

The Lottery's contract with GTECH does contain a "right to audit" clause, which states the following in Section 4.34.4:

Audit Requirements: Each audit's objectives will be defined by the Nebraska Lottery and may include an audit of internal controls, data, security system, electronic data processing, hardware, administrative software, application software, operating software, compliance with the contract and statutory and regulatory provisions, financial records or a combination thereof, and related activities. The Contractor, its subcontractors, and its external auditors will work cooperatively with the auditors.

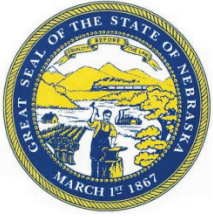
Furthermore, Section 4.34.3 states, in part:

The Contractor will pay the reasonable costs of any audits during the initial term of the contract and any audits performed during the course of any extension of the Contract. The Nebraska Lottery or the State of Nebraska shall select the auditor(s) who performs the audits under this section. Auditors will report to the Nebraska Lottery.

Without a SOC report, the Lottery has no independent assurance as to whether GTECH's controls are sufficient to meet its control objectives or those controls are operating effectively. Furthermore, without a SOC report, the Lottery lacks formal documentation of any user organization controls needed to ensure that control objectives are adequately met.

We recommend the Lottery work with GTECH to have independent auditors perform a SOC examination.

Lottery Response: We agree that a SOC examination of GTECH would be beneficial and have been trying to get this accomplished. We will continue our efforts in working with GTECH to make the SOC report a realization.



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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, 2015, 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, 2015, 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 and the changes in financial position 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, 2015, and the changes in its financial position 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 8-11 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 21, 2015, 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, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.



Zachary Wells, CPA, CISA
Audit Manager

October 21, 2015

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, 2015. 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, 2015. 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). Overall, the changes between years were not large. The largest change from year to year, by account, was less than \$300,000. The largest asset change was Accounts Receivable and Reserves on Deposit, which increased \$111,000. At the end of this fiscal year, there were ten days of revenue that had not been collected yet, as opposed to nine days last year.

The largest liability change was the Accounts Payable classification this year. There was an increase of about \$280,000. The amounts owed to our contractual services vendor, GTECH, and our advertising vendor, SKAR Advertising, both increased. The largest increase was Advertising Payable that went up about \$160,000 due to the timing of year-end marketing and payments.

NEBRASKA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

In the Net Position section, the Unrestricted Assets went down about \$173,000. 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 2015	FY 2014	Change
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 5,910,974	\$ 5,803,806	\$ 107,168
Accounts Receivable and Reserves on Deposit	6,562,393	6,451,291	111,102
Prepaid Prizes and Costs	0	40,266	(40,266)
TOTAL CURRENT ASSETS	<u>12,473,367</u>	<u>12,295,363</u>	<u>178,004</u>
NONCURRENT ASSETS			
Reserves on Deposit	2,413,646	2,421,851	(8,205)
Furniture, Fixtures, Equipment (Net)	49,901	35,240	14,661
TOTAL NONCURRENT ASSETS	<u>2,463,547</u>	<u>2,457,091</u>	<u>6,456</u>
TOTAL ASSETS	<u>\$ 14,936,914</u>	<u>\$ 14,752,454</u>	<u>\$ 184,460</u>
CURRENT LIABILITIES			
Accounts Payable	\$ 1,991,118	\$ 1,708,993	\$ 282,125
Compensated Absences and Accrued Payroll Payable	79,108	69,065	10,043
Prize Payable	6,672,496	6,673,242	(746)
Other Accrued Liabilities	275,485	212,125	63,360
TOTAL CURRENT LIABILITIES	<u>9,018,207</u>	<u>8,663,425</u>	<u>354,782</u>
NONCURRENT LIABILITIES			
Compensated Absences Payable	236,024	239,974	(3,950)
TOTAL NONCURRENT LIABILITIES	<u>236,024</u>	<u>239,974</u>	<u>(3,950)</u>
TOTAL LIABILITIES	<u>\$ 9,254,231</u>	<u>\$ 8,903,399</u>	<u>\$ 350,832</u>
NET POSITION			
Invested in Capital Assets	\$ 49,901	\$ 35,240	\$ 14,661
Restricted for Future Prizes	2,413,646	2,421,851	(8,205)
Unrestricted Assets	3,219,136	3,391,964	(172,828)
TOTAL NET POSITION	<u>\$ 5,682,683</u>	<u>\$ 5,849,055</u>	<u>\$ (166,372)</u>

NEBRASKA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

DISCUSSION OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

After encountering decreased sales last year for the first time in 13 years, the Lottery had an upswing in sales this year. Overall, revenues increased by about \$2.0 million (see Table B below). On the lotto side, sales decreased \$5.0 million. Powerball sales decreased almost \$4.9 million and Mega Millions decreased about \$1.7 million. Sales of Nebraska Pick 5 did increase by \$1.2 million. The remaining difference was spread across the three other lotto games. Powerball and Mega Millions sales are driven a lot by jackpot sizes and jackpot runs. Last year, Mega Millions had a record jackpot of \$636 million while the largest for this year was only \$321 million. For Powerball, the jackpot sizes were similar but there were two less jackpot runs during this year as compared to fiscal year 2014. The number of large jackpot runs and the size of the jackpots materially affect weekly lotto sales.

On the scratch side, sales increased about \$7.0 million. The largest increase was in the \$3 and \$5 price points, \$2.8 million and \$2.1 million, respectively. The only decrease was less than \$100,000 in the \$2 price point. The remaining difference was spread across the other price points.

The Prize Expense went up nearly \$1.9 million. This can be attributed to two issues, higher sales than last year and the makeup of the sales. The Lottery typically allows a higher prize payout on scratch tickets. As the scratch sales were significantly higher and lotto sales decreased, the prize expense overall was higher. The Contractual Services Expense (costs related to GTECH which are based on a percentage of sales) was about \$360,000 more than last year due to same issues noted previously, higher sales and the makeup of the sales (on scratch sales, GTECH's contract calls for a higher rate).

The Transfers to Other Funds had a large decrease, almost \$900,000. With higher scratch sales and 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

Summary of Revenues, Expenses, and Changes in Net Position

	FY 2015	FY 2014	Change
OPERATING REVENUE			
Sales	\$ 162,235,615	\$ 160,195,694	\$ 2,039,921
Sales Returns	(2,267,666)	(2,299,160)	(31,494)
OPERATING REVENUE	<u>159,967,949</u>	<u>157,896,534</u>	<u>2,071,415</u>
Interest Income	224,225	249,355	(25,130)
Multi-State Lottery Assoc. Income	26,028	8,187	17,841
NON-OPERATING REVENUE	<u>250,253</u>	<u>257,542</u>	<u>(7,289)</u>
TOTAL REVENUES	<u>\$ 160,218,202</u>	<u>\$ 158,154,076</u>	<u>\$ 2,064,126</u>
EXPENSES			
Prize Expense	\$ 94,696,026	\$ 92,821,370	\$ 1,874,656
Retailer Commissions	10,224,556	10,130,100	94,456
Contractual Services	10,980,956	10,621,477	359,479
Marketing Expense	5,549,058	5,723,270	(174,212)
Lottery Operating Expense	1,826,995	1,750,101	76,894
TOTAL EXPENSES	<u>\$ 123,277,591</u>	<u>\$ 121,046,318</u>	<u>\$2,231,273</u>
NET INCOME BEFORE TRANSFERS	\$ 36,940,611	\$ 37,107,758	\$ (167,147)
TRANSFERS TO OTHER FUNDS	<u>\$ (37,106,983)</u>	<u>\$ (38,000,092)</u>	<u>\$ (893,109)</u>
CHANGE IN NET POSITION	<u>\$ (166,372)</u>	<u>\$ (892,334)</u>	<u>\$ 725,962</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, 2015

ASSETS

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 5,910,974
Accounts Receivable, Net of Allowance (Note 4)	6,139,454
Reserves on Deposit (Note 6)	422,939
TOTAL CURRENT ASSETS	<u>12,473,367</u>

NONCURRENT ASSETS:

Reserves on Deposit (Note 6)	2,413,646
Capital Assets:	
Furniture, Fixtures, and Equipment (Note 5)	250,787
Less: Accumulated Depreciation	200,886
Total Capital Assets, Net	49,901
TOTAL NONCURRENT ASSETS	<u>2,463,547</u>

TOTAL ASSETS	<u><u>\$ 14,936,914</u></u>
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LIABILITIES

CURRENT LIABILITIES:

Accounts Payable	\$334,401
Vendors Payable	1,656,717
Compensated Absences Payable (Note 7)	23,343
Accrued Payroll Payable	55,765
Withheld Taxes on Prizes Paid	90,434
Prize Payable	6,672,496
Due to Other Funds	30,436
Other Accrued Liabilities	154,615
TOTAL CURRENT LIABILITIES	<u>9,018,207</u>

NONCURRENT LIABILITIES:

Compensated Absences Payable (Note 7)	236,024
TOTAL NONCURRENT LIABILITIES	<u>236,024</u>

TOTAL LIABILITIES	<u>9,254,231</u>
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NET POSITION

Invested in Capital Assets	49,901
Restricted for Future Prizes (Note 6)	2,413,646
Unrestricted (Note 10)	3,219,136
TOTAL NET POSITION	<u>5,682,683</u>

TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 14,936,914</u></u>
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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, 2015

OPERATING REVENUE:

Sales	\$ 162,235,615
Less: Sales Returns	2,267,666
TOTAL OPERATING REVENUE	<u>159,967,949</u>

OPERATING EXPENSES:

Prize Expense, Net of Unclaimed Prizes (Note 1c)	94,696,026
Retailer Commissions	10,224,556
Contractual Services Expense	10,980,956
Marketing	5,549,058
Lottery Operating	1,826,995
TOTAL OPERATING EXPENSES	<u>123,277,591</u>

OPERATING INCOME	36,690,358
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NONOPERATING REVENUE:

Interest Income	224,225
Multi-State Lottery Association Income	26,028
TOTAL NONOPERATING REVENUE	<u>250,253</u>

INCOME BEFORE OPERATING TRANSFERS	36,940,611
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TRANSFERS TO OTHER FUNDS (Note 9)	<u>(37,106,983)</u>
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CHANGE IN NET POSITION	(166,372)
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TOTAL NET POSITION, BEGINNING OF YEAR	<u>5,849,055</u>
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TOTAL NET POSITION, END OF YEAR	<u><u>\$ 5,682,683</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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Ticket Sales	\$ 159,764,858
Prizes Paid to Winners	(94,626,442)
Commissions Paid to Retailers	(10,224,997)
Paid to Contractors for Goods and Services	(16,200,468)
Paid to Employees	(1,364,790)
Other Operating Expenses	(353,529)
Net Cash Provided by Operating Activities	<u>36,994,632</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Paid to Education Innovation Fund	(7,229,878)
Paid to Nebraska Opportunity Grant Fund	(9,060,227)
Paid to Nebraska State Fair Support and Improvement Cash Fund	(3,660,699)
Paid to Nebraska Environmental Trust Fund	(16,290,107)
Paid to Compulsive Gamblers Assistance Fund	(866,072)
Net Cash Used in NonCapital Financing Activities	<u>(37,106,983)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of Property and Equipment	(30,734)
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on Cash	224,225
Multi-State Lottery Association Income	26,028
Net Cash Provided by Investing Activities	<u>250,253</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 107,168

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 5,803,806

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 5,910,974

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

Operating Income	\$ 36,690,358
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	16,073
Changes in Assets (Increase) Decrease in:	
Reserves on Deposit	61,064
Prepaid Prizes	40,266
Accounts Receivable (Net)	(163,961)
Changes in Liabilities Increase (Decrease) in:	
Other Accrued Liabilities	3,664
Accounts Payable and Due to Other Funds	3,353
Prizes Payable	(746)
Compensated Absences and Accrued Payroll Payable	6,093
Withheld Taxes on Prizes Paid	56,659
Vendors Payable	281,809
Total Adjustments	<u>304,274</u>
Net Cash Provided by Operating Activities	<u><u>\$ 36,994,632</u></u>

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, 2015

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 created 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 (Cum. Supp. 2014), 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 of 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 5.5% - 6.0% 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.

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

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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, 2015, were \$2,043,530.

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, 2015, 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.

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.

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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. 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.

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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. The Risk Management Division is responsible for administering the State's insurance Program. The State is self-insured for any loss and currently purchases excess insurance for property, automobile, crime, and terrorism claims.

A. Motor vehicle liability is insured for the first \$5,000,000 of exposure per accident with a self-insured retention of \$300,000 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. Crime coverage has 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.

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

- C. Real and personal property is covered on a blanket basis for losses up to \$251,000,000, 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 coverage options 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 by the Workers' Compensation Revolving 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.

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 either to continue participation in the defined contribution option or to 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.

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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, 2015, employees contributed \$51,667, and the Lottery contributed \$80,600. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

The State of Nebraska Comprehensive Annual Financial Report (CAFR) includes pension-related disclosures as required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. 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 \$45,838.

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Receivables (Concluded)

Accounts Receivable	
Retailers (net)	\$ 6,124,195
Other	15,259
Total	<u>\$ 6,139,454</u>

5. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets: Furniture, Fixtures, and Equipment	\$ 229,264	\$ 30,734	\$ 9,211	\$ 250,787
Less: Accumulated Depreciation	194,024	16,073	9,211	200,886
Total Capital Assets, Net	<u>\$ 35,240</u>	<u>\$ 14,661</u>	<u>\$ -</u>	<u>\$ 49,901</u>

6. On-Line Games

During the fiscal year ended June 30, 2015, the Lottery offered a variety of on-line games, as described in the following table.

Game Name	Operated by	Nebraska's Share of Prize Reserves
Powerball®	MUSL	\$ 1,771,051
Nebraska Pick 5®	Nebraska Lottery	N/A
Nebraska Pick 3®	Nebraska Lottery	N/A
MyDaY®	Nebraska Lottery	N/A
Mega Millions®	MUSL	514,913
2by2®	MUSL	127,682
		<u>\$ 2,413,646</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.

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

6. On-Line Games (Concluded)

In addition, the Lottery has \$422,939 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.

7. Non-current Liabilities

Changes in non-current liabilities for the year ended June 30, 2015, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 258,037	\$ 1,330	\$ -	\$ 259,367	\$ 23,343

8. Lease Commitments

The minimum annual lease payments for operating leases as of June 30, 2015, are as follows:

Year	Amount
2016	\$ 65,066
2017	66,289
Total	\$ 131,355

Total operating lease payments for the year ended June 30, 2015, were \$63,881.

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 (Cum. Supp. 2014) identifies the specific requirements, as follows: A portion of the dollar amount of

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS (Concluded)

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

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.

As required under the Lottery's enabling legislation, transfers of \$37,106,983 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 \$19,456 in delinquent State taxes and \$31,496 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; however, the funds may be used only 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.



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, 2015, 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 21, 2015. 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 and, 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. We did identify a certain deficiency in internal control that we consider to be a significant deficiency that is described in the Comment and Recommendation section of the report.

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*.

Lottery's Response to Findings

The Lottery's response to the finding identified in our audit is described in the Comment and Recommendation Section of the report. The Lottery's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

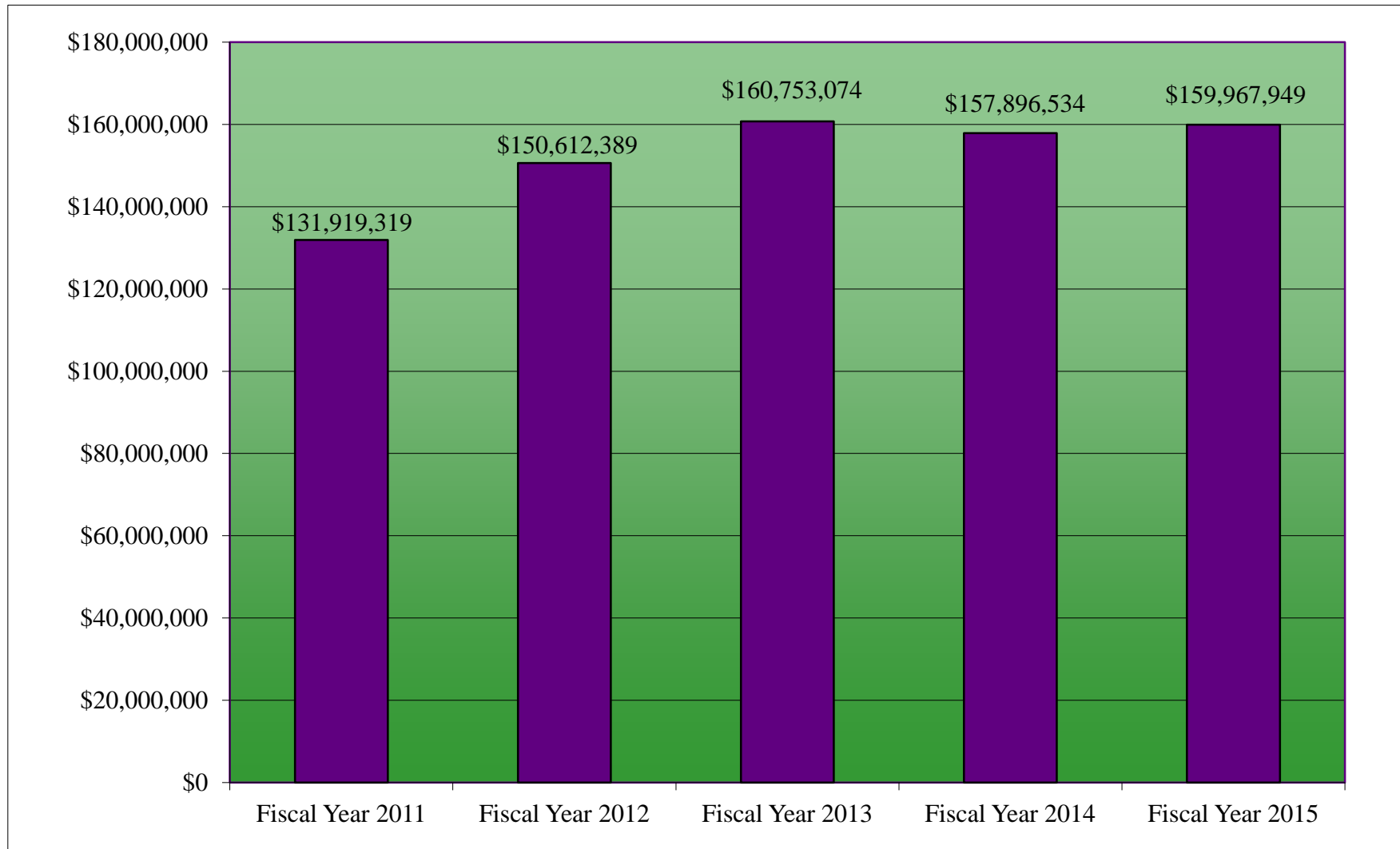
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, not to provide an opinion on the effectiveness of the Lottery's internal control or on compliance. This report is an integral part of an audit performed in accordance 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

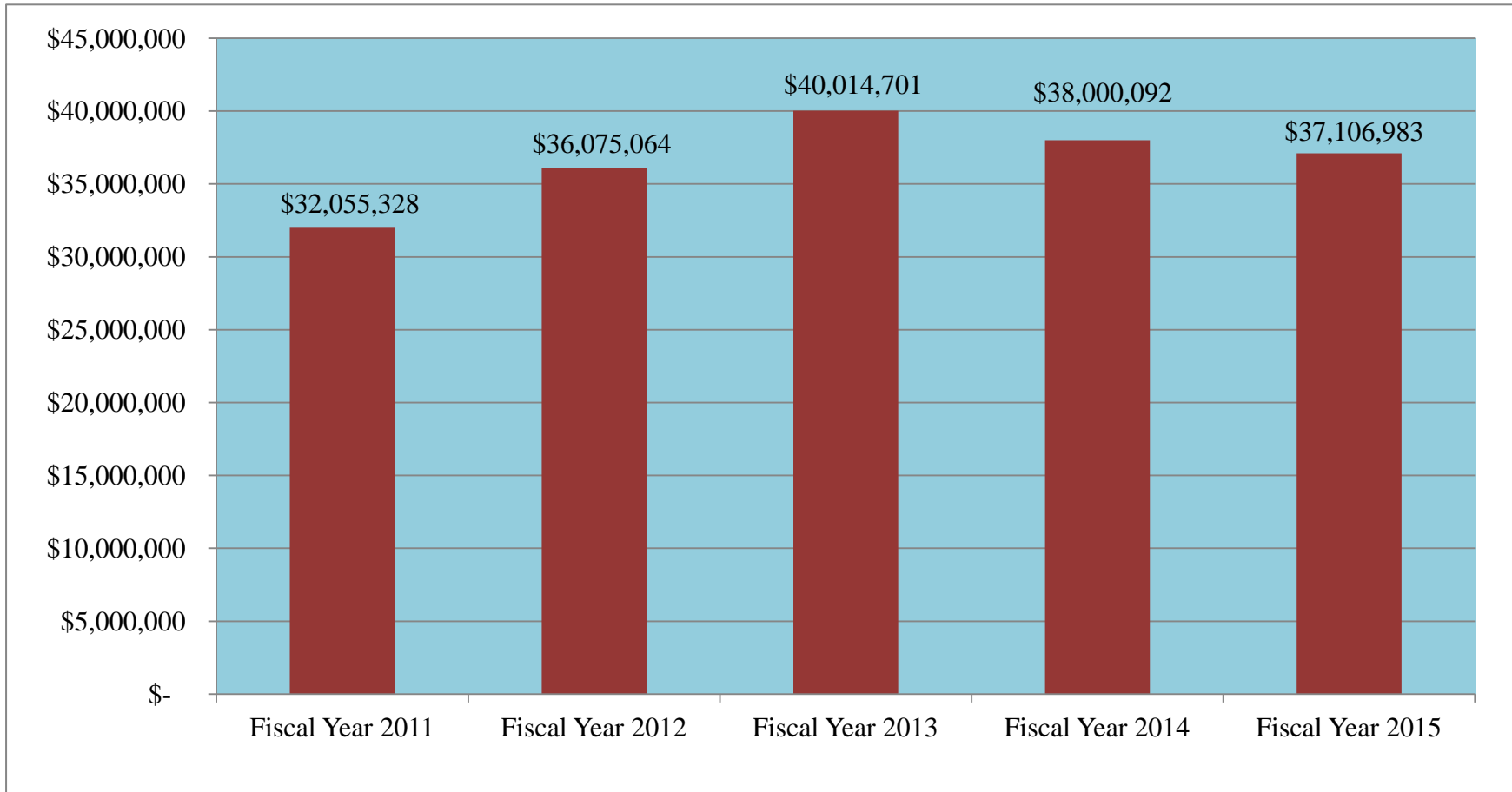
October 21, 2015

NEBRASKA LOTTERY
LOTTERY TICKET SALES
For the Fiscal Years 2011 through 2015



Note: These sales are shown on an accrual basis.

NEBRASKA LOTTERY
TOTAL OPERATING TRANSFERS TO BENEFICIARY FUNDS
For the Fiscal Years 2011 through 2015



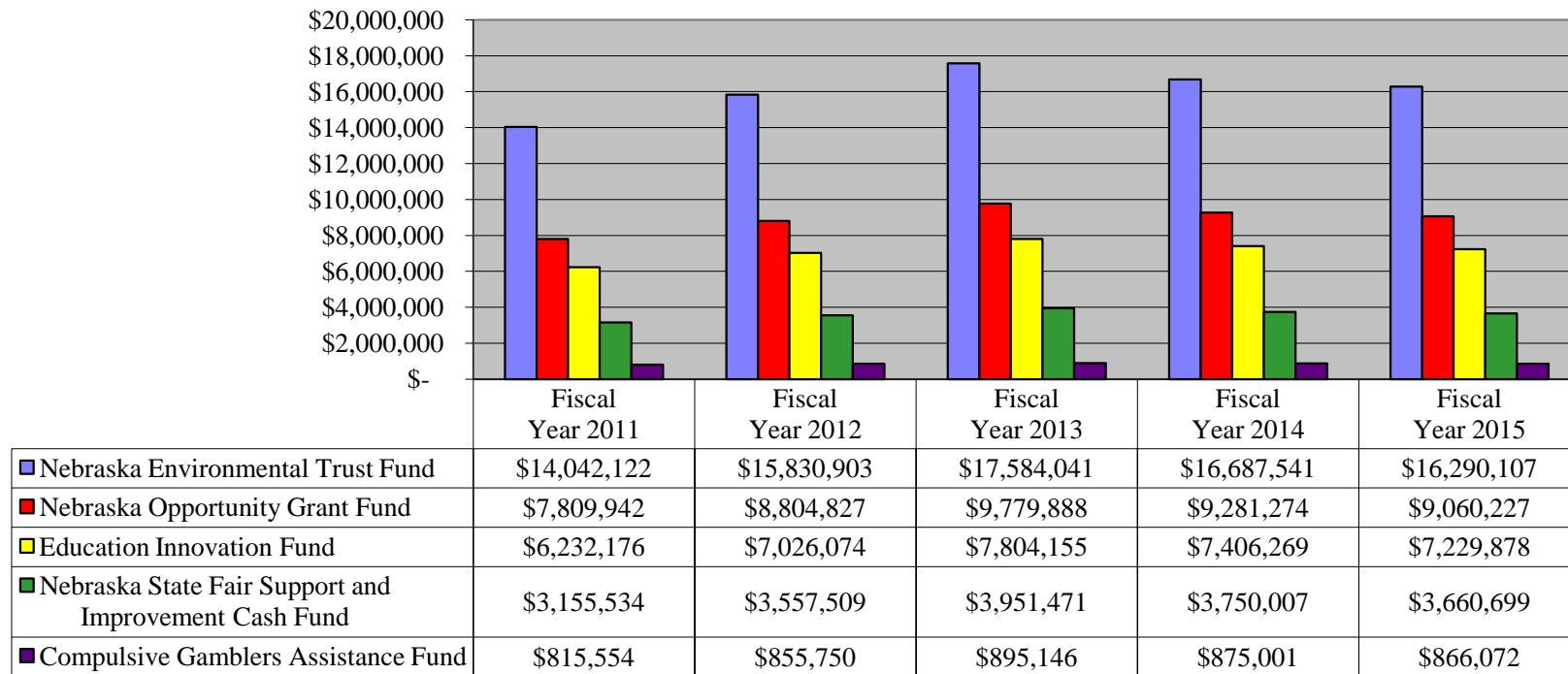
Note: The Total Operating Transfers include transfers to the Nebraska Environmental Trust Fund, the Education Innovation Fund, the Nebraska Opportunity Grant Fund, the Compulsive Gamblers Assistance Fund, and the Nebraska State Fair Support and Improvement Cash Fund. These transfers are shown on a cash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

NEBRASKA LOTTERY
SCHEDULE OF CUMULATIVE OPERATING TRANSFERS
TO BENEFICIARY FUNDS

<u>Fiscal Year</u>	<u>Transfer Amount</u>
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
2015	37,106,983
Total Cumulative Transfers	<u>\$ 564,607,090</u>

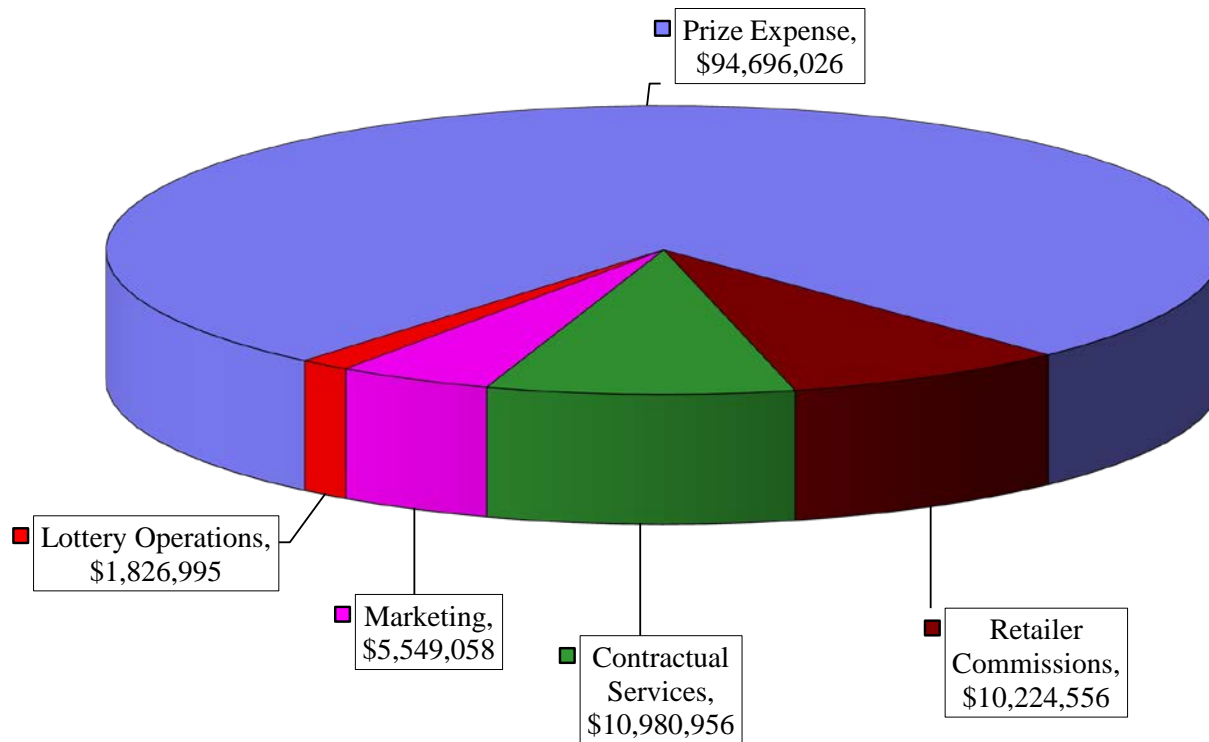
Note: Total Cumulative Transfers includes transfers to the Solid Waste Landfill Closure Fund (final allocation made in July 1997), the Nebraska Environmental Trust Fund, the Education Innovation Fund, the Nebraska Opportunity Grant Fund (beginning October 1, 2003) (LB 956 (2010) changed the Nebraska 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 (2004).

NEBRASKA LOTTERY
OPERATING TRANSFERS TO BENEFICIARY FUNDS
For the Fiscal Years 2011 through 2015



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 may be amended by the Legislature. Neb. Rev. Stat. § 9-812 (Cum. Supp. 2014) sets out specific requirements, as follows: Beginning October 1, 2003, a portion of the dollar amount of the lottery tickets 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 which 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, 2015



Total Operating Expenses \$123,277,591

Breakdown of Expenses

Prize Expense:

Instant Prize Expense	\$	62,140,150
On-Line Prize Expense	\$	34,599,406
Unclaimed Prizes	\$	(2,043,530)
Total	\$	94,696,026

Retailer Commissions:

Instant Commissions	\$	6,247,526
On-Line Commissions	\$	3,949,429
Misc. Retailer Expense	\$	27,601
Total	\$	10,224,556

Contractual Services:

GTECH	\$	10,486,847
Other Contractors	\$	494,109
Total	\$	10,980,956

Marketing Expense:

Advertising Expense	\$	4,887,915
Promotions Expense	\$	661,143
Total	\$	5,549,058

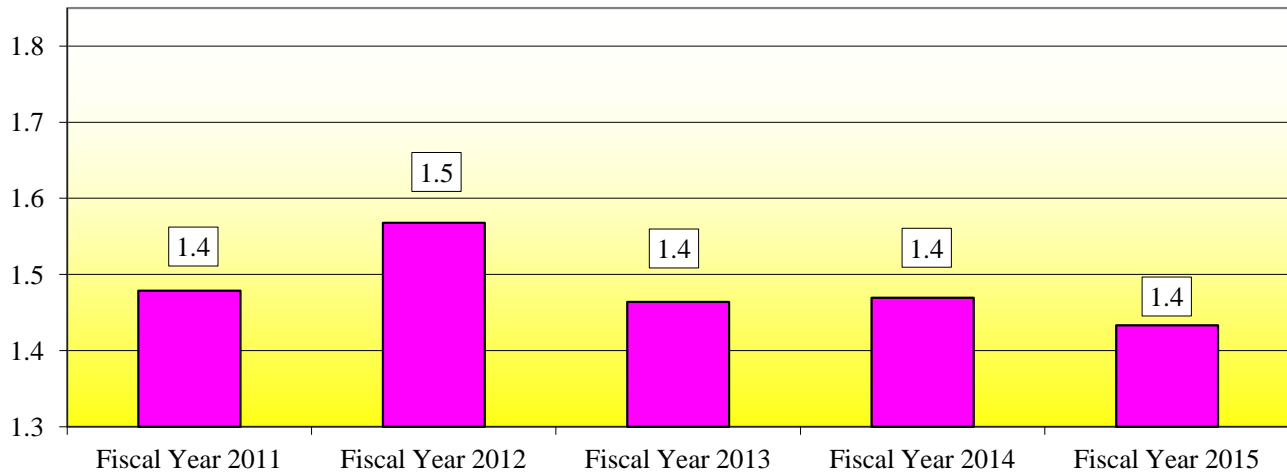
Lottery Operations:

Payroll Expense	\$	1,370,882
Other Operating Expense	\$	456,113
Total	\$	1,826,995

NEBRASKA LOTTERY

CURRENT RATIO

For the Fiscal Years 2011 through 2015

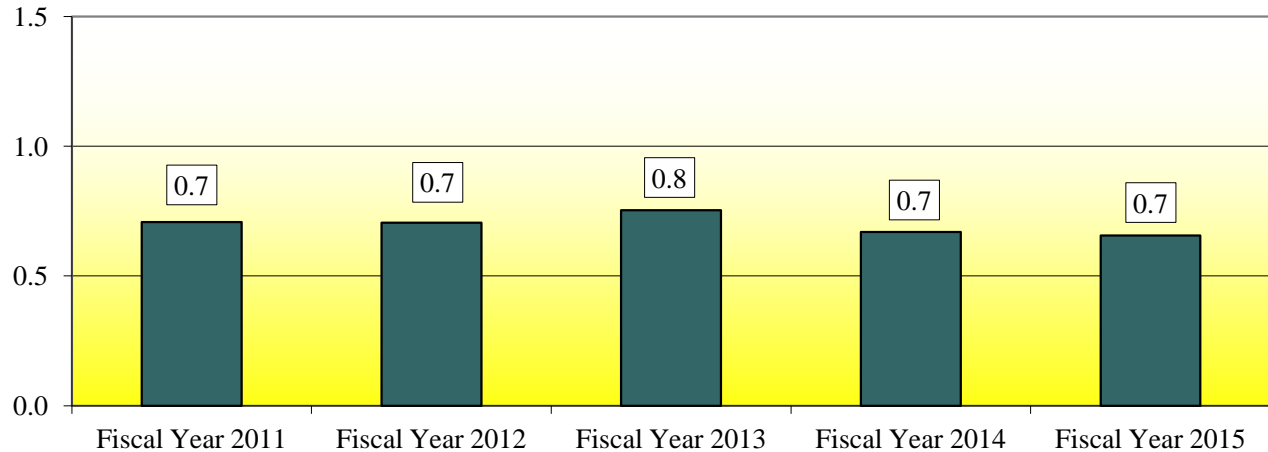


	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
Current Assets	\$ 10,844,794	\$ 11,742,549	\$ 13,936,441	\$ 12,295,363	\$ 12,473,367
Current Liabilities	\$ 7,591,576	\$ 7,735,906	\$ 9,855,555	\$ 8,663,425	\$ 9,018,207

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

QUICK RATIO

For the Fiscal Years 2011 through 2015



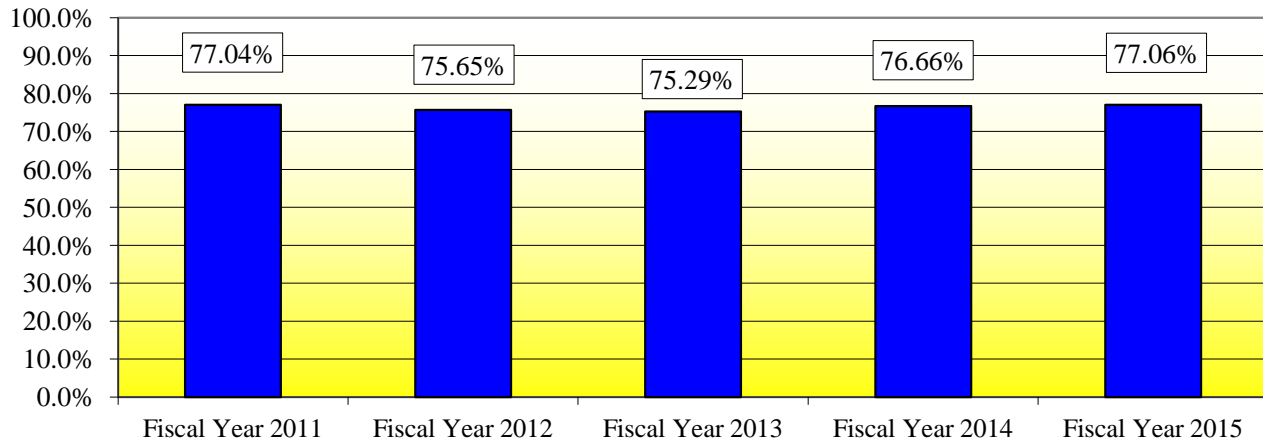
	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
Cash & Cash Equivalents	\$ 5,371,770	\$ 5,460,097	\$ 7,422,584	\$ 5,803,806	\$ 5,910,974
Current Liabilities	\$ 7,591,576	\$ 7,735,906	\$ 9,855,555	\$ 8,663,425	\$ 9,018,207

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

NEBRASKA LOTTERY

PERCENTAGE OF OPERATING EXPENSES TO REVENUES

For the Fiscal Year 2011 through 2015

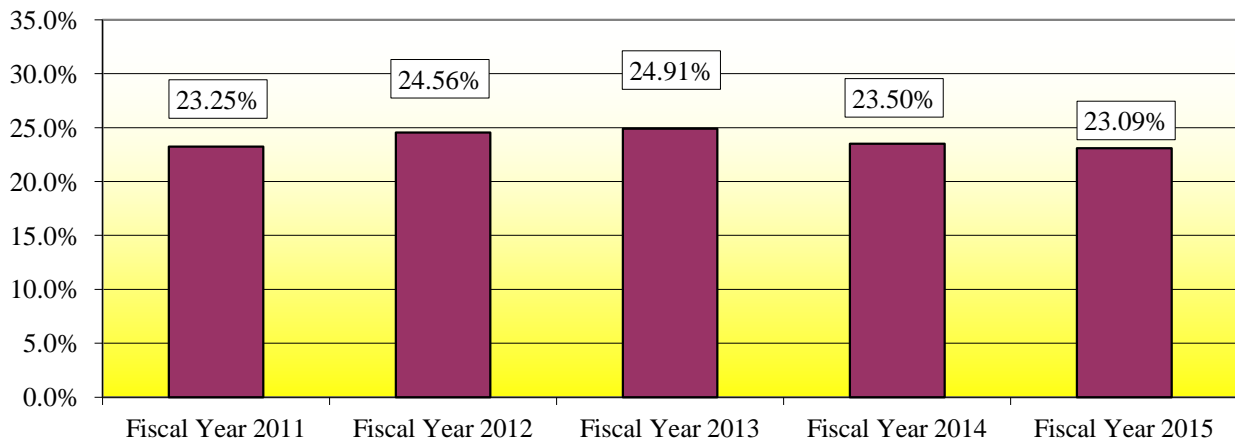


	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
Total Operating Expense	\$ 101,624,897	\$ 113,934,937	\$ 121,035,830	\$ 121,046,318	\$ 123,277,591
Total Operating Revenue	\$ 131,919,319	\$ 150,612,389	\$ 160,753,074	\$ 157,896,534	\$ 159,967,949

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

NET INCOME BEFORE TRANSFERS COMPARED TO OPERATING REVENUE

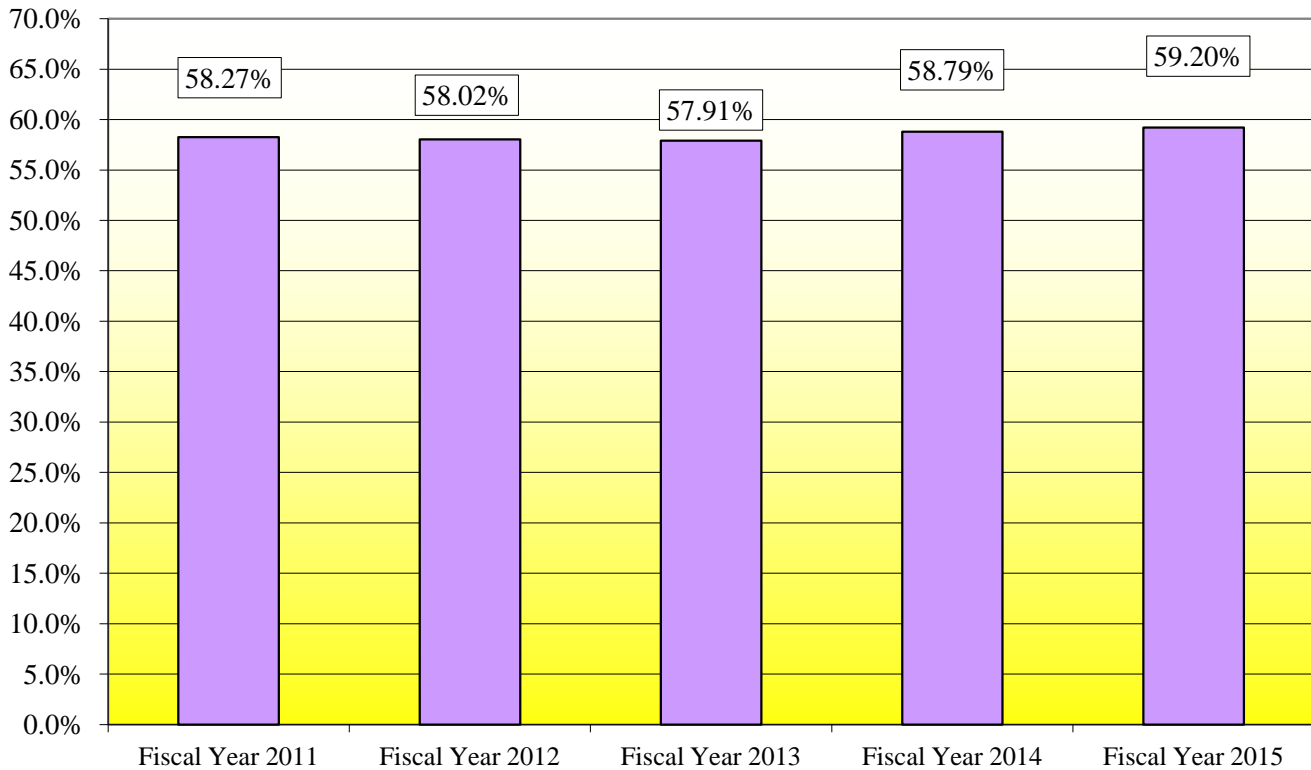
For the Fiscal Years 2011 through 2015



	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
Net Income Before Transfers	\$ 30,671,320	\$ 36,983,244	\$ 40,045,381	\$ 37,107,758	\$ 36,940,611
Total Operating Revenue	\$ 131,919,319	\$ 150,612,389	\$ 160,753,074	\$ 157,896,534	\$ 159,967,949

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 2011 through 2015



	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
Prize Expense	\$ 76,871,012	\$ 87,392,819	\$ 93,092,437	\$ 92,821,370	\$ 94,696,026
Total Operating Revenue	\$ 131,919,319	\$ 150,612,389	\$ 160,753,074	\$ 157,896,534	\$ 159,967,949

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