

**AUDIT REPORT  
OF THE  
NEBRASKA LOTTERY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2024**

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**Issued on September 24, 2024**

NEBRASKA LOTTERY

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# NEBRASKA LOTTERY

## BACKGROUND

The Legislature created the Lottery Division of the Nebraska Department of Revenue (Nebraska Lottery) 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®, Lucky for Life®, Lotto America®, and instant games.

Article III, § 24, of the Nebraska Constitution sets out the basic requirements for the transfer of lottery proceeds to certain beneficiary funds, specifying that a portion of those revenues are to “be used for education as the Legislature may direct[.]”

Neb. Rev. Stat. § 9-812(2) (Supp. 2023) offers the following legislative directive for the transfer of lottery proceeds:

*A portion of the dollar amount of the lottery tickets which have been sold on an annualized basis shall be transferred from the State Lottery Operation Trust Fund as provided in subsection (3) of this section. The dollar amount transferred pursuant to this subsection shall equal the greater of (a) the dollar amount transferred in fiscal year 2002-03 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 which have been sold on an annualized basis. To the extent that funds are available, the Tax Commissioner and director may authorize a transfer exceeding twenty-five percent of the dollar amount of the lottery tickets sold on an annualized basis.*

Additionally, § 9-812(3) provides these further instructions:

*Of the money available to be transferred as provided in this subsection:*

*(a) The first five hundred thousand dollars shall be transferred to the Compulsive Gamblers Assistance Fund to be used as provided in section 9-1006;*

*(b) Forty-four and one-half percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be used for education and transferred pursuant to section 79-3501;*

*(c) Forty-four and one-half percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be transferred to the Nebraska Environmental Trust Fund to be used as provided in the Nebraska Environmental Trust Act;*

*(d) Ten percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be transferred to the Nebraska State Fair Board if the most populous city within the county in which the fair is located provides matching funds equivalent to ten percent of the funds available for transfer. Such matching funds may be obtained from the city and any other private or public entity, except that no portion of such matching funds shall be provided by the state. If the Nebraska State Fair ceases operations, ten percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be transferred to the General Fund; and*

*(e) One percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be transferred to the Compulsive Gamblers Assistance Fund to be used as provided in section 9-1006.*

## NEBRASKA LOTTERY

### **BACKGROUND**

(Concluded)

Neb. Rev. Stat. § 79-3501(1) (Supp. 2023) states:

*For fiscal years through fiscal year 2023-24, the money available to be used for education pursuant to subdivision (3)(b) of section 9-812 shall be transferred to the Nebraska Education Improvement Fund.*

### **MISSION STATEMENT**

The Nebraska Lottery's webpage (<https://nelottery.com/homeapp/about/main>) contains the following 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

**KEY OFFICIALS AND AGENCY CONTACT INFORMATION**

**Nebraska Lottery Executive Management**

<b>Name</b>	<b>Title</b>
James R. Kamm	Tax Commissioner
Brian Rockey	Lottery Director
Dennis Nelson	Lottery Finance Manager

The Nebraska Lottery  
137 N.W. 17<sup>th</sup> Street  
Lincoln, NE 68528-1204  
402-471-6100  
lottery@nelottery.com



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley  
State Auditor

Mike.Foley@nebraska.gov  
PO Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
auditors.nebraska.gov

## NEBRASKA LOTTERY

### INDEPENDENT AUDITOR'S REPORT

State Tax Commissioner  
Nebraska Department of Revenue, Lottery Division  
Lincoln, Nebraska

#### Report on the Audit of the Financial Statements

##### *Opinion*

We have audited the financial statements of the business-type activities of the Nebraska Department of Revenue, Lottery Division (Nebraska Lottery), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Nebraska Lottery's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Nebraska Lottery, as of June 30, 2024, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

##### *Basis for Opinion*

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

##### *Emphasis of Matter*

As discussed in Note 1, the financial statements of the Nebraska Lottery are intended to present the financial position and the changes in financial position of only that portion of the business activities of the State that is attributable to the transactions of the Nebraska Lottery. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of June 30, 2024, and the changes in its financial position, or its cash flows thereof, 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.

##### *Responsibilities of Management for the Financial Statements*

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Nebraska Lottery's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Lottery's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Nebraska Lottery's ability to continue as a going concern for a reasonable period of time.

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

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 7-10 herein, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the statistical section but does not include the basic financial statements and our auditor’s report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2024, on our consideration of the Nebraska 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Nebraska Lottery’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nebraska Lottery’s internal control over financial reporting and compliance.

September 23, 2024



Matt Schochenmaier, CPA, CISA, CFE  
Audit Manager  
Lincoln, Nebraska



## NEBRASKA LOTTERY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Lottery (Lottery) annual audit presents management's discussion and analysis of the financial performance of the Lottery for the fiscal period ended June 30, 2024. 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 Lottery's management.

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

The Nebraska Legislature established the 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, 2024. 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). The largest asset change was Accounts Receivable and Reserves on Deposit which increased about \$980,000. Approximately \$830,000 of that increase was related to a journal entry that the Lottery makes each year to recognize sales for scratch tickets that have been sent to retail locations but have not been accounted for as a sale yet under its standard sales process. This journal entry is reversed in the following year. Also, there was a reduction in Reserves on Deposit (Noncurrent) of \$240,000 which was due to prize reserve rebalancing by the Multi-State Lottery Association (MUSL) which reallocated funds from the noncurrent classification to the current classification for Reserves on Deposit.

On the Liability side, the Prizes Payable increased about \$320,000 (both products). For FY24, the Lottery had \$1.4 million more in sales but the prize expense for those sales was less due to the difference in the prize expense calculation. The increase was from Lotto sales which has a lower prize expense calculation which decreased the Prize Expense and the related Prizes Payable by \$265,000. The sales accrual journal entry mentioned in the previous paragraph would have included an accrual component that increased Prize Expense and the related Prizes Payable by about \$630,000.

In the Net Position section, the Unrestricted Assets increased about \$1.5 million which mostly was the result of transferring less to the trust fund beneficiaries than was earned during the year. At year-end, before the financial statements are finalized, the Lottery uses estimates to make the final transfer prior to June 30. The movement of Reserves on Deposit from noncurrent to current also increased the Unrestricted Assets.

NEBRASKA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

Table A  
Summary of Net Position

	FY 2024	FY 2023	Change
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 9,019,256	\$ 8,076,160	\$ 943,096
Accounts Receivable and Reserves on Deposit	8,564,512	7,582,012	982,500
Prepaid Prizes and Costs	340,795	394,450	(53,655)
<b>TOTAL CURRENT ASSETS</b>	<u>17,924,563</u>	<u>16,052,622</u>	<u>1,871,941</u>
<b>NONCURRENT ASSETS</b>			
Reserves on Deposit	2,182,159	2,328,874	(146,715)
Capital and Lease Assets (Net)	1,045,911	1,168,472	(122,561)
<b>TOTAL NONCURRENT ASSETS</b>	<u>3,228,070</u>	<u>3,497,346</u>	<u>(269,276)</u>
<b>TOTAL ASSETS</b>	<u>\$ 21,152,633</u>	<u>\$ 19,549,968</u>	<u>\$ 1,602,665</u>
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 2,630,332	\$ 2,471,929	\$ 158,403
Compensated Absences and Accrued Payroll Payable	105,248	95,646	9,602
Prizes Payable	8,088,795	7,768,906	319,889
Other Accrued Liabilities	552,109	675,164	(123,055)
<b>TOTAL CURRENT LIABILITIES</b>	<u>11,376,484</u>	<u>11,011,645</u>	<u>364,839</u>
<b>NONCURRENT LIABILITIES</b>			
Right to Use Lease Liability	936,413	1,007,148	(70,735)
Compensated Absences Payable	282,246	256,408	25,838
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>1,218,659</u>	<u>1,263,556</u>	<u>(44,897)</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 12,595,143</u>	<u>\$ 12,275,201</u>	<u>\$ 319,942</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 38,763	\$ 91,476	\$ (52,713)
Restricted for Future Prizes	2,182,159	2,328,874	(146,715)
Unrestricted Assets	6,336,568	4,854,417	1,482,151
<b>TOTAL NET POSITION</b>	<u>\$ 8,557,490</u>	<u>\$ 7,274,767</u>	<u>\$ 1,282,723</u>

NEBRASKA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

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

After experiencing record sales for FY23, the sales for this year set another record with a small increase of \$1.4 million (see Table B). The Lottery saw scratch sales decrease by \$5.6 million (-4.9%) and lotto sales increase by \$7 million (+6.8%). The overall increase was .6%.

On the scratch side, the Lottery saw decreases across four of the seven price points. The largest decrease was in the \$20 tickets (\$3.4 million) followed by the \$3 tickets (\$2.4 million). The sales for the \$2, \$10, and \$30 prize points did have increases, but combined the increase was only \$2.1 million. The decrease in Scratch sales was attributed to competition from expanded gambling options such as casinos and cash devices.

On the lotto side, \$5.2 million of the increase was due to Powerball and \$2.5 million was from Pick 5. For Powerball, the increase was attributed to several jackpot runs. The size and run of jackpots materially affect weekly lotto sales for jackpot games, and during FY24 there were three large jackpot runs for Powerball including one that went to \$1.75 billion. For Pick 5, the game was updated to satisfy player demand. The game was changed to a matrix of 5 of 40 balls with a nightly roll of \$10,000. The second-tier prize was changed from \$450 to \$500. Mega Millions did see a decline of \$2.1 million from the previous year, but FY23 had been the largest sales year for that game. During this year, the Lottery introduced a new lotto game, Lotto America. It started in May and only had minimal sales for this year.

The expenses for the year did not change much overall. The largest change was a \$370,000 increase in Marketing Expense. Most of this increase was related to the advertising campaign that the Lottery did to launch the Lotto America game.

(Continued on Next Page)

NEBRASKA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Concluded)

Table B  
Summary of Revenues, Expenses, and Changes in Net Position

	FY 2024	FY 2023	Change
<b>REVENUES</b>			
Sales	\$ 224,616,309	\$ 223,571,501	\$ 1,044,808
Sales Returns	(3,114,848)	(3,441,666)	326,818
<b>OPERATING REVENUE</b>	<u>221,501,461</u>	<u>220,129,835</u>	<u>1,371,626</u>
Interest Income	447,540	372,206	75,334
MUSL and Other Income	102,874	2,758	100,116
<b>NON-OPERATING REVENUE</b>	<u>550,414</u>	<u>374,964</u>	<u>175,450</u>
<b>TOTAL REVENUES</b>	<u>\$ 222,051,875</u>	<u>\$ 220,504,799</u>	<u>\$ 1,547,076</u>
<b>EXPENSES</b>			
Prize Expense	\$ 129,091,826	\$ 128,952,199	\$ 139,627
Retailer Commissions	14,119,641	14,312,852	(193,211)
Contractual Services	12,565,692	12,818,730	(253,038)
Marketing Expense	7,249,365	6,876,131	373,234
Lottery Operating Expense	2,405,229	2,359,244	45,985
Lease Interest Expense	13,126	14,003	(877)
<b>TOTAL EXPENSES</b>	<u>\$ 165,444,879</u>	<u>\$ 165,333,159</u>	<u>\$ 111,720</u>
<b>NET INCOME BEFORE TRANSFERS</b>	<u>\$ 56,606,996</u>	<u>\$ 55,171,640</u>	<u>\$ 1,435,356</u>
<b>TRANSFERS TO OTHER FUNDS</b>	<u>\$ 55,324,273</u>	<u>\$ 55,765,983</u>	<u>\$ (441,710)</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 1,282,723</u>	<u>\$ (594,343)</u>	<u>\$ 1,877,066</u>
<b>BEGINNING NET POSITION</b>	<u>\$ 7,274,767</u>	<u>\$ 7,869,110</u>	<u>\$ (594,343)</u>
<b>ENDING NET POSITION</b>	<u>\$ 8,557,490</u>	<u>\$ 7,274,767</u>	<u>\$ 1,282,723</u>

**OTHER ITEMS OF NOTE**

The unpredictability of Powerball, Mega Millions, Lotto America, and Pick 5 jackpots, along with external forces that affect player purchases of both scratch and lotto products (fuel prices, economic situations, international tensions, other entertainment options, casino gaming, pandemics, tax legislation, 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 Lottery's activities. If you have any questions about this report, please contact the Lottery at P.O. Box 98901, Lincoln, NE, 68509-8901.

NEBRASKA LOTTERY  
**STATEMENT OF NET POSITION**  
AS OF JUNE 30, 2024

**ASSETS**

**CURRENT ASSETS:**

Cash and Cash Equivalents	\$ 9,019,256
Accounts Receivable, Net of Allowance (Note 5)	7,734,899
Prepaid Prizes	340,795
Reserves on Deposit (Note 7)	829,613
<b>TOTAL CURRENT ASSETS</b>	<b>17,924,563</b>

**NONCURRENT ASSETS:**

Reserves on Deposit (Note 7)	2,182,159
Capital Assets:	
Furniture, Fixtures, and Equipment, Net (Note 6)	58,100
Right to Use Lease Asset, Net (Note 11)	987,811
<b>Total Capital Assets, Net</b>	<b>\$ 1,045,911</b>

**TOTAL NONCURRENT ASSETS**

**\$ 3,228,070**

**TOTAL ASSETS**

**\$ 21,152,633**

**LIABILITIES**

**CURRENT LIABILITIES:**

Accounts Payable	\$ 1,098,611
Vendors Payable	1,531,721
Compensated Absences Payable (Note 8)	45,947
Accrued Payroll Payable	59,301
Withheld Taxes on Prizes Paid	53,253
Prizes Payable	8,088,795
Due to Other Funds	14,164
Lease Liability (Note 8)	70,735
Other Accrued Liabilities	413,957

**TOTAL CURRENT LIABILITIES**

**11,376,484**

**NONCURRENT LIABILITIES:**

Lease Liability (Note 8)	936,413
Compensated Absences Payable (Note 8)	282,246

**TOTAL NONCURRENT LIABILITIES**

**1,218,659**

**TOTAL LIABILITIES**

**12,595,143**

**NET POSITION**

Net Investment in Capital Assets	38,763
Restricted for Future Prizes (Note 7)	2,182,159
Unrestricted (Note 10)	6,336,568

**TOTAL NET POSITION**

**8,557,490**

**TOTAL LIABILITIES AND NET POSITION**

**\$ 21,152,633**

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**  
OR THE YEAR ENDED JUNE 30, 2024

<b>OPERATING REVENUE:</b>	
Sales	\$ 224,616,309
Less: Sales Returns	<u>3,114,848</u>
<b>TOTAL OPERATING REVENUE</b>	<u>221,501,461</u>
 <b>OPERATING EXPENSES:</b>	
Prize Expense, Net of Unclaimed Prizes (Note 1c)	129,091,826
Retailer Commissions	14,119,641
Contractual Services Expense	12,565,692
Marketing	7,249,365
Lottery Operating	<u>2,405,229</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>165,431,753</u>
 <b>OPERATING INCOME</b>	 56,069,708
 <b>NONOPERATING REVENUE (EXPENSES):</b>	
Interest Income	447,540
MUSL and Other Income	102,874
Lease Interest Expense	<u>(13,126)</u>
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<u>537,288</u>
 <b>INCOME BEFORE OPERATING TRANSFERS</b>	 56,606,996
 <b>TRANSFERS TO OTHER FUNDS (Note 9)</b>	 <u>(55,324,273)</u>
 <b>CHANGE IN NET POSITION</b>	 1,282,723
 <b>TOTAL NET POSITION, BEGINNING OF YEAR</b>	 <u>7,274,767</u>
 <b>TOTAL NET POSITION, END OF YEAR</b>	 <u>\$ 8,557,490</u>

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, 2024**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Ticket Sales	\$ 220,450,320
Prizes Paid to Winners	(128,731,223)
Commissions Paid to Retailers	(14,114,854)
Paid to Contractors for Goods and Services	(19,215,365)
Paid to Employees	(1,865,623)
Other Operating Expenses	(709,646)
Net Cash Provided by Operating Activities	55,813,609

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Paid to Compulsive Gamblers Assistance Fund	(1,048,242)
Paid to Nebraska Environmental Trust Fund	(24,396,802)
Paid to Nebraska Education Improvement Fund	(24,396,802)
Paid to Nebraska State Fair Support and Improvement Cash Fund	(5,482,427)
Net Cash Used in NonCapital Financing Activities	(55,324,273)

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

Purchase of Property and Equipment	(9,913)
Lease Payments	(83,047)
Net Cash Used in Capital and Related Financing Activities	(92,960)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest on Cash	447,540
Multi-State Lottery Association Income	99,180
Net Cash Provided by Investing Activities	546,720

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

943,096

**CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR**

8,076,160

**CASH AND CASH EQUIVALENTS AT END OF YEAR**

\$ 9,019,256

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

Operating Income	\$ 56,069,708
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization Expenses	136,168
Changes in Assets (Increase) Decrease in:	
Reserves on Deposit	(194,933)
Prepaid Prizes	53,655
Accounts Receivable - Net	(640,852)
Changes in Liabilities Increase (Decrease) in:	
Other Accrued Liabilities	(82,249)
Accounts Payable and Due to Other Funds	264,767
Prizes Payable	319,889
Compensated Absences and Accrued Payroll Payable	35,440
Withheld Taxes on Prizes Paid	1,353
Vendors Payable	(149,337)
Total Adjustments	(256,099)
Net Cash Provided by Operating Activities	\$ 55,813,609

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, 2024

**1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The accompanying basic financial statements of the Nebraska Department of Revenue, Lottery Division, (Nebraska 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 Nebraska 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 basic financial statements have been prepared primarily from data maintained by the Nebraska 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.

**B. Reporting Entity**

The Nebraska Lottery was created on February 24, 1993, by the Nebraska Legislature as a division of the Nebraska Department of Revenue (Department), established under and governed by the laws of the State of Nebraska. As such, the Nebraska Lottery is exempt from State and Federal income taxes. The financial statements include all funds of the Nebraska Lottery. The Nebraska 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. 2023), are to be transferred to the Compulsive Gamblers Assistance Fund, the Nebraska Education Improvement Fund, the Nebraska Environmental Trust Fund, and the Nebraska State Fair Support and Improvement Cash Fund, a fund of the State Fair Board. The financial statements include only the Nebraska Lottery and are not intended to present the financial position of the Department or the results of operations and changes in net positions of the Department as a whole. The Department is part of the primary government for the State of Nebraska's reporting entity.

The Nebraska Lottery has also considered all potential component units for which it is financially accountable, including other organizations that are fiscally dependent on the Nebraska Lottery or whose relationship with the Nebraska Lottery is so significant 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 Nebraska 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 Nebraska Lottery. The Nebraska Lottery is also considered financially accountable if an organization is fiscally dependent on it, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Nebraska 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 Nebraska Lottery. No component units were identified. The Nebraska Lottery is part of the primary government for the State of Nebraska's reporting entity.

**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.



# NEBRASKA LOTTERY

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

The Nebraska 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 includes restricted and unrestricted resources. The Nebraska Lottery's operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

It is the policy of the State to spend restricted resources only when unrestricted resources are insufficient or unavailable. When both restricted and unrestricted resources are available for use, it is the Nebraska Lottery's policy to use unrestricted resources first, then restricted resources, as they are needed.

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 Nebraska 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 5.0% - 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 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. Unclaimed prizes for the fiscal year ended June 30, 2024, totaled \$3,838,113.

The activities of the Nebraska 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, 2024, 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.

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

**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 Nebraska 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.

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 are 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 when 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 \$5,000 at the date of acquisition and has an expected useful life of more than one year is capitalized. Computers are an exception to this policy and are capitalized if they have a cost in excess of \$1,500 and a useful life of more than one year.

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

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

**H. Leases**

The Lottery determines if an arrangement is a lease at inception. Long-term leases are included in Right-to-Use (RTU) Assets and RTU Lease Liabilities on the Statement of Net Position. RTU assets represent the Lottery's right to use an underlying asset for the lease term, and lease liabilities represent the Lottery's obligation to make lease payments. RTU assets and liabilities are recognized at the present value of lease payments over the lease term. The Lottery has elected to recognize payments for short-term leases, those with a lease term of 12 months or less, as an expense as incurred. These leases are not included as right to use assets or lease liabilities. The RTU assets are amortized over the shorter of the lease term or the underlying asset useful life.

**I. Compensated Absences**

All permanent employees working for the Nebraska 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 currently eligible to receive termination payments and other employees expected to become eligible in the future to receive such payments upon termination, are included.

Nebraska 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 either death or reaching the retirement eligibility age of 55, 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 Nebraska 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.

**J. 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 June 30, 2024, and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. **Deposits and Investments**

Investment of all available cash is made by the State Investment Officer on a daily basis, based on total bank balances. These funds are held in the State of Nebraska Operating Investment Pool (OIP), an internal investment pool. Additional information on the deposits and investments portfolio, including investment policies, risks, and types of investments, can be found in the State of Nebraska's Annual Comprehensive Financial Report (ACFR).

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. Contingencies and Commitments

**Risk Management.** The Nebraska 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 Nebraska Lottery, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability, motor vehicle liability and physical damage, employee health care, employee indemnification, and workers' compensation. The State has chosen to purchase insurance for:

- A. Life insurance for eligible employees.
- B. Crime coverage, with a limit of \$11,000,000 per occurrence and a deductible of \$1,000,000 per occurrence subject to specific conditions, limits, and exclusions.
- C. Real and personal property on a blanket basis for losses up to \$200,000,000, with an all other perils deductible of \$1,000,000 per loss occurrence. Newly acquired properties are covered up to \$10 million for 90 days. If not reported after 90 days, the property is covered for \$5 million under the miscellaneous unnamed location coverage. There is a wind and hail limit on the real and personal property of \$76,250,000. This coverage does not apply ground up. 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 the Nebraska Department of Administrative Services – Risk Management Division.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. 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 Nebraska Lottery's financial statements. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions.

**Litigation.** The potential amount of liability involved in litigation pending against the Nebraska Lottery, if any, could not be determined at this time. However, it is the Nebraska Lottery's opinion that final settlement of those matters should not have an adverse effect on the Nebraska Lottery's ability to administer current programs. Any judgment against the Nebraska Lottery would have to be processed through the State Claims Board and be approved by the Legislature.

4. 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 and is administered by the Nebraska Public Employees Retirement Systems. 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.

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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 years, 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 Nebraska 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 is to be equal to the sum of the employee and employer accounts. 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 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 State Plan that are actuarially equivalent to the normal form, including the option of lump-sum or partial lump-sum.

For the fiscal year ended June 30, 2024, employees contributed \$68,667, and the Nebraska Lottery contributed \$107,121. A separate plan report is issued by and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

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

5. **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. 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 \$101,987.

Accounts Receivable	
Retailers (net)	\$ 7,686,462
Other	48,437
	<hr/>
Total	\$ 7,734,899
	<hr/>

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

6. Capital Assets

Capital asset activity for the year ended June 30, 2024, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets: Furniture, Fixtures, and Equipment (FFE)	\$ 726,611	\$ 13,607	\$ -	\$ 740,218
Right to Use (RTU) Lease Asset	1,211,941	-	-	1,211,941
Less: Accumulated Depreciation (FFE)	621,935	60,183	-	682,118
Less: Accumulated Amortization (RTU)	148,145	75,985	-	224,130
Total Capital Assets, Net	<u>\$ 1,168,472</u>	<u>\$ (122,561)</u>	<u>\$ -</u>	<u>\$ 1,045,911</u>

Combined depreciation and amortization expense for the fiscal year ended June 30, 2024, was \$136,168.

7. On-Line Games

During the fiscal year ended June 30, 2024, the Nebraska Lottery offered a variety of on-line games, as described below.

Game Name	Administered by	Nebraska's Share of Prize Reserves
Powerball	MUSL	\$ 1,259,928
Nebraska Pick 5	Nebraska Lottery	N/A
Nebraska Pick 3	Nebraska Lottery	N/A
MyDaY	Nebraska Lottery	N/A
Mega Millions	MUSL	833,526
2by2	MUSL	88,705
Lucky for Life	MUSL	N/A
Lotto America	MUSL	N/A
	Total	<u>\$ 2,182,159</u>

The Nebraska 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 some of the games 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 at least one year before receiving their remaining share of the prize reserve funds.

In addition, the Nebraska Lottery has \$829,613 held by MUSL, reported on the Statement of Net Position as Reserves on Deposit (Current), which can be used to pay the Nebraska 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.

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7. **On-Line Games** (Concluded)

The Powerball and Mega Millions grand prizes can be paid either as annual installments or as 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 Nebraska Lottery’s financial statements.

The Lucky for Life top two prize levels can be paid either through annuity payments for the life of the winner or as a lump sum cash payment, depending on the selection of the winner when claiming the prize. If a Nebraska winner selects the annuity, the Nebraska Lottery has a contract with MUSL so that MUSL will secure bids from financial services companies to provide the annual payments directly to the winner. Each participating jurisdiction contributes a proportionate share to fund the annuity or lump sum payment. During this fiscal year, there were four second-tier winners. There was only one annuity as the other winners chose the cash option or the prize expired.

8. **Noncurrent Liabilities**

Changes in noncurrent liabilities for the year ended June 30, 2024, are summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 294,722	\$ 71,785	\$ 38,314	\$ 328,193	\$ 45,947
Lease Liability	1,076,996	-	69,848	1,007,148	70,735
Total	\$ 1,371,718	\$ 71,785	\$ 108,162	\$ 1,335,341	\$ 116,682

9. **Significant Compliance Requirements**

Article III, § 24, of the Nebraska Constitution sets out the basic requirements for the transfer of lottery proceeds to certain beneficiary funds, specifying that a portion of those revenues are to “be used for education as the Legislature may direct[.]”

Neb. Rev. Stat. § 9-812(2) (Supp. 2023) offers the following legislative directive for the transfer of lottery proceeds:

*A portion of the dollar amount of the lottery tickets which have been sold on an annualized basis shall be transferred from the State Lottery Operation Trust Fund as provided in subsection (3) of this section. The dollar amount transferred pursuant to this subsection shall equal the greater of (a) the dollar amount transferred in fiscal year 2002-03 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 which have been sold on an annualized basis. To the extent that funds are available, the Tax Commissioner and director may authorize a transfer exceeding twenty-five percent of the dollar amount of the lottery tickets sold on an annualized basis.*

NEBRASKA LOTTERY

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

Additionally, § 9-812(3) provides these further instructions:

*Of the money available to be transferred as provided in this subsection:*

*(a) The first five hundred thousand dollars shall be transferred to the Compulsive Gamblers Assistance Fund to be used as provided in section 9-1006;*

*(b) Forty-four and one-half percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be used for education and transferred pursuant to section 79-3501;*

*(c) Forty-four and one-half percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be transferred to the Nebraska Environmental Trust Fund to be used as provided in the Nebraska Environmental Trust Act;*

*(d) Ten percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be transferred to the Nebraska State Fair Board if the most populous city within the county in which the fair is located provides matching funds equivalent to ten percent of the funds available for transfer. Such matching funds may be obtained from the city and any other private or public entity, except that no portion of such matching funds shall be provided by the state. If the Nebraska State Fair ceases operations, ten percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be transferred to the General Fund; and*

*(e) One percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be transferred to the Compulsive Gamblers Assistance Fund to be used as provided in section 9-1006.*

Neb. Rev. Stat. § 79-3501(1) (Supp. 2023) states:

*For fiscal years through fiscal year 2023-24, the money available to be used for education pursuant to subdivision (3)(b) of section 9-812 shall be transferred to the Nebraska Education Improvement Fund.*

As required under its enabling legislation, transfers of \$55,324,273 were made to other funds during the fiscal year.

The Nebraska Lottery develops game structures to comply with the minimum prize provision of its enabling legislation, which requires a minimum of 40 percent to be paid in prizes.

The Nebraska 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 Nebraska Lottery collected \$23,087 in delinquent State taxes and \$19,750 in delinquent child support payments.

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



NEBRASKA LOTTERY

**NOTES TO THE FINANCIAL STATEMENTS**  
(Concluded)

**10. Unrestricted Net Position**

The Nebraska 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 Nebraska Lottery. Management’s intention is to use the unrestricted net position to fund additional prize pay-outs, retailer incentives, and other game enhancements.

**11. Leases**

The Nebraska Lottery leases office space at 137 NW 17th Street in Lincoln, Nebraska. The current lease contains extensions that can be exercised providing the opportunity to go through June 2037. As of June 30, 2024, the value of the Right to Use Lease Asset was \$1,211,941, and the related accumulated amortization was \$224,130. The lease arrangement requires payments for utility and janitorial services that are excluded from the lease liability calculation as non-lease components. Below is the principal and interest payment disclosure requirement for this lease.

Fiscal Period	Principal	Interest	Total
2025	\$ 70,735	\$ 12,237	\$ 82,972
2026	71,634	11,338	82,972
2027	72,544	10,428	82,972
2028	67,575	9,546	77,121
2029	70,023	8,674	78,697
2030-2034	388,404	29,209	417,613
2035-2037	266,233	4,981	271,214
Total	\$ 1,007,148	\$ 86,413	\$ 1,093,561



# NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley  
State Auditor

Mike.Foley@nebraska.gov  
PO Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
auditors.nebraska.gov

## NEBRASKA LOTTERY

### INDEPENDENT AUDITOR'S 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*

State Tax Commissioner  
Nebraska Department of Revenue, Lottery Division  
Lincoln, Nebraska

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 (*Government Auditing Standards*), the financial statements of the business-type activities of the Nebraska Department of Revenue, Lottery Division, (Nebraska Lottery) as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Nebraska Lottery's basic financial statements, and have issued our report thereon dated September 23, 2024. The report was modified to emphasize that the financial statements present only the funds of the Nebraska Lottery.

#### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Nebraska Lottery's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Nebraska 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Nebraska 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 statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

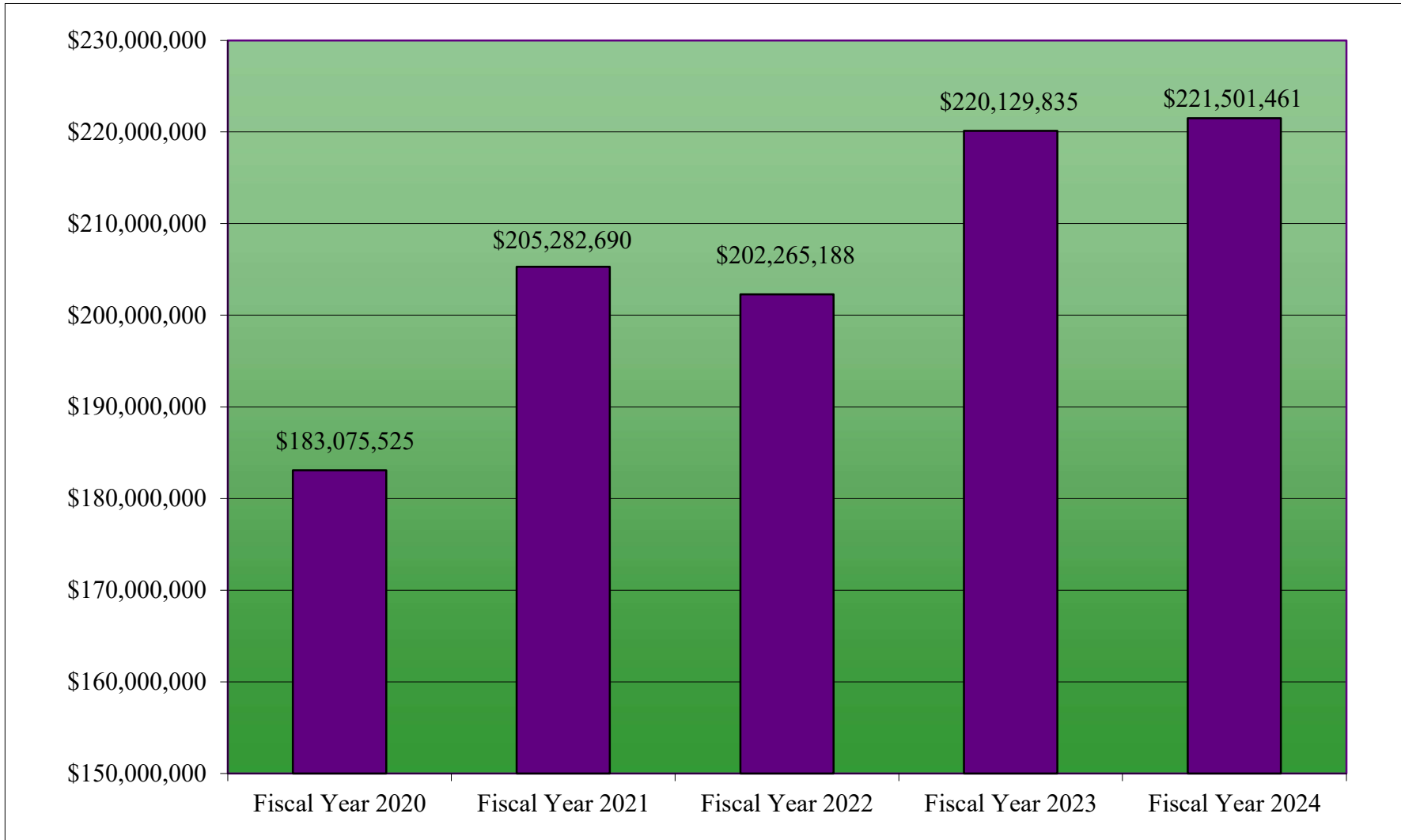
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, not to provide an opinion on the effectiveness of the Nebraska Lottery’s internal control or on compliance. This report is an integral part of an audit performed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



Matt Schochenmaier, CPA, CISA, CFE  
Audit Manager  
Lincoln, Nebraska

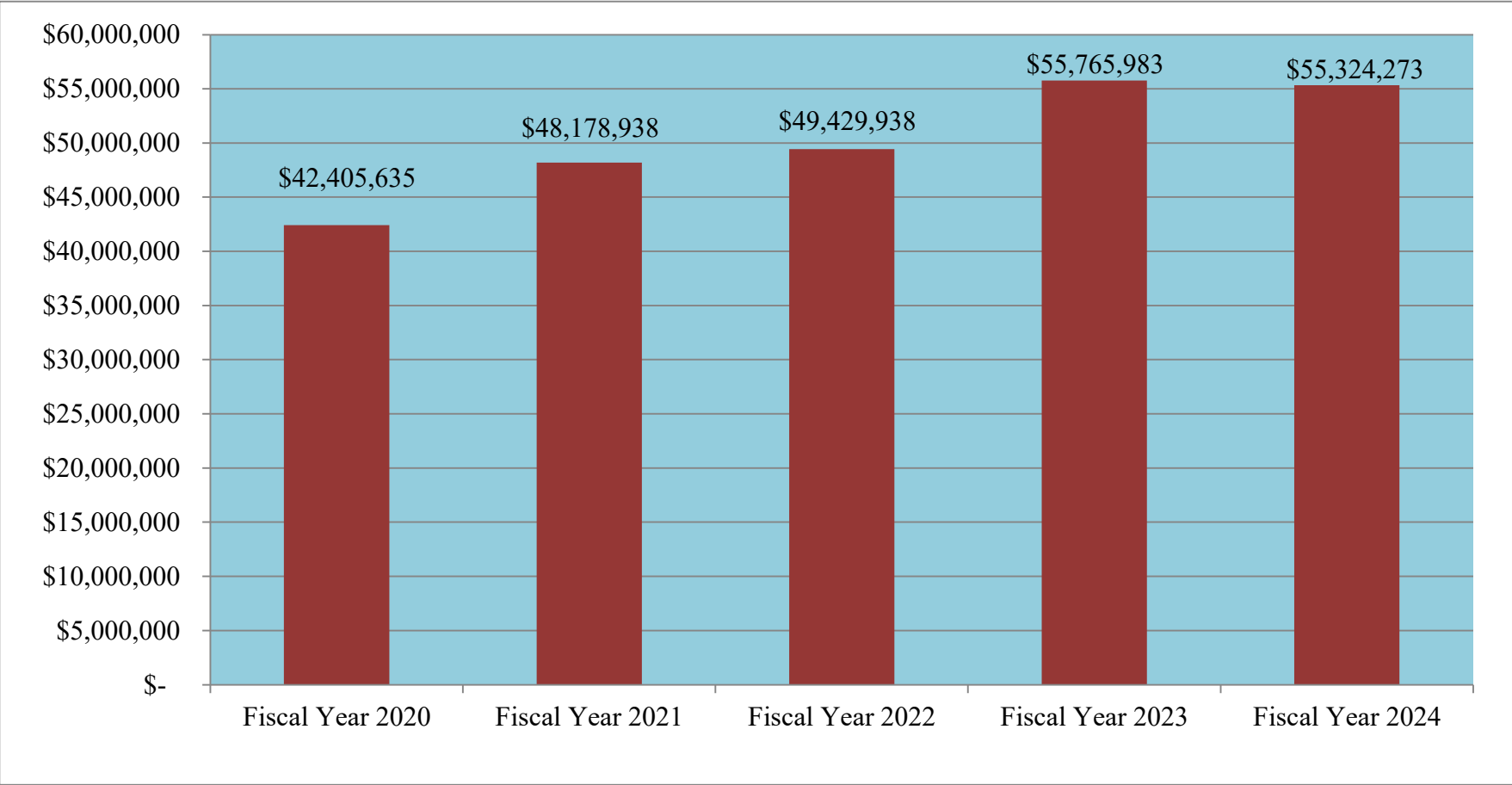
September 23, 2024

NEBRASKA LOTTERY  
**LOTTERY TICKET SALES**  
For the Fiscal Years 2020 through 2024



Note: These sales are shown on an accrual basis.

**NEBRASKA LOTTERY**  
**TOTAL OPERATING TRANSFERS TO BENEFICIARY FUNDS**  
 For the Fiscal Years 2020 through 2024



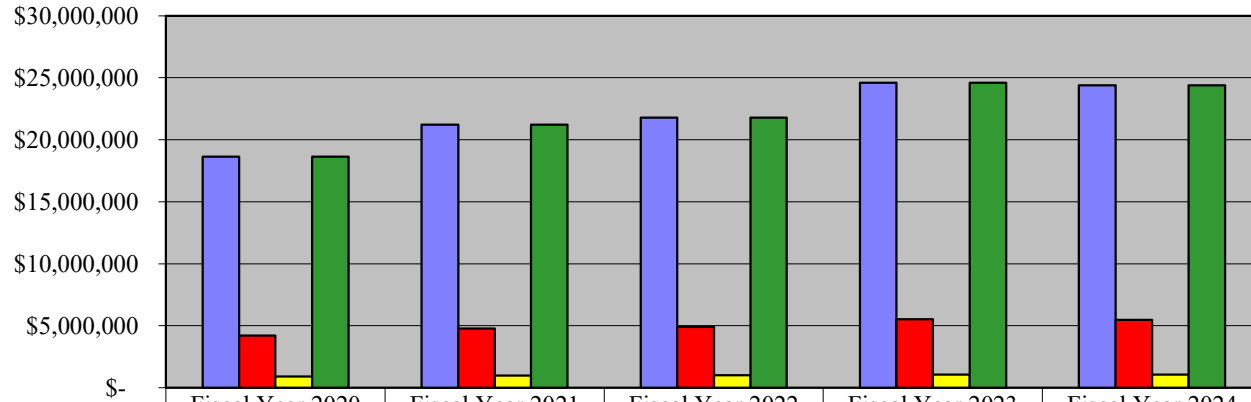
Note: The Total Operating Transfers include transfers to the Nebraska Environmental Trust Fund, the Compulsive Gamblers Assistance Fund, Nebraska Education Improvement Fund, and the Nebraska State Fair Support and Improvement Cash Fund. These transfers are shown on a cash basis.

**NEBRASKA LOTTERY**  
**CUMULATIVE OPERATING TRANSFERS**  
**TO BENEFICIARY FUNDS**  
For the Fiscal Year 1994 through 2024

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
2015	37,106,983
2016	42,782,923
2017	41,277,657
2018	45,250,114
2019	46,567,592
2020	42,405,635
2021	48,178,938
2022	49,429,938
2023	55,765,983
2024	55,324,273
Total Cumulative Transfers	\$ 991,590,143

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). Effective July 1, 2016, the Nebraska Lottery no longer transferred funds to the Education Innovation Fund and the Nebraska Opportunity Grant Fund. Instead, the Nebraska Lottery was to transfer 44.5% of funds available to be transferred to the Nebraska Education Improvement Fund (LB 497 (2013)).

**NEBRASKA LOTTERY**  
**OPERATING TRANSFERS TO BENEFICIARY FUNDS**  
For the Fiscal Years 2020 through 2024

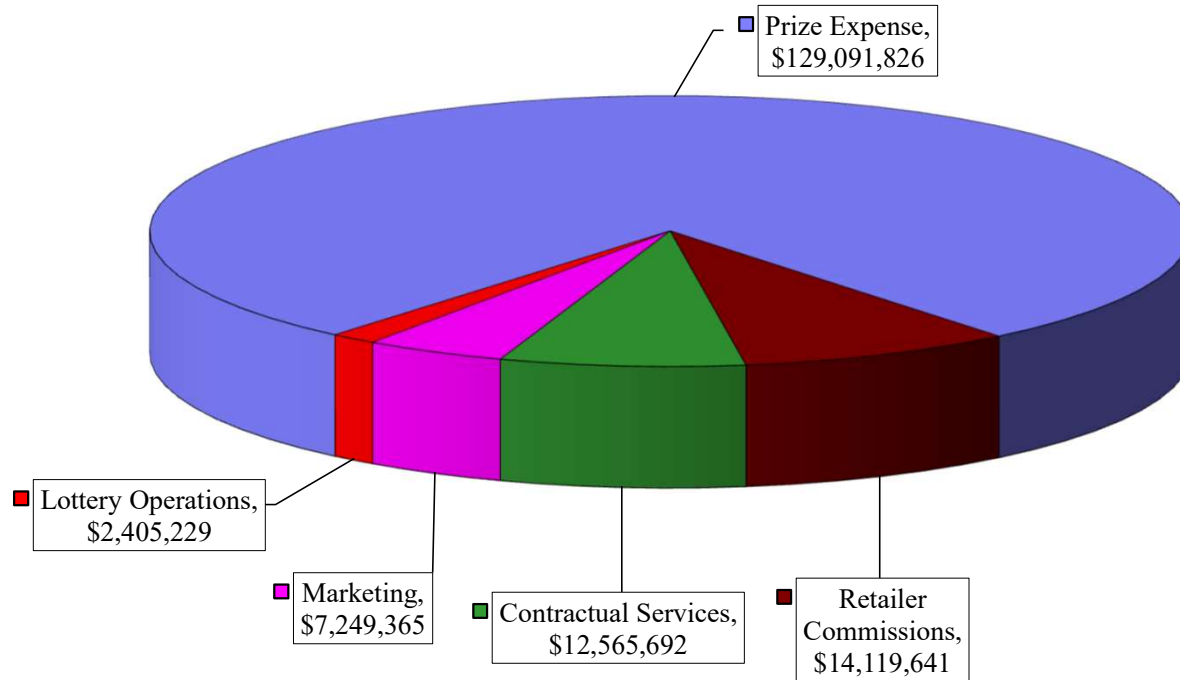


	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024
■ Nebraska Environmental Trust Fund	\$18,648,007	\$21,217,127	\$21,773,822	\$24,593,362	\$24,396,802
■ Nebraska State Fair Support and Improvement Cash Fund	\$4,190,564	\$4,767,895	\$4,892,994	\$5,526,598	\$5,482,427
■ Compulsive Gamblers Assistance Fund	\$919,057	\$976,789	\$989,300	\$1,052,661	\$1,048,242
■ Nebraska Education Improvement Fund	\$18,648,007	\$21,217,127	\$21,773,822	\$24,593,362	\$24,396,802

Note: Article III, § 24, of the Nebraska Constitution sets out the basic requirements for the transfer of lottery proceeds to certain beneficiary funds, specifying that a portion of those revenues are to “be used for education as the Legislature may direct.” Neb. Rev. Stat. § 9-812(2) (Supp. 2023) provides the following legislative directive for the transfer of lottery proceeds: “A portion of the dollar amount of the lottery tickets which have been sold on an annualized basis shall be transferred from the State Lottery Operation Trust Fund as provided in subsection (3) of this section. The dollar amount transferred pursuant to this subsection shall equal the greater of (a) the dollar amount transferred in fiscal year 2002-03 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 which have been sold on an annualized basis. To the extent that funds are available, the Tax Commissioner and director may authorize a transfer exceeding twenty-five percent of the dollar amount of the lottery tickets sold on an annualized basis.” Additionally, § 9-812(3) sets out these further instructions: “Of the money available to be transferred as provided in this subsection: (a) The first five hundred thousand dollars shall be transferred to the Compulsive Gamblers Assistance Fund to be used as provided in section 9-1006; (b) Forty-four and one-half percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be used for education and transferred pursuant to section 79-3501; (c) Forty-four and one-half percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be transferred to the Nebraska Environmental Trust Fund to be used as provided in the Nebraska Environmental Trust Act; (d) Ten percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be transferred to the Nebraska State Fair Board if the most populous city within the county in which the fair is located provides matching funds equivalent to ten percent of the funds available for transfer. Such matching funds may be obtained from the city and any other private or public entity, except that no portion of such matching funds shall be provided by the state. If the Nebraska State Fair ceases operations, ten percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be transferred to the General Fund; and (e) One percent of the money remaining after the payment of prizes and operating expenses and the initial transfer to the Compulsive Gamblers Assistance Fund shall be transferred to the Compulsive Gamblers Assistance Fund to be used as provided in section 9-1006.” Neb. Rev. Stat. § 79-3501(1) (Supp. 2023) states: For fiscal years through fiscal year 2023-24, the money available to be used for education pursuant to subdivision (3)(b) of section 9-812 shall be transferred to the Nebraska Education Improvement Fund.”

NEBRASKA LOTTERY  
**OPERATING EXPENSES**  
 For the Fiscal Year Ended June 30, 2024

**Breakdown of Expenses**



**Total Operating Expenses \$165,431,753**

**Prize Expense:**

Instant Prize Expense	\$ 74,637,018
On-Line Prize Expense	\$ 58,292,921
Unclaimed Prizes	\$ (3,838,113)
<b>Total</b>	<b>\$ 129,091,826</b>

**Retailer Commissions:**

Instant Commissions	\$ 7,694,374
On-line Commissions	\$ 6,415,610
Misc. Retailer Expense	\$ 9,657
<b>Total</b>	<b>\$ 14,119,641</b>

**Contractual Services:**

Lottery Service Provider	\$ 11,873,425
Other Contractors	\$ 692,267
<b>Total</b>	<b>\$ 12,565,692</b>

**Marketing Expense:**

Advertising Expense	\$ 6,712,934
Promotions Expense	\$ 536,431
<b>Total</b>	<b>\$ 7,249,365</b>

**Lottery Operations:**

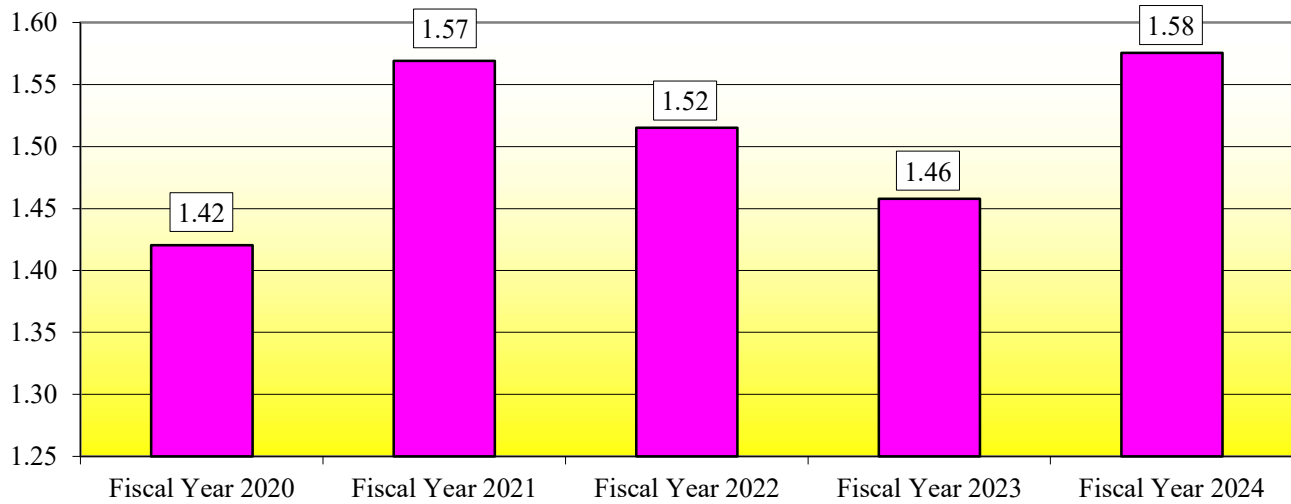
Payroll Expense	\$ 1,901,062
Other Operating Expense	\$ 504,167
<b>Total</b>	<b>\$ 2,405,229</b>



NEBRASKA LOTTERY

**CURRENT RATIO**

For the Fiscal Years 2020 through 2024

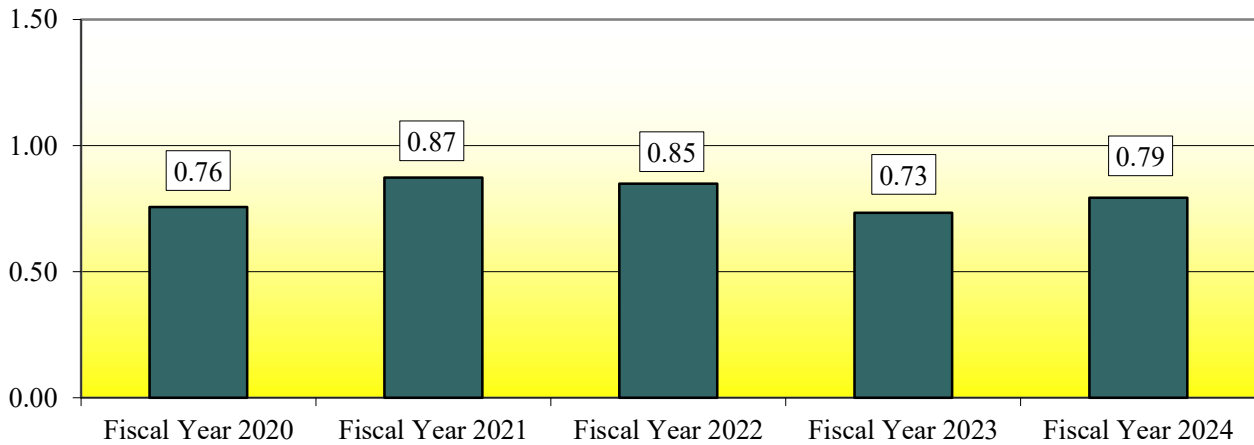


	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024
Current Assets	\$ 16,654,248	\$ 14,629,109	\$ 15,968,205	\$ 16,052,622	\$ 17,924,563
Current Liabilities	\$ 11,724,702	\$ 9,322,693	\$ 10,539,467	\$ 11,011,645	\$ 11,376,484

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 2020 through 2024

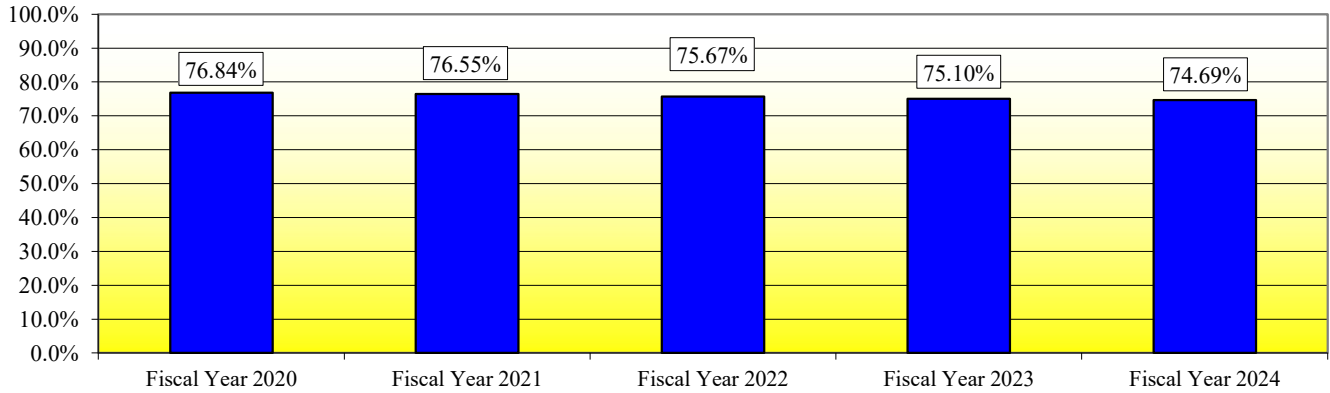


	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024
Cash & Cash Equivalents	\$ 8,875,150	\$ 8,131,659	\$ 8,941,960	\$ 8,076,160	\$ 9,019,256
Current Liabilities	\$ 11,724,702	\$ 9,322,693	\$ 10,539,467	\$ 11,011,645	\$ 11,376,484

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

# NEBRASKA LOTTERY

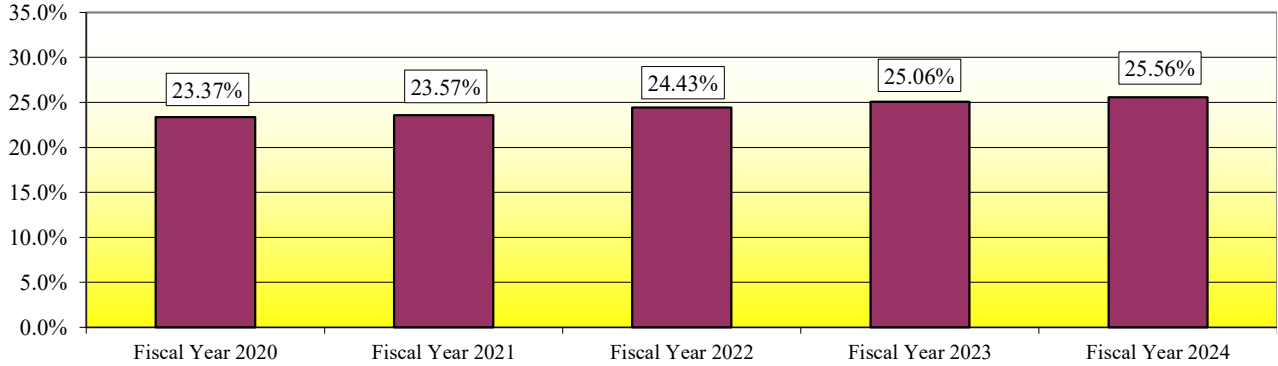
## PERCENTAGE OF OPERATING EXPENSES TO REVENUES For the Fiscal Year 2020 through 2024



	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024
Total Operating Expense	\$ 140,676,558	\$ 157,146,328	\$ 153,056,808	\$ 165,319,156	\$ 165,431,753
Total Operating Revenue	\$ 183,075,525	\$ 205,282,690	\$ 202,265,188	\$ 220,129,835	\$ 221,501,461

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

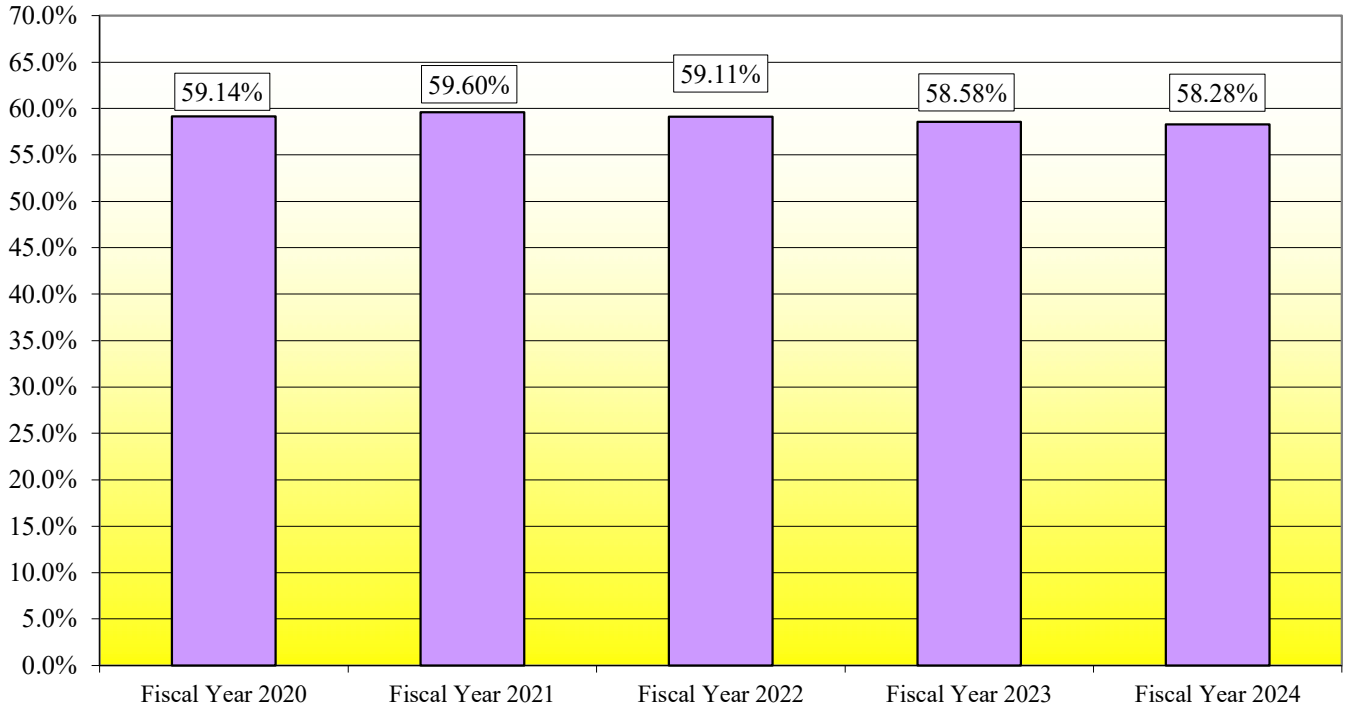
## NET INCOME BEFORE TRANSFERS COMPARED TO OPERATING REVENUE For the Fiscal Years 2020 through 2024



	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024
Net Income Before Transfers	\$ 42,790,938	\$ 48,388,135	\$ 49,420,335	\$ 55,171,640	\$ 56,606,996
Total Operating Revenue	\$ 183,075,525	\$ 205,282,690	\$ 202,265,188	\$ 220,129,835	\$ 221,501,461

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 2020 through 2024



	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024
Prize Expense	\$ 108,269,685	\$ 122,341,140	\$ 119,566,977	\$ 128,952,199	\$ 129,091,826
Total Operating Revenue	\$ 183,075,525	\$ 205,282,690	\$ 202,265,188	\$ 220,129,835	\$ 221,501,461

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