

**AUDIT REPORT
OF THE
NEBRASKA LOTTERY**

JULY 1, 2011 THROUGH JUNE 30, 2012

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Issued on October 23, 2012

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.

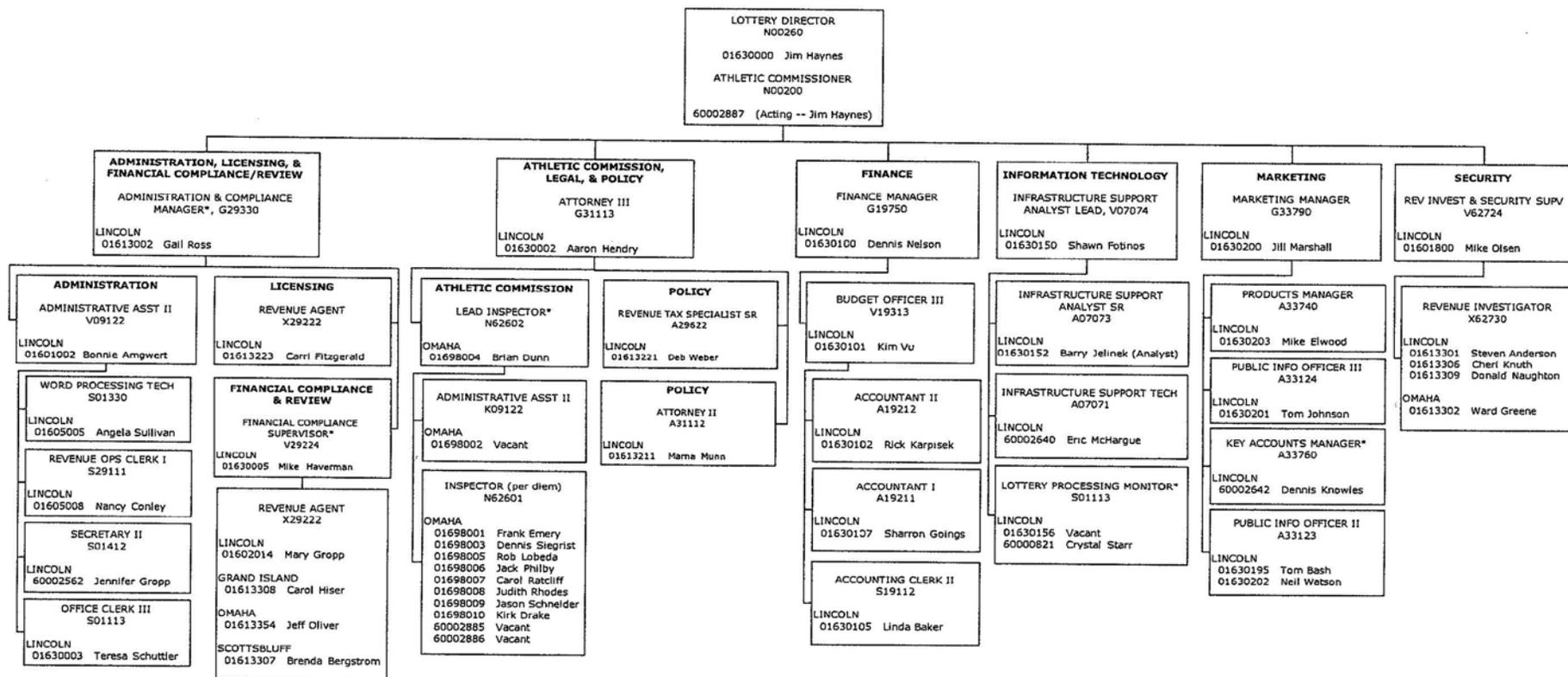
The Nebraska Constitution establishes the basic requirements for the transfer of lottery ticket sales to certain beneficiary funds. The portion designated for the education beneficiary can be amended by the Legislature. Neb. Rev. Stat. § 9-812 (Supp. 2011), as amended, identifies the specific requirements and they are as follows: Beginning October 1, 2003, 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 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. Neb. Rev. Stat. § 9-812 (Supp. 2011) 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



*Working Title

Updated 8/29/2012

NEBRASKA LOTTERY

EXIT CONFERENCE

An exit conference was held October 11, 2012, with the Nebraska Lottery to discuss the results of our audit. Those in attendance for the Nebraska Lottery were:

NAME	TITLE
James M. Haynes	Lottery Director
Dennis Nelson	Finance Manager
Doug Ewald	Tax Commissioner
Kim Vu	Budget Officer III
Aaron Hendry	Legal Counsel



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NEBRASKA LOTTERY

INDEPENDENT AUDITORS' REPORT

State Tax Commissioner
Nebraska Department of Revenue, Lottery Division

We have audited the accompanying financial statements of the business-type activities of the Nebraska Lottery, as of and for the year ended June 30, 2012, which collectively comprise the Nebraska Lottery's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Nebraska Lottery's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Nebraska Lottery, a division of the Nebraska Department of Revenue, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State of Nebraska 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 business-type activities of the State of Nebraska as of June 30, 2012, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 Nebraska Lottery, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2012, 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 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6–9 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 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Nebraska Lottery's basic financial statements. The statistical information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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.

Signed Original on File

October 22, 2012

Don Dunlap, CPA
Assistant Deputy Auditor

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, 2012. 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, we include three financial reports.

- 1) **Statement of Net Assets**
This report will show the assets, liabilities, and net assets ("equity") of the Lottery as of June 30, 2012. This report is basically the balance sheet for a private business.
- 2) **Statement of Revenues, Expenses, and Changes in Net Assets**
This report will show the revenue, expenses, transfers to other funds, and changes in net assets 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 ASSETS

While reviewing the Summary of Net Assets, it must be compared to the prior year's Net Assets to see the changes in the various classifications (see Table A below). The largest asset change was an increase in the Accounts Receivable and Reserves on Deposit (Current) of nearly \$1.3 million. Last year's Accounts Receivable contained five days of sales activity whereas this year had seven days of sales activity. The additional two days accounted for almost \$600,000. Another \$500,000 or so was due to an annual adjusting entry the Lottery must make each year to convert activated packs (packs sent to retailers) to settled packs (packs sold to retailers). This year's adjusting entry was larger than last year's entry. The remaining increase was due to

NEBRASKA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

increased Reserves on Deposit (Current), which are funds held by the Multi-State Lottery Association (MUSL) that the Lottery can use to pay certain MUSL expenses. Accounts Receivable was reduced by payments received from Intralot, a prior lottery-service contractor. The Lottery had previously billed Intralot for reimbursable expenses and received the payment during this year which eliminated the related accounts receivable.

The Prepaid Prizes and Costs decreased almost \$500,000. A majority of this change was due to the manner in which instant tickets were billed. The previous contract required payment once packs were issued to the retailers. But at year-end, those tickets were not considered sales yet, thus creating a prepaid expense. The current contract requires payment when the packs settle with the retailers which better matches revenue and expenses.

The largest liability change was the Prize Payable classification again this year. There was an increase of about \$500,000. Most of this change was from the payable amount associated with scratch tickets. The annual adjusting entry to sales (noted above) required an increased prizes payable amount be accrued.

The other change of note was in the Net Assets. The Unrestricted Assets increased about \$800,000. The Unrestricted Assets increased due to the excess profits above amounts transferred to the trust fund beneficiaries.

Table A
Summary of Net Assets

	FY 2012	FY 2011	Change
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 5,460,097	\$ 5,371,770	\$ 88,327
Accounts Receivable and Reserves on Deposit	6,183,092	4,891,575	1,291,517
Prepaid Prizes and Costs	99,360	581,449	(482,089)
TOTAL CURRENT ASSETS	<u>11,742,549</u>	<u>10,844,794</u>	<u>897,755</u>
NONCURRENT ASSETS			
Reserves on Deposit	2,380,821	2,247,177	133,644
Furniture, Fixtures, Equipment (Net)	21,418	37,653	(16,235)
TOTAL NONCURRENT ASSETS	<u>2,402,239</u>	<u>2,284,830</u>	<u>117,409</u>
TOTAL ASSETS	<u>\$ 14,144,788</u>	<u>\$ 13,129,624</u>	<u>\$ 1,015,164</u>
CURRENT LIABILITIES			
Accounts Payable	\$ 1,611,333	\$ 1,920,390	\$ (309,057)
Compensated Absences and Accrued Payroll Payable	62,585	67,991	(5,406)
Prize Payable	5,908,420	5,389,684	518,736
Other Accrued Liabilities	153,568	213,511	(59,943)
TOTAL CURRENT LIABILITIES	<u>7,735,906</u>	<u>7,591,576</u>	<u>144,330</u>

NEBRASKA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Change</u>
NONCURRENT LIABILITIES			
Compensated Absences Payable	219,609	256,955	(37,346)
TOTAL NONCURRENT LIABILITIES	219,609	256,955	(37,346)
TOTAL LIABILITIES	<u>\$ 7,955,515</u>	<u>\$ 7,848,531</u>	<u>\$ 106,984</u>
NET ASSETS			
Invested in Capital Assets	\$ 21,418	\$ 37,653	\$ (16,235)
Restricted for Future Prizes	2,380,821	2,247,177	133,644
Unrestricted Assets	<u>3,787,034</u>	<u>2,996,263</u>	<u>790,771</u>
TOTAL NET ASSETS	<u>\$ 6,189,273</u>	<u>\$ 5,281,093</u>	<u>\$ 908,180</u>

DISCUSSION OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

During this year, the Nebraska Lottery again experienced higher sales. Overall, revenues increased by almost \$19 million. (See Table B below.) On the lotto side, sales increased \$8.6 million. Powerball sales increased almost \$5.7 million and Mega Millions had increased sales of \$2.7 million. Powerball sales saw increases due to the purchase price of a ticket changing from \$1 to \$2. This change took place in January 2012. Mega Millions had a record jackpot run in March 2012 where the jackpot reached \$656 million. Average Mega Millions weekly sales for the year were about \$200,000 excluding the record jackpot week. For the week of the record jackpot, weekly sales for Mega Millions were more than \$3.0 million. On the scratch side, sales increased nearly \$10 million. The Lottery saw increases in the \$1, \$5, \$10 and \$20 price points and decreases in the others. For this fiscal year, the Lottery reintroduced the \$20 scratch ticket. The \$20 scratch ticket accounted for \$7 million of the increase. The \$10 price point had increased sales of about \$2.1 million as did the \$5 price point.

On the expense side, the Prize Expense went up about \$10.5 million. This increase was due to the higher sales. The Contractual Services Expense (payments to our lottery-services contractor) and the Retailer Commissions increased during the year leading to a combined increase of almost \$2.1 million. Again, these were due to the increased sales that the Lottery experienced.

The Transfers to Other Funds had a large increase, more than \$4.0 million. With record sales and profits, the Lottery was again able to transfer record amounts to the beneficiary funds as well.

NEBRASKA LOTTERY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Table B

Statement of Revenues, Expenses and Changes in Net Assets

	FY 2012	FY 2011	Change
REVENUES			
Sales	\$ 154,022,833	\$ 134,421,586	\$ 19,601,247
Sales Returns	(3,410,444)	(2,502,267)	(908,177)
OPERATING REVENUE	<u>150,612,389</u>	<u>131,919,319</u>	<u>18,693,070</u>
Interest Income	290,023	356,898	(66,875)
Multi-State Lottery Assoc. Income	15,769	20,000	(4,231)
NON-OPERATING REVENUE	<u>305,792</u>	<u>376,898</u>	<u>(71,106)</u>
TOTAL REVENUES	<u>\$ 150,918,181</u>	<u>\$ 132,296,217</u>	<u>\$ 18,621,964</u>
EXPENSES			
Prize Expense	\$ 87,392,819	\$ 76,871,012	\$ 10,521,807
Retailer Commissions	9,455,865	8,208,650	1,247,215
Contractual Services Expense	10,491,313	9,685,334	805,979
Marketing Expense	4,773,300	4,907,040	(133,740)
Lottery Operating Expense	1,821,640	1,952,861	(131,221)
TOTAL EXPENSES	<u>\$ 113,934,937</u>	<u>\$ 101,624,897</u>	<u>\$ 12,310,040</u>
NET INCOME BEFORE TRANSFERS	\$ 36,983,244	\$ 30,671,320	\$ 6,311,924
TRANSFERS TO OTHER FUNDS	<u>\$ 36,075,064</u>	<u>\$ 32,055,328</u>	<u>\$ 4,019,736</u>
CHANGE IN NET ASSETS	<u>\$ 908,180</u>	<u>\$ (1,384,008)</u>	<u>\$ 2,292,188</u>

OTHER ITEMS OF NOTE

The increased sales noted this fiscal year may not be sustainable. 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 drastic 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 ASSETS
AS OF JUNE 30, 2012

ASSETS

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 5,460,097
Accounts Receivable, Net of Allowance (Note 4)	5,690,074
Prepaid Prizes	96,622
Prepaid Contract Costs - Instant	2,738
Reserves on Deposit (Note 6)	493,018

TOTAL CURRENT ASSETS 11,742,549

NONCURRENT ASSETS:

Reserves on Deposit (Note 6)	2,380,821
Capital Assets: (Note 5)	
Furniture, Fixtures, and Equipment	356,978
Less: Accumulated Depreciation	<u>335,560</u>
Total Capital Assets, Net	21,418

TOTAL NONCURRENT ASSETS 2,402,239

TOTAL ASSETS \$ 14,144,788

LIABILITIES

CURRENT LIABILITIES:

Accounts Payable	\$ 646,965
Vendors Payable	964,368
Compensated Absences Payable (Note 7)	16,530
Accrued Payroll Payable	46,055
Withheld Taxes on Prizes Paid	25,350
Prize Payable	5,908,420
Due to Other Funds	34,121
Other Accrued Liabilities	94,097

TOTAL CURRENT LIABILITIES 7,735,906

NONCURRENT LIABILITIES:

Compensated Absences Payable (Note 7)	<u>219,609</u>
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TOTAL NONCURRENT LIABILITIES 219,609

TOTAL LIABILITIES 7,955,515

NET ASSETS

Invested in Capital Assets	21,418
Restricted for Future Prizes (Note 6)	2,380,821
Unrestricted (Note 10)	<u>3,787,034</u>

TOTAL NET ASSETS 6,189,273

TOTAL LIABILITIES AND NET ASSETS \$ 14,144,788

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

NEBRASKA LOTTERY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

OPERATING REVENUE:	
Sales	\$ 154,022,833
Less: Sales Returns	3,410,444
TOTAL OPERATING REVENUE	<u>150,612,389</u>
OPERATING EXPENSES:	
Prize Expense	87,392,819
Retailer Commissions	9,455,865
Contractual Services Expense	10,491,313
Marketing	4,773,300
Lottery Operating	1,821,640
TOTAL OPERATING EXPENSES	<u>113,934,937</u>
OPERATING INCOME	36,677,452
NON-OPERATING REVENUE:	
Interest Income	290,023
Multi-State Lottery Association Income	15,769
TOTAL NON-OPERATING REVENUE	<u>305,792</u>
INCOME BEFORE OPERATING TRANSFERS	36,983,244
TRANSFERS TO OTHER FUNDS (Note 9)	<u>(36,075,064)</u>
CHANGE IN NET ASSETS	908,180
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>5,281,093</u>
TOTAL NET ASSETS, END OF YEAR	<u><u>\$ 6,189,273</u></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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Ticket Sales	\$ 149,415,698
Prizes Paid to Winners	(87,144,396)
Commissions Paid to Retailers	(9,450,713)
Paid to Contractors for Goods and Services	(15,146,480)
Paid to Employees	(1,393,945)
Other Operating Expenses	(422,565)
Powerball® Grand Prize Winner Receipts from MUSL	5,030,000
Payments to Powerball® Grand Prize Winners	(5,030,000)
Net Cash Provided by Operating Activities	35,857,599

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Paid to Education Innovation Fund	(7,026,075)
Paid to Nebraska Scholarship Fund	(8,804,827)
Paid to State Fair Improvement Fund	(3,557,509)
Paid to Environmental Trust Fund	(15,830,903)
Paid to Compulsive Gamblers Assistance Fund	(855,750)
Net Cash Used in Non-Capital Financing Activities	(36,075,064)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on Cash	290,023
Multi-State Lottery Association Income	15,769
Net Cash Provided by Investing Activities	305,792

NET DECREASE IN CASH AND CASH EQUIVALENTS 88,327

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 5,371,770

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 5,460,097

(Continued)

NEBRASKA LOTTERY
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012

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

Operating Income	\$ 36,677,452
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	16,235
Changes in Assets (Increase) Decrease in:	
Reserves on Deposit	(477,705)
Prepaid Prizes	38,152
Accounts Receivable (Net)	(947,456)
Prepaid Contract Costs - Instant	443,937
Changes in Liabilities Increase (Decrease) in:	
Other Accrued Liabilities	(46,883)
Accounts Payable and Due to Other Funds	177,141
Prizes Payable	518,737
Compensated Absences and Accrued Payroll Payable	(42,752)
Withheld Taxes on Prizes Paid	(20,124)
Vendors Payable	<u>(479,135)</u>
Total Adjustments	<u>(819,853)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 35,857,599</u></u>

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

(Concluded)

NEBRASKA LOTTERY

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2012

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the 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 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 (DAS).

B. Reporting Entity

The Nebraska Lottery was established on February 24, 1993, by the Nebraska Legislature as a division of the Nebraska Department of Revenue established under and governed by the laws of the State of Nebraska. As such, the 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. 2011) 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 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 Nebraska Department of Revenue or the results of operations and changes in fund balances of the Department as a whole. The Nebraska Department of Revenue is part of the primary government for the State of Nebraska's reporting entity.

The Nebraska Lottery has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Nebraska Lottery, or the significance of their relationship with the Nebraska 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 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.

NEBRASKA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

These financial statements present the Nebraska 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 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 Assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Fund equity (i.e., net total assets) is segregated into restricted and unrestricted net assets. The Nebraska Lottery's operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Revenues generated from the sale of lottery tickets are reported as operating revenues. Transactions which 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% or 6% retailer commission and 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 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, 2012, were \$2,739,604.

NEBRASKA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

In September 1993, GASB issued Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting." This Statement is effective for financial statement periods beginning after December 15, 1993. As permitted by the Statement, the Nebraska Lottery has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless GASB specifically adopts such FASB statements or interpretations.

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 assets 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, 2012, 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. Investments 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. Interest earned on these investments is allocated to funds based on their percentage of the 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 Comprehensive Annual Financial Report (CAFR).

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.

NEBRASKA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

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

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

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

F. Receivables

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

G. Capital Assets

Capital assets include equipment which is valued at cost where 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 which 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. The cost of normal maintenance and repairs that do not add to the value of the asset or extend the asset life is not capitalized.

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

NEBRASKA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

H. 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 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 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 Nebraska Lottery 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 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. DAS is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability, employee health care, employee indemnification, and Workers' compensation. The State has chosen to purchase insurance for:

NEBRASKA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

- A. Motor vehicle liability, which is insured for the first \$5,000,000 of exposure per accident with a self-insured retention of \$300,000 per accident, except for accidents involving vehicular pursuit which have a \$1,000,000 self-insured retention per accident. Insurance is also purchased for physical damage and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.
- B. Life insurance for eligible employees.
- C. Crime coverage, with a limit of \$31,000,000 for each loss, and a \$25,000 self-insured retention per incident subject to specific conditions, limits, and exclusions.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$5,000,000 for 120 days or until the value of the property is reported to the insurance company. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self insurance. State agencies have the option to purchase building contents and inland marine coverage.

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

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

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.

NEBRASKA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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

All permanent full-time employees are required to begin participation in the retirement system upon employment. All permanent part-time employees, who have attained the age of eighteen 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 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, 2012, employees contributed \$47,188 and the Nebraska Lottery contributed \$73,614. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

NEBRASKA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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

4. **Receivables**

Retailers comprised principally of grocery stores, convenience stores, and off sale liquor stores serve as the primary distribution channel for lottery sales to the general public. No one retailer accounts for a significant amount of the Nebraska 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 \$23,856.

Accounts Receivable	
Retailers (net)	\$ 5,684,742
Other	5,332
Total	<u>\$ 5,690,074</u>

5. **Capital Assets**

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets: Furniture, Fixtures, and Equipment	\$ 365,760	\$	\$ 8,782	\$ 356,978
Less: Accumulated Depreciation	328,107	16,235	8,782	335,560
Total Capital Assets, Net	<u>\$ 37,653</u>	<u>\$ (16,235)</u>	<u>\$ -</u>	<u>\$ 21,418</u>

6. **On-Line Lotto Games**

During the fiscal year ended June 30, 2012, the Nebraska Lottery offered a variety of on-line games as described in the following table.

NEBRASKA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. On-Line Lotto Games (Concluded)

<u>Game Name</u>	<u>Operated by</u>	<u>Nebraska's Share of Prize Reserves</u>
Powerball®	MUSL	\$ 1,974,035
Nebraska Pick 5®	Nebraska Lottery	N/A
Nebraska Pick 3®	Nebraska Lottery	N/A
MyDaY®	Nebraska Lottery	N/A
Mega Millions®	MUSL	279,104
2by2®	MUSL	127,682
		<u>\$ 2,380,821</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 each game to serve as a contingency reserve to protect from unforeseen prize liabilities. The money in these reserve funds is to be used at the discretion of the MUSL Board of Directors. The prize reserve funds are refundable to MUSL members if MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait one year before receiving their remaining share of the prize reserve funds.

In addition, the Lottery has \$493,018 held by MUSL, reported on the Statement of Net Assets 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 Nebraska Lottery's financial statements.

NEBRASKA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. **Non-current Liabilities**

Changes in non-current liabilities for the year ended June 30, 2012, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 276,296	\$ -	\$ 40,157	\$ 236,139	\$ 16,530

8. **Lease Commitments**

The minimum annual lease payments for operating leases as of June 30, 2012, are as follows:

Year	Amount
2013	\$ 61,621
2014	62,732
2015	63,881
2016	65,066
2017	66,289
Total	\$ 319,589

Total operating lease payments for the year ended June 30, 2012, were \$59,953.

9. **Significant Compliance Requirements**

The Nebraska Constitution establishes the basic requirements for the transfer of lottery ticket sales to certain beneficiary funds. The portion designated for the education beneficiary can be amended by the Legislature. Neb. Rev. Stat. § 9-812 (Supp. 2011), as amended, identifies the specific requirements and they are as follows: Beginning October 1, 2003, 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 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. Neb. Rev. Stat. § 9-812 (Supp. 2011), 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

NEBRASKA LOTTERY

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

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.

As required under its enabling legislation, transfers of \$36,075,064 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 forty percent must be paid in prizes.

The Nebraska Lottery compares the social security number of each winner that 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 \$9,169 in delinquent State taxes and \$13,267 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 only represents part of the State's primary government.

10. **Net Assets**

The Nebraska Lottery's unrestricted net assets represent funds not legally restricted for any specific purpose. The funds, however, may only be used to fund additional prize pay-outs, transfers to the beneficiary funds, or additional operating expenses of the Nebraska Lottery. It is management's intention to use the unrestricted net assets 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***

State Tax Commissioner
Nebraska Department of Revenue, Lottery Division

We have audited the financial statements of the Nebraska Lottery as of and for the year ended June 30, 2012, and have issued our report thereon dated October 22, 2012. The report was modified to emphasize the financial statements present only the funds of the Nebraska Lottery. 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.

Internal Control Over Financial Reporting

Management of the Nebraska Lottery is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Nebraska Lottery's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Lottery's internal control over financial reporting.

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 Nebraska Lottery's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. 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.

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, and contracts, 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*.

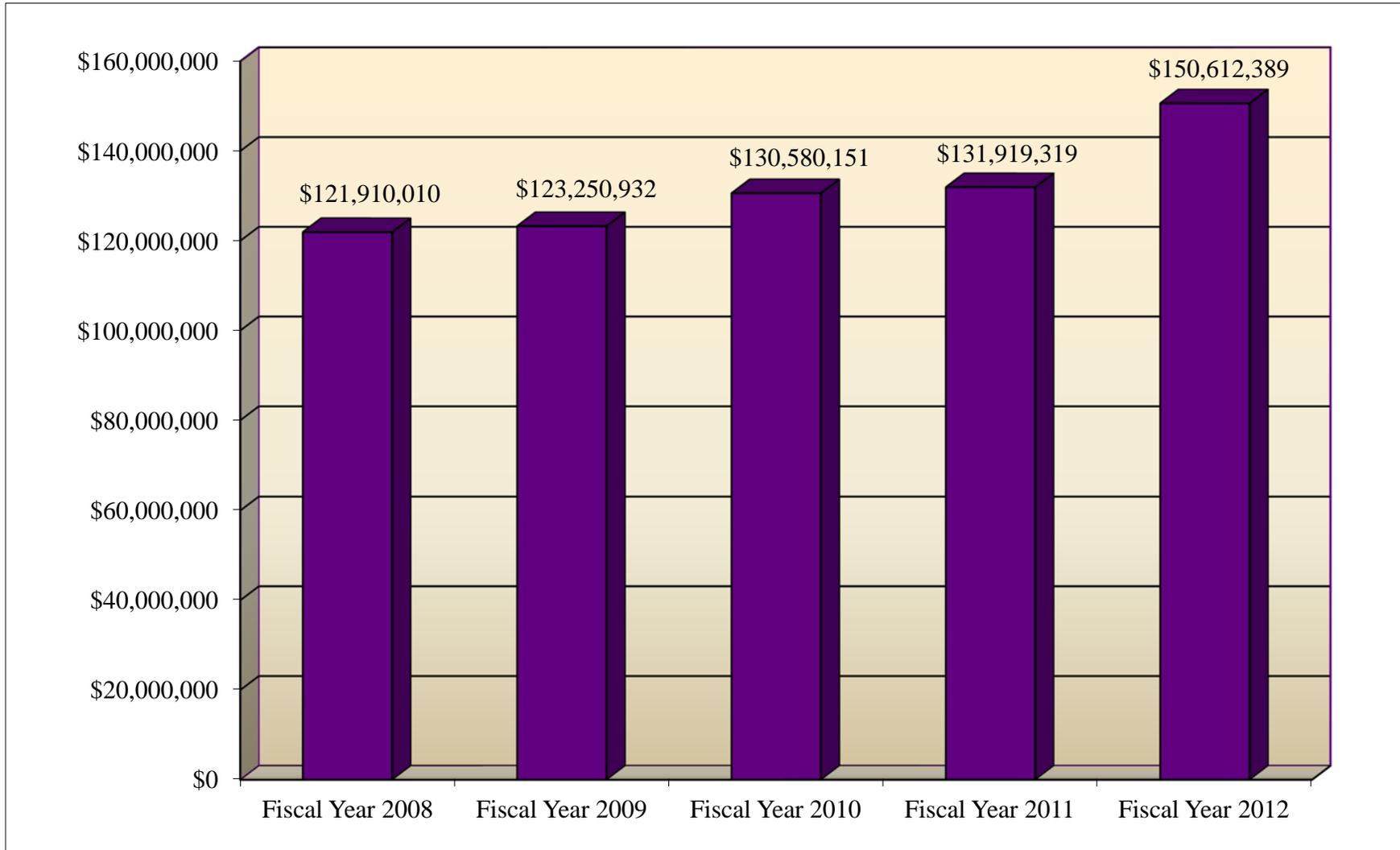
This report is intended solely for the information and use of management, others within the Nebraska Lottery, and the appropriate Federal and regulatory agencies and is not intended and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

October 22, 2012

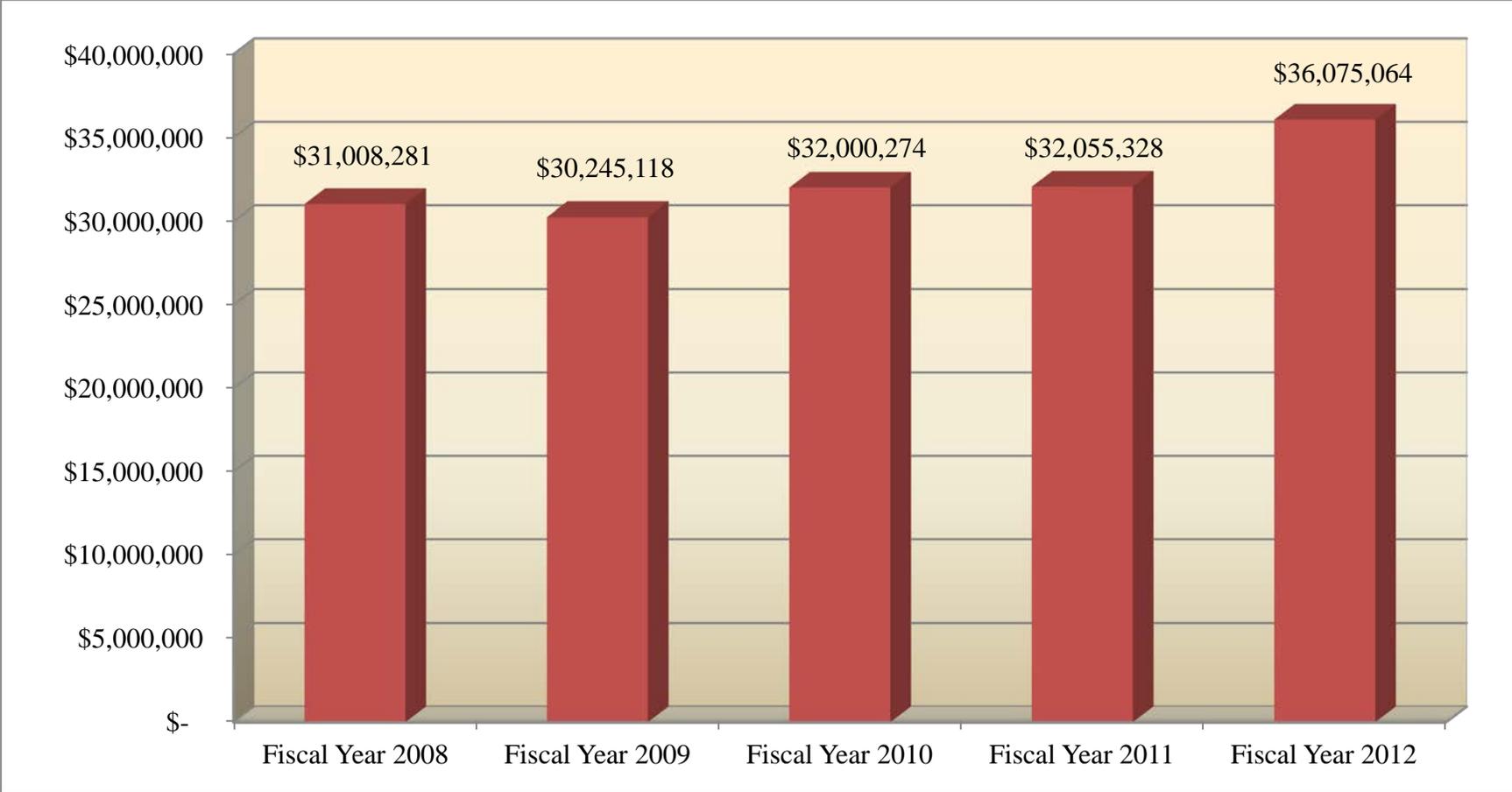
Don Dunlap, CPA
Assistant Deputy Auditor

NEBRASKA LOTTERY
LOTTERY TICKET SALES
For the Fiscal Years 2008 through 2012



Note: These sales are shown on an accrual basis.

NEBRASKA LOTTERY
TOTAL OPERATING TRANSFERS TO BENEFICIARY FUNDS
For the Fiscal Years 2008 through 2012



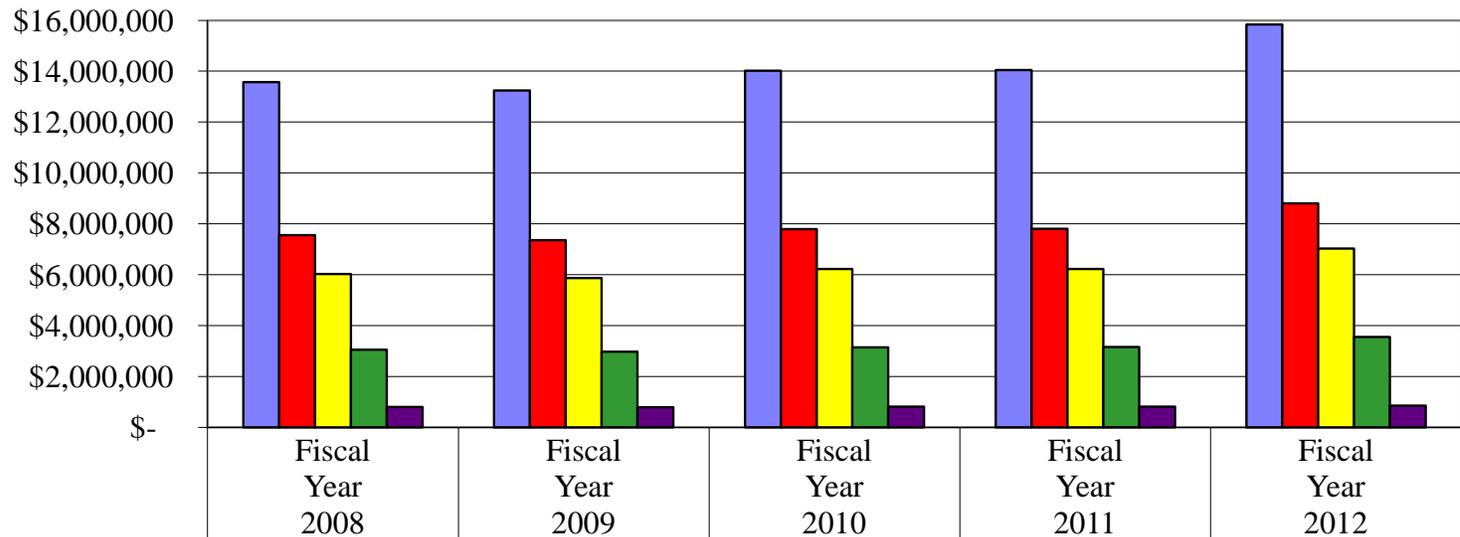
Note: The Total Operating Transfers include transfers to the Environmental Trust Fund, the Education Innovation Fund, the Nebraska Opportunity Grant Fund, the Compulsive Gamblers Assistance Fund, and the State Fair Support and Improvement Cash Fund. These transfers are shown on a cash basis.

**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
Total Cumulative Transfers	<u>\$ 449,485,314</u>

Note: Total Cumulative Transfers includes transfers to the Solid Waste Landfill Closure Fund (final allocation made in July 1997), the Environmental Trust Fund, the Education Innovation Fund, the Nebraska Opportunity Grant Fund (beginning October 1, 2003) (2010 Neb. Laws LB 956 changed the Nebraska Scholarship Fund to the Nebraska Opportunity Grant Fund as of July 1, 2010), the Compulsive Gamblers Assistance Fund, and the 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 Neb. Laws LB 1091 § 1.

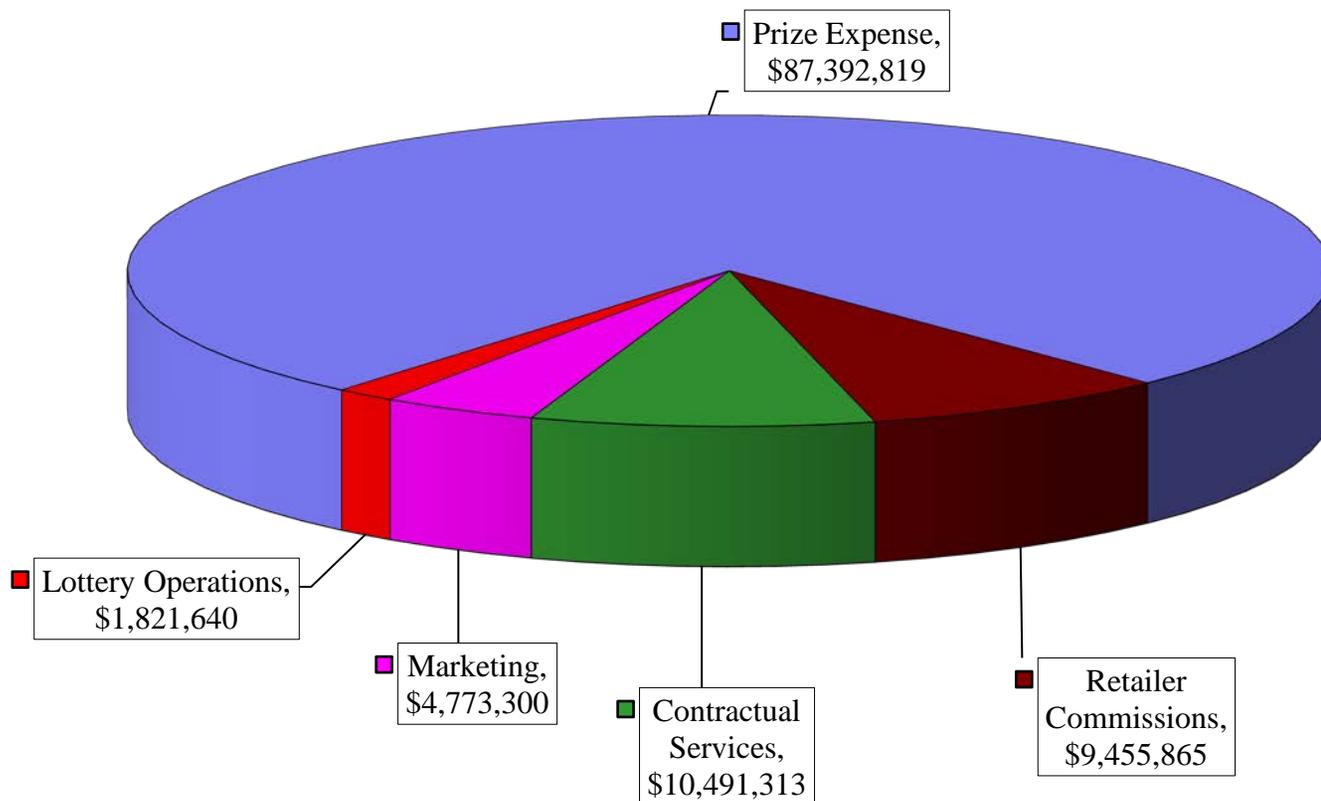
NEBRASKA LOTTERY
OPERATING TRANSFERS TO BENEFICIARY FUNDS
For the Fiscal Years 2008 through 2012



■ Environmental Trust Fund	\$13,576,184	\$13,236,576	\$14,017,622	\$14,042,122	\$15,830,903
■ Nebraska Opportunity Grant Fund	\$7,550,801	\$7,361,918	\$7,796,316	\$7,809,942	\$8,804,827
■ Education Innovation Fund	\$6,025,386	\$5,874,663	\$6,221,304	\$6,232,176	\$7,026,075
■ State Fair Support and Improvement Cash Fund	\$3,050,828	\$2,974,509	\$3,150,031	\$3,155,534	\$3,557,509
■ Compulsive Gamblers Assistance Fund	\$805,082	\$797,451	\$815,002	\$815,554	\$855,750

Note: The Nebraska Constitution establishes the basic requirements for the transfer of the lottery ticket sales to certain beneficiary funds. The portion designated for the education beneficiary can be amended by the Legislature. Neb. Rev. Stat. § 9-812 (Supp. 2011) as amended identifies the specific requirements and they are as follows: Beginning October 1, 2003, 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 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. Neb. Rev. Stat. § 9-812 (Supp. 2011) 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 (2010 Neb. Laws LB 956 changed the Nebraska Scholarship Fund to the Nebraska Opportunity Grant Fund as of July 1, 2010), 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.

**NEBRASKA LOTTERY
OPERATING EXPENSES**
For the Fiscal Year Ended June 30, 2012



Total Operating Expenses \$113,934,937

Breakdown of Expenses

Prize Expense:

Instant Prize Expense	\$ 55,328,913
On-Line Prize Expense	\$ 34,803,510
Unclaimed Prizes	\$ (2,739,604)
Total	\$ 87,392,819

Retailer Commissions:

Instant Commissions	\$ 5,511,583
On-line Commissions	\$ 3,591,288
Misc. Retailer Expense	\$ 352,994
Total	\$ 9,455,865

Contractual Services:

Gtech	\$ 9,919,760
Other Contractors	\$ 571,553
Total	\$ 10,491,313

Marketing Expense:

Advertising Expense	\$ 4,037,512
Promotions Expense	\$ 735,788
Total	\$ 4,773,300

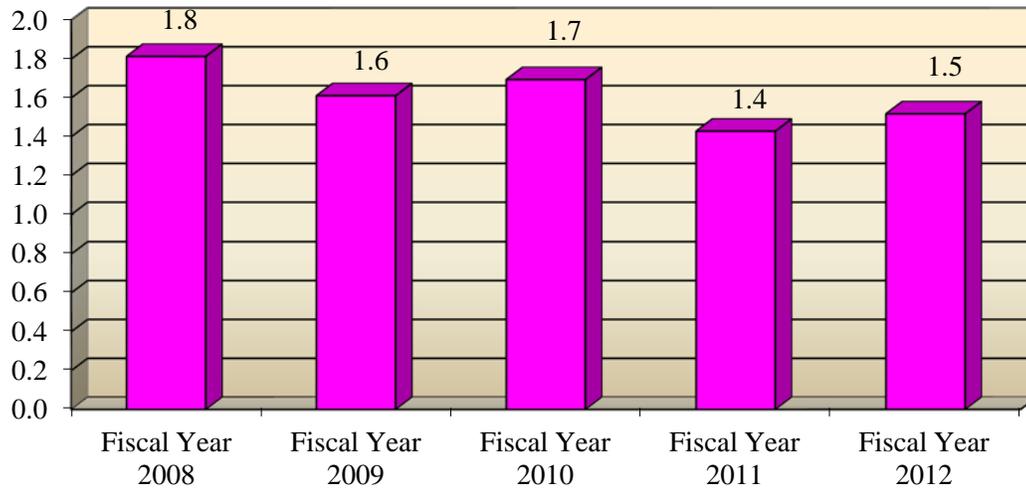
Lottery Operations:

Payroll Expense	\$ 980,762
Other Operating Expense	\$ 840,878
Total	\$ 1,821,640

NEBRASKA LOTTERY

CURRENT RATIO

For the Fiscal Years 2008 through 2012

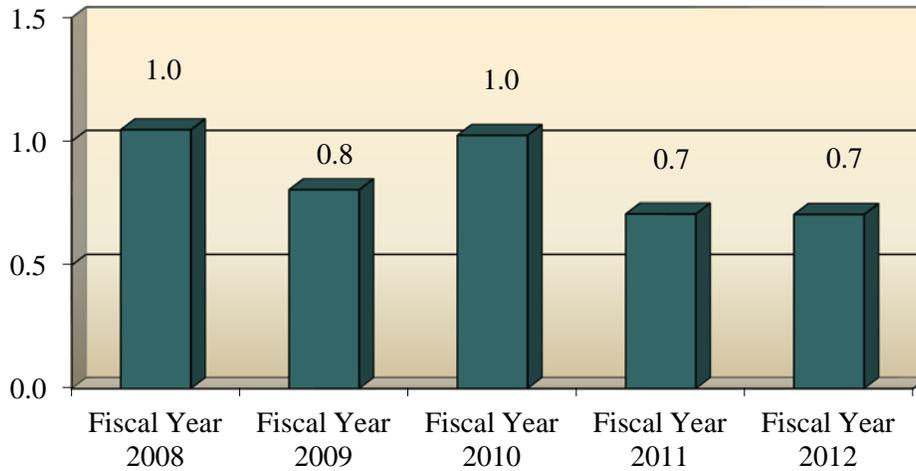


	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Current Assets	\$13,375,412	\$13,008,209	\$12,162,851	\$10,844,794	\$11,742,549
Current Liabilities	\$7,375,604	\$8,073,757	\$7,179,611	\$7,591,576	\$7,735,906

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 2008 through 2012



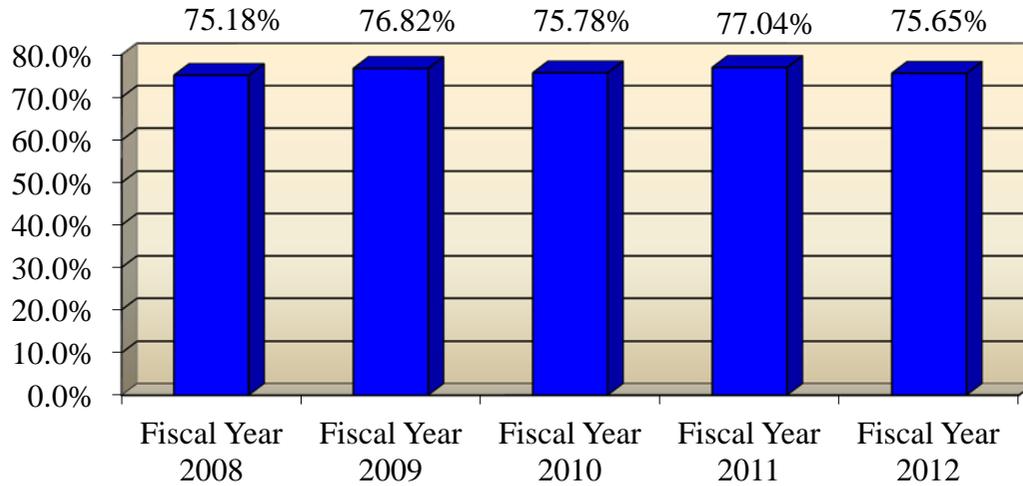
	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Cash & Cash Equivalents	\$7,719,092	\$6,487,100	\$7,349,896	\$5,371,770	\$5,460,097
Current Liabilities	\$7,375,604	\$8,073,757	\$7,179,611	\$7,591,576	\$7,735,906

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 Years 2008 through 2012

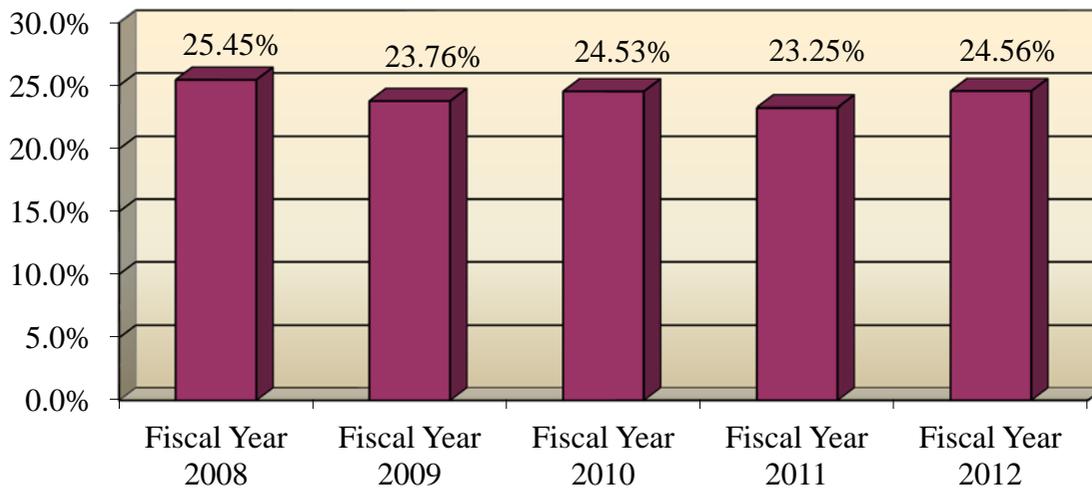


	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Total Operating Expense	\$91,652,951	\$94,676,014	\$98,948,594	\$101,624,897	\$113,934,937
Total Operating Revenue	\$121,910,010	\$123,250,932	\$130,580,151	\$131,919,319	\$150,612,389

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

NET INCOME BEFORE TRANSFERS COMPARED TO OPERATING REVENUE

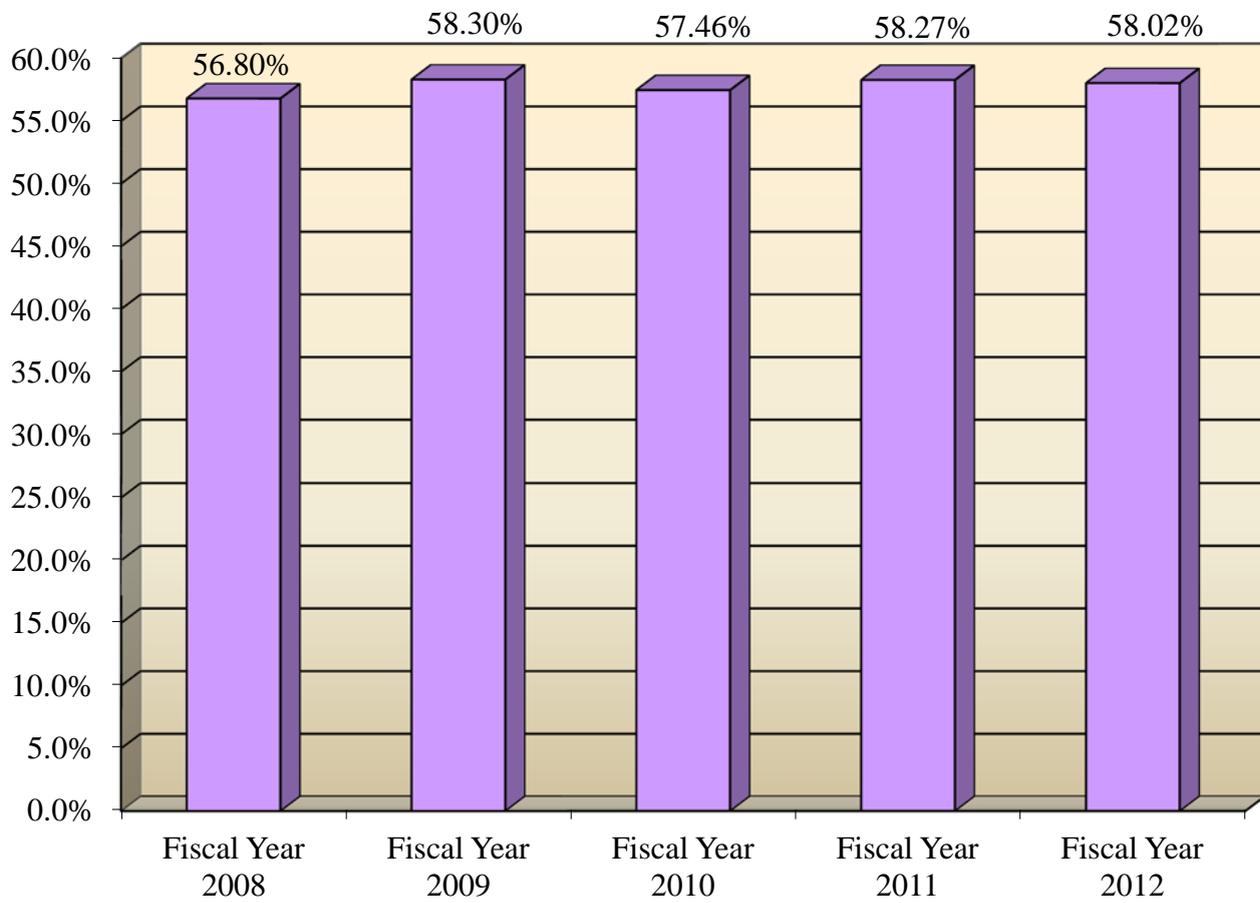
For the Fiscal Years 2008 through 2012



	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Net Income Before Transfers	\$31,031,649	\$29,285,301	\$32,028,995	\$30,671,320	\$36,983,244
Total Operating Revenue	\$121,910,010	\$123,250,932	\$130,580,151	\$131,919,319	\$150,612,389

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

NEBRASKA LOTTERY
PRIZE PERCENTAGE OF SALES PAID OUT
For the Fiscal Years 2008 through 2012



	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Prize Expense	\$69,239,065	\$71,860,963	\$75,034,151	\$76,871,012	\$87,392,819
Total Operating Revenue	\$121,910,010	\$123,250,932	\$130,580,151	\$131,919,319	\$150,612,389

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