

2004



annual report

and resource guide



annual report
july 1, 2003 through june 30, 2004
resource guide

Having marked its first ten years celebrating successful promotions and changes in product merchandising that fostered improved sales, the Nebraska Lottery began Fiscal Year 2003-2004 with plans for more developments.

As the Nebraska Lottery built upon its past accomplishments and successfully executed plans for various innovations, it also embraced changes brought about by new opportunities. That synergy enabled the Nebraska Lottery to again post improved sales-setting the stage and standard for future accomplishments.

This Annual Report and Resource guide chronicles key elements contributing to the continued evolution of the Nebraska Lottery.

Mary Jane Egr, State Tax Commissioner

James M. Haynes, Acting Lottery Director

A Division of the Nebraska Department of Revenue



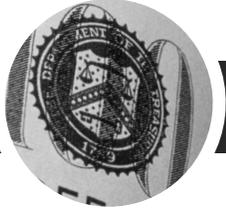
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The Nebraska Lottery celebrated its Tenth Anniversary in 2003. Many of the celebrations of that milestone came in the early stages of Fiscal Year 2003-2004. A combination of factors contributed to make this past fiscal year a record-setting year for the Nebraska Lottery. This Annual Report highlights the successes of the past year as they built upon the progress of the first ten years.



The Nebraska Lottery became the 37th lottery in the nation in November of 1992 when a majority of Nebraska voters approved a constitutional amendment authorizing the creation of a lottery. The Nebraska Legislature passed legislation establishing the Nebraska Lottery in February of 1993.

The first Nebraska Lottery Scratch ticket was sold on September 11, 1993. Nebraska Lottery Scratch games include \$1, \$2, \$3, \$5 and \$10 games. There are generally about two-dozen Scratch games on sale at any given time.

Nebraska Lottery Lotto sales began with the introduction of Powerball on July 21, 1994. Powerball, 2by2 and Nebraska Pick 5 make up the Nebraska Lottery Lotto game product line.

The Nebraska Lottery is a member of the Multi-State Lottery Association (MUSL). Based in West Des Moines, Iowa, MUSL operates a variety of games on behalf of more than two-dozen member lotteries.

Approximately 1,200 locations comprise the Nebraska Lottery retailer network, ranging from convenience stores to supermarkets and from service stations to cafes.

After prizes, the largest share of each dollar spent on the Nebraska Lottery goes to beneficiary funds. Proceeds have been distributed, according to legislative mandate, among the Education Innovation Fund, State General Fund, Nebraska Scholarship Fund, Nebraska Environmental Trust Fund, Compulsive Gamblers Assistance Program and Solid Waste Landfill Closure Assistance Fund. All 93 counties in Nebraska have benefited from projects funded by Nebraska Lottery proceeds.





Lotto Conversion

Fiscal Year 2003-2004 began with the announcement that Intralot USA had been chosen as the contractor for Lotto equipment and services, under a new seven-year contract. The fiscal year concluded with the accomplishment of the network conversion.

After more than six months of preparation for the July 1, 2004 Lotto network conversion, a statewide retailer training effort was undertaken that encompassed the latter stages of the fiscal year. In the weeks leading up to the training effort, a series of special conversion newsletters was created to keep retailers abreast of ongoing developments in the conversion process.

The overall effort was dubbed The FAST TRACK.

Running from April 26 through June 3, 2004 The FAST TRACK training program encompassed 42 separate sessions in two-dozen cities across Nebraska. Nearly 3,000 Nebraska Lottery retailer personnel attended the training.



The program employed a racing theme to take retailers through four stages. Each stage was a turn on The FAST TRACK course. Turn 1 introduced the Coronis terminal provided by Intralot and explained its operation.

Many features of the new terminal were developed after focus group research was conducted with Nebraska Lottery retailers. Turn 2 covered the features of the GVT+, the Scratch validation equipment and reporting system provided by GTECH. In Turn 3, Accounting information and helpful tips for using the reporting resources of the two pieces of equipment were shared. Turn 4 reviewed the Marketing resources available to help maximize Scratch and Lotto sales, and gave retailers a sneak preview of new Lotto and Scratch products.

Two training sessions were offered each day, in the morning and afternoon. Retailers were invited to drop in at any time during the scheduled sessions, and completing the four turns of the track took about one hour. Retailers were encouraged to send as many employees to the training as they wished.

Rather than a static classroom setting, The FAST TRACK used a trade show setting with scenery and agenda topics that changed as retailers moved from place to place.

Upon entering the track area, retailers received a Program folder and a Pit Pass that, when punched at the completion of each Turn, became

products and promotions

their entry card for prize drawings. A Pit Stop provided refreshments, and The Winners Circle provided everyone who attended with a special Nebraska Lottery t-shirt and \$20 in Nebraska Lottery products. In addition to daily door prize drawings, a Grand Prize drawing at the end of the six-week program awarded a VIP trip for two to the EA Sports 500 NASCAR race at Talladega Superspeedway October 1 through 4.

The training was staffed by representatives of the Nebraska Lottery marketing and accounting departments, GTECH Nebraska, Intralot Nebraska, and the Nebraska Lottery advertising agency Ayres Kahler.

Lotto Games

Sales of Nebraska Lottery Lotto games, Powerball, Nebraska Pick 5 and 2by2 increased by 14 percent during the fiscal year, totaling more than \$46.3 million.



The largest single revenue generating game, Powerball, posted its highest sales since its introduction in Nebraska in 1994. A jackpot driven game, total Nebraska Powerball sales of more than \$34.6 million resulted in part from five jackpots in excess of \$100 million each during the fiscal year. The peak jackpots were \$261.3 million on July 9, 2003; \$135.6 million on August 30, 2003; \$190.9 million on October 25, 2003; \$221.5 million on December 31, 2003; and \$213.2 million on May 8, 2004. Nebraska Powerball sales were up 17 percent during the fiscal year.



The Nebraska Lottery's unique Lotto game, Nebraska Pick 5, posted its highest sales ever during the fiscal year. Introduced in 1995, Nebraska Pick 5 has been modified several times over the years to add drawings and create a growing jackpot. Total sales of the game were \$9,530,463, an increase of 11 percent over the previous fiscal year. During Fiscal Year 2003-2004, the Nebraska Pick 5 jackpot experienced growth beyond the \$100,000 level a total of 11 times. The jackpot, which begins at \$50,000 and grows each time it is not won, reached a high of \$238,000 on February 17, 2004. The Nebraska Pick 5 jackpot was won a total of 22 times during the fiscal year.

Awareness, and sales, of Nebraska Pick 5 benefited from a Nebraska Pick 5 Doubler promotion conducted in November of 2003. The promotion is discussed further in the Promotions section.



Since February 8, 2004, 2by2, the Lotto game with the best overall odds and prizes for matching any combination of winning numbers, has been drawn six nights a week.

The game, which is offered by the Nebraska Lottery and the Kansas Lottery, added Tuesday, Thursday and Friday to its Monday, Wednesday and Saturday drawing schedule.

Launched in June of 2002, 2by2 like Powerball, is operated by the Multi-state Lottery Association.

The first 2by2 drawing under the Monday through Saturday schedule was held Monday, February 9, 2004.

Sales of 2by2 in Nebraska totaled \$2.1 million during the fiscal year. Although that is a decrease of 14 percent from the previous year, 2by2 continues to generally out-perform its predecessors as the Nebraska Lottery's third Lotto game. The 2by2 jackpot of \$20,000 was won 20 times in Nebraska during the fiscal year.



Passage of LB 367 by the 2003 Nebraska Legislature has resulted in increased payouts on Scratch games, by enabling the Director of the Nebraska Lottery to determine the share of proceeds to be dedicated to beneficiary funds.

LB 367 read in part, "...Beginning October 1, 2003, and until January 1, 2008, 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 specified by the Legislature. A hold-harmless clause in LB 367 requires the Nebraska Lottery to dedicate at least the same amount of money to the funds through Fiscal Year 2007 as was produced during Fiscal Year 2002-2003 (\$20,229,702).

LB 367 enabled the Nebraska Lottery to increase Scratch prizes by roughly three percent, and Scratch games with enhanced prize structures began entering the market in October of 2003.

During Fiscal Year 2003-2004, Nebraska Lottery Scratch ticket sales totaled more than \$46.3 million, an increase of better than 14 percent over the previous fiscal year.

Scratch games introduced during the course of the fiscal year included \$1, \$2, \$3 and \$5 games, offering prizes ranging from \$1,777 to \$77,777.

In addition to the annual favorite \$2 game Truck\$ & Buck\$, the 2003 and 2004 versions of which offered a Ford F-150 SuperCrew-Lariat edition truck as the top prize, a second vehicle game was introduced. Sports Car Cash featured the 2003 Ford Thunderbird convertible valued at \$56,000, which included state and federal taxes paid by the Nebraska Lottery, plus \$1,000 for costs incurred with ownership.

Beyond three top prize Ford Thunderbirds, the Sport Car Cash \$2 game offered more than 255,000 cash prizes ranging from \$2 to \$1,000. The odds of winning one of the game's top prizes were 1 in 320,000, and the overall odds of winning something were 1 in 3.5.

Other popular Scratch games offered during the fiscal year included \$3 Scratch Keno and \$2 Instant Monopoly Game.

Promotions



The Nebraska Lottery marked its Tenth Anniversary in September of 2003, and the traditional second chance contest offered each summer extended to Lotto and Scratch games through the 10 Years of Fun contest which ran from May to September.

In addition to the chance to win a new truck, the centerpiece of the Truck\$ & Buck\$ \$2 Scratch ticket, the 10 years of Fun Giveaway offered a top prize of \$100,000.

Entering required submission of \$10 worth of non-winning Scratch or Lotto tickets from any eligible game, and drawings were held on May 30, June 27, July 18, August 8 and September 5 to select a total of 50 semi-finalists to compete in the 10 Years of Fun Second Chance game show during the Nebraska Lottery's 10th Anniversary Party scheduled for September 20, 2003 at Pershing Auditorium in Lincoln.

More than 309,000 entries were received during the course of the contest.

As close to 2,000 people watched, the field of contestants was narrowed, first to 30 then to 15 and finally to six finalists. With the help of the actor who portrayed FATE in Nebraska Lottery advertising, the remaining six placed their names in envelopes that were then placed randomly on top of six signs spelling out "10 Years". The prizes offered in the 10 Years of Fun contest were concealed beneath the six elements of 10 Years.

The covers were removed from the prizes, and the identities of the winners were determined as the envelopes were opened one by one.



Things got off to a fast start, with the presentation of the second prize of a 2003 Ford F-150 SuperCrew-Lariat edition truck valued at \$42,000 (the Nebraska

Lottery pays withholding taxes and provides \$1,909 for costs incurred with ownership). A stunned Charles Kimes of Dawson won the truck. When asked his reaction, the nearly-speechless Kimes said it was the second truck he'd won from the Nebraska Lottery. Kimes won a new Chevy Silverado in August of 2001 when he bought a \$2 Truck\$ & Buck\$ ticket at the OSCO store at 56th and Highway 2 in Lincoln. During an interview with the "Lincoln Journal Star" after the 10 Years of Fun contest, Kimes said the Nebraska Lottery had "a player for life" in him.

Suspense built as the remaining five cash prizes were awarded. Chrystal Tharnish of St. Edward won \$500.

Pete Petrashek of Omaha, who was represented at the party by his wife, won \$1,000.

Merril Mark of Columbus won \$1,500.

After the smaller cash prizes were presented, the final two contestants, Heather Kozisek of Omaha and Lowell Closner of Gretna, stood waiting to learning which of them would win \$2,000 and which would win the grand prize of \$100,000.

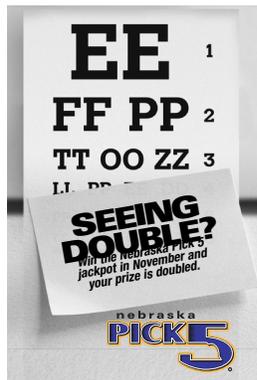
The envelope above the \$100,000 prize was opened, and a stunned Closner was announced as the grand prize winner. When the cheers and applause of the crowd subsided, Closner was asked his thoughts at the moment. After a brief pause, Closner received cheers as he said, "I have no thoughts in my mind."

Kozisek received \$2,000.

Following photos and congratulations by onlookers, contestants were free to enjoy the balance of the evening that included a street dance by the band One More Time, and a live Powerball drawing held on the stage inside the arena. The evening had a family fun atmosphere with a petting zoo, activities for children, the chance to have photos taken with FATE, and of course the ever-popular Spin & Win wheel staffed by Nebraska Lottery ambassadors. Nebraska Lottery Scratch and Lotto tickets were sold by representatives of Seward convenience store, Gas N Snaks, one of the original Nebraska Lottery retailers and a perennial sales leader.



The 2004 version of the Truck\$ & Buck\$ second chance contest was dubbed the Tough Truck Giveaway, and like its predecessor spanned the end and beginning of the fiscal years. Launching a new fiscal year, the contest concluded on July 31, 2004 before a crowd of more than 5,000 at a Lincoln Saltdogs baseball game. Details will appear in the 2005 Annual Report and Resource Guide.



During November of 2003, a special promotion doubled the size of the Nebraska Pick 5 jackpot each time it was won. The jackpot was won, and doubled, six times during November. Nebraska Pick 5 sales increased 41 percent during the promotion and posted an 18 percent increase after the promotion ended.

Linda Bratka of Omaha bought gas for her car on Thanksgiving and became one of six winners to double their Nebraska Pick 5 jackpot during the Nebraska Pick 5 Doubler promotion.

Although her husband, Gaylen, is usually the Nebraska Pick 5 player in the family, Bratka bought a \$2 ticket for the November 27 drawing during a fuel stop at Smack's Convenience Store at 144th and Stoneybrook Boulevard in Omaha. She selected her own numbers for one play and opted for a quick pick for the second play on the ticket.

Checking the drawing results in the newspaper the next day, Bratka saw that the numbers she selected had matched the five winning numbers: 1, 3, 7, 12, 30. She also checked the results at the retailer where she bought the ticket. However, it was not until her daughter told her of the November Nebraska Pick 5 Doubler promotion that Bratka realized that she had won twice the posted jackpot of \$70,000.

Bratka claimed her \$140,000 prize the following Monday at Nebraska Lottery headquarters in Lincoln, and said plans for the money included a tithe to the church, paying off the mortgage on their home and some bills, helping their daughter, and possibly buying a new car.

When asked how she picked her numbers, Bratka who is an accountant for a local firm, said they had significance in her spiritual life.

The Nebraska Pick 5 jackpot starts at \$50,000 and grows by \$4,000 each drawing that it is not won. Drawings are held Monday through Saturday.

Between November 1 and November 30, players who won the Nebraska Pick 5 jackpot received twice the advertised amount of the jackpot for the drawing in which they won.

In addition to Bratka's win, the jackpot was won five other times during November. Those doubled jackpot winners were:

November 7 in Lexington, \$252,000;
November 11 in Omaha, \$116,000;
November 12 in Mullen, \$100,000;
November 19 in Gibbon, \$140,000; and
November 20 in Kearney, \$100,000.

The odds of matching all five numbers to win the Nebraska Pick 5 jackpot are 1 in 501,942. The November promotion did not affect the odds of winning.



The Nebraska Lottery offered its first-ever second chance contest for holiday themed Scratch games with the Drive Home Second Chance Contest, which ran from November 2003 to mid-January 2004.

The Drive Home holiday promotion gave players the chance to enter \$10 worth of non-winning \$1 Happy Holidays, \$2 Merry Maui, or \$5 Holiday Surprise Scratch tickets. A total of 24,351 entries were received.

Preliminary drawings to select five contestants were held on December 16, 23, and 30, 2003; and on January 6, and 13, 2004. The five contestants from across Nebraska met January 17, 2004 for the Drive Home Second Chance Game Show at Woodhouse Chrysler in Blair.

During the Drive Home Second Chance Game Show, the contestants each drew a number from one through five to determine the order in which they would proceed. Contestants then randomly selected oversized keys with contest prizes concealed on them, and five envelopes containing the contestants' names were randomly placed on the keys by the contestants themselves. The prizes on each key were revealed, and the envelopes were then opened to determine the winners, beginning with Fifth Place and progressing to the Grand Prize.

Vi Hartin of Omaha won the Grand Prize of a 2004 Chrysler Pacifica and \$1,059 cash. The total prize package value is \$43,500, and includes the \$29,391 value of the Pacifica, plus federal withholding of \$10,875 and state withholding of \$2,175 paid by the Nebraska Lottery.

Donaldlene Osgood of Valentine won the Second Place prize of \$500 of E-10 Unleaded with Ethanol, courtesy of the Nebraska Ethanol Coalition, and \$250.

Frank Stava of Hay Springs won the Third Place prize of \$500.

Kevin Valaika of Lincoln, represented by a proxy, won the Fourth Place prize of \$300.

Fred Barnes of Omaha won the Fifth Place prize of \$100.



Cross



Promotion

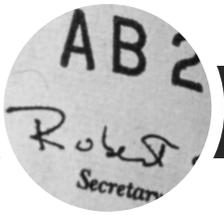
For the first time, the Nebraska Lottery offered a Lotto and Scratch ticket cross-promotion in early 2004. Between January 18 and February 8, each purchase of \$2 worth of Powerball on the same ticket entitled players to a free \$1 Scratch ticket.

When a qualifying \$2 Powerball purchase is made, the Lotto terminal automatically printed a coupon for a free \$1 Nebraska Lottery Scratch ticket.

The coupon for the free \$1 Scratch ticket could be used for any \$1 Scratch game on display at the retailer where the qualifying purchase was made.

Intended to acquaint Lotto players with the enhanced prize structures of Scratch games, the promotion ran from 6 a.m. (CT) on January 18 to 2 a.m. (CT) on February 8.

Powerball sales increased 25.5 percent during the promotion, and were up 12 percent after the promotion ended. Scratch sales increased 47 percent during the promotion, and were up 24 percent after the promotion ended.



Retailers

The Nebraska Lottery retailer network continues to number close to 1,200 locations, with more than 940 offering Scratch and Lotto games.

Sales Leaders

As demonstrated in the Financial Statement of this Annual Report, total sales for the Nebraska Lottery showed a significant increase over the past Fiscal Year. That increase was due in large measure to the ongoing success of the EZStock automated inventory management system that was implemented during the previous Fiscal Year, and to the continued dedication of Nebraska Lottery retailers.

The top 10 retailers in Scratch and Lotto ticket sales across the state for the Fiscal Year were:

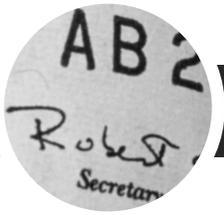
Top 10 Lotto Retailers

1. *No Frills Supermarket, Bellevue*
2. *Bakers #314, Omaha*
3. *Bakers #307, La Vista*
4. *Hy-Vee #1467, Omaha*
5. *Stars 66, Omaha*
6. *Bakers #310, Omaha*
7. *Bakers #303, Omaha*
8. *Hy-Vee #1470, Omaha*
9. *Hy-Vee #1620, South Sioux City*
10. *U-Save Mart, Morrill*

Top 10 Scratch Retailers

1. *Gas N Snaks, Seward*
2. *Skagway 5 Points, Grand Island*
3. *Corner Stop, Columbus*
4. *Northside BP, North Platte*
5. *Coffin's Corner, Grand Island*
6. *Pump & Pantry #16, York*
7. *Kwik Stop #05, North Platte*
8. *Sapp Bros., Columbus*
9. *Bradys Meats & Foods, Fremont*
10. *Holiday #114, Grand Island*





Retailer Roundtable

Since January of 2002, the Nebraska Lottery has held monthly Retailer Roundtable meetings across the state.

The idea for the program is to give Nebraska Lottery retailers the opportunity to share their insights with and ask questions of key Nebraska Lottery personnel. Each meeting is an opportunity to share information and gather input from retailers on a variety of topics.

The three-hour Retailer Roundtables are casual events with refreshments, door prizes, and both small and open group discussion sessions.

Retailer Roundtables crisscross the state in order to gain balanced input from retailers in all areas. The following schedule was set for the third year of the program.

2003-2004 Locations

- August 12, Hastings
- September 9, Alliance
- October 14-15, Broken Bow/Ord
- November 18, South Sioux City
- January 6, Fremont
- January 13, Cozad
- February 17, Grand Island
- March 9, Ogallala

Sessions were suspended in preparation for the Lotto network conversion training held from late April through mid-June. The Retailer Roundtable was scheduled to resume in September of 2004.

After each session attendees receive written minutes of the meeting and follow-up information on questions asked or points raised.



Beneficiaries

Using a formula created by the Legislature, proceeds are distributed quarterly among the Education Innovation Fund (24.75 percent), Nebraska Scholarship Fund (24.75 percent), Nebraska Environmental Trust Fund (49.5 percent), and the Compulsive Gamblers Assistance Fund (1 percent, plus the first \$500,000 in fund proceeds each fiscal year).

By the end of the fiscal year, 44 transfers totaling \$204,037,659 had been made since the Nebraska Lottery began operation on September 11, 1993.

The funds' respective totals as of June 30, 2004 were: Education Innovation Fund, \$95,239,877; Nebraska Scholarship Fund, \$4,768,764; Nebraska Environmental Trust Fund, \$81,547,645; and Compulsive Gamblers Assistance Fund, \$4,020,377. Prior to July 1, 1997, the Solid Waste Landfill Closure Assistance Fund received proceeds totaling \$18,460,996. A portion of the funds transferred to the Education Innovation Fund are, in turn, directed to the State General Fund.

Criteria for proceeds distribution are established by the beneficiary funds in accordance with legislative mandates. Every county in Nebraska has received service through grants funded with Nebraska Lottery proceeds.

During the course of the fiscal year, the Nebraska Lottery transferred more than \$20.8 million to its beneficiary funds.

9/2003—\$5.6 million

- Compulsive Gamblers Assistance Fund—\$551,269
- Education Innovation Fund—\$1,526,341
- Nebraska Scholarship Fund—\$1,011,436
- Nebraska Environmental Trust Fund—\$2,537,777

12/2003—\$5.1 million

- Compulsive Gamblers Assistance Fund—\$50,777
- Education Innovation Fund—\$1,256,751
- Nebraska Scholarship Fund—\$1,256,751
- Nebraska Environmental Trust Fund—\$2,513,502

3/2004—\$5 million

- Compulsive Gamblers Assistance Fund—\$50,183
- Education Innovation Fund—\$1,242,024
- Nebraska Scholarship Fund—\$1,242,024
- Nebraska Environmental Trust Fund—\$2,484,049

6/2004—\$5.1 million

- Compulsive Gamblers Assistance Fund—\$50,850
- Education Innovation Fund—\$1,258,553
- Nebraska Scholarship Fund—\$1,258,553
- Nebraska Environmental Trust Fund—\$2,517,105



Relationship Marketing

The Nebraska Lottery operates a relationship marketing program through which more than 195,000 Nebraskans have registered their preferences regarding Nebraska Lottery Scratch and Lotto games. Throughout the year, those players receive mailings from the Nebraska Lottery concerning new games, contests and promotions, and winners and beneficiary fund projects. During the month of their birthday, registered players also receive birthday greetings and a coupon for a free ticket from the Nebraska Lottery.

Registration for the relationship marketing program can be accomplished in several ways including, redeeming product coupons, entering second chance contests, and contests in the Nebraska Lottery Players Digest magazine. Registration can also be accomplished through entering drawings at Spin & Win events held at Nebraska Lottery retailers or at events such as county fairs and community festivals.



After several months of research and development, the Nebraska Lottery relaunched its website on October 1, 2003. A key feature of the new site was the introduction of the MVP Club, an on-line element of the Nebraska Lottery's relationship marketing program.

There are more than 15,000 members of the MVP Club.

Joining the MVP Club involves providing the same sort of information gathered from players registered in the larger relationship marketing effort. In addition to contact information, players are asked their preferences regarding Scratch and Lotto games. Joining the Internet MVP Club also involves providing a valid email address so that the Nebraska Lottery can communicate by email with members. MVP Club members are also added to the larger list of players who receive information by mail.

Anyone who is 19 years or older can register for the Nebraska Lottery relationship marketing program, and registering in one form (in writing or on-line) does not exclude membership from the other.

The MVP Club was created to help make nelottery.com a more interactive website, something that is necessary in order to help keep the site fresh and useful for the more than 100,000 people who visit each month.

The new website and MVP Club were introduced with an inaugural contest that invited site visitors to join the new MVP Club between October 1 and October 30, 2003. A total of 8,651 inaugural membership entries were received for the contest, which offer prizes ranging from a Nebraska Lottery jacket to \$10,000.

Marilyn Sager of Gordon won the \$10,000 First Prize.

Five Second Prize winners each received a Cannon PowerShot A300 Digital Camera. Ten Third Prize winners received Nebraska Lottery denim jackets.

Each month, the MVP Club offers a different contest featuring a variety of prizes. Some contests involved entering a serial number from a Nebraska Lottery Scratch or Lotto ticket, others simply ask MVP Club members their opinions.

Three opinion-based MVP Club contests were conducted during the fiscal year.

Gift Giving Survey Contest

MVP Club members were eligible to participate in a Nebraska Lottery Ticket Gift Giving Survey Contest between December 1 and December 30, 2003.

Entering the contest required answering seven questions relating to Nebraska Lottery tickets as gifts. Among almost 1,100 entries received, the vast majority (71.8 percent) of respondents said they had given tickets as a gift in the past year, and 51.7 percent said they had received tickets as a gift in the past year.

On December 31, 2003, a total of 36 winners were drawn from among entries received. The First Prize of \$250 went to Dean Pekny of Clarkson. Twenty-five (25) Nebraska Lottery \$1 Scratch ticket coupons, and prize bags were awarded to 20 Second Prize winners and 15 Third Prize winners, respectively.

\$2 Scratch Game Survey Contest

MVP Club members were eligible to participate in a Nebraska Lottery \$2 Scratch Game Survey Contest through nelottery.com during March of 2004.

A total of 1,606 entries were received in the contest, which required no purchase but participants were asked to complete an on-line survey regarding their preferences toward a variety of \$2 Scratch game designs and possible prizes.

Preliminary findings of the survey, which invited members' impressions of 32 different possible games, found that Sizzlin 7's and Doubling Diamonds were among the more popular themes. The most popular prizes were 1) free gas for 10 years, 2) a trip to Hawaii, 3) a new SUV, 4) free groceries for a year, 5) a Las Vegas trip.

A random drawing was conducted to select winners of 31 prizes offered in the contest.

Dan Petersen of Lincoln was drawn to receive the 1st Prize; a 43-inch Pioneer HD PureVision Plasma TV, including a tuner, 2 speakers, and a stand and featuring stereo output, SRS 3D Sound, Picture-in-Picture, and more. The total value of 1st Prize package was \$6,785, which includes the \$4,750 price of the TV package and state and federal withholding taxes of \$339.29 and \$1,696.43, respectively, which are paid by the Nebraska Lottery.

Thirty (30) Second Prize winners received a Nebraska Lottery MVP Club t-shirt.

Pastime Survey Contest

During a two-day survey, April 14-16, 2004, MVP Club members were asked to share some information about what they do for entertainment in exchange for the chance to win a Nebraska baseball outing on May 2. Respondents were asked how often in the past year they had done the following things: attended a sporting event; visited a zoo, park or museum; attended a fair, street festival or amusement park.

More than 420 responses were received and the majority said they attend between 1 and 5 sporting events a year, followed by those who attend 10 or more events a year, then by those who attend 6 to 10 events a year.

In a random drawing from among entries received, Tim Warneking of Grand Island was selected to receive the contest prize:

- two tickets to the May 2 Nebraska Baseball game against Texas A&M in Lincoln,
- plus one night's lodging and a Nebraska Lottery \$50 pre-paid VISA Gift Card.

Other MVP Club contests gave members the chance to enter serial numbers from various Scratch or Lotto tickets for the chance to win prizes ranging from \$250 to a trip for two to Las Vegas, and from Nebraska Beef and a gas grill to a year's supply of E-10 Unleaded with Ethanol.

Research

Research efforts ranging from focus groups to telephone surveys are conducted throughout the year to help the Nebraska Lottery identify audiences and develop appealing games and promotions.

A February 2004 telephone survey of more than 1,200 Nebraskans found that 57 percent of Nebraskans have played a Nebraska Lottery game in the past year.

Player Demographics

Scratch Players

The median age of Scratch game players is 40.9 years, and the median household income for Scratch game players is \$52,700. The average player spent \$2.87 on Scratch games in a two-week period.

Lotto Players

The median age of Powerball players is 43.8 years, and the median household income for Powerball players is \$54,600. The average player spent \$3 on Powerball in a two-week period.

Public Relations

The Nebraska Lottery sponsors a variety of activities throughout the year, from sports teams to community festivals. Sports sponsorships include hockey, baseball and indoor football.

Beyond on-ice promotions for fans attending featured games, the relationship between the Nebraska Lottery and the Tri-City Storm Hockey club in Kearney has benefited various local charities.

Since the club's founding five years ago, the Nebraska Lottery has recognized the opportunity to combine a night of family entertainment with charitable giving. That is why the Nebraska Lottery has been involved with the Tri-City Storm in sponsoring the Jersey Auction, Coats for Kids, Chuck A Puck, among other events. All contributions are donated to charities like the YMCA, the United Way, the Salvation Army, and other organizations that support Nebraska communities. Because of the Nebraska Lottery's commitment to sponsoring these events, on April 28, 2004, the Tri-City Storm and the United Way presented the Nebraska Lottery with a plaque recognizing their combined achievements in support of many underprivileged families.

The Jersey Auction is an annual event started in 2001, which has brought in over \$50,000 for local charities. One night every year Storm players will wear customized jerseys, which had been paid for by the Nebraska Lottery. After the game, the jerseys are auctioned off among very competitive bidding. In 2003 alone the auction raised over \$17,000 for the United Way.

The Nebraska Lottery also sponsors Coats For Kids with the Tri-City Storm and Liberty Cleaners for the past four years. This event has brought in hundreds of coats for children and their families. The Nebraska Lottery offers coupons for free Scratch and Lotto tickets to every individual who donates a coat. The Salvation Army with the Tri-City Storm has also worked with the Nebraska Lottery to sponsor food drives at Storm hockey games. Free Nebraska Lottery tickets are offered to fans who bring in cans of food or other nonperishable items.

Charter Communications has likewise teamed up with the Nebraska Lottery to sponsor the Chuck A Puck. Before a Tri-City Storm hockey game fans are asked to purchase a hockey puck, register it, and during intermission of the hockey game fans are encouraged to throw their pucks towards a target in the middle of the rink. Winners collect a wide variety of prizes donated by a variety of corporate sponsors, including the Nebraska Lottery. All proceeds are spread amongst charities such as the United Way, the YMCA and other organizations.



Major prize winners, claimed at Nebraska Lottery Claim Centers.

July 2003

2by2® - \$20,000 Jackpot
Lee Hinrichs, Lincoln
Bonus Bingo - \$1,000
Terry Fuller, Omaha
Bonus Crossword - \$1,000
Michael Brown, Lincoln
Amy Lusch, Plattsmouth
Nebraska Pick 5® - \$450
Allan DeYong, Firth
Patty Pike, Lincoln
John St.Clair, North Platte
Nebraska Pick 5® - \$900
Donald Crawford, Hastings
Nebraska Pick 5® - \$174,000 Jackpot
Keith Hatfield, Lincoln
Powerball® - \$5,000
Emmett Davis, Gothenburg
Gerard Pritchard, Bellevue
Karen Robinson, Omaha
Toni Walker, Omaha
Jeannine Weiner, Lincoln
Quick 7's - \$7,000
Evelyn Hansen, Ames
Red Hot 7's - \$777
Steve Jakopovic, North Platte
Lissa Moeller, Ravenna
Mary Lou Robles, Lexington
James Burianek, Lincoln
Triple Cash - \$5,000
Carl Coartney, Fremont
Truck\$ & Buck\$ - \$1,000
Seth Zeller, Ravenna
Truck\$ & Buck\$ - \$42,000 Truck
Stephen Driggs, North Platte

August 2003

Bonus Bingo - \$1,000
Shirley Pascoe, Grand Island
Bow Wow Bucks - \$2,000
Jeffrey Eggerling, Glenwood, IA
Nebraska Pick 5® - \$450
Thomas Hagney, Omaha
Vickie Majorek, Omaha
Allen Palmer, Denton
Willard Ruhaak, North Platte
Richard Zimmerman, Lincoln
Nebraska Pick 5® - \$98,000 Jackpot
Valerie Walton, Lincoln
Nebraska Pick 5® - \$130,000 Jackpot
Tammy Dickey, Spencer
Powerball® - \$535
Larry O'Brien, Cook
Powerball® - \$5,000
Fornetta Elmore, Omaha
Garnet Heckert, Van Tassell, WY
Sue Sovereign, Battle Creek
Quick 7's - \$7,000
Kassey McMurray, Barneston
Carolyn Schliep, Fairfield
Red Hot 7's - \$777
Bonnie Ausdemore, Omaha
Truck\$ & Buck\$ - \$42,000 Truck
Ashley Anderson, Gordon

September 2003

\$35,000 Bingo - \$1,000
Larry Iversen, Grand Island
\$35,000 Bingo - \$35,000
Kristen Eschliman, McCook
2by2® - \$20,000 Jackpot
Dyana Anderson, Lincoln
Mary Harrison, Plattsmouth
Bonus Crossword - \$1,000
Carolyn Schwarz, Lincoln

Holiday Surprise - \$50,000
Gilbert Tinajera, North Platte
Nebraska Pick 5® - \$450
Paul Arellano, Grand Island
Ronald Jenkins, North Platte
Joseph Kaar, Wahoo
Francis Rayer, Grand Island
Marjean Schweitzer, Pleasant Dale
Nebraska Pick 5® - \$106,000 Jackpot
Mary Ann Brown, Ashland
Powerball® - \$515
Jim Marple, Omaha
Powerball® - \$5,000
Rudolph Brack, Bellevue
Duane Larsen, Omaha
Pamela Mitchell, Lincoln
Steven Johnson, Beatrice
Steven Schaffer, Imogene, IA
Powerball® - \$25,000
Power Play
Harold Bragg, Kearney
Powerball® - \$100,000
Betty Jacob, Bellevue
Red Hot 7's - \$777
Albert Miller, Cambridge
Red Hot 7's - \$77,777
Roger O'Hara, Spiro, OK
Truck\$ & Buck\$ - \$42,000 Truck
Tom Ritterbush, Scottsbluff

October 2003

\$35,000 Bingo - \$1,000
Guy Hugunin, Gretna
2by2® - \$20,000 Jackpot
Virgil Likness, Plattsmouth
Clarence McDowell, Lincoln
Rhonda Puckett-Swanon, Lincoln
Kimberly White, Bennington
Casino Riches - \$1,000
James Zielinski, Omaha
Casino Riches - \$100,000
Chris Slahn, Norfolk
Gold Rush - \$1,000
Doug Womeldorf, Fremont
Holiday Surprise - \$1,000
Deborah Vecchio, North Platte
Gold Rush - \$50,000
Kathleen Clouse, Albion
Instant Monopoly - \$10,000
Johnny Berg, North Platte
Nebraska Pick 5® - \$450
Dorothy Dennhardt, Grand Island
Willie Lee Morris, Lincoln
Ronn Sorensen, Lincoln
Jeffery Stotler, Lincoln
George Vokoun, Lincoln
Nebraska Pick 5® - \$166,000 Jackpot
Terry Wiseman, Norfolk
Sports Car Cash - \$1,000
Lloyd Sievert, Lincoln
Sports Car Cash - \$56,000 Thunderbird
Gloria Malagon, Lincoln
Scratch Keno - \$1,000
Charles Searle, Omaha
Powerball® - \$5,000
Donald Brunz, Gering
Gary DeVries, Omaha
Roger Dutcher, Lincoln
Gary Hert, Omaha
Ryan McDuffee, Omaha
Cynthia Medonca, Bellevue
Nicholas Neary, Omaha
Tuan Nguyen, Burnsville, MN
Sally Olson, Oakland

Powerball® - \$100,000
Felipe Castanedo, South Sioux City
Quick 7's - \$7,000
Kyle Wright, Omaha

November 2003

\$35,000 Bingo - \$1,000
Debra Martin, Valley
2By2® - \$20,000 Jackpot
Donald Hoon, Bethany, OK
Ardean Kohtz, York
Bonus Crossword - \$1,000
Tammy Pollard, Omaha
Bonus Crossword - \$35,000
Mira Moreno, Scottsbluff
Corn Country USA - \$2,000
Joan Harrison, Omaha
Merry Maui - \$7,500 Trip
Ricky Lautenschlager, Grand Island
Nebraska Pick 5® - \$450
Arvester Chapman, Lincoln
Darlene Fry, Beaver Crossing
Ron Janky, Saint Paul
Sue Meissner, Cozad
Faye Phillips, Lincoln
Nebraska Pick 5® - \$900
Mark Smallcomb, Gibbon
Nebraska Pick 5® - \$100,000
Doubled Jackpot
Jerry Laue, Kearney
Nebraska Pick 5® - \$116,000
Doubled Jackpot
Bessie Schmader, Omaha
Nebraska Pick 5® - \$140,000
Doubled Jackpot
Dolores Peters, Gibbon
Nebraska Pick 5® - \$252,000
Doubled Jackpot
Marcella Esslinger, Lexington
Scratch Keno - \$35,000
Kipp Smith, Grand Island
Touchdown Dollars - \$2,500
Conrad Kwapnioski, Springfield

December 2003

\$35,000 Bingo - \$1,000
Fernando Delgado, Wakefield
Dorothy Saldana, Madison
Roy Wyant, Jr., Plattsmouth
Bonus Crossword - \$1,000
Thomas Miller, Columbus
Gold Rush - \$1,000
Peggy Harvey, Columbus
Happy Holidays - \$2,500
Joyce DeVoogd, Lincoln
Merry Maui - \$10,000
Jim Dappen, Lincoln
Nebraska Pick 5® - \$450
Betty Larabee, Lincoln
Randall Loch, North Platte
Nebraska Pick 5® - \$86,000
Thomas Baker, Scribner
Nebraska Pick 5® - \$100,000
Doubled Jackpot
Bonnie Swendener, Mullen
Nebraska Pick 5® - \$140,000
Doubled Jackpot
Linda Bratka, Omaha
Powerball® - \$918
Katherine Smith, Omaha
Powerball® - \$5,000
William Bauer, Merna
Norman Calhoun, Bellevue
Byoung Choi, Omaha
William Cronican, Omaha
Frank Jaramillo, Scottsbluff



Nicole Moran, Lincoln
Leon Schneider, Omaha
Charlene Stetler, Papillion
Buddy Stinnette, Grant
Amanda Tynski, Omaha
Powerball® - \$25,000
Power Play
Frances Lake, O'Neill
Powerball® - \$400,000
Power Play
Barbara Bottrell, Crete

January 2004

Big Bags of Cash - \$3,000
Sybil Malm, Omaha
Bonus Crossword - \$1,000
Jesse Roland, Fairbury
Gold Rush - \$1,000
William Ott, Norfolk
Gold Rush - \$50,000
Dan Thomas, Columbus
Holiday Surprise - \$1,000
Tom Maxon, Grand Island
Merry Maui - \$7,500 Trip
Jacquelyn Seitz, Quincy, IL
Nebraska Pick 5® - \$450
Wesley McCaslin, Hershey
Carol Quincey
& Michelle Yost, Lincoln
Dennis Schmitz, Hallam
Henry Watton, Lincoln
Nebraska Pick 5® - \$58,009 Jackpot
David Kuszak, Ashton
Nebraska Pick 5® - \$82,000 Jackpot
Jerry Sullivan, Omaha
Powerball® - \$300
Michael Nowacki, Peyton, CO
Powerball® - \$500
John Greene, Aurora, CO
Powerball® - \$5,000
Carona Davis, Bellevue
LaRoy Edic, Columbus
Donald Hughes, Bloomington
Dennis Martin, Wallace
Laverne Mayehama, Omaha
Jerry Nuss, Lincoln
David O'Leary, Omaha
Edward Prohaska, Plattsmouth
Peggy Staley, Bellevue
Quick 7's - \$7,000
Elena Madueno, Grand Island

February 2004

\$35,000 Bingo - \$35,000
Janet Stock, Omaha
\$50,000 Jackpot - \$1,000
Connie Twiss, Pine Ridge, SD
\$50,000 Jackpot - \$50,000
James Peters, Omaha
Bonus Crossword - \$1,000
Debra Condrey, Plattsmouth
Christie Peterson, Lincoln
Holiday Surprise - \$50,000
Justin Hoepfner, Laurel
Magnificent 7's - \$777
Michelle Rowlee, Gering
Merry Maui - \$10,000
JoAnne Kozak, Osmond
MVP Club January Contest
\$2,200 Las Vegas Trip
Christine Cascio, Omaha
Nebraska Pick 5® - \$450
Benny Covington, North Platte
Nadine Hain, Lincoln
Mark Hiatt, Lincoln
Benjamin Hurner, Norfolk
Marjorie Rhynalds, Wilber
Kent Ryan, Lincoln
Walter Sorensen, Cairo
Marsha Yetter, Sutherland
Nebraska Pick 5® - \$459
Ann Aude Loso, Raymond
Nebraska Pick 5® - \$238,000 Jackpot
Betty Dodds, Republican City
Powerball® - \$5,000
Florence Bain, Omaha
Scott Duer, Staplehurst
Richard Kroeger, Elkhorn
Lavern Niemand, Fairbury

Janet Whitehead, Omaha
Powerball® - \$100,000
Robert Hackbarth, Raymond
Warren Wrage, Omaha
2by2® - \$20,000 Jackpot
Priscilla Johnson, Bellevue
John Custard, Bellevue
Quick 7's - \$7,000
Leslie Breiner, O'Neill
Jeffrey Johnson, Hickman
Ruby Red 7's - \$1,777
William Broekemeier, Osmond
John Warren, Lincoln
Sports Car Cash - \$1,000
Robert Callinane, Lincoln
Tic Tac 7's - \$2,777
Tammy Howie, Colon
Wild 7's - \$2,777
Catherine Benda, Shelby

March 2004

\$35,000 Bingo - \$1,000
Delores Vaughan, Omaha
\$35,000 Bingo - \$1,025
Sheila Auman, Omaha
\$50,000 Jackpot - \$1,000
Jason Gouldie, North Platte
2by2® - \$20,000 Jackpot
Stephen Cerny, Fremont
Bonus Bingo - \$1,000
Tara Luedtke, Lincoln
Bonus Crossword - \$1,000
Janet Long, Columbus
Couch Potato Cash - \$1,000
Paula Condon, Lincoln
Magnificent 7's - \$777
Steven Poore, Hastings
Nan Silva, Grand Island
Nebraska Pick 5® - \$450
Gene Bloemaker, Fremont
Ned Dominquez, Lincoln
Dorothy Thiem, North Platte
Dennis Van Fossen, Lincoln
Nebraska Pick 5® - \$142,000 Jackpot
Shirley Wallar, Omaha
Powerball® - \$535
Edward Regan, Omaha
Powerball® - \$5,000
Larry Bartscher, Norfolk
Peggy Nollett, Omaha
Jeffrey Smith, Lincoln
Paul Wallman, Syracuse
A J Wright, Oxford
Charles Meisinger, Lincoln
Powerball® - \$100,000
Charles Skinner, Bellevue
Scratch Keno - \$35,000
Christina Schleich, Omaha
Twister - \$10,000
Adam Essay, Lincoln

April 2004

\$35,000 Bingo - \$35,000
Jessica Briscoe, North Platte
\$35,000 Solitaire - \$35,000
Gina Godel, Norfolk
Finish Line - \$4,000
Emily Nelson, Sutherland
Wild Hearts - \$2,000
Jamie Backhaus, McLean
2by2® - \$20,000 Jackpot
Susan Jelinek, Seward
Powerball® - \$100,000
Gilda Lara, Schuyler
Powerball® - \$5,000
Rick Goodwin, Lincoln
Kenneth McVeigh, Lincoln
Nebraska Pick 5® - \$118,000 Jackpot
Ardell Sachs, Nebraska City
Nebraska Pick 5® - \$450
Iris Aughe, Lincoln
Darlene Fry, Beaver Crossing
Howard Knapp, Hershey
Sheri Lampe, Lincoln
Larry Wilson, Paxton

May 2004

\$35,000 Bingo - \$1,000
Roberta Durham, Grand Island
Nancy Thomas, Omaha

2By2® - \$20,000 Jackpot
Kelly Snow, Lincoln
Kevin Gemmill, Lincoln
Joyce Lamphear, North Platte
Richard Peetz, Scottsbluff
Bonus Crossword - \$1,000
Jeff Duranski, Columbus
Dorian Wright, Oxford
Bonus Crossword - \$35,000
David Griess, Sutton
Walter Schultz, Moorefield
Magnificent 7's - \$77,777
Otis Berry, Ogallala
Nebraska Pick 5® - \$450
Marie Ahlman, Hastings
Dorothy Hunt, Roca
Chuck Long, Gretna
Anton Skutchan, Pleasant Dale
Nebraska Pick 5® - \$74,900 Jackpot
Wynne Norsworthy, Gothenburg
Nebraska Pick 5® - \$86,000 Jackpot
Margaret Kill, Omaha
Powerball® - \$450
Edward Lewandowski, Lincoln
Powerball® - \$5,000
Donald Bauman, Pawnee City
La Le, Omaha
Larry Nichols, Gothenburg
Sarah Selig, Columbus
Powerball® - \$100,000
Don Hoover, Lincoln
Jennie Robak, Columbus
Quick 7's - \$7,000
Carol Coryell, Lexington
JoAnn Novotny, Valparaiso
Super Match 3 - \$4,000
Jason Hessler, Julesburg, CO
Tic Tac 7's - \$2,777
Barbara Ratzsoloff, Lincoln
Trucks & Bucks - \$1,000
Wayne Rademacher, Clay Center
Trucks & Bucks - \$46,800
Ford F-150 Truck
Dennis Odgaard, Columbus
Rozella Sesemann, Blair
\$50,000 Jackpot - \$50,000
Barbara Wilkerson, College Station, TX

June 2004

\$35,000 Bingo - \$1,000
Sofia Kuehn, Omaha
Bonus Crossword - \$1,000
Elaine Krzycki, Loup City
Cash Bonus - \$2,000
Stephen Jones, Norfolk
Las Vegas Boulevard - \$50,000
Richard Winters, McCook
Lucky 7's - \$70,000
Cheri Naeve, Lincoln
Scratch Keno - \$1,000
Jane Welgus, Columbus
Lucky 7's - \$1,000
Lisa Harrington, Lincoln
Blain Thompson, Johnson Lake
Magnificent 7's - \$77,777
William Broekemeier, Osmond
Magnificent 7's - \$777
James Gress, Nebraska City
Nebraska 10 Years of Fun - \$5,000
Delmar Luebe, Pierce
Quick 7's - \$7,000
Marlene Shearer, Minden
Trucks & Bucks - \$46,800
Ford F-150 Truck
Fred Gross, Gering
Powerball® - \$5,000
Gary Files, Wood River
Kenneth Wamsat, Greenwood
Powerball® - \$500
Alvin Hesacker, Humphrey
Nebraska Pick 5® - \$114,000 Jackpot
David Bruguera, Hastings
Nebraska Pick 5® - \$66,000 Jackpot
Debra Prince, York

independent auditors' report

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



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NEBRASKA LOTTERY

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INDEPENDENT AUDITORS' REPORT

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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, 2004, 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.

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Tim Channer, CPA
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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 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 opinions.

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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 and changes in financial position of only that portion of the business-type 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 business-type activities of the State of Nebraska as of June 30, 2004, and its changes in financial position 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 above present fairly, in all material respects, the respective financial position of the business-type activities of the Nebraska Lottery, as of June 30, 2004, and the respective changes in financial position 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 September 30, 2004, on our consideration of the Nebraska Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. *(This report is not included in the Nebraska Lottery's annual report but can be obtained from the Nebraska Lottery.)*

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 schedules and Management's Discussion and Analysis are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it. *(The Nebraska Lottery has not included the additional schedules and the Management's Discussion and Analysis (MD&A), as noted above, in this annual report. The MD&A is required supplementary information that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements. The additional schedules and MD&A can be obtained from the Nebraska Lottery.)*

September 30, 2004


Assistant Deputy Auditor

statement of net assets

June 30, 2004

ASSETS:

CURRENT ASSETS

Cash and Cash Equivalents		\$ 8,014,088
Accounts Receivable, Net of Allowance (Note 4)		3,207,464
Prepaid Prizes		240,291
Prepaid Contract Cost - Instant		173,609
TOTAL CURRENT ASSETS		11,635,452

NON CURRENT ASSETS

Reserves on Deposit (Note 6)		1,712,039
Furniture, Fixtures, and Equipment (Note 5)	417,965	
Less: Accumulated Depreciation	<u>377,334</u>	
Capital Assets, Net		<u>40,631</u>
TOTAL NON CURRENT ASSETS		1,752,670

TOTAL ASSETS

\$13,388,122

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable		\$ 377,763
Vendors Payable		854,835
Compensated Absences Payable		125,461
Accrued Payroll Payable		60,206
Withheld Taxes on Prizes Paid		21,686
Prize Payable		3,602,222
Due to Other Funds		842,270
Other Accrued Liabilities		51,597
TOTAL CURRENT LIABILITIES		5,936,040

TOTAL LIABILITIES

\$ 5,936,040

NET ASSETS

Invested in Capital Assets	\$ 40,631	
Restricted for Future Prizes	1,712,039	
Unrestricted (Note 8)	<u>5,699,412</u>	
TOTAL NET ASSETS		<u>\$7,452,082</u>

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

statement of revenues, expenses and changes in net assets

For The Year Ended June 30, 2004

OPERATING REVENUE:

Sales	\$94,078,583
Less: Sales Returns	<u>1,469,940</u>

TOTAL OPERATING REVENUE 92,608,643

OPERATING EXPENSES:

Prize Expense	52,607,966
Retailer Commissions	5,632,373
Contractual Services Expense	9,753,242
Marketing	3,400,374
Lottery Operating	1,870,417

TOTAL OPERATING EXPENSES 73,264,372

OPERATING INCOME 19,344,271

NON-OPERATING REVENUE:

Interest Income	400,293
Multi-State Lottery Association Income	51,997
Other Income	<u>353</u>

TOTAL NON-OPERATING REVENUE 452,643

INCOME BEFORE OPERATING TRANSFERS 19,796,914

TRANSFERS TO OTHER FUNDS (20,590,486)

CHANGE IN NET ASSETS (793,572)

TOTAL NET ASSETS, BEGINNING OF YEAR 8,245,654

TOTAL NET ASSETS, END OF YEAR \$7,452,082

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

statement of cash flows

For The Year Ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Ticket Sales	\$93,585,104	
Prizes Paid to Winners	(52,413,039)	
Commissions Paid to Retailers	(5,625,168)	
Paid to Contractors for Goods and Services	(13,196,950)	
Paid to Employees	(1,396,149)	
Other Operating Expenses	(371,351)	
Powerball® Grand Prize Winner Receipts from MUSL	5,030,000	
Payments to Powerball® Grand Prize Winners	(5,030,000)	
Reserves on Deposit	757,449	
Advances for Vendors	(39,268)	
Prepaid Prize Expense	(72,787)	
Net Cash Provided by Operating Activities	21,227,841	

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Paid to Education Innovation Fund	(5,283,669)	
Paid to Nebraska Scholarship Fund	(4,768,764)	
Paid to Environmental Trust Fund	(10,052,433)	
Paid to Compulsive Gamblers Assistance Fund	(703,079)	
Net Cash Used in Noncapital Financing Activities	(20,807,945)	

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of Property and Equipment	(7,943)	
------------------------------------	---------	--

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on Cash	400,646	
Multi-State Lottery Association Income	322,975	
Net Cash Provided by Investment Activities	723,621	

NET INCREASE IN CASH AND CASH EQUIVALENTS 1,135,574

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 6,878,514

CASH AND CASH EQUIVALENTS AT END OF YEAR \$8,014,088

RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Income From Operations	\$19,344,271	
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:		
Reserves on Deposit	757,449	
Prepaid Prize Expense	(72,787)	
Advances for Vendors	(39,268)	
Depreciation	50,757	
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable (Net)	1,120,555	
Advance Sales	(62,866)	
Accounts Payable and Accrued Liabilities	(338,873)	
Prizes Payable	482,941	
Compensated Absences Payable	(14,338)	
Net Cash Provided by Operating Activities	\$21,227,841	

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

nebraska lottery

notes to financial statements

For The Year Ended June 30, 2004

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 are in the format of fund financial statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. 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 instant and on-line games vendor and from accounts maintained by the State Accounting Administrator of the Department of Administrative Services.

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, which is a State agency 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. Section 9-812 R.S.Supp., 2003, are to be transferred to the Education Innovation Fund, the Nebraska Scholarship Fund, the Nebraska Environmental Trust Fund, and the Compulsive Gamblers Assistance Fund. 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. The Governmental Accounting Standards Board (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.

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

C. Basis of Accounting, Measurement Focus

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 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.

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.

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.

Prize expense is recognized in the same period ticket revenue is recognized based on the predetermined prize structure for each game. Since the instant prize winning tickets are randomly distributed throughout the tickets and since 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 end of each instant game and 181 days after each draw for on-line games as prizes unclaimed for 180 days expire.

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

Cash primarily represents the cash balance of a fund as reflected on the Nebraska Information System. These funds are held in pooled accounts and accordingly are not categorized as to credit risk as defined by GASB Statement No. 3. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Interest on funds held by the State Treasurer is periodically distributed to the participating agencies. These funds are considered to be cash and cash equivalents, which are defined as investments with maturities of three months or less. Also included in the cash amount is Petty Cash and Deposits with Vendors.

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.

F. Allowance for Uncollectible Amounts

Estimated allowances for uncollectible amounts are determined 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 three to seven years is capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or extend asset life is not capitalized.

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, 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 50 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 fiscal-year-end 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. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State with the exception of the health and life insurance programs which are maintained by the DAS Personnel Division. The State generally self-insures for general liability and workers' compensation. The State has chosen to purchase insurance for:

- A. Motor vehicle liability, which is insured for the first \$5 million 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 medical payments, 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. Health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$25,000 self-insured retention per incident.
- D. Real and personal property on a blanket basis for losses up to \$100,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000. Acts of terrorism are covered up to \$2,500,000 aggregate per year. State agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund 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.

3. State Employees Retirement Plan (Plan)

The single-employer plan became effective by statute on January 1, 1964. Prior to January 1, 2003, the plan consisted of a defined contribution plan that covered State employees. Effective January 1, 2003, a cash balance benefit was added to the State Employees Retirement Act. 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 benefit or begin participation in the cash balance benefit. The defined contribution benefit 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 who have 12 continuous months of service are required to begin participation in the retirement system. All permanent full-time or permanent part-time employees who have 12 months of service within a five-year period, and who have attained the age of 20, may exercise the option to begin participation in the retirement system.

Contribution. Each member contributes 4.33% of his or her monthly compensation until \$864 has been contributed and 4.8% of pay for the rest of the calendar year. 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 vested 100% after a total of three years of participation in the system, including the twelve-month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

Defined Contribution Benefit. 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 a 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, 2004, employees contributed \$49,421 and the Nebraska Lottery contributed \$77,096. A separate plan report is issued and can be obtained from the Nebraska Public Employees Retirement System. This report contains full pension-related disclosures.

4. Receivables

Retailers comprised principally of grocery store, 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 pack is 70% sold whichever comes first. Retailers pay for on-line tickets each Wednesday for balances due through the previous Saturday. The retailers account receivable is net of allowance for uncollectible in the amount of \$19,213.

Accounts Receivable:

Retailers (net)	\$2,957,530
Other	249,934
Total	<u>\$3,207,464</u>

5. Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Total Capital Assets	\$ 410,022	\$ 7,943	\$ -	\$ 417,965
Total Accumulated Depreciation	326,576	50,758	-	377,334
Total Capital Assets, Net	<u>\$ 83,446</u>	<u>\$ (42,815)</u>	<u>\$ -</u>	<u>\$ 40,631</u>

6. On-Line Games

During the fiscal year ended June 30, 2004, the Nebraska Lottery offered a variety of on-line games as described in the following table.

<u>Game Name</u>	<u>Operated by</u>	<u>Nebraska's Share of Prize Reserves</u>
POWERBALL®	MUSL	\$ 1,639,000
NEBRASKA PICK 5®	Nebraska Lottery	n/a
2by2®	MUSL	73,039
		<u>\$ 1,712,039</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 are 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.

The Powerball® grand prize 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.

7. Significant Compliance Requirements

Neb. Rev. Stat. 9-812 R.S.Supp., 2003 requires until October 1, 2003, at least twenty-five percent and beginning October 1, 2003, and until January 1, 2008, a portion of the dollar amount of the lottery tickets, which have been sold, on an annualized basis to be transferred to the beneficiary funds, except that the dollar amount transferred shall not be less than the dollar amount transferred to the funds in fiscal year 2003. 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. Thereafter, twenty-four and three-fourths percent shall be transferred to the Education Innovation Fund, twenty-four and three-fourths percent shall be transferred to the Nebraska Scholarship Fund, forty-nine and one-half percent shall be transferred to the Nebraska Environmental Trust Fund, and one percent shall be transferred to the Compulsive Gamblers Assistance Fund.

Of the funds transferred to the Education Innovation Fund, for fiscal years 2004 and 2005, shall be allocated to the General Fund after operating expenses for the Excellence in Education Council are deducted.

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. Prizes are redeemable for 180 days after game end or applicable on-line drawing.

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 \$843 in delinquent State taxes and \$5,044 in delinquent child support payments.

As required under its enabling legislation, transfers of \$20,807,945 had been made to other funds during the fiscal year. In addition to the above transfers, \$822,755 has been accrued as a current liability, Due to Other Funds, and will be included in future distributions.

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.

8. 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.

9. Subsequent Event

The State Treasurer transferred five million dollars from the State Lottery Operation Trust Fund to the General Fund on July 15, 2004, as required by the 2004 Neb. Laws LB 1091, Section 1.