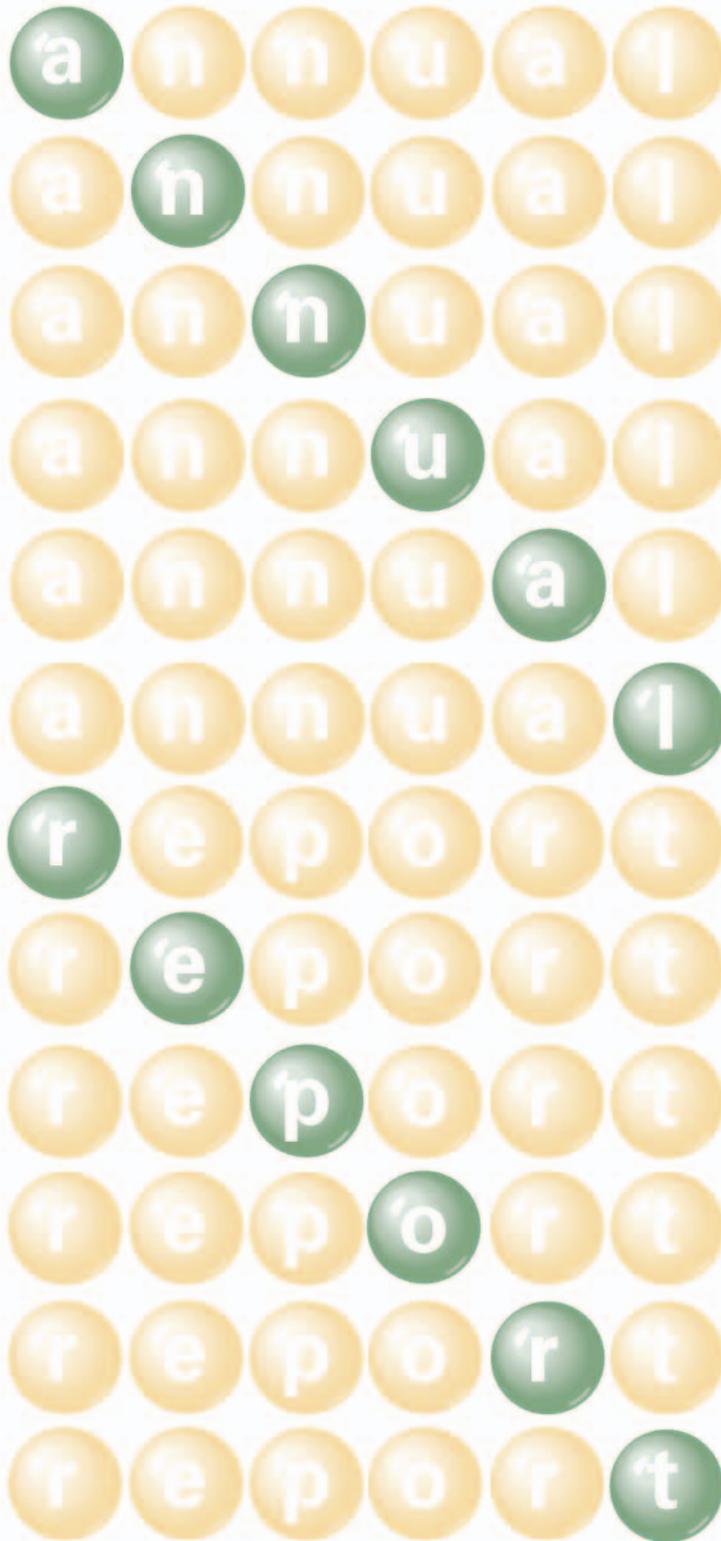
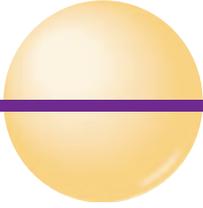


2005



and resource guide



annual report
july 1, 2004 through june 30, 2005
resource guide

Throughout its history, the Nebraska Lottery has focused on innovation as a means of delivering quality products and service to players and retailers alike.

During Fiscal Year 2004-2005, a number of innovations contributed significantly to the bottom line of the Nebraska Lottery as a public business.

From a new on-line network to new game offerings and promotions, efforts to maximize value to all Nebraska Lottery customers have continued to bear fruit.

This Annual Report and Resource guide chronicles key elements of the work of the Nebraska Lottery on behalf of its retailers, players and general public.

Mary Jane Egr Edson, State Tax Commissioner

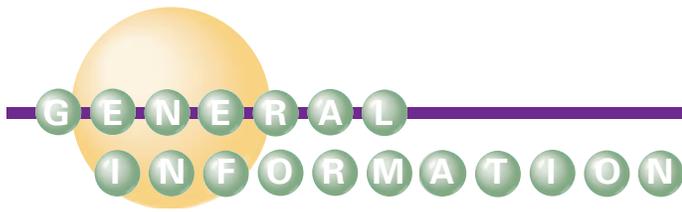
James M. Haynes, Acting Lottery Director

A Division of the Nebraska Department of Revenue



table of contents

summary of activities of the division	
general information	1
lotto developments	3
scratch developments	7
relationships and research	11
retailers	12
beneficiaries	14
winners	16
independent auditors' report	19
statement of net assets	21
statement of revenue, expenses and changes in net assets	22
statement of cash flows	23
notes to financial statements	24



The Nebraska Lottery sells \$1, \$2, \$3, \$5 and \$10 Scratch tickets, with prizes ranging from a free \$1 ticket up to \$250,000. As many as 30 various Scratch games are developed and offered during the course of a year.

The Nebraska Lottery sells Lotto (on-line) games such as Powerball®, 2by2®, Nebraska Pick 3™ and Nebraska Pick 5®. Nebraska Pick 5 and Nebraska Pick 3 are offered exclusively in Nebraska. The other two games are operated on behalf of member lotteries by the Multi-State Lottery Association. Lotto drawings are held six nights a week, with the exception of Powerball drawings which are held twice a week. Although the prize for a single play of any game is \$1, the prizes range from a free ticket up to a multi-million-dollar jackpot.

Nebraska Lottery Scratch game products and related equipment are provided by GTECH Corporation, which employs more than 20 people across Nebraska. Tickets and equipment are distributed from the Nebraska Lottery warehouse in Lincoln. Since July 1, 2004, Nebraska Lottery Lotto products and equipment have been provided by IntralotUSA, with a Nebraska staff of more than 40 people across the state. The Intralot Nebraska facilities serve as the company's showcase operation in North America.

There are 20 Nebraska Lottery headquarters employees, providing accounting, marketing, systems and general administration services from the Nebraska State Office Building in Lincoln.

The Nebraska Lottery contracts for advertising and security services with other Nebraska firms.

AGENCY SELECTION

The Nebraska Lottery has retained Ayres Kahler Advertising as its advertising agency of record for another three years.

The announcement was made on May 25, capping a process that began in January with the issuance of a Request for Proposals for Advertising and Marketing Services.

Several weeks of preparation and review went into the two-phase selection process. First, interested agencies were asked to submit by February 4 a capabilities statement detailing their respective resources and experience. A committee of Nebraska Lottery employees examined those capability statements, and select agencies were invited to submit proposals for two detailed marketing projects.

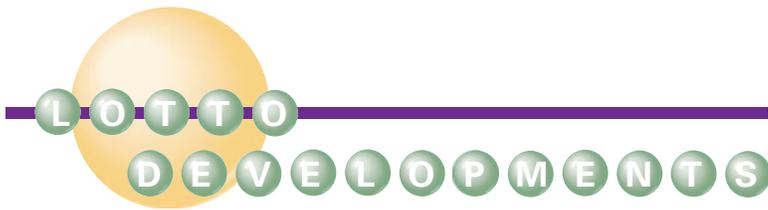
Phase II written submissions were due March 18, and agencies made oral presentations on their proposals during the week of March 21. This stage of the selection process was conducted by representatives of the Nebraska Lottery, supplemented by representatives of the Arizona and Delaware lotteries.

Submissions were scored according to four criteria: Overall Strategic approach, Media Plan considerations, Creative executions, and Promotional and Public Relations plans.

Agencies' proposed compensation for the contract was evaluated separately, after the review committee had made its assessment using the four scoring criteria.

Ayres Kahler has been the Nebraska Lottery's advertising agency of record since 1997. The new three-year contract commenced on July 1, 2005, and includes the option of three one-year extensions.

Ayres Advertising was founded in Lincoln in 1946. Tracing its roots to 1935 as Louis Holland Advertising, Kahler & Company was so named in 1992. A 2002 merger formed Ayres Kahler, with offices in Lincoln and Omaha.



INTRALOT ACTIVATION

After several months of planning, and a six-week statewide retailer training effort, Intralot took over operation of the Nebraska Lottery Lotto network on July 1, 2004. Lotto game terminals and related services are now provided by Intralot under a new seven-year contract.

The centerpiece of the new system is the Coronis terminal, featuring a touch screen for transaction selection, and state-of-the-art data processing. As many as 1,500 Nebraska Lottery retailers will be able to use the new equipment, linked by satellite to central processing facilities in Lincoln.



In addition to supplying Lotto terminals and related supplies, Intralot manages a statewide field staff of customer service technicians to maintain the Nebraska Lottery Lotto retailer network. Intralot operates the transaction processing system for Nebraska Lottery Lotto games, and maintains a customer service call center from offices located in Lincoln.

The successful conversion marked the completion of a process that began in August of 2003 when Intralot was named the successful bidder after a competitive process.

IntralotUSA of Duluth, Georgia is an operating unit of Intralot S.A., an affiliate of the Intracom Group, which is one of the largest telecommunications, electronics and information technology companies in Europe. Intralot is the fastest growing company in the gaming sector, and is the third largest supplier of gaming information systems and equipment services worldwide.

SATELLITE OUTAGE

The Nebraska Lottery was just one of dozens of business and media customers worldwide affected by the November 28, 2004 failure of a major communications satellite, which happened to

lotto developments

serve the Lotto network.

Within four days, at least 97 percent of the Nebraska Lottery Lotto retailer network was back on-line, but other interests nationwide affected by the failure faced long delays.

In order to restore retailer communications, the technical service staff of Intralot worked around the clock. Supplemented by contract technicians from around the nation, crews worked more than 2,000 man-hours in an effort that required crews to visit every one of more than 950 Nebraska Lottery Lotto retailers, facing winter conditions including icy roofs, as they redirected satellite dishes and rerouted equipment.



Resulting from a rare satellite failure, the communication outage disrupted sales of Nebraska Lottery Lotto games, Powerball, Nebraska Pick 5 and 2by2.

The outage was made all the more dramatic by the Powerball jackpot of \$127 million for the December 1 drawing, and a jackpot Doubler promotion in effect for Nebraska Pick 5.

Players seeking Powerball tickets for the December 1 drawing had access at about 800 retailers statewide by that evening. The full network was operational for the Saturday Powerball drawing, with an estimated jackpot of \$145 million.

Originally scheduled to end on November 30, the Nebraska Pick 5 Doubler promotion was extended to December 4. The promotion gave players who won the Nebraska Pick 5 jackpot twice the advertised amount of the jackpot for the drawing in which they won. During November, the jackpot was won twice: November 11, \$158,000 doubled to \$316,000; and November 20, \$78,000 doubled to \$156,000.

Sales of Powerball, Nebraska Pick 5 and 2by2 tickets that were disrupted early in the week had rebounded significantly by the Wednesday night drawings. Total Lotto sales for that single Wednesday exceeded \$389,000, which was about 70 percent higher than average Wednesday sales for the previous two months. Analysis indicated that a combination of the fast recovery effort mounted by technicians, and players

deferring rather than canceling their Lotto purchases, helped to minimize potential losses to around \$150,000.

The failed satellite, IA-7, formerly known as Telstar 7, was launched in September of 1999. It hosted more than 50 transponders, one of which was leased by ViaSat the technology provider for Intralot, the Nebraska Lottery's Lotto equipment vendor.

The new satellite, Horizons 1, is owned by PanAmSat. It was launched in September of 2003, and has a life expectancy of 15 years. ViaSat leases space for the Nebraska Lottery on two of the new satellite's 24 transponders.



NEBRASKA PICK 3

The Nebraska Lottery introduced a new Lotto game, developed in part as a result of direct player input.

Nebraska Pick 3 went on sale across the state at 6 a.m. on Sunday, May 22. The first Nebraska Pick 3 drawing was held on Monday, May 23.

Nebraska Pick 3 drawings are held six days a week, Monday through Saturday. Prizes in Nebraska Pick 3 range from \$1 to \$600. The odds of winning range from 1 in 4.12 to 1 in 1,000. In all, there are 9 ways to win.

Nebraska Pick 3 gives players the chance to not only select the numbers they wish to play, but also the opportunity to decide what type of play style and potential prizes to play for.

Players can first choose from four bet types; Straight, Box, Straight/Box or Combo. Each bet type costs \$1. The bet type selected determines the possible prizes by matching combinations of the winning numbers.

Players pick three numbers, each from a separate set of ten digits (0 through 9). The numbers can be unique such as 1, 2, 3 or identical such as 1, 1, 1.

A standard Nebraska Pick 3 play consisting of one set of three numbers and one bet type for a single drawing, costs \$1.

The three numbers selected are played against the winning numbers drawn, according to the following four bet types.

Straight:

Match all three numbers in the exact order drawn.

(one prize level)

--exact order match--\$600

Box:

Match all three numbers drawn in any order.

(two prize levels)

--6-way match--\$100

--3-way match--\$200

Straight/Box:

Match all the numbers drawn in either exact or any order.

(three prize levels)

--straight match--\$350

--six-way match--\$50

--3-way match--\$126

Combo:

Match 1, 2 or 3 numbers drawn in exact position within the order drawn:

(three prize levels)

--3 numbers in exact order--\$100

--2 numbers in exact position--\$8

--1 number in exact position--\$1

Games similar to Nebraska Pick 3 are offered by many other lotteries across the nation, including those in Iowa, Kansas and Missouri.

In August 2004, the Nebraska Lottery conducted a web-based survey to test various concepts for a new Lotto game. The survey was conducted through the Nebraska Lottery website, www.nelottery.com, and drew almost 1,000 responses.

The survey asked respondents' impressions of everything ranging from a game's matrix (how many numbers are drawn) to its prize structure, and from a game's play style to drawing frequency. Results were used to examine various game concepts, and led to the decision to introduce Nebraska Pick 3 as the fourth Lotto game offered by the Nebraska Lottery.

\$10 SCRATCH GAMES

The Nebraska Lottery unveiled a new line of \$10 Scratch games in August when, \$250,000 Lucky Day made its debut at the Nebraska State Fair. The game went on sale statewide on September 3.

With an exciting variety of play styles, and 22 ways to win on each ticket, \$250,000 Lucky Day offered a top prize of \$250,000, the largest Scratch game prize that the Nebraska Lottery has ever offered.



The first of the game's two top prizes was



claimed in September by a Hordville woman who bought her ticket at the Central City Pump & Pantry.

Judy Hanquist won \$250,000 by revealing three horseshoes in a row on the fourth of six games offered on each \$250,000 Lucky Day ticket.

Hanquist regularly purchases Scratch and Lotto tickets, but told Nebraska Lottery officials that this was her first major prize. She noted that she was extremely excited when she realized that her ticket was a winner, and had to have the ticket verified multiple times.

As she claimed her prize at Nebraska Lottery headquarters, Hanquist said her plans for the \$250,000 prize were uncertain, but she added that paying bills was on the list.

The odds of winning the \$250,000 Lucky Day top prize were 1 in 240,000, and the overall odds of winning something were 1 in 2.62.



THE FUN ZONE

With the approach of the holidays, the Nebraska Lottery introduced a group of seasonal Scratch games, one of which inaugurated a new game featured tied to the Nebraska Lottery website.

In addition to 10 chances to win on each \$2 ticket, Crazy Kringle Cash

featured The Fun Zone, which gives players the chance to win extra prizes through the Nebraska Lottery website.

By visiting nelottery.com, accessing The Fun Zone and entering the designated Fun Zone number, players who have joined the MVP Club can either win an instant prize or be entered in a monthly grand prize drawing. The Fun Zone prizes range from free tickets to cash or merchandise.

The Fun Zone does not affect the odds of winning a prize instantly in the game.

During the fiscal year, more than 50,000 Fun Zone entries were received.

WEBSITE

The Nebraska Lottery website continues to grow in prominence as a resource for players and the general public.

During the course of the fiscal year, more than 1.5 million visits were recorded on the site.

In addition to product information and stories about winners, nelottery.com offers visitors a chance to learn more about Nebraska Lottery beneficiaries, participate in polls and enter contests.

MVP CLUB

A key element of nelottery.com is the MVP Club.

There are more than 22,000 members of the Nebraska Lottery MVP Club who receive special information on new games, contests and promotions, and have access to updates on research and surveys.



\$10 GAMES SECOND CHANCE

In addition to the chance to win prizes instantly, the \$10 Scratch games offer the chance to enter a monthly second chance drawing for \$1,000. Each ticket is designed as a self-mailer postcard. Beyond submitting entries by mail, Nebraska Lottery MVP Club members can enter the \$10 Scratch game second chance contest online through the Nebraska Lottery website, www.nelottery.com, by submitting the serial number from the back of a non-winning \$10 Scratch game ticket.

DESIGN 'EM CONTEST

During January, the Nebraska Lottery invited players to submit their design ideas for new \$1 Scratch games. More than 200 people submitted Design 'Em Contest entries by the January 31 deadline.

The field was evaluated and narrowed twice by two separate panels of Nebraska Lottery judges, until the top 20 entries were identified.

During March, visitors to the Nebraska Lottery website who had registered as MVP Club members, were invited to select the contest winners by voting for their favorite design in each of two groups.

This first group of 10 entries, submitted by the following individuals, was posted for voting during the week of March 7-13.

*Kathy Bate of Rushville, **Lemonade Stand***
*Pat Mesenbrink of Omaha, **Ant Attack!***
*Tara Hutchinson of Lincoln, **Catch A Fallin' Star***
*Violet Wiese of Pleasanton, **Digg'in For Gold***
*Lori Catlett of Grand Island, **Fun 4 One***
*Steve Raglin of Omaha, **Galaxy Of Gold***
*Vicki Swarthout of North Platte, **Go For The Green***
*Doug Jackson of Lincoln, **Hit The Right Note***
*Cassie Northup of Lincoln, **Hop Into Spring***
*Nichole Thomas of Seward, **Hunting For Buck\$***

Voting on the second group of 10 entries, submitted by the following individuals, was scheduled the week of March 14-20.

*Julie Hornkohl of Ogallala, **I Scream For Ice Cream***
*Bree Primrose of Norfolk, **Lucky Licks***
*Pam Gilliam of Lincoln, **Money Magnet***
*Andrea Dickey of Fremont, **Pocket Change***
*Krista Ann Dickey of Spencer, **Purr-fect Payout***
*Jeremy Peter of Kearney, **\$tar \$truck***
*Karri Ann Osgood of North Platte, **Twinkle Twinkle Winning Star***
*Channon Bode of Lincoln, **Win Money***
*Carol Christiansen of Omaha, **You Are My Sunshine***
*Jack Pepitone of Omaha, **Popcorn Popper***

Each of the finalists received 50 Nebraska Lottery Scratch tickets and a t-shirt.

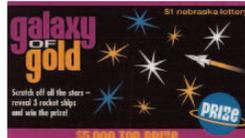
The top three vote getters in each group each won \$500.

MVP Club members who voted for the entries that turned out to be the top three vote getters in a group also received a prize of 10 Nebraska Lottery Scratch tickets.

The winners from Group 1 were:



*1, Nichole Thomas of Seward,
Hunting For Buck\$*



*2, Steve Raglin of Omaha,
Galaxy Of Gold*



*3, Tara Hutchinson of Lincoln,
Catch A Fallin' Star*

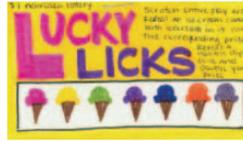
The winners from Group 2 were:



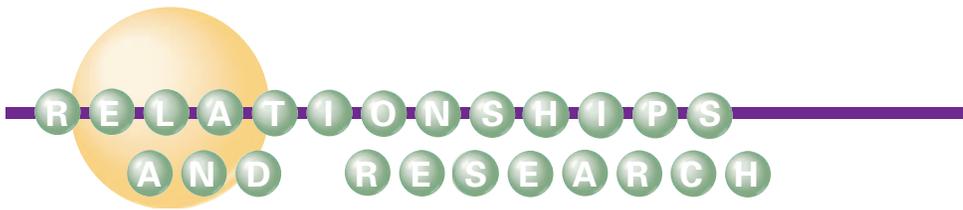
*1, Pam Gilliam of Lincoln,
Money Magnet*



*2, Andrea Dickey of Fremont,
Pocket Change*



*3, Bree Primrose of Norfolk,
Lucky Licks*



The Nebraska Lottery operates a relationship marketing program through which more than 200,000 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.

In addition to the traditional forms of direct customer communication, the Nebraska Lottery operates an element of the relationship marketing program through the MVP Club, which has more than 22,000 active members who have registered their preferences through nelottery.com.

DEMOGRAPHICS

Regular research is conducted regarding the practices and perceptions of Nebraska Lottery players. A telephone survey released in April of 2005 found that half of the eligible population (age 19 or older) has played a Nebraska Lottery game in the past year.

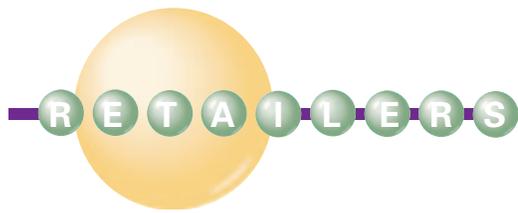
The median age of Nebraska Lottery Scratch ticket players is 40.8 years; the median household income is \$48,400 per year. The average Scratch game player spends \$3.03 every two weeks.

Powerball is the most widely recognized Nebraska Lottery Lotto game. When asked what motivates them to play, most Powerball players cite jackpot size. The majority (64 percent) of Powerball players find the game more interesting when the Jackpot is high (\$50 million or more). The average Nebraska Powerball player is 43.4 years old, with a median income of \$59,400 per year, and spends \$1.98 on the game every two weeks.

In addition to findings that half of the eligible population (age 19 or older) has played a Nebraska Lottery game in the past year, research has shown that 45 percent of players have given or received Nebraska Lottery tickets a gift.

Research has also found that the majority of players (80 percent) purchase tickets at gas stations or convenience stores.

The strong affinity that the eligible population has for the Nebraska Lottery is rooted in a history of broad public acceptance of lotteries.



The Nebraska Lottery sells Scratch tickets through a retailer network of approximately 1,250 locations statewide. Of those locations, more than 1,100 offer Lotto games such as Powerball, 2by2, Nebraska Pick 3, and Nebraska Pick 5. Nebraska Lottery retailers range from convenience stores to supermarkets and from service stations to cafes. Nebraska Lottery tickets may not be sold in establishments licensed for the consumption of alcohol on the premises. Players must be at least 19 in order to purchase and redeem Nebraska Lottery tickets.

Carrying Lottery tickets is viewed as a customer service by 50 percent of retailers responding to a Nebraska Lottery survey conducted in November of 2004. Another 48 percent of retailers said they believe Lottery tickets are both a customer service and a profit center for their stores. The majority of Nebraska Lottery retailers have said they are satisfied or very satisfied with the Nebraska Lottery.

Major developments in the Nebraska Lottery retailer network during the fiscal year included the addition of 60 Casey's General Stores to the system, which made Nebraska Lottery tickets available to a number of communities that did not have Lottery retailers previously, and the growth of the Lotto terminal network made possible under the new contract with Intralot. More than 1,100 locations are now able to offer Lotto games, compared with a maximum of 900 terminals under the previous contract.

Since before the first tickets went on sale more than a decade ago, the enthusiasm of retailers has had a direct bearing on the success of the Nebraska Lottery.

Through a combination of efficient merchandising, effective promotion and sound marketing, the Nebraska Lottery and its retailers work together to deliver a convenient, high-quality option to a diversity of busy consumers in all parts of the state.

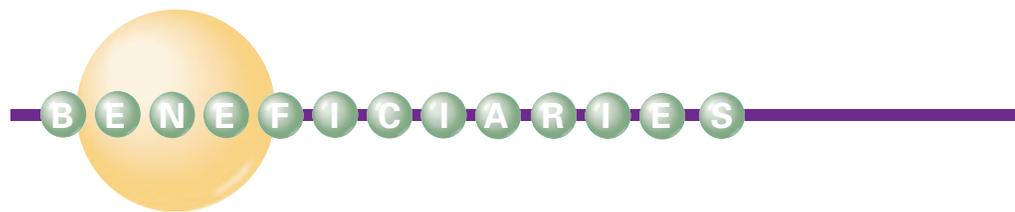
Listed below are the top ten Nebraska Lottery sales leaders for Lotto and Scratch tickets for Fiscal Year 2004-2005.

Lotto

- 1. Stars 66, 11901 Pacific, Omaha*
- 2. No Frills #3, 1510 Harlan Drive, Bellevue*
- 3. Hy-Vee #1467, 10808 Fort Street, Omaha*
- 4. Bakers #307, 8010 South 84th Street, La Vista*
- 5. Skagway Discount Store, 620 West State Street, Grand Island*
- 6. Bakers #314, 4240 South 50th Street, Omaha*
- 7. Usave Mart, 202 West Webster Street, Morrill*
- 8. Hy-Vee #1470, 7910 Cass, Omaha*
- 9. Hy-Vee #1469, 8809 West Center Street, Omaha*
- 10. Bakers #303, 3010 South 84th Street, Omaha*

Scratch

- 1. Skagway Discount Store, 620 West State Street, Grand Island*
- 2. Gas N Snaks, 541 Jackson Avenue, Seward*
- 3. Corner Stop, 220 23rd Street, Columbus*
- 4. Northside BP, 1020 North Jeffers, North Platte*
- 5. Pump & Pantry #16, 109 Lincoln Avenue, York*
- 6. Fast Mart, 3222 23rd Street, Columbus*
- 7. Kwik Stop #05, 702 East Fourth Street, North Platte*
- 8. Coffin's Corner, 519 North Eddy Street, Grand Island*
- 9. Cuzzin's Corner, 1118 8th Street, Columbus*
- 10. C-Mart, 1845 Grove Avenue, Crete*



PASSAGE OF AMENDMENT 4

Amendment 4 passed by Nebraska voters in November of 2004 established the following distribution formula for Nebraska Lottery proceeds: Nebraska Environmental Trust Fund (44.5 percent), Education as determined by the Legislature (44.5 percent) (currently equal shares to the Education Innovation Fund and the Nebraska Scholarship Fund), Nebraska State Fair (10 percent), and the Compulsive Gamblers Assistance Fund (1 percent, plus the first \$500,000 in fund proceeds each fiscal year).

TRANSFERS

During the course of the fiscal year, the Nebraska Lottery transferred more than \$22.1 million to its beneficiary funds.

The following quarterly beneficiary fund transfers were made during the fiscal year.

9/2004--\$5.1 million

Compulsive Gamblers Assistance Fund--\$545,990
Education Innovation Fund--\$1,138,251
Nebraska Scholarship Fund--\$1,138,251
Nebraska Environmental Trust Fund--\$2,276,502

12/2004--\$5.4 million

Compulsive Gamblers Assistance Fund--\$54,077
Education Innovation Fund--\$1,338,413
Nebraska Scholarship Fund--\$1,338,413
Nebraska Environmental Trust Fund--\$2,676,827

3/2005--\$5.3 million

Compulsive Gamblers Assistance Fund--\$53,476
Education Innovation Fund--\$1,189,839
Nebraska Scholarship Fund--\$1,189,839
Nebraska Environmental Trust Fund--\$2,379,678
Nebraska State Fair--\$534,759

6/2005--\$6.3 million

Compulsive Gamblers Assistance Fund--\$63,413

Education Innovation Fund--\$1,434,180

Nebraska Scholarship Fund--\$1,434,180

Nebraska Environmental Trust Fund--\$2,868,361

Nebraska State Fair--\$541,029

NEBRASKA SCHOLARSHIP ACT

Nebraska Lottery proceeds are being used in many ways to help people and projects across our state, supporting efforts focused on areas such as education, the environment, compulsive gamblers assistance, and just recently, the Nebraska State Fair.

And among these efforts is the Nebraska Scholarship Fund, which currently receives 22.25 percent of all Nebraska Lottery proceeds.

With the help of the Nebraska Lottery, the Nebraska Scholarship Act was able to award Nebraska State Grants to 13,031 students during the 2003-04 Academic Year. The Fund uses a blend of funding from the United States Department of Education's LEAP/SLEAP program (12 percent), the State of Nebraska General Fund (65.5 percent), and Nebraska Lottery proceeds (22.5 percent).

The 2003-2004 Academic Year grant awards were divided evenly between dependent (traditional) and independent (non-traditional) students, with the average grant being worth \$671.

These grants helped more than 13,000 students at 42 institutions of higher education across the state. These institutions included: all the state's 14 public 4-year and 2-year institutions, 12 private for profit institutions, and 16 private independent colleges.

Schools select students as potential recipients, and the Coordinating Commission for Post-Secondary Education approves the students and distributes funds to the institutions. Grants are made based on financial need, and students are not guaranteed to receive the grant every year they are enrolled.

The maximum grant that could be awarded during the 2003-2004 Academic Year was \$1,032, which was the equivalent of 25 percent of tuition and mandatory fees for a full-time Nebraska resident undergraduate student at the University of Nebraska Lincoln (UNL). For grants made to students for Academic Years 2004-2005 and 2005-2006, the Legislature has set the maximum possible grant at 50 percent of fees and tuition at UNL.

Major prize winners, claimed at Nebraska Lottery Claim Centers.

July 2004

Las Vegas Boulevard - \$1,000
 Lucas Lade, Tecumseh
 Doyle McCartney, Lincoln
Twister - \$10,000
 Kim Hall, Montague, CA
\$35,000 Bingo - \$1,000
 Joe Crosier, Beatrice
 Renate Langan, Cedar Rapids
Blackjack - \$10,000
 Kim Kujath, North Platte
Bonus Crossword - \$35,000
 Eric Svik, Lincoln
Bonus Crossword - \$1,000
 Gayley Vermeer, Omaha
 Jennifer Morales, Lincoln
Big Bags of Cash - \$3,000
 Brenda Trumbley, Lincoln
Monopoly - \$10,000
 Kory Arnold, Cedar Rapids
Truck\$ & Buck\$ - \$1,000
 Laura Percifield, Omaha
2by2® - \$20,000
 Ronald Eggeing, Omaha
 Donald Ross, Hay Springs
 Genene Minnick, Lincoln
 Richard Schenkelberg, Omaha
 Ricky Hill, Arcadia
 John Payton, Lincoln
 Stanley Stearns, Papillion
 Jacqueline Lacy, Omaha
Powerball® - \$5,000
 Garry Kuehn, Lincoln
Powerball® - \$500
 James Dolsky, Lincoln
Nebraska Pick 5® - \$122,000
 Deb McGrath, Allen
Nebraska Pick 5® - \$450
 Anne Hocutt, Zebulon, NC
 Ronald Wegner, Wymore
 Myrtle Knight, Omaha
 Howard Knapp, Hershey
 Sheri Lampe, Lincoln
 Larry Wilson, Paxton

August 2004

Powerball® - \$100,000
 Thomas Mailander, Omaha
 Shawna Bauer, Culbertson
 Mary Howard, Omaha
Powerball® - \$5,000
 Christopher Wilhelm, Omaha
 William Langford, Hastings
 Christopher Conrad, Lincoln
 Larry Fredricksen, Council Bluffs, IA
 Ruth Pezley, Juniata
Powerball® - \$640
 David Tripp, Omaha
Powerball® - \$500
 Richard Thorson, Lincoln
Truck\$ & Buck\$ - \$1,000
 John Mahler, Albany, OR
2by2® - \$20,000
 Betty Heckman, Wilber
 Herbert Bass, Omaha
 Jennifer Solis, Omaha
 Brandon Sandoz, Scottsbluff
 Karen Nability-Olson, Grand Island
2by2® - \$454
 Gonzalo Mendoza, Lincoln
\$35,000 Bingo - \$1,000
 Chad Polzin, Omaha
Go Nebraska - \$4,000
 Anna Sanchez, Cozad

Web - Lotto Survey - \$1,000
 Dyana Anderson, Lincoln
Sports Car Cash II - \$1,000, E-10
 Pat Fouraker, Tecumseh
Nebraska Pick 5® - \$222,000
 Cheri Shriner, Columbus
Nebraska Pick 5® - \$450
 Mark Giebelhaus, Lincoln
 Starlit Mosley, Roca
 Jeanne Vliet, Lincoln
 Ralph Parrish, Lincoln
Truck\$ & Buck\$ - Truck
 Kent Johnson, Mead
Sports Car Cash II - Corvette
 Kelly Johnson, Polk
Scratch Keno - \$1,000
 Jane Medbery, Grand Island

September 2004

Powerball® - \$5,000
 Tyler Godby, Indianola, IA
 Jeffrey Rogers, Broken Bow
 Calvert Brown, Omaha
 Don Freeman, York
 Scott Hill, Valley
Nebraska Pick 5® - Jackpot
 Dennis Neighbors, \$50,000,
 Grand Island
 Kenneth Jensen, \$58,000,
 Bennington
 Lee Vaughn, \$58,000,
 Bertrand
2by2® - \$20,000
 Alan Hingst, Lincoln
 Jim Weber, Bellevue
 Jerry Sempeck, Omaha
Lucky 7's - \$1,000
 John Rowland, North Platte
Nebraska Pick 5® - \$450
 Elsie Steinman, Lincoln
 Timothy Lessig, Grand Island
 Kenneth Halford, Woodbury, MN
 Charles Olson, Malcolm
 Adrian Mackins, Omaha
 Bernard Perryman, Omaha
Hot 7's - \$2,777
 Donna McCoy, Omaha
Las Vegas Boulevard - \$50,000
 Michael Carroll, Plattsmouth
Merry Maui - Trip
 Garneta Butrick, Falls City
\$250,000 Lucky Day - Second Chance
Drawing-\$1,000
 Kathy Rink, Lincoln
Diamond Mine - \$1,000
 Wilbert Schultz, Wood River
\$250,000 Lucky Day - \$1,000
 Tanya Wurm, Minatare
Sports Car Cash II - E-10 - \$1,000
 Desarae Hewitt, North Platte
\$35,000 Bingo - \$1,000
 Roni Thorne, Nebraska City
Quick 7's - \$7,000
 Debra Huntington, Madrid
Bonus Crossword - \$1,000
 Viola Hawkins, Bellevue
 Derek Martin, Omaha
\$250,000 Lucky Day - \$250,000
 Judy Hanquist, Hordville

October 2004

2by2® - \$20,000
 James Boyda, Omaha

Henry Myers, Lincoln
 Larry Covault, Lincoln
Nebraska Pick 5® - Jackpot
 Tim Kallenbach, Bellwood - \$122,000
 Richard Olechnowicz, Omaha - \$70,000
Powerball® - \$5,000
 James Hertel, Elkhorn
 Sancho Israel, Omaha
 Steven Racine, Columbus
Diamond Mine - \$1,000
 Ronald Beck, Grand Island
Powerball® - \$500
 Carolyn Nelson, Clay Center
Powerball® - \$300,000
 Donna Kastanek, Crete
\$250,000 Lucky Day - \$1,000
 Harold Miller, Gorin, MO
Monte Carlo - \$1,000
 Kelly Fife, North Platte
 Richard Wyant, North Platte
 Nan Silva, Grand Island
\$35,000 Bingo - \$1,000
 Mark Ruffin, Omaha
Nebraska Pick 5® - \$450
 David Ohlman, Gibbon
 David Essman, North Platte
GO Nebraska! - \$4,000
 Michelle Billington, Grand Island
Diamond Mine - \$35,000
 Fredricks Johnson, Omaha
Moolah Money - \$3,000
 Brenda Maxwell, Lincoln
Sports Car Cash II - Corvette
 Deborah Machovec, Wahoo
Quick 7's - \$7,000
 Jose Gomez-Ramos, Kearney

November 2004

\$250,000 Lucky Day - \$1,000
 Donald Leach, Danbury
Powerball® - \$5,000
 Francisco Olguin, Omaha
 Michael Tracy, Wilsonville
 Angela Green, Lincoln
Well, Did I Win? - \$3,000
 Bobbi Nisley, Bellevue
\$10 Scratch Games
Monthly Giveaway
 Helmut Reiss, Raymond – \$1,000
 James Coady, McCook – **30 Lucky Day**
Tickets
Nebraska Pick 5® - \$450
 Dorothy Dennhardt, Grand Island
 Larry Ross, Papillion
 Myrtle Knight, Omaha
 Brian Gange, Lincoln
 Patricia Long, Union
 Richard Mitchell, Omaha
\$35,000 Bingo - \$1,000
 Sylvia Carruth, Grand Island
Powerball® - \$550
 Bernardiro Moreo, Lincoln
Scratch Keno - \$35,000
 Chad Fuller, Walthill
Nebraska Pick 5® - Double Jackpot
 Robert Thompson, Hamburg, IA - \$316,000
 Jayson Wiedeman, Denham Springs, LA - \$156,000
2by2® - \$20,000
 Mary Briza, Columbus
 Samuel Hash, Bellevue

Kathy Kuhlmann, Hastings
Powerball® - \$100,000
Christopher Moore, Lincoln
Bonus Crossword - \$1,000
Michael Schwartz, Genoa

December 2004

Powerball® - \$20,012
Adam Lesko, Las Vegas, NV
Powerball® - \$5,000
Lois Gall, Columbus
Lisa Tally, Lincoln
Daniel Tiensvold, Alliance
Natalie Olson, Omaha
Juan Olmedo, Omaha

Powerball® - \$580
Nelsen Smith, North Platte
\$35,000 Bingo - \$35,000
Minnie Newbill, Bellevue
Nebraska Pick 5® - Jackpot
Ralph Dolen, Wynot - \$130,000
Nebraska Pick 5® - \$450

Jean O'Meara, Lincoln
Richard Kirby, Bellevue
Mark Colling, Lincoln
Michael Bellew, North Platte
Jacy Todd, Central City
Holiday Dough - \$2,000
Jenny Korte, Hastings
Winter Cash - \$50,000
Jerry Sundeen, Hooper
2by2® - \$20,000

Teresa Erickson, Atlanta
Gaffer Erdem, Omaha
Lucky Slots - \$1,000
Sarah Price, Lincoln
Diamond Mine - \$35,000
Jean McCowan, Omaha
Sports Car Cash II - \$1,000
E-10 Unleaded

Kevin Bright, Columbus
The Name Game
Crossword - \$1,000
Randy Marvin, Omaha
Crazy Kringle Cash - \$10,000
Patrick Hoyt, Pender
Monte Carlo - \$50,000

Linda Thagard, Superior
Bonus Crossword - \$35,000
Gwen Adams, Plattsmouth
\$250,000 Lucky Day Second Chance
Drawing - \$1,000
Glen Tharmish, St. Edward
\$250,000 Lucky Day Second Chance
Drawing - 300 tickets
Shawn Baggett, North Platte
Quick 7's - \$7,000
Sarah Patocka, Columbus
The Name Game
Crossword - \$35,000
Elizabeth Lydiatt, Kearney
Lucky 7's - \$70,000
Nis Mommsen, Blair

January 2005

Nebraska Pick 5® - \$122,000
Daniel Havlena, David City
2by2® - \$20,000
Quang Tran, Lincoln
Deborah Reeh, Alliance
Sizzlin' Slots - \$10,000
James Drahota, Norfolk
Monte Carlo - \$1,000
Dorothy Thien, North Platte
Franz Cowden, Eagle
Phyllis Powers, Omaha
Happy Holidays Cash Giveaway
Nancy Johnson, Lincoln - **\$10,000**
Willis Dawkins, Grand Island - **\$1,000**
Paula Bishop, Omaha - **\$750**
Marvin Leapaldt, Lincoln - **\$500**
Thomas Shires, Lincoln - **\$250**
Diamond Mine - \$1,000
William Kocanda, Omaha
Powerball® - \$500
Mark Larson, Omaha
Wesley Henry, Omaha

Powerball® - \$5,000
Noel Nienhueier, Juniata
James Parker, Omaha
Edward Renken, Omaha
Powerball® - \$10.3 Million
Steven Herber, Omaha
\$10 Scratch Game
Monthly Giveaway
Jeremiah Picard, Lincoln -
30 \$10 Scratch Tickets
Mike Tworek, Columbus - **\$1,000**
Curtis Malmberg, Alda -
30 \$10 Scratch Tickets
Amber Brummels, Madison - **\$1,000**
The Price Is Right - \$50,000
Deborah Wilson, Gering
Powerball® - \$100,000
Roger Smith, York
Marvin McCaffrey, Gering
Double Doubler - \$4,000
Cheryl Zumpfe, Seward
\$35,000 Bingo - \$1,000
Mohammed Nasser, Omaha
Christopher Yarpe, Omaha
Mary Ardery, Papillion
The Price Is Right - \$1,000
Carla Roberts, Cozad
The Name Game
Crossword - \$1,000
Sandra Wolfe, Overton

February 2005

Holiday Dough - \$2,000
Leona Kluge, Wayne
Doubling Diamonds - \$10,000
Walter Forrest, Ravenna
Powerball® - \$500
Roger Campbell, Seward
Robert Bridges, Bellevue
Powerball® - \$5,000
Drake Oltman, Lincoln
Darold Ebsen, Plainview
Amanda Meyer, Omaha
Ervin Mathiesen, Kennard
Powerball® - \$100,000
Richard Vincent, Omaha
Quick 7's - \$7,000
Ronna Hulsebus, York
Nebraska Pick 5®
Gale Rath, Aurora - \$198,000
Paul Kuskie, Ogallala - \$94,000
Curt Comford, North Platte - \$450
Dennis Browning, Omaha - \$450
Emerald Green 7's - \$1,777
Bill Bottolfson, Hastings
The Price Is Right - \$50,000
Rebekah Stroebel, Crete
Triple 7's - \$2,777
Carol Fuksa, Bellevue
\$250,000 Lucky Day - \$1,000
Wesley Divin, Omaha
Super Match 3 - \$4,000
Sadie Jackson, Omaha
The Price Is Right - Contest
Trip & Cash
Jeff Albin, Alma
The Name Game
Crossword - \$1,000
Marcy Stearns, Omaha

March 2005

2by2® - \$20,000
Richard Sullivan, Omaha
Linda Thompson-Uecker, Gretna
Happy Cash - \$2,000
Jesse Robinson, Norfolk
Lucky Loot - \$5,000
Jessica Gildea, Norfolk
Lucky Slots - \$1,000
David Lindeken, Scottsbluff
Lucky Slots - \$35,000
Doreen Bumann, Bellevue
Amanda Coddington, Omaha
Nebraska Pick 5® - \$62,000
Harold Brunckhorst, Osmond
Nebraska Pick 5® - \$900
Dorothy Thiem, North Platte
Powerball® - \$500
Steven Moore, Omaha - \$500

Daniel Behannon, Omaha - \$500
Karen Kelly, Chapman - \$500
Charles Brockmon, Bellevue - \$500
Rodney Bear, Kearney - \$900
Powerball® - \$5,000
Marshall Fritz, Oakland, IA
Brian Henry, Albion
Robert Lamm, Norfolk
Megan Pierce, Papillion
Powerball® - \$10,000
Steve Reeves, Gothenburg
Powerball® - \$100,000
Pettie Meeks, Omaha
Quick 7's - \$7,000
Darthula Bales, Fairbury
Sapphire Blue 7's - \$1,777
Debra Ollendick, Tilden
Sizzlin' 7's - \$77,777
Wayne Van Natter, Chadron
Struck by Luck - \$2,000
Ted Dowler, Alliance
The Name Game
Crossword - \$1,000
Warren Fox, Omaha
Ellen Von Seggern, Wisner
Well, did I WIN? - \$3,000
Kimberly George, Omaha
Nebraska Pick 5® - \$450
Jeff Bahr, Lincoln
Neva Boyd, Grand Island
Sandra Kroon, North Platte
David McCoy, Lincoln
Rebecca Nisley, Lincoln
Moolah Money - \$3,000
Vi Hartin, Omaha

April 2005

\$250,000 Lucky Day - \$250,000
Juan Torres, Geneva
\$35,000 Bingo - \$1,000
Charles Hall, Scottsbluff
2by2® - \$20,000
Sharon Hooker, Omaha
Crown Jewels - \$1,000
Eric Bargman, Crete
Monte Carlo - \$1,000
Curt Jensen, Blair
Nebraska Pick 5® - \$450
Brad Carlson, Hickman
Patrick Doherty, North Platte
Jean O'Meara, Lincoln
Kim Schwaninger, Lincoln
Nebraska Pick 5® - \$39,333
Donna Mach, Lincoln
Maribeth Schnase, Omaha
Duane Larsen, Omaha
Nebraska Pick 5® - \$66,459
Rodney Bernth, Waverly
Nebraska Pick 5® - \$82,000
Joel Smith, Grand Island
Powerball® - \$500
Darrell Brown, Lincoln
Jean Strobe, Lincoln
Powerball® - \$5,000
Donald Bettelyoun, Omaha
Kyle Everhart, Omaha
Powerball® - \$100,000
Eric Brabec, Columbus
William Wright, Omaha
Quick 7's - \$7,000
Robert Lee, Omaha
Sapphire Blue 7's - \$1,000
Paul Warner, Alliance
Sizzlin' 7's - \$777
Melvin Bomar, Bellwood

May 2005

Powerball® - \$5,000
Nathaniel Meadows, North Platte
Susan Johnson, Omaha
Leslie Gries, Omaha
Thomas Tesmer, St. Paul
Keith Eickwaun, Superior
Jose Garcia, Omaha
James Mumm, Omaha

14 Carat Cash - \$5,000

Trevor Dennison, Edina, MN
Nebraska Pick 5^o - \$27,000
Harold Mueksch, Scribner
Bob Addleman, Wichita, KS
Nebraska Pick 5^o - \$78,000
Deb Leggett, Lincoln
Nebraska Pick 5^o - \$74,000
Paul Stavropoulos, Alliance
Fun In The Sun - \$4,000
Jon Aguilar, Lincoln
\$250,000 Payday - \$1,000
Richard Rhodes, Lincoln
2by2 - \$20,000
Michael Anderson, Clay Center
Powerball^o - \$100,000
Christopher Roberts, Ames, IA
Truck\$ & Buck\$ - \$1,000
Thomas Wunderlich, Columbus
\$35,000 Bingo - \$35,000
Mary Vollers, Wayne
Monte Carlo - \$50,000
Vickie Lee, Cozad
Sizzlin' 7's - \$777
Cheryl Wipperling, Norfolk
Nebraska Pick 5^o - \$450
Ken Payne, Wilber
Doubling Diamonds - \$10,000
Don Hansen, Central City
Nebraska Pick 3TM - \$600
Karen Crofutt, Scottsbluff
Thomas Tworek, Columbus
Neal Kratochvil, Columbus
Craig Mumma, Omaha
Pam Sherwood, Lincoln
Gregg Shonka, Lincoln
Larry Gray, Crete
Susie Tallmon, Scottsbluff
Krista Anderson, Omaha
Sterling Fears, Omaha
Nels Nelson, Valparaiso

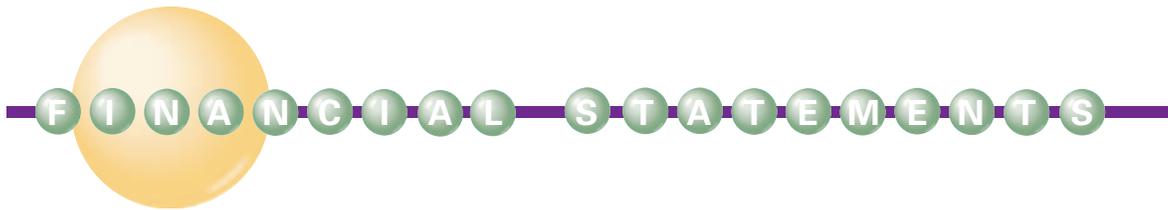
Powerball^o - \$10,000

Merlin Yoder, Grand Island
Crown Jewels - \$35,000
Cindy Thompson, Grand Island

June 2005

Nebraska Pick 3TM - \$700
William Nicholson, Hastings
Melodie Stanford, Council Bluffs, IA
Martha Galvin, Omaha
Nebraska Pick 3TM - \$600
Lindsey Tarsha, Lincoln
Ileana Burns, Lincoln
Leon Igo Jr., Lincoln
Isaac Quarells, Lincoln
Robert Swift, Omaha
Stella Morfield, Omaha
Marolyn Roza, Omaha
Ralph Ganzel, Nebraska City
Michael Berry, Papillion
Blain Thompson, Johnson Lake
Jeffrey Gartner, Lincoln
Richard Moses, Imperial
Shelby Foster, North Platte
Carmen Clifton, Tecumseh
Dale Harding, Omaha
Kelsi Bednar, Beatrice
Ron Schmidt, Lincoln
James Boyer, Fairbury
Michael Thomas, Omaha
William Stiles, Omaha
Ronald Maul, Hastings
Henry Alan, Hastings
Kathryn Taylor, North Platte
Amos Reed, Omaha
Vicky Hummel, Omaha
Paul Klimantas, Omaha
Mona Reed, Lincoln
Beverly McCord, Omaha
Joseph Novotny, Omaha
Marvin Cribbs, Omaha
Diane Franklin, Omaha
Deseray Hatfield, Bellevue
Michael Frankie, Morrill

David Harms, Lincoln
John Crow, Jr., Omaha
Nebraska Pick 3TM - \$1,050
Joseph Cannon, Omaha
Kenneth Robinson, Omaha
Nebraska Pick 3TM - \$950
Abdel Bazzi, Torrington, WY
Nebraska Pick 3TM - \$800
Marilyn Frey, Beatrice
John Blankenship, Bellevue
\$35,000 Bingo - \$1,000
Dorothy Barnard, Omaha
Truck\$ & Buck\$ - Truck
Elizabeth Miller, Lincoln
Nebraska Pick 5^o - \$450
Jay Nelson, Omaha
William Roach, Gothenburg
Powerball - \$100,000
Larry Schuetz, Falls City
Linda Meador, Elk Ridge, UT
2by2^o - \$20,000
Cyndie Pepper, Omaha
Jimmie Brannan, North Platte
Nebraska Pick 5^o - \$154,000
Michael Tagart, Grand Island
The Name Game Crossword - \$35,000
Millard Smith, Frederick, CO
Super Hot 7's - \$777
Sandra Kerns, North Platte
Bonus Crossword - \$35,000
Vicki Petersen, Omaha
Powerball^o - \$5,000
Ranae Othmer, Nehawka
Arthur Paquin, Lexington
Melanie Sutton, North Platte
Duane Schippert, Omaha
Billy Martin, Lincoln
Robert Kummer, Omaha
Powerball^o - \$25,000
Sandra Meyer, Giltner
Rick Fogleman, Norfolk



STATE OF NEBRASKA
AUDITOR OF PUBLIC ACCOUNTS



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State Auditor
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NEBRASKA LOTTERY

INDEPENDENT AUDITORS' REPORT

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Mary Jane Egr Edson
State Tax Commissioner
Nebraska Department of Revenue, Lottery Division
Lincoln, Nebraska

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, 2005, which collectively comprise the Nebraska Lottery's basic financial statements, which include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. 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 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 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, 2005, 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, 2005, 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 October 3, 2005, 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.)*



October 3, 2005

Assistant Deputy Auditor

June 30, 2005

ASSETS:**CURRENT ASSETS**

Cash and Cash Equivalents		\$ 5,267,568
Accounts Receivable, Net of Allowance (Note 4)		3,726,933
Prepaid Prizes		153,191
Prepaid Contract Costs - Instant		253,656

TOTAL CURRENT ASSETS		<u>9,401,348</u>
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NON CURRENT ASSETS

Reserves on Deposit (Note 6)		1,743,914
Furniture, Fixtures, and Equipment (Note 5)	447,698	
Less: Accumulated Depreciation	<u>403,922</u>	
Capital Assets, Net		<u>43,776</u>

TOTAL NON CURRENT ASSETS		<u>1,787,690</u>
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TOTAL ASSETS		<u>\$11,189,038</u>
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LIABILITIES:**CURRENT LIABILITIES**

Accounts Payable		\$ 357,704
Vendors Payable		869,405
Compensated Absences Payable		143,976
Accrued Payroll Payable		68,489
Withheld Taxes on Prizes Paid		28,052
Prizes Payable		4,685,494
Due to Other Funds		20,825
Other Accrued Liabilities		75,219

TOTAL CURRENT LIABILITIES		<u>\$6,249,164</u>
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NET ASSETS

Invested in Capital Assets	\$ 43,776
Restricted for Future Prizes	1,743,914
Unreserved (Note 8)	<u>3,152,184</u>

TOTAL NET ASSETS		<u>\$4,939,874</u>
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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, 2005

OPERATING REVENUE:

Sales	\$102,672,465
Less: Sales Returns	<u>2,014,294</u>

TOTAL OPERATING REVENUE 100,658,171

OPERATING EXPENSES:

Prize Expense	58,352,134
Retailer Commissions	6,433,299
Contractual Services Expense	6,511,219
Marketing	4,193,292
Lottery Operating	<u>1,637,777</u>

TOTAL OPERATING EXPENSES 77,127,721

OPERATING INCOME 23,530,450

NON-OPERATING REVENUE:

Interest Income	264,651
Multi-State Lottery Association Income	<u>65,414</u>

TOTAL NON-OPERATING REVENUE 330,065

INCOME BEFORE OPERATING TRANSFERS 23,860,515

TRANSFERS TO OTHER FUNDS (26,372,723)

CHANGE IN NET ASSETS (2,512,208)

TOTAL NET ASSETS, BEGINNING OF YEAR 7,452,082

TOTAL NET ASSETS, END OF YEAR \$4,939,874

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

statement of

CASH FLOWS

For The Year Ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Ticket Sales	\$100,120,375	
Prizes Paid to Winners	(57,286,608)	
Commissions Paid to Retailers	(6,436,011)	
Paid to Contractors for Goods and Services	(10,769,988)	
Paid to Employees	(1,238,192)	
Other Operating Expenses	(368,731)	
Powerball® Grand Prize Winner Receipts from MUSL	10,692,888	
Payments to Powerball® Grand Prize Winners	(10,692,888)	
Reserves on Deposit	(31,875)	
Advances for Vendors	28,741	
Prepaid Prize Expense	85,608	
Net Cash Provided by Operating Activities		24,103,319

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Paid to Education Innovation Fund	(5,100,683)	
Paid to Nebraska Scholarship Fund	(5,100,683)	
Paid to State Fair Support and Improvement Fund	(1,075,788)	
General Fund Transfer	(5,000,000)	
Paid to Environmental Trust Fund	(10,201,368)	
Paid to Compulsive Gamblers Assistance Fund	(716,956)	
Net Cash Used in Non-capital Financing Activities		(27,195,478)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of Property and Equipment		(29,733)
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on Cash	264,651	
Multi-State Lottery Association Income	110,721	
Net Cash Provided by Investment Activities		375,372

NET DECREASE IN CASH AND CASH EQUIVALENTS (2,746,520)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 8,014,088

CASH AND CASH EQUIVALENTS AT END OF YEAR \$5,267,568

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

Income From Operations		\$23,530,450
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:		
Reserves on Deposit	(31,875)	
Prepaid Prize Expense	85,608	
Advances for Vendors	28,740	
Depreciation	26,589	
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable (Net)	(592,025)	
Advance Sales	23,622	
Accounts Payable and Accrued Liabilities	(77,861)	
Prizes Payable	1,083,272	
Compensated Absences Payable	26,799	
Net Cash Provided by Operating Activities		<u>\$24,103,319</u>

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, 2005

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., 2004, are to be transferred to the Education Innovation Fund, the Nebraska Scholarship Fund, the Nebraska Environmental Trust Fund, and the Compulsive Gamblers Assistance Fund. As of January 1, 2005, Constitutional Amendment 4 required an additional transfer to 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.

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. 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 end 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, 2005 was \$1,657,055.

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

Cash and cash equivalents represent the cash balance as reflected on the Nebraska Information System (NIS). Also included in the cash and cash equivalents amount is Petty Cash and Deposits with Vendors. 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 available for expenditures as needed. These funds are held in the State of Nebraska Operating Investment Pool (OIP), an internal investment pool. The investment policy of the OIP includes the objectives of:

- Safety – Investments will be undertaken in a manner that seeks to ensure preservation of capital on a total return basis.
- Liquidity – The OIP will remain sufficiently liquid to meet the daily cash flow needs of the State and other entities participating in the OIP.
- Return on Investment – The objective is to attain a competitive income rate of return given the risk constraints and cash flow characteristics of the portfolio.

The investment strategy is to minimize short-term investments while maintaining sufficient funds to provide for required cash outflows. The investments of the OIP at June 30, 2005 include Commercial Paper, U.S. Government Securities, Federal Agency Debt Instruments, Corporate Bonds, Money Market Funds, and Bank Deposits. Additional information on the OIP can be found in the State of Nebraska's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005.

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 his or her monthly compensation for the remainder 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, 2005, employees contributed \$41,693 and the Nebraska Lottery contributed \$65,041. 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 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% 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)	\$3,549,555
Other	<u>177,378</u>
Total	<u>\$3,726,933</u>

5. Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Total Capital Assets	\$ 417,965	\$ 29,733	\$ -	\$ 447,698
Total Accumulated Depreciation	377,334	26,588	-	403,922
Total Capital Assets, Net	<u>\$ 40,631</u>	<u>\$ 3,145</u>	<u>\$ -</u>	<u>\$ 43,776</u>

6. On-Line Games

During the fiscal year ended June 30, 2005, the Nebraska Lottery offered a variety of on-line games as described in the following table.

Game Name	Operated by	Nebraska's Share of Prize Reserves
POWERBALL®	MUSL	\$ 1,629,427
NEBRASKA PICK 5®	Nebraska Lottery	n/a
NEBRASKA PICK 3®	Nebraska Lottery	n/a
2by2®	MUSL	114,487
		<u>\$ 1,743,914</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. Section 9-812 R.S.Supp., 2004 requires 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.

Due to the passing of Constitutional Amendment 4, from January 1, 2005 and forward, 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-

two and one-fourth percent shall be transferred to the Education Innovation Fund, twenty-two and one-fourth percent shall be transferred to the Nebraska Scholarship Fund, forty-four and one-half percent shall be transferred to the 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.

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 \$3,918 in delinquent State taxes and \$5,815 in delinquent child support payments.

As required under its enabling legislation, transfers of \$22,195,478 were made to other funds during the fiscal year. In addition to the above transfers, a transfer of \$5,000,000 was made by the State Treasurer from the State Lottery Operation Trust Fund to the General Fund on July 15, 2004, as required by Neb. Rev. Stat. Section 9-812 R.S.Supp., 2004.

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.