

2026 ANNUAL REPORT



ANNUAL REPORT AND RESOURCE GUIDE

July 1, 2025, through June 30, 2026

In fiscal year 2026 the Nebraska Lottery continued its mission of funding good causes across Nebraska by selling quality entertainment products. Lottery ticket sales during the fiscal year were \$199.4 million. Proceeds transferred to the beneficiary funds were \$50 million.

Other notable highlights from fiscal year 2026 included the launch of the Nebraska Pick 4 and Millionaire for Life™ Lotto games, the launch of successful Scratch games Buffalo Blitz and Pony Payout, and World Lottery Association Level 2 Responsible Gaming recertification.

Finally, we continued a long-standing relationship with retailers, who received \$12.8 million in commissions during the fiscal year. Other highlights for the fiscal year include:

- Collected \$711,520 in state income taxes from prize winnings;
- Collected \$39,334 in unpaid taxes; and
- Collected \$15,442 in unpaid child support.

We look forward to continuing to serve the citizens of our state by providing them with quality entertainment, and by supporting good causes with Lottery proceeds. Together, we are Helping to Build a Better Nebraska®.



Brian Rockey, Lottery Director



nelottery.com



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ACTIVITY SUMMARY OF THE DIVISION

New Lotto Games: Nebraska Pick 4 and Millionaire for Life™

During the fiscal year, the Nebraska Lottery launched two new Lotto games.

Nebraska Pick 4 is a daily Lotto game that launched on September 21, 2025. Each play costs \$1. Players select four numbers, each from a separate set of digits 0 through 9, for a chance to win up to \$6,000. There are six different bet types available, offering players the chance to decide on the play style and prizes they would like to play for. Ticket sales for Nebraska Pick 4 were \$1.93 million during the fiscal year.



On February 22, 2026, the Nebraska Lottery joined the multi-state Millionaire for Life game. Millionaire for Life is a \$5 Lotto game with a top prize of \$1 million a year for life. To win the \$1 million a year for life prize, players must match all six winning numbers. A second prize of \$100,000 a year for life can be won by matching all five white ball numbers. Other cash prizes range from \$7,500 to \$8. Ticket sales for Millionaire for Life were \$2.76 million during the fiscal year.



Prepaid Bankcards for Prize Payments

As a convenience for players, the Nebraska Lottery began offering payment for prizes via prepaid bank card in November 2025. Prizes between \$100 and \$1,000 claimed at Nebraska Lottery headquarters can be paid using the prepaid card instead of a paper warrant. This is convenient for winners that do not have a checking or savings account.

Responsible Gaming Activities

The Nebraska Lottery continues to roll out responsible gaming initiatives for lottery players and staff. A second round of employee training was offered in March 2026. A total of 45 Lottery & Charitable Gaming employees and 70 Lottery vendor employees took the RG employee training. The average post-training knowledge test score was 93.73 out of 100. The overall improvement in post-training test scores was 7.37%. The Lottery also participated in the National Council on Problem Gambling Gift Responsibly Campaign in November 2025 and Problem Gambling Awareness Month in March 2026 to educate Nebraskans on the dangers of problem gambling and the risks of youth gambling.

Additionally, the Lottery applied for Responsible Gaming Level 2 recertification with the World Lottery Association in May 2026. The recertification was approved and will be valid until June 2029.



WORLD LOTTERY ASSOCIATION
CERTIFIED
WLA RESPONSIBLE GAMING
FRAMEWORK
LEVEL 2 / VALID UNTIL 2029

Buffalo Blitz

A stampede of cash arrived in June 2025 with the launch of the \$5 Buffalo Blitz Scratch game. Developed in-house by Nebraska Lottery staff, Buffalo Blitz paid homage to Nebraska's pioneer roots and was extremely popular with players. The game closed after four months with over \$1.69 million in ticket sales.



Pony Payout Second-Chance Promotion

A follow-up to the popular Buffalo Blitz game, the \$5 Pony Payout Scratch game hit the trail on April 20, 2026. Players could enter non-winning Pony Payout tickets online at nelottery.com between April 20 and July 28, 2026, for a chance to win a 2026 Ford Mustang GT. 44,923 entries were received in the contest, and Christina Roberts of Sheboygan, Wisconsin was drawn as the Mustang winner.

Roberts grew up in Omaha before moving to Wisconsin and was back in town recovering from surgery at her parents' house. To pass the time, Roberts and her mom would buy Pony Payout tickets in hopes of winning the second-chance drawing and driving away in the 2026 Ford Mustang GT. She was so dedicated, she kept a running list of their entries in an Excel spreadsheet.

They entered all of their non-winning tickets through the Nebraska Lottery's MVP Club, but they had a few decent winners, Roberts said, including a couple of \$50 wins.

When she got the call that she'd been drawn as the winner, Roberts called her mom right away.

"It was unbelievable," she said. "We were jumping up and down over the phone."





Beneficiary Support

The Nebraska Lottery transferred a total of \$50 million in lottery proceeds to its beneficiary funds between July 1, 2025, and June 30, 2026.

In 2026, the Legislature directed that a one-time transfer of \$4,764,064 be made to the Education Future Fund, followed by subsequent transfers of interest income.

The total transfers to the funds between September 11, 1993, and June 30, 2026, were:

Education funds as directed by 2024 Legislature	\$42,144,076
Education Innovation Fund	\$174,222,842
Nebraska Opportunity Grant Fund	\$100,929,476
Nebraska Environmental Trust Fund	\$468,024,454
Nebraska State Fair Support and Improvement Fund	\$85,632,070
Nebraska Education Improvement Fund	\$169,189,056
Compulsive Gamblers Assistance Fund	\$23,692,963
Education Future Fund	\$4,764,064
Solid Waste Landfill Closure Assistance Fund (1993-1997)	\$18,460,996
General Fund Transfer (2004)	\$5,000,000
TOTAL	\$1,092,059,997

FINANCIAL STATEMENTS



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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NEBRASKA LOTTERY INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Nebraska Department of Revenue, Lottery Division (Nebraska Lottery), as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Nebraska Lottery's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Nebraska Lottery, as of June 30, 2026, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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



Emphasis of Matter

As discussed in Note 1, the financial statements of the Nebraska Lottery are intended to present the financial position and the changes in financial position of only that portion of the business activities of the State that is attributable to the transactions of the Nebraska Lottery. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of June 30, 2026, and the changes in its financial position, or its cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Additionally, as discussed in Note 1 to the financial statements, in fiscal year 2026 the Lottery adopted new accounting guidance for financial reporting model improvements in GASB Statement No. 103. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 10-14 herein, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2026, on our consideration of the Nebraska Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Nebraska Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nebraska Lottery's internal control over financial reporting and compliance.

September 21, 2026

SIGNED ORIGINAL ON FILE
Matt Schochenmaier, CPA, CISA, CFE
Audit Manager
Lincoln, Nebraska

(The Nebraska Lottery has not included the Management's Discussion and Analysis (MD&A), the statistical information, and the Report on Internal Control over Financial Reporting and on Compliance and Other Matters, 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 Report on Internal Control over Financial Reporting and Other Matters is required by Government Auditing Standards. The MD&A, the Report on Internal Control over Financial Reporting and on Compliance and Other Matters, and statistical information can be obtained from the Nebraska Lottery or from the Auditor of Public Accounts (APA) audit report of the Nebraska Lottery found on the APA's website.)

STATEMENT OF NET POSITION

As of June 30, 2026

ASSETS

Current Assets

Cash and Cash Equivalents	\$5,693,653
Accounts Receivable, Net of Allowance (Note 5)	8,306,558
Prepaid Prizes	45,571
Reserves on Deposit (Note 7)	2,500,904

Total Current Assets

16,546,686

Noncurrent Assets

Reserves on Deposit (Note 7)	2,110,830
Capital Assets:	
Furniture, Fixtures, and Equipment, Net (Note 6)	77,618
Right to Use Lease Asset, Net (Note 6)	835,840
Total Capital Assets, Net	913,458

Total Noncurrent Assets

3,024,288

TOTAL ASSETS

\$19,570,974

LIABILITIES

Current Liabilities

Accounts Payable	\$483,951
Vendors Payable	1,252,379
Compensated Absences Payable (Note 8)	320,623
Accrued Payroll Payable	78,137
Withheld Taxes on Prizes Paid	61,934
Prizes Payable	7,839,568
Due to Other Funds	19,015
Right to Use Lease Liability (Note 8)	72,543
Other Accrued Liabilities	345,844

Total Current Liabilities

10,473,994

Noncurrent Liabilities

Right to Use Lease Liability (Note 8)	792,236
Compensated Absences Payable (Note 8)	267,670

Total Noncurrent Liabilities

1,059,906

TOTAL LIABILITIES

11,533,900

NET POSITION

Net Investment in Capital Assets	48,679
Restricted for Future Prizes (Note 7)	2,110,830
Unrestricted (Note 10)	5,877,565

Total Net Position

8,037,074

TOTAL LIABILITIES AND NET POSITION

\$19,570,974

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended June 30, 2026

OPERATING REVENUE

Sales	\$204,284,980
Less: Sales Returns	4,848,244

TOTAL OPERATING REVENUE

199,436,736

OPERATING EXPENSES

Prize Expense, Net of Unclaimed Prizes (Note 1c)	114,698,859
Retailer Commissions	12,790,496
Contractual Services Expense	11,151,397
Marketing	5,198,618
Lottery Operating	2,562,074

TOTAL OPERATING EXPENSES

146,401,444

TOTAL OPERATING INCOME

53,035,292

NONCAPITAL SUBSIDIES (Note 9)

Transfers to Compulsive Gamblers Assistance Fund	(995,072)
Transfers to Nebraska Environmental Trust Fund	(22,030,704)
Transfers to Education Funds as directed by Legislature	(22,030,704)
Transfers to Education Future Fund	(4,764,064)
Transfers to Nebraska State Fair Support and Improvement Cash Fund	(4,950,719)

TOTAL NONCAPITAL SUBSIDIES

(54,771,263)

TOTAL OPERATING INCOME AND NONCAPITAL SUBSIDIES

(1,735,971)

OTHER NONOPERATING REVENUE (EXPENSES)

Interest Income	488,969
MUSL and Other Income	65,726
Lease Interest Expense	(11,339)

TOTAL OTHER NONOPERATING REVENUE (EXPENSES)

543,356

CHANGE IN NET POSITION

(1,192,615)

TOTAL NET POSITION, BEGINNING OF YEAR

9,229,689

TOTAL NET POSITION, END OF YEAR

\$8,037,074

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

STATEMENT OF CASH FLOWS

For the year ended June 30, 2026

CASH FLOWS FROM OPERATING ACTIVITIES

Ticket Sales	\$199,539,757
Prizes Paid to Winners	(116,357,598)
Commissions Paid to Retailers	(12,789,318)
Paid to Contractors for Goods and Services	(16,246,324)
Paid to Employees	(2,064,182)
Other Operating Expenses	(396,195)
Net Cash Provided by Operating Activities	<u>51,686,140</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Paid to Compulsive Gamblers Assistance Fund	(995,072)
Paid to Nebraska Environmental Trust Fund	(22,030,704)
Paid to Education Funds as directed by Legislature	(22,030,704)
Paid to Education Future Fund	(4,764,064)
Paid to Nebraska State Fair Support and Improvement Cash Fund	(4,950,719)
Net Cash Used in NonCapital Financing Activities	<u>(54,771,263)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Property and Equipment	(63,846)
Lease Payments	(83,047)
Net Cash Used in Capital and Related Financing Activities	<u>(146,893)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on Cash	488,969
Multi-State Lottery Association Income	60,039
Net Cash Provided by Investing Activities	<u>549,008</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

(2,683,008)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

8,376,661

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$5,693,653

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

Operating Income	\$53,035,292
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	114,832
Changes in Assets (Increase) Decrease in:	
Reserves on Deposit	(1,268,314)
Prepaid Prizes	317,869
Accounts Receivable - Net	106,405
Changes in Liabilities Increase (Decrease) in:	
Other Accrued Liabilities	(20,240)
Accounts Payable and Due to Other Funds	(61,198)
Prizes Payable	(805,154)
Compensated Absences and Accrued Payroll Payable	46,903
Withheld Taxes on Prizes Paid	14,295
Vendors Payable	205,450
Total Adjustments	<u>(1,349,152)</u>
Net Cash Provided by Operating Activities	<u><u>\$51,686,140</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2026

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Department of Revenue, Lottery Division, (Nebraska Lottery) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. As the Nebraska Lottery is a business-type activity, the financial statements presented are the financial statements required by Governmental Accounting Standards Board (GASB) Statement Number 34 for an enterprise fund. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The basic financial statements have been prepared primarily from data maintained by the Nebraska Lottery on computer systems provided by the lottery-services vendor and from accounts maintained by the State Accounting Administrator of the Department of Administrative Services.

B. Reporting Entity

The Nebraska Lottery was created on February 24, 1993, by the Nebraska Legislature as a division of the Nebraska Department of Revenue (Department), established under and governed by the laws of the State of Nebraska. As such, the Nebraska Lottery is exempt from State and Federal income taxes. The financial statements include all funds of the Nebraska Lottery. The Nebraska Lottery is to provide an instant win and a random number selection on-line lottery. The net proceeds, as outlined in Neb. Rev. Stat. § 9-812 (Cum. Supp. 2024), are to be transferred to the Compulsive Gamblers Assistance Fund, the education funds pursuant to section 79-3501, the Nebraska Environmental Trust Fund, and the Nebraska State Fair Support and Improvement Cash Fund, a fund of the State Fair Board. The financial statements include only the Nebraska Lottery and are not intended to present the financial position of the Department or the results of operations and changes in net positions of the Department as a whole. The Department is part of the primary government for the State of Nebraska's reporting entity.

The Nebraska Lottery has also considered all potential component units for which it is financially accountable, including other organizations that are fiscally dependent on the Nebraska Lottery or whose relationship with the Nebraska Lottery is so significant that exclusion would be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Nebraska Lottery to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Nebraska Lottery. The Nebraska Lottery is also considered financially accountable if an organization is fiscally dependent on it, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Nebraska Lottery, regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

These financial statements present the Nebraska Lottery. No component units were identified. The Nebraska Lottery is part of the primary government for the State of Nebraska's reporting entity.

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

1. Summary of Significant Accounting Policies (Continued)

The Nebraska Lottery's financial statements were reported using the economic resources measurement focus and the accrual basis of accounting. With the economic resources measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Net Position includes restricted and unrestricted resources. The Nebraska Lottery's operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

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

Revenues generated from the sale of lottery tickets are reported as operating revenues. Transactions that are capital financing, non-capital financing, or investing related are reported as non-operating revenues. All expenses related to operating the Nebraska Lottery are reported as operating expenses. All other expenses are reported as non-operating expenses.

Instant ticket revenue is recognized when tickets are sold to the retailer, and on-line revenue is recognized after the drawing is completed for the respective wagers. A 5.0% - 6.0% retailer commission and a prize expense are recognized at the same time. Revenues from the sale of on-line tickets for future drawings and the related agent commission and prize expense are deferred until the drawings are held.

Prize expense is recognized in the same period ticket revenue is recognized based on the predetermined prize structure for each game. Because the instant prize-winning tickets are randomly distributed throughout the tickets, and some winning tickets will be lost, destroyed, or unredeemed for other reasons, there will be differences between amounts accrued and the amounts actually paid. These differences, denoted as unclaimed prizes, are recognized as a reduction of prize expense 181 days after the close of each instant game and 181 days after each draw for on-line games, as prizes unclaimed for 180 days expire. Unclaimed prizes for the fiscal year ended June 30, 2026, totaled \$3,864,984.

The activities of the Nebraska Lottery are accounted for as an enterprise fund. Enterprise funds are used to account for governmental operations that are financed and operated in a manner similar to private business enterprises and where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net position is appropriate.

D. Cash and Cash Equivalents

In addition to bank accounts and petty cash, this classification includes all short-term investments, such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months; however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at June 30, 2026, approximates market. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits. Cash and cash equivalents are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on these investments is allocated to funds based on their percentage of the investment pool.

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Nebraska Lottery and all other State agencies must submit their budget requests for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

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

The approved appropriations will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency.

Appropriations are usually made for each year of the biennium, with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary expenditures for the enterprise fund type are made pursuant to the appropriations, which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major objects of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total appropriations must also be approved by the Legislature as a deficit appropriations bill.

Revenues are not budgeted.

F. Receivables

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

G. Capital Assets

Capital assets include equipment that is valued at cost when historical records are available and at estimated historical cost when no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost in excess of \$5,000 at the date of acquisition and has an expected useful life of more than one year is capitalized. Computers are an exception to this policy and are capitalized if they have a cost in excess of \$1,500 and a useful life of more than one year.

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

1. Summary of Significant Accounting Policies (Concluded)

H. Leases

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

I. Compensated Absences

All permanent employees working for the Nebraska Lottery earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees are not eligible for paid leave. The liability has been calculated using the vesting method, in which leave amounts, for both employees currently eligible to receive termination payments and other employees expected to become eligible in the future to receive such payments upon termination, are included.

Nebraska Lottery employees accrue vested annual leave at a variable rate based on years of service. Generally, accrued annual leave cannot exceed 35 days at the end of a calendar year.

Employees accrue sick leave at a variable rate based on years of service. In general, accrued sick leave cannot exceed 180 days. There is no maximum limit on the accumulation of sick leave days for employees under certain labor contracts. Sick leave is not vested except upon either death or reaching the retirement eligibility age of 55, at which time the State is liable for 25 percent of the employee's accumulated sick leave. Employees under certain labor contracts can only be paid a maximum of 60 days.

The Nebraska Lottery's financial statements recognize the expense and accrued liability when vacation and compensatory leave is earned. Sick leave is accrued when it is earned and expected to be paid as termination payment or to be used.

J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at June 30, 2026, and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

K. Effects of New Pronouncement

In 2026, the Nebraska Lottery adopted GASB Statement No. 103, *Financial Reporting Model Improvements*. The objective of GASB 103 is to improve key components of the financial statements so as to enhance the effectiveness of the information provided. The statement required the Nebraska Lottery to reclassify line items on its financial statements. This included reclassifying transfers to other funds from the transfers section to a new section, following operating income, called Noncapital Subsidies. This statement had no impact on beginning net position.

2. Deposits and Investments

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

3. Contingencies and Commitments

Risk Management. The Nebraska Lottery is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Nebraska Lottery, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability, motor vehicle liability and physical damage, employee health care, employee indemnification, and workers' compensation. The State has chosen to purchase insurance for:

A. Life insurance for eligible employees.

B. Crime coverage, with a limit of \$11,000,000 per occurrence and a deductible of \$1,000,000 per occurrence subject to specific conditions, limits, and exclusions.

C. Real and personal property on a blanket basis for losses up to \$200,000,000, with an all other perils deductible of \$1,000,000 per loss occurrence. Newly acquired properties are covered up to \$10 million for 90 days. If not reported after 90 days, the property is covered for \$5 million under the miscellaneous unnamed location coverage. There is a wind and hail limit on the real and personal property of \$157,475,000. Please note this coverage does not apply ground up. The perils of flood, earthquake, and acts of terrorism have various coverage, sub-limits, and self-insurance. State agencies have the option to purchase building contents and inland marine coverage.

Details of the various insurance coverages are available from the Nebraska Department of Administrative Services – Risk Management Division.

In calendar year 2024, one settlement of \$7,450,000 exceeded insurance coverage by \$2,050,000. No other claims have exceeded coverage in the last three years. Workers' compensation is funded in the Risk Management Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments, as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Lottery's financial statements. Health care insurance is funded in the Insurance Trust Funds through a combination of employee and State contributions.

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

4. State Employees Retirement Plan (Plan)

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

All permanent full-time employees are required to begin participation in the retirement system upon employment. All permanent part-time employees, who have attained the age of 18 years, may exercise the option to begin participation in the retirement system.

Contribution. Per statute, each member contributes 4.8% of his or her monthly compensation. The Nebraska Lottery matches the member's contribution at a rate of 156%. The employee's and employer's contributions are kept in separate accounts.

The employee's account is fully vested. The employer's account is fully vested after a total of three years of participation in the system, including credit for participation in another Nebraska governmental plan prior to actual contribution to the Plan.

Defined Contribution Option. Upon attainment of age 55, regardless of service, the retirement allowance is to be equal to the sum of the employee and employer accounts. Members have several forms of payment available, including withdrawals, deferrals, annuities, or a combination of these.

Cash Balance Benefit. Upon attainment of age 55, regardless of service, the retirement allowance shall be equal to the accumulated employee and employer cash balance accounts, including interest credits, annuitized for payment in the normal form. The normal form of payment is single life annuity with five-year certain, payable monthly. Members have the option to convert their member cash balance account to a monthly annuity with built in cost-of-living adjustments of 2.5% annually. Also available are additional forms of payment allowed under the State Plan that are actuarially equivalent to the normal form, including the option of lump-sum or partial lump-sum.

For the fiscal year ended June 30, 2026, employees contributed \$73,872, and the Nebraska Lottery contributed \$115,241. A separate plan report is issued by and can be obtained from the Nebraska Public Employees Retirement Systems. This report contains full pension-related disclosures.

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

5. Receivables

Retailers comprised principally of grocery stores, convenience stores, and off-sale liquor stores serve as the primary distribution channel for lottery sales to the general public. Retailers must pay for instant lottery tickets 45 days after activation or when the pack is 70% validated, whichever comes first. Retailers pay for on-line tickets each Wednesday for balances due through the previous Saturday. The retailers' accounts receivable is net of allowance for uncollectible in the amount of \$101,987.

Accounts Receivable	
Retailers (net)	\$ 8,284,630
Other	21,928
	<u> </u>
Total	<u><u>\$ 8,306,558</u></u>

6. Capital Assets

Capital asset activity for the year ended June 30, 2026, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets: Furniture, Fixtures, and Equipment (FFE)	\$755,394	\$69,533	\$62,769	\$762,158
Right to Use (RTU) Lease Asset	1,211,941	-	-	1,211,941
Less: Accumulated Depreciation (FFE)	708,462	38,847	62,769	684,540
Less: Accumulated Amortization (RTU)	300,116	75,985	-	376,101
Total Capital Assets, Net	<u>\$958,757</u>	<u>\$(45,299)</u>	<u>-</u>	<u>\$913,458</u>

Combined depreciation and amortization expense for the fiscal year ended June 30, 2026, was \$114,832.

7. On-Line Games

During the fiscal year ended June 30, 2026, the Nebraska Lottery offered a variety of on-line games, as described below.

Game Name	Administered by	Nebraska's Share of Prize Reserves
Powerball	MUSL	\$1,055,863
Nebraska Pick 5	Nebraska Lottery	N/A
Nebraska Pick 3	Nebraska Lottery	N/A
Nebraska Pick 4	Nebraska Lottery	N/A
MyDaY	Nebraska Lottery	N/A
Mega Millions	MUSL	765,013
2by2	MUSL	94,249
Lucky for Life	MUSL	N/A
Millionaire for Life	MUSL	N/A
Lotto America	MUSL	195,705
Total		<u><u>\$2,110,830</u></u>

7. On-Line Games (Concluded)

The Nebraska Lottery is a member of the Multi-State Lottery Association (MUSL), which operates games on behalf of participating state lotteries. Each MUSL member sells on-line game tickets through its agents and makes weekly payments to MUSL in an amount equal to each game's prize structure, less amounts retained for prizes paid directly to the winners by each member lottery. MUSL maintains prize reserve funds on some of the games to serve as a contingency reserve to protect from unforeseen prize liabilities. The money in these reserve funds is to be used at the discretion of the MUSL Board of Directors. The prize reserve funds are refundable to MUSL members if MUSL disbands or if a member leaves MUSL. Members leaving MUSL must wait at least one year before receiving their remaining share of the prize reserve funds.

In addition, the Nebraska Lottery has \$2,500,904 held by MUSL, reported on the Statement of Net Position as Reserves on Deposit (Current), which can be used to pay the Nebraska Lottery's portion of MUSL's operating budget, any MUSL legal expenses, and other expenses incurred by MUSL. These funds are not tied directly to any MUSL game.

The Powerball, Lotto America, and Mega Millions grand prizes can be paid either as annual installments or as a lump sum cash payment, depending on the selection of the winner when claiming the prize. If the winner selects annual installments, MUSL purchases bonds, which are held in trust to fund the future installments. Maturities are staggered in order to provide adequate cash flow for each installment. MUSL is responsible for paying amounts owed to the grand prize winners. The assets and related liabilities are reflected in MUSL's financial statements and, therefore, are not reflected in the Nebraska Lottery's financial statements.

The Lucky for Life and Millionaire for Life top two prize levels can be paid either through annuity payments for the life of the winner or as a lump sum cash payment, depending on the selection of the winner when claiming the prize. If a Nebraska winner selects the annuity, the Nebraska Lottery has a contract with MUSL so that MUSL will secure bids from financial services companies to provide the annual payments directly to the winner. Each participating jurisdiction contributes a proportionate share to fund the annuity or lump sum payment. The Lucky for Life game was discontinued on February 21, 2026, and the Millionaire for Life game began February 22, 2026.

8. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2026, are summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$548,969	\$39,324*	-	\$588,293	\$320,623
Lease Liability	936,412	-	71,633	864,779	72,543
Total	\$1,485,381	\$39,324	\$71,633	\$1,453,072	393,166

*The change in the Compensated Absences liability is presented as a net change.

9. Significant Compliance Requirements

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

9. Significant Compliance Requirements (Continued)

Neb. Rev. Stat. § 9-812(1) (2026 Neb. Laws, L.B. 1072, § 126) provides the following legislative authority for the transfer of lottery proceeds:

All money received from the operation of lottery games conducted pursuant to the State Lottery Act in Nebraska shall be credited to the State Lottery Operation Trust Fund, which fund is hereby created. All payments of the costs of establishing and maintaining the lottery games shall be made from the State Lottery Operation Cash Fund. In accordance with legislative appropriations, money for payments for expenses of the division shall be transferred from the State Lottery Operation Trust Fund to the State Lottery Operation Cash Fund, which fund is hereby created. All money necessary for the payment of lottery prizes shall be transferred from the State Lottery Operation Trust Fund to the State Lottery Prize Trust Fund, which fund is hereby created. The amount used for the payment of lottery prizes shall not be less than forty percent of the dollar amount of the lottery tickets which have been sold. Subject to Article III, section 24, of the Constitution of Nebraska, transfers may be made from the State Lottery Operation Trust Fund and the State Lottery Prize Trust Fund to the Education Future Fund at the direction of the Legislature.

Section 9-812(2) offers the following legislative directive for the transfer of lottery proceeds:

A portion of the dollar amount of the lottery tickets which have been sold on an annualized basis shall be transferred from the State Lottery Operation Trust Fund as provided in subsection (3) of this section. The dollar amount transferred pursuant to this subsection shall equal the greater of (a) the dollar amount transferred in fiscal year 2002-03 or (b) any amount which constitutes at least twenty-two percent and no more than twenty-five percent of the dollar amount of the lottery tickets which have been sold on an annualized basis. To the extent that funds are available, the Tax Commissioner and director may authorize a transfer exceeding twenty-five percent of the dollar amount of the lottery tickets sold on an annualized basis.

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

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

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

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

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

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

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

9. Significant Compliance Requirements (Concluded)

For fiscal year 2027 and beyond, § 9-812(4) provides the following:

Any money in the State Lottery Operation Trust Fund, the State Lottery Operation Cash Fund, or the State Lottery Prize Trust Fund available for investment shall be invested by the state investment officer pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act. Beginning July 1, 2026, any investment earnings from investment of money in these funds shall be credited to the Education Future Fund.

Neb. Rev. Stat. § 79-3501(2) (Supp. 2025) states the following:

For fiscal years 2024-25 through 2028-29, the money available to be used for education pursuant to subdivision (3)(b) of section 9-812 shall be transferred as follows:

- (a) Eight percent to the Behavioral Training Cash Fund;*
- (b) Two percent to the College Pathway Program Cash Fund;*
- (c) Seven percent to the Community College Gap Assistance Program Fund;*
- (d) Ten percent to the State Department of Education Improvement Grant Fund;*
- (e) Three percent to fund distance education incentives pursuant to section 79-1337;*
- (f) One percent to the Door to College Scholarship Fund;*
- (g) Eight percent to the Excellence in Teaching Cash Fund;*
- (h) One and one-half percent to the Expanded Learning Opportunity Grant Fund;*
- (i) One and one-half percent to the Mental Health Training Cash Fund; and*
- (j) Fifty-eight percent to the Nebraska Opportunity Grant Fund.*

As required under its enabling legislation, transfers of \$54,771,263 were made to other funds during the fiscal year, which included two transfers from Lottery funds made by the State Treasurer. Based on LB 1072 (2026), § 105, \$4,694,064 was transferred from the State Lottery Operations Trust Fund to the Education Future Fund. Pursuant to § 106 of the same bill, \$70,000 was transferred from the State Lottery Prize Trust Fund to the Education Future Fund.

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

The Nebraska Lottery compares the social security number of each winner who has a per-wager prize in excess of \$500 against a list of social security numbers having an outstanding State tax liability or delinquent child support payments. Any delinquent payments are withheld from winnings and forwarded to the appropriate State agency. During the fiscal year, the Nebraska Lottery collected \$39,334 in delinquent State taxes and \$15,442 in delinquent child support payments.

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

10. Unrestricted Net Position

The Nebraska Lottery's unrestricted net position represents funds not legally restricted for any specific purpose; however, the funds may be used only to fund additional prize payouts, transfers to the beneficiary funds, or additional operating expenses of the Nebraska Lottery. Management's intention is to use the unrestricted net position to fund additional prize payouts, retailer incentives, and other game enhancements.

11. Leases

The Nebraska Lottery leases office space at 137 N.W. 17th Street in Lincoln, Nebraska. The current lease contains extensions that can be exercised providing the opportunity to go through June 2037. As of June 30, 2026, the value of the Right to Use Lease Asset was \$1,211,941, and the related accumulated amortization was \$376,101. The lease arrangement requires payments for utility and janitorial services that are excluded from the lease liability calculation as non-lease components. Below is the principal and interest payment disclosure requirement for this lease.

Fiscal Period	Principal	Interest	Total
2027	\$72,543	\$10,428	\$82,971
2028	67,576	9,545	77,121
2029	70,023	8,674	78,697
2030	72,502	7,773	80,275
2031	75,012	6,840	81,852
2032-2036	415,456	19,045	434,501
2037	91,667	532	92,199
Total	\$864,779	\$62,837	\$927,616



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