



Alicia Rose  
Jonesboro



Ratasha Whaley  
Blytheville



Shayla Morrow  
Hartman



Bradley Huggins  
Benton



Jessica Corbitt  
Lexa



Kent Broughton  
Pine Bluff



Brandon Booth  
Little Rock

Comprehensive Annual  
Financial Report for the  
Fiscal Year Ended  
**JUNE 30, 2011**



Receiving this scholarship has helped me tremendously with my finances and has **given me THE OPPORTUNITY TO SUCCEED** in reaching my future goals.

While furthering my education has been costly, being a recipient has helped me with my undergraduate experiences and my overall life.”

Britni Means | Junior  
Philander Smith College  
Malvern



# Arkansas Lottery Commission

An Enterprise Fund of the State of Arkansas

Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2011



**Mike Beebe**

Governor, State of Arkansas

**Julie Baldrige**

Interim Director

**Prepared by**

Finance Division



“

I am currently a freshman at Arkansas State University majoring in the Radiologic Sciences program. Upon receiving the Arkansas Lottery Scholarship,

**I have been able to pursue my EDUCATIONAL DREAMS**

without the burden of financial instability. I am blessed to have received this scholarship for it has allowed me to focus more on my studies while reducing my parents' fear of not being able to financially support my decision to attend college.”

Kourtney Hatcher | Freshman  
Arkansas State University  
Jonesboro

Arkansas Lottery Commission  
 An Enterprise Fund of the State of Arkansas  
 Comprehensive Annual Financial Report  
 For the Fiscal Year Ended June 30, 2011

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“

I was worried that because I have my GED, I would not be eligible for any scholarships. Then I heard about the Arkansas Academic Challenge Scholarship and that the Lottery funding helped make the scholarship available for nontraditional students as well, so I decided I should try for it.

**The day I found out I had been awarded the Arkansas Academic Challenge Scholarship, I FELT AS IF I HAD WON THE LOTTERY!”**

Melissa Kimball | Sophomore  
National Park Community College  
Hot Springs

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“

**By receiving this scholarship, I am able to focus on my studies and to work in GIVING BACK TO THE COMMUNITY.**

As a result of this scholarship, I do not have to hold a full time job, and, in turn, I volunteer as a youth soccer coach for the City of Fayetteville. It certainly eases the burden of attending school and I am very grateful for this opportunity.”

James Russell | Senior  
University of Arkansas  
Fayetteville

# INTRODUCTORY SECTION



“

**OUR FAVORITE  
THING ABOUT  
THE LOTTERY IS  
IT BRINGS  
IN PLENTY OF  
BUSINESS.”**

- Penny Freeman & Terrie Starkey  
Toad Suck One-Stop  
Bigelow



“

There is no way to fully express my gratitude for this award. Your support has definitely **played a key role IN HELPING ME** work toward my degree.”

Jalesa McDaniel | Sophomore  
Phillips Community College of  
the University of Arkansas  
Helena-West Helena



### Fellow Arkansans:

On behalf of the Arkansas Lottery Commission, it is our pleasure to present an overview of the organization's fiscal year ended June 30, 2011. The people of Arkansas faced incredible challenges during this year, including tornadoes, severe flooding, and record-high temperatures, and these difficulties also impacted Lottery employees and retailer partners throughout the state during this first full year of operation. Still, the Arkansas Scholarship Lottery saw sales exceeding \$464.0 million for fiscal year 2010-2011.

At a time when tuition costs continue to rise and financial insecurities trouble many Arkansans, it is more important than ever for the Lottery to maximize dollars for education. This year, your Lottery transferred over \$94 million to the Arkansas Department of Higher Education. By the end of fiscal year 2010-2011, the Lottery had raised more than \$177 million for college scholarships and had sold more than \$847.7 million in lottery products since inception.

And, of course, our continued success wouldn't be possible without our team of over 1,850 retailers. Commissions totaling over \$26.2 million, over five cents of every dollar spent on Lottery play, was returned to grocery stores, gas stations, convenience stores, and drug stores this fiscal year. We extend our thanks to them and to so many others who continue to support the Arkansas Scholarship Lottery. By working together as a team, we are creating brighter futures for our students throughout Arkansas.

We invite you to review this year's details throughout this publication, including the Lottery's audited financial statements. And, as always, we thank you in advance for your support in the years to come.

A handwritten signature in black ink that reads "Dianne Lamberth". The signature is fluid and cursive, with a long, sweeping underline.

Dianne Lamberth  
Chairman, Arkansas Lottery Commission

“

I came to UALR because of the interpreter program, as my mom is deaf, and communicating with deaf persons is near to my heart.

**I'm now transitioning my major to speech pathology to incorporate both sets of skills TO HELP MORE PEOPLE.**

The Challenge Scholarship helps me focus on school. I don't have to work, and I can live on campus and participate in activities such as being an ambassador with the Chancellor's Leadership Corps to mentor freshmen.”

Wesley Baltimore | Sophomore  
University of Arkansas at Little Rock  
Jacksonville





State of Arkansas  
Arkansas Lottery Commission

Post Office Box 3238  
Little Rock, Arkansas 72203-3238  
Phone: (501) 683-2000  
Fax: (501) 683-1878  
<http://myarkansaslottery.com>

November 15, 2011

**The Honorable Mike Beebe, Governor  
Dianne Lamberth, Chair, Arkansas Lottery Commission  
Members of the Arkansas Lottery Commission**

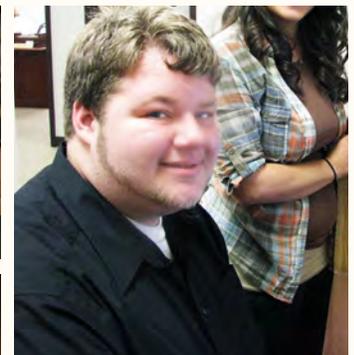
We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Arkansas Lottery Commission (ALC) for the fiscal year ended June 30, 2011. The CAFR is prepared in accordance with the requirements set forth in Arkansas Code Annotated (A.C.A.) § 23-115-206 (a)(8)(C). These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB).

Management is responsible for the accuracy of the financial data as well as the completeness and fairness of the information and disclosures within this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the ALC. We have included all disclosures necessary to enable the reader to gain an understanding of the ALC's financial activities.

The CAFR presents an overview of the ALC and is organized into four sections. The Introductory Section includes this letter of transmittal, an organizational chart, and a listing of Commissioners. The Financial Section includes the independent auditors' report, management's discussion and analysis, and the basic financial statements with the accompanying notes. The Statistical Section presents a variety of historical, demographic and industry data. The final section, Supplementary Information, includes various reports as required by A.C.A.

**BACKGROUND**

A constitutional amendment approved on November 4, 2008, allowed the General Assembly to establish a State of Arkansas lottery with proceeds used to fund college scholarships. With the passage of Act 605 and 606 of 2009, the General Assembly created the ALC. Ticket sales began on September 28, 2009, with the introduction of four instant ticket games. ALC proceeds are utilized to fund college scholarships under the Academic Challenge Scholarship program administered by the Arkansas Department of Higher Education (ADHE).



## PRODUCTS

The public has the opportunity to participate in a variety of instant and online (terminal generated) games from ALC licensed retailers across the state.



### FAST PLAY

**INSTANT TICKET GAMES** are played by removing a scratch-off coating from the play area of the ticket. There are various ways to win, including matching certain symbols, adding up to a specified total, or otherwise satisfying the requirements listed on the ticket. If the specified condition occurs, the ticket is an instant winner. These play styles are combined with a variety of game themes and ticket prices. Instant games were the first type of games offered by the ALC. A new type of instant game was introduced October 25, 2010, called Fast Play. Fast Play games are tickets that print from a retailer's terminal. Players can determine instantly whether they have won. For fiscal year ended June 30, 2011, instant ticket games sales were approximately **\$390.1 million**, which represents **84.1% of total ticket sales**.

Online games allow players to select the numbers for their wager or players may utilize computer generated plays. Players receive a ticket with the numbers selected or automatically generated, and await the results of a drawing to determine if they have matched the numbers, and win.



**POWERBALL®** is a multi-state draw game jointly operated by the 33 member lotteries of the Multi-State Lottery Association, and sold in 44 states and territories. Players select one set of five numbers from a pool of one to 59 and one additional number designated as the "Powerball" from a second pool of one to 39. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$20 million, which increases for each subsequent draw when the jackpot is not won. Each Powerball® play costs \$1. For an additional dollar, the Power Play® feature allows players to multiply non-jackpot winnings up to five times. A jackpot winner may select either an annuitized prize paid in 30 annual installments or a lump sum payment. Drawings are held every Wednesday and Saturday night. Powerball® sales for fiscal year ended June 30, 2011, were approximately **\$35.0 million**, which represents **7.5% of total ticket sales**.



**MEGA MILLIONS®** is a second multi-state draw game sold in accordance with a cross-selling agreement between the 12 Mega Millions® states and the Multi-State Lottery Association. Mega Millions® is sold in 42 states and territories. Players select one set of five numbers from a pool of one to 56 and one additional number from a second pool of one to 46. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$12 million, which increases for each subsequent draw when the jackpot is not won.

Each Mega Millions® play costs \$1. For an additional dollar, the Megaplier® feature allows players to multiply non-jackpot winnings up to four times. A jackpot winner may select either an annuitized prize paid in 26 annual installments or a lump sum payment. Drawings are held every Tuesday and Friday night. Mega Millions® sales for fiscal year ended June 30, 2011, were approximately **\$24.1 million**, which represents **5.2% of total ticket sales**.



On May 3, 2011, the ALC introduced the **DECADES OF DOLLARS™** draw game. Decades of Dollars™ is also sold in Georgia, Kentucky, and Virginia. Twice a week, on Monday and Thursday, players have a chance to win \$250,000 a year for 30 years or a lump sum of \$4 million. Each Decades of Dollars™ play costs \$2. Players select six numbers from a pool of one to 47, and must match all six numbers to win the jackpot. Prizes are also paid for matching two to five numbers. Decades of Dollars™ sales were approximately **\$0.9 million** in fiscal year ended June 30, 2011, representing **0.2% of total ticket sales**.



With **CASH 3**, players select three numbers between zero and nine and can play the numbers straight (numbers in the exact order), box (numbers in any order), straight/box (combine straight and box plays) or combo (equal to a straight play for all combinations of winning numbers). Cash 3 can be played starting at 50 cents. Drawings are conducted twice per day except Sunday, which has one drawing. For fiscal year ended June 30, 2011, Cash 3 sales were nearly **\$5.8 million**, which was **1.2% of total ticket sales**.



**CASH 4** is played similar to Cash 3 with players selecting four numbers between zero and nine. Players may play the numbers straight, box, straight/box, and combo. Cash 4 can be played starting at 50 cents. Drawings are also conducted twice per day for Cash 4 except Sunday which has one drawing. Sales for fiscal year ended June 30, 2011, were approximately **\$3.1 million**, or **0.7% of total ticket sales**.





**ARKANSAS MILLION DOLLAR RAFFLE** was a limited-time draw game. Each ticket cost \$10, and only 500,000 tickets were available. Arkansas Million Dollar Raffle sales began on July 14, 2010, and sales concluded on April 6, 2011. Two winning numbers were drawn to win \$1,000,000. Also awarded were 540 \$1,000 prizes and 600 \$100 prizes. Throughout sales of the game, \$20 instant prizes were awarded with every 25<sup>th</sup> ticket purchased. Arkansas Million Dollar Raffle sales for fiscal year ended June 30, 2011, were **\$5.0 million**, which represents approximately **1.1% of total sales**.

**PLAYERS CLUB SERVICES**

The ALC offers a players club at myarkansaslottery.com called The Club. By registering for a free account, players gain access to Lottery news, winning number emails, the Play It Again™ and Points for Prizes™ programs, and special second-chance drawings.



The **Points for Prizes™** program gives players loyalty rewards points for eligible, non-winning instant tickets entered into their accounts. A player's points are accumulated and can be redeemed for merchandise from the Points for Prizes™ online store, ranging from music downloads to electronics. Points may also be used to gain entries for special drawing prizes, such as a fishing boat awarded during fiscal year ended June 30, 2011.



The **Play It Again™** program allows players to submit eligible, non-winning instant tickets for entry into top prize drawings. At the end of each instant game, one entry is drawn to win the final top prize in that game. The same entry mechanism gives players both their Play It Again™ entry, and Points for Prizes™ rewards points.



In addition to Points for Prizes™ and Play It Again™, players can also enter for occasional special drawings. During the fiscal year, several special drawing opportunities were available, including the following:



The **Harley-Davidson®** Second-Chance Promotion awarded prize packs and four motorcycles in two drawings held for players who entered non-winning \$5 Harley-Davidson® instant tickets. Upon entering eligible tickets, players could play a driving game that would reveal how many entries were won for the next drawing.



The **World Poker Tour®** Second-Chance Promotion concluded during the fiscal year. Players who entered non-winning \$5 World Poker Tour® instant tickets were eligible to win a prize pack containing WPT® merchandise.



The **MONOPOLY™** Second-Chance Promotion awarded prize packs including a deluxe board game and other MONOPOLY™ branded items. Each non-winning \$5 MONOPOLY™ instant ticket submitted gave players the chance to play a web-based MONOPOLY™ game that revealed how many drawing entries they earned into the next prize pack drawing.



In honor of the ALC's first \$20 instant game, the **Diamond Dazzler Dash** Second-Chance Promotion began, awarding eight trip prizes to players who entered non-winning \$1,000,000 Diamond Dazzler instant tickets into their accounts. Two drawings were scheduled to select the winners of a trip for two to a Points for Prizes™ merchandise warehouse in Chicago. Winners would have the opportunity to take home anything they were able to pick up during a 90-second dash through the warehouse.



\$ 464.0

MILLION IN  
TOTAL SALES

\$ 307.4

MILLION IN TOTAL  
PRIZES AWARDED

\$ 26.2

MILLION IN RETAILER  
COMMISSIONS

\$ 94.2

MILLION IN  
NET PROCEEDS

## **ECONOMIC CONDITIONS AND OUTLOOK**

The effects of the recession that began in December 2007 cannot be ascertained due to the start of the lottery in Arkansas in September 2009. Economic activity picked up during the second half of last year, with inflation-adjusted Gross Domestic Product (GDP) and industrial production both showing gains.

### **GROSS DOMESTIC PRODUCT**

GDP is the broadest measure of economic activity. The economic output of the national economy, as measured by the GDP, had been expanding each quarter since the fourth quarter of calendar year 2001. The last half of calendar year 2010 and the first half of calendar year 2011 have shown small, incremental gains in the GDP. Even though economic activity increased during the second half of calendar year 2010, and into calendar year 2011, the unemployment rate continued to rise, finishing the June 30<sup>th</sup> fiscal year at 8.1% for the State.

### **STATE PERSONAL INCOME**

Personal income consists of wages and salaries, dividends, interest, rent, and transfer payments such as Social Security and other retirement incomes. Personal income does not include realized capital gains from the sale of assets. Personal income, measured in current dollars, reached a total of \$98.352 billion in fiscal year 2011. This represented an increase of \$3.921 billion or 4.2% over fiscal year 2010. Fiscal year 2012 is estimated at \$102.288 billion (current dollars), an increase of \$3.936 billion or 4.0% over fiscal year 2011.

### **ARKANSAS WAGE AND SALARY DISBURSEMENTS**

Measured in current dollars, wage and salary rose to \$45.264 billion in fiscal year 2011, an increase of \$1.062 billion or 2.4% from fiscal year 2010. Fiscal year 2012 is estimated at \$46.580 billion (current dollars), an increase of \$1.316 billion or 2.9% from fiscal year 2011.

### **EMPLOYMENT**

In fiscal year 2011, wage and salary employment in Arkansas increased to 1,170,108 jobs. This represented an increase of 12,283 jobs or 1.1% compared to fiscal year 2010. In fiscal year 2012, wage and salary employment is expected to average 1,183,188 jobs. This represents a projected increase of 13,079 jobs or 1.1% from fiscal year 2011.

## **HIGHLIGHTS OF THE PAST YEAR**

ALC ticket sales for fiscal year 2011 totaled \$464.0 million – an increase of \$80.3 million or 20.9% from fiscal year 2010. This increase can be largely attributed to a \$52 million increase in instant tickets and a \$16.2 million increase in Mega Millions®. Another contributing factor to the increase in revenue is due to ticket sales for the ALC starting September 28, 2009; thus, the ALC only received nine months of revenue for fiscal year 2010. This increase in revenues resulted in net proceeds for the year of \$94.2 million, an increase of \$11.4 million.

Management's discussion and analysis (MD&A) can be found immediately following the independent auditors' report and provides a narrative introduction, overview and analysis of the basic financial statements. The Lottery's MD&A complements this letter of transmittal and should be read in conjunction with it.

In addition to financial accomplishments, other noteworthy accomplishments during the fiscal year 2011 included:

- The transfer of **\$115 million to the ADHE** for the purpose of funding scholarships.
- During the Fall 2010 and Spring 2011 semesters, the **ADHE awarded \$122.7 million** in scholarships.
- The launch of a \$20 instant ticket game (\$1,000,000 Diamond Dazzler).
- The launch of Decades of Dollars multi-state draw game.
- The placing of ticket vending machines in various retail environments.

## RELEVANT FINANCIAL POLICIES

**Budgetary Controls** - The Lottery staff annually submits an operating budget to the ALC and the Arkansas Lottery Commission Legislative Oversight Committee.

**Transfers to ADHE** – In accordance with the Arkansas State requirements, on or before the fifteenth day of each month, the ALC shall deposit the net proceeds from the Lottery into a trust account. Upon certification from the Director of the Department of Higher Education, the ALC shall transfer the funds requested to the ADHE.

**Shortfall Reserve** – In accordance with the Arkansas State requirements, the ALC established a Scholarship Shortfall Reserve Trust account. As of June 30, 2011, the trust account was fully funded in the amount of \$20 million dollars.

## INTERNAL CONTROL ENVIRONMENT

Management of the Lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misappropriation. The internal control system is also designed to ensure that the accounting system provides accurate and timely financial information, and that the Lottery is in compliance with applicable laws and regulations. The structure does not provide a guarantee but rather reasonable assurance that these objectives are met.

To enhance controls over accounting procedures, the Lottery has segregated appropriate functions where feasible, and added additional administrative reviews of areas not clearly segregated to ensure compliance with established control policies. Ark. Code Ann. § 23-115-206(b)(1)(A) requires the Legislative Joint Auditing Committee, Division of Legislative Audit, to conduct an annual audit of the ALC, and may conduct other special reports, as may be deemed necessary. The annual audit includes a review of internal controls as they relate to the expression of an opinion on the financial statements.

## GOVERNMENT FINANCE OFFICERS ASSOCIATION CERTIFICATE OF ACHIEVEMENT

As required by law, the ALC will be submitting the 2011 CAFR to the Government Finance Officers Association of the United States and Canada (GFOA) for review for potential awarding of the Certificate of Achievement for Excellence in Financial Reporting. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. Management believes that the 2011 CAFR presented will meet the Certificate of Achievement Program’s requirements and will submit this report to the GFOA to determine its eligibility for the certificate.

## OTHER INFORMATION

Information on rules, gaming, and frequently asked questions can be found on the ALC’s website at [myarkansaslottery.com](http://myarkansaslottery.com). Information on gambling disorder treatment and education programs can be found by calling



the National Council on Problem Gambling Helpline at 1-800-522-4700 or visiting [ncpgambling.org](http://ncpgambling.org), or by contacting Gamblers Anonymous at [gamblersanonymous.org](http://gamblersanonymous.org). If you have questions or would like to speak with a representative of the ALC, they can be reached at (501) 683-2000.

## **ACKNOWLEDGEMENTS**

The preparation of this CAFR reflects our commitment to maintain the highest standards of public accountability. We reaffirm our commitment to continually improve our financial management, and maintain the public's trust by exhibiting the highest ethical standards and uncompromising integrity. Publication of this report could not have been accomplished without the dedicated efforts of our employees, especially those within the Administrative Section. Management would also like to recognize Commission Chairman Dianne Lamberth, and Commissioners Mike Malone, Ben Pickard, John (Smokey) Campbell III, Bruce Engstrom, Steve Faris, Raymond Frazier, George Hammons, Patty Shipp, and former commissioners Derrick Smith, Susan Ward-Jones, Ray Thornton, and Joe White, for their support, guidance, and dedication in operating the ALC in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Julie Baldrige". The signature is written in a cursive, flowing style.

Julie Baldrige  
Interim Director

## Listing of Commissioners



**DIANNE LAMBERTH,  
CHAIR**

Lamberth is Secretary, Lyon College Board of Trustees; Past Chair, University of Arkansas at Batesville Board of Visitors; Chair, White River Health System Board of Directors; Chair, Governor's Task Force for the Twenty-First Century Economy; and a member of the First Community Bank Board of Directors. This appointment by Governor Mike Beebe expires April 1, 2015.



**MIKE MALONE,  
VICE CHAIR**

Malone is the Executive Director of the Northwest Arkansas Council, an economic development group. Previously, he worked as a congressional aide in Washington, D.C. and as an assistant in the Clinton White House. This appointment by House Speaker Robbie Wills expires April 1, 2013.



**BEN PICKARD,  
SECRETARY/TREASURER**

Pickard retired in 2008 after 28 years as Vice Chancellor of Student Services at Arkansas State University-Beebe. He is past president of the Arkansas College Personnel Association, Arkansas Association of Student Financial Aid Administration, and the Arkansas Council on Student Services, and he serves by appointment of the Governor on the Arkansas Student Loan Authority. This appointment by Governor Mike Beebe expires April 1, 2013.



**JOHN C. (SMOKEY) CAMPBELL III**

Campbell spent most of his life in Helena and now resides in Hot Springs National Park. He was in banking for many years and continues to operate farming interests in the Arkansas Delta. He is a regional sales director for an agricultural chemical company. He formerly served on the Arkansas Claims Commission and the Arkansas Rural Development Commission. This appointment by Senator Bob Johnson expires April 1, 2015.



**BRUCE R. ENGSTROM**

A lifelong Arkansan, Engstrom is a Certified Public Accountant who founded his practice in 1981; his firm is EGP, PLLC, with locations in North Little Rock, Bryant and Heber Springs. Engstrom has been retained as an expert by the U.S. Department of Justice, the Attorney General of the State of Arkansas and the Arkansas Judicial Discipline Commission. In addition to his CPA certificate he holds additional certificates in business valuations and financial forensics. This appointment by Speaker of the House Robert Moore expires on April 1, 2017.



**STEVE FARIS**

Faris, a former Arkansas Senator and State Representative, has had a career in public service since graduating from Henderson State University in Arkadelphia. He is a veteran of the Arkansas Army National Guard and served on the staffs of the Arkansas Secretary of State and the Arkansas Treasurer. Faris is General Manager of Central Arkansas Telephone Cooperative, Inc. This appointment by Senator Paul Bookout expires April 1, 2017.



**RAYMOND FRAZIER**

Frazier served for 10 years as Community Affairs Specialist in the office of Senator Blanche Lincoln. He has been dedicated to serving Arkansas, and the Delta, throughout his career. This appointment by House Speaker Robert Moore expires April 1, 2015.



**GEORGE HAMMONS**

Hammons is Chair of the Department of Chemistry at Philander Smith College. He is a senior scientist at the National Center for Toxicological Research, and earned his Ph.D. from Harvard University. He has previously served on the Arkansas Racing Commission and the Bradley County Board of Election Commissioners. This appointment by Governor Mike Beebe expires April 1, 2017.



**PATTY L. SHIPP**

Shipp, along with her husband Kenny, has been a small business owner since 1979. The two have owned and operated several retail businesses, including a clothing store and a convenience store. This appointment by Senator Bob Johnson expires April 1, 2013.





## MISSION

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The Arkansas Lottery Commission (ALC) is a self-supporting and revenue-producing agency of the State of Arkansas. The Arkansas Constitution states that the ALC's net proceeds will provide scholarships and grants to citizens of the State of Arkansas enrolled in public and private nonprofit two-year and four-year colleges and universities located within the state and supplement, not supplant, non-lottery educational resources.

## VISION

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ALC's vision is to operate the Lottery in a "world-class" manner. Every aspect of the operation will function at a level of excellence, with the intent to maintain integrity through openness, honesty, and hard work.

Achieving this level of performance will require a talented and well-trained workforce. Understanding this, we intend to be known for employing the brightest, best, and most diverse workforce. We will also be known for our support of responsible gaming.

We will control our expenses in an attempt to give the legislature as much money as possible to allocate toward education in Arkansas. These dollars should go to the support of a broad range of educational benefits across the entire age spectrum. We will not compromise our integrity. What we do at the ALC must not only look right, it must be right.

## VALUES

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ALC's values include:

- Integrity: We maintain public trust through our high ethical standards.
- Security and Oversight: Built-in standards and processes at every step to ensure the integrity of the games and administration of the ALC.
- Education: The purpose of sustaining support for the educational funding of Arkansas.
- Play Responsibly: We strongly support the concept of playing responsibly.
- Treat All Stakeholders Fairly: Employees, retailers, players, and vendors are all to be treated fairly.
- Quality Products: Offering the finest products and a program of continuous improvement.
- Fiscal Responsibility: Managing our resources in order to maximize the dollars that support education in Arkansas, and create sustainable growth.
- Non-political: The ALC will operate free of political influence with integrity, security, and dignity in a manner that achieves the mission, maximizes revenues, and is accountable to the public and General Assembly through regular reports and audits.

# FINANCIAL SECTION



“

**MY WINNINGS  
ARE GOING TO  
HELP ME PAY  
FOR COLLEGE!”**

- Tabitha Looney  
Charleston



“

Growing up, college was constantly emphasized by my parents and by my teachers, but there was always a concern about how we would be able to pay for it. Because of the Arkansas Academic Challenge Scholarship,

**I am the  
FIRST PERSON**

in my family to attend college, and I am one step closer to my goal of going to medical school and becoming a doctor.”

Corey Pintado | Freshman  
University of the Ozarks  
Scranton

Sen. Bill Pritchard  
Senate Chair  
Rep. Tim Summers  
House Chair  
Sen. David Wyatt  
Senate Vice Chair  
Rep. Toni Bradford  
House Vice Chair

# Arkansas



Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### Independent Auditor's Report

Arkansas Lottery Commission  
and Members of the Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the major fund of the Arkansas Lottery Commission, a Commission of Arkansas State government, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Arkansas Lottery Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As indicated above, the financial statements of the Arkansas Lottery Commission are intended to present the financial position and the changes in financial position and cash flows of the major fund of the State that is attributable to the transactions of the Arkansas Lottery Commission. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund of the Arkansas Lottery Commission as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2011 on our consideration of the Arkansas Lottery Commission'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, listed in the accompanying table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This information was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Arkansas Lottery Commission's basic financial statements. The introductory section, statistical section, and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section, statistical section, and supplementary information have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
October 20, 2011  
SALC08511

# MANAGEMENT'S DISCUSSION & ANALYSIS



“

**IT'S REALLY PICKED UP OUR BUSINESS BIG TIME,” HE SAYS. “THERE HASN'T BEEN ANY PROBLEMS WITH IT ... YOU HAVE GOOD PEOPLE TAKING CARE OF US. WE APPRECIATE THE PEOPLE WHO HAD THIS IDEA TO HAVE THE LOTTERY COME TO ARKANSAS.”**

- William Alami  
In & Out Express  
Jacksonville



“

The scholarship has helped to make school more affordable.

**Saving money on EDUCATION**

enabled me to stay on campus and opened up opportunities for me.”

Amari Fulton | Freshman  
University of Arkansas at Pine Bluff  
Pine Bluff

Arkansas Lottery Commission  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2011  
(Unaudited)

As management of the Arkansas Lottery Commission (ALC), we offer readers of the ALC's financial statements this narrative overview and analysis of the financial activities of the ALC for the fiscal year ended June 30, 2011. Please read it in conjunction with the ALC's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- Operating revenues for the ALC increased by \$80.5 million as compared to fiscal year 2010, an increase of 20.9%. The primary reason for this increase is that lottery ticket sales began in September 2009 resulting in only 9 months of revenue during fiscal year 2010. Instant ticket sales increased \$54.6 million or 16.3%, Powerball revenues decreased \$36,900, less than 1%, Mega Millions increased \$16.2 million or 203.9% and remaining games increased \$.5 million or 10%.
- The ALC successfully introduced four new games called Fast Play, Cash 4, Arkansas Million Dollar Raffle (the Raffle) and Decades of Dollars which had combined revenues of \$11.7 million during fiscal 2011. Raffle involves the sale of lottery tickets, each representing an entry in a future drawing. The game ran for several months with all of the tickets being sold for the Raffle.
- The ALC's operating expenses increased \$69.1 million or 22.8% mostly due to the increase game prizes as it relates to the increase in sales and the introduction of new games.

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

This discussion and analysis is intended to serve as an introduction to the ALC's basic financial statements. The ALC is accounted for as an enterprise fund, reporting on all of the activity's assets and liabilities using the accrual basis of accounting much like a private business entity. The ALC's basic financial statements are comprised of four components: 1) the statement of net assets, 2) the statement of revenues, expenses and changes in net assets, 3) the statement of cash flows, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The statement of net assets presents information on all of the ALC's assets and liabilities, with the difference between the two reported as net assets. The increase or decrease in net assets does not reflect the condition of the ALC's financial position, because, by law, the ALC is required to transfer all net profits to the Education Trust Account on a monthly basis.

The statement of revenues, expenses and changes in net assets reports the ALC's net assets and changes in them. As stated above, the ALC is required by law to transfer all revenues, in excess of its operating costs, to an Education Trust Account; therefore the change in net assets does not reflect the actual results of the ALC's operating activities.

The statement of cash flows outlines the cash inflows and outflows related to the activity of selling ALC products.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The ALC is a self-supporting agency of the State of Arkansas (State). For financial reporting purposes, the ALC is a major enterprise fund of the primary government of the State of Arkansas and is reported as such in the Comprehensive Annual Financial Report (CAFR) of the State.

Arkansas Lottery Commission  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2011  
(Unaudited)

**FINANCIAL ANALYSIS**

**Statement of Net Assets** - The ALC's net assets at June 30, 2011 and 2010 were as follows:

<b>Condensed Summary of Assets, Liabilities and Net Assets</b>		
	<b>2011</b>	<b>2010</b>
Current assets	\$ 79,630,922	\$ 97,793,670
Capital and non-current assets	21,903,027	1,343,707
<b>Total assets</b>	<b>101,533,949</b>	<b>99,137,377</b>
Current liabilities	82,279,092	99,749,832
Long term liabilities	697,923	230,022
<b>Total liabilities</b>	<b>82,977,015</b>	<b>99,979,854</b>
Net assets:		
Invested in capital assets	722,689	867,607
Restricted	22,180,338	476,099
Unrestricted	(4,346,093)	(2,186,183)
<b>Total net assets</b>	<b>\$ 18,556,934</b>	<b>\$ (842,477)</b>

The restricted net assets increased over the prior year by \$21.7 million. Of this increase, \$20 million was due to the establishment of the Scholarship Shortfall Reserve Trust fund for the purpose of funding scholarships if there is a lack of ALC net proceeds. Another contributing factor to the increase is the new requirement that \$1 million be set aside for future prizes or special prize promotions. The remainder of the increase over prior year restricted assets is primarily due to the increased deposit with the Mutli-State Lottery Association (MUSL). Unrestricted net assets have declined from prior year by \$2.2 million as a result of the new restrictions.

Cash and cash equivalents were \$88.4 million and \$83.5 million at June 30, 2011 and 2010, respectively. Accounts receivable were \$11.2 million and \$14.3 million at June 30, 2011 and 2010, respectively. The decrease in accounts receivable was due to the timing of the electronic funds transfers from retailers' bank accounts for monies owed the ALC at year end for the last fiscal week's ticket sales. Capital assets, net of depreciation, decreased during the current fiscal year from \$.9 million in 2010 to \$.7 million in 2011.

The ALC's current liabilities consist primarily of amounts due to the Arkansas Department of Higher Education (ADHE), unclaimed prizes, accrued operating expenses and deferred revenue. Total liabilities decreased during the current fiscal year by \$17.5 million or 17.5%.

The ALC's assets exceed its liabilities resulting in net assets of \$18.6 million at June 30, 2011. This is an increase of \$19.4 million over the prior year's deficit of \$.8 million. The main reason for the net asset position in the current year is due to the transfer in from the Arkansas Department of Higher Education (ADHE) of \$20 million for the Scholarship Shortfall Reserve Trust.

**Statement of Revenue, Expenses and Changes in Net Assets-** During fiscal year 2011, ALC's activities resulted in an increase in net assets of \$19.4 million compared to a decrease of \$.8 million in 2010. The increase in net assets during the current fiscal year is due to a \$20 million transfer from ADHE for the Scholarship Shortfall Reserve Trust which is netted against the ALC's transfer of \$94.2 million to the ADHE. The key elements of the changes in net assets for the fiscal years ended June 30, 2011 with comparative information for 2010 are shown in the following table.

Arkansas Lottery Commission  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2011  
(Unaudited)

<b>Summary of Revenues, Expenses, and Changes in Net Assets</b>		
	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>Operating revenues</b>		
Instant ticket sales	\$ 390,114,991	\$ 335,487,156
Online ticket sales	73,904,360	48,211,299
Retailer application, fidelity and service fees	1,055,538	867,023
Other revenue	5,450	5,650
<b>Total operating revenues</b>	<u><b>465,080,339</b></u>	<u><b>384,571,128</b></u>
<b>Operating expenses</b>		
Instant game prizes	271,709,950	224,341,940
Online game prizes	35,744,755	23,381,100
Commissions and contract costs	50,329,571	42,027,297
General and administrative expenses	13,751,805	12,706,154
Depreciation	179,750	122,643
<b>Total expenses</b>	<u><b>371,715,831</b></u>	<u><b>302,579,134</b></u>
<b>Operating income</b>	<b>93,364,508</b>	<b>81,991,994</b>
<b>Nonoperating revenue:</b>		
Interest income	464,252	181,807
Income before transfers	93,828,760	82,173,801
<b>Transfers :</b>		
Transfers to ADHE	(74,229,349)	(82,799,809)
Transfers to ADHS	(200,000)	(200,000)
<b>Increase (decrease) in net assets</b>	<b>19,399,411</b>	<b>(826,008)</b>
<b>Beginning net assets</b>	<u><b>(842,477)</b></u>	<u><b>(16,469)</b></u>
<b>Ending net assets</b>	<u><b>\$ 18,556,934</b></u>	<u><b>\$ (842,477)</b></u>

## OPERATING REVENUES

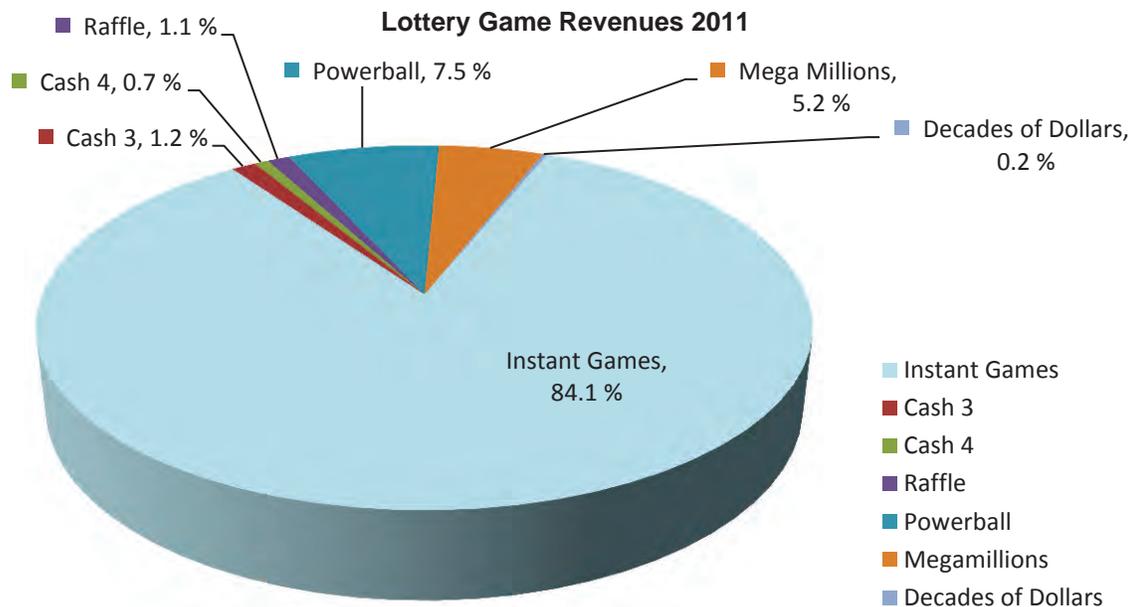
### Games Sales

The ALC's game revenues are made up of a variety of instant and online lottery products. The ALC is an active member of two separate joint venture arrangements; the Multi-State Lottery Association (MUSL), and the Decades of Dollars Consortium. Powerball® and Mega Millions® are online games operated under MUSL and Decades of Dollars Consortium is comprised of four states and operated by the State of Virginia. The ALC also operates Cash 3 and Cash 4, both online games. Arkansas Million Dollar Raffle was a limited-time draw game with only 500,000 tickets available for sale at \$10 each for the chance to win one million dollars. Raffle sales began on July 14, 2010, and sales concluded on April 6, 2011. Two winning numbers were drawn to win \$1,000,000. \$100 and \$1,000 prizes were also awarded. Throughout sales of the game, \$20 instant prizes were awarded with every twenty-fifth ticket purchased. The table below shows sales by lottery game for the years ended June 30, 2011 and 2010.

Arkansas Lottery Commission  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2011  
(Unaudited)

<b>Lottery Games Sales for Years Ended June 30, 2011 and 2010</b>				
<b>Game</b>	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>Percent Change</b>
Instant Game sales	\$ 390,114,991	\$ 335,487,156	\$54,627,835	16.3%
Cash 3	5,805,414	5,277,255	528,159	10.0%
Cash 4	3,091,218	-	3,091,218	100.0%
Arkansas Million Dollar Raffle	5,000,000	-	5,000,000	100.0%
Powerball	34,961,543	34,998,429	(36,885)	-0.1%
Mega Millions	24,113,365	7,935,615	16,177,750	203.9%
Decades of Dollars	932,820	-	932,820	100.0%
Total game sales	<u>\$ 464,019,351</u>	<u>\$ 383,698,455</u>	<u>\$80,320,896</u>	<u>20.9%</u>

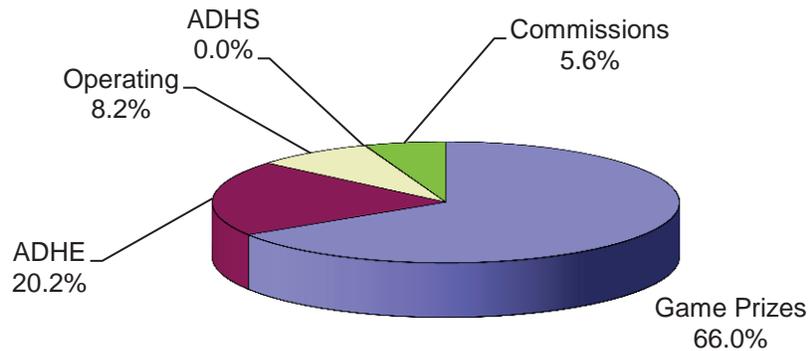
The ALC saw an \$80.3 million or 20.9% increase in lottery sales for fiscal year 2011. Instant ticket sales were the ALC's most popular product contributing 84.1% and 87.4% to total fiscal year sales for 2011 and 2010, respectively. The increase in total game sales is primarily attributed to the \$52 million increase in instant sales as instant ticket sales did not begin until late September of 2009 resulting in only 9 months of revenue during fiscal year 2010. Also contributing to the increase is \$16.2 million in Mega Millions which began in late January 2010. New games introduced in 2011, Fast Play, Cash 4, Arkansas Million Dollar Raffle and Decades of Dollars also contributed to the overall increase bringing in \$11.7 million in revenue.



Arkansas Lottery Commission  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2011  
(Unaudited)

Distribution of the fiscal year 2011 revenue was as follows:

**Fiscal Year 2011 Revenue Distribution**



**OPERATING EXPENSES**

**Prizes**

Prizes are the largest operating expense the ALC incurs. Fiscal year 2011 prize expense of \$307.4 million reflects a 24.1% increase over fiscal year 2010 prize expense of \$247.7 million. This increase is mostly due to the increase in instant ticket sales experienced in fiscal year 2011. The new game Fast Play contributed \$1.8 million to the increase in instant game prizes.

The following table shows prize expense by lottery game for the years ended June 30, 2011 and 2010.

<b>Game Prize Expenses</b>				
<b><u>Game Prize Expense</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>Change</u></b>	<b><u>% Change</u></b>
Instant Game prizes	\$ 271,709,950	\$ 224,341,940	\$ 47,368,010	21.1%
Cash 3	2,625,770	2,453,190	172,580	7.0%
Cash 4	1,418,900	-	1,418,900	100.0%
Raffle	3,000,000	-	3,000,000	100.0%
Powerball	15,986,341	16,802,877	(816,536)	-4.9%
Mega Millions	12,168,144	4,125,033	8,043,111	195.0%
Decades of Dollars	545,600	-	545,600	100.0%
Total game prize expense	<u>\$ 307,454,705</u>	<u>\$ 247,723,040</u>	<u>\$ 59,731,665</u>	24.1%

Arkansas Lottery Commission  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2011  
(Unaudited)

The following table shows sales profit margin for instant and online games by for the years ended June 30, 2011 and 2010.

<b>Lottery Game Profit Margins</b>				
	<b>Instant Tickets</b>		<b>Online Tickets</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Game revenues	\$ 390,114,991	\$ 335,487,156	\$ 73,904,360	\$ 48,211,299
Prize expense	271,709,950	224,341,940	35,744,755	23,381,100
Gross profit after prizes	\$ 118,405,041	\$ 111,145,216	\$ 38,159,605	\$ 24,830,199
Profit margin after prizes	30.4%	33.1%	51.6%	51.5%

As the table above shows, the profit margin after prizes paid is less for instant games versus online games. High jackpots drive sales for online games, whereas the different types of games on the market and the number of winning tickets (prizes) in a game drives Instant ticket sales.

**Other Operating Expenses**

In addition to prize expense, other expenses include retailer commissions, gaming contract costs, marketing & advertising costs, depreciation and general administrative costs. These other expenses totaled \$64.3 million for fiscal year 2011 and \$54.9 million for fiscal year 2010. The \$9.4 million increase is primarily due to increases in gaming contract costs and increased retailer commissions due to 2010 only having nine months of sales.

The table below shows comparative operating expenses for lottery games for the years ended June 30, 2011 and 2010 (in thousands).

<b>Operating Expenses Profit Margin</b>				
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>Percent Change</b>
Gross ticket sales	\$ 464,019,351	\$ 383,698,455	\$ 80,320,896	20.9%
Operating expenses	371,715,831	302,579,134	69,136,697	22.8%
Operating Income	\$ 92,303,520	\$ 81,119,321	\$ 11,184,199	13.8%
Profit margin	19.9%	21.1%		

**NON-OPERATING REVENUES AND TRANSFERS**

Non-operating revenues consisted of interest income totaling \$464,252 and \$181,807 for the year ended June 30, 2011 and 2010, respectively. In 2011 and 2010 net transfers of \$74.2 and \$82.8 million, respectively were made to ADHE. In the current year, this included a transfer of \$20 million from ADHE for the purpose of funding the Scholarship Shortfall Reserve Trust. This trust is set aside to provide scholarships in case of a lack of ALC net proceeds.

Arkansas Lottery Commission  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2011  
(Unaudited)

**CAPITAL ASSETS**

At the end of 2011, the ALC had invested \$1 million in capital assets, including equipment and leasehold improvements. This amount is \$34,832 more than last year. More detailed information on capital assets may be found in the footnotes to the financial statements.

	<b>Capital Assets</b>		<b>Total % Change</b>
	<b>2011</b>	<b>2010</b>	
Equipment	\$ 526,665	\$ 509,147	3.4%
Leasehold improvements	498,417	481,103	3.6%
Totals capital assets	1,025,082	990,250	3.5%
Total accumulated depreciation	(302,393)	(122,643)	146.6%
Net capital assets	<u>\$ 722,689</u>	<u>\$ 867,607</u>	-16.7%

**CONTACT INFORMATION**

This financial report is designed to provide a general overview of the ALC's finances and to demonstrate the ALC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the ALC's Finance Division at 124 West Capitol Avenue Suite 1400, Little Rock, Arkansas 72201-3706 or call (501) 683-2000.



# BASIC FINANCIAL STATEMENTS



“

**I'M GOING TO PAY  
SOME BILLS AND  
BUY A NEWER  
CAR FOR MY  
PARENTS WITH  
MY WINNINGS!”**

- Elizabeth Prow  
Sulphur Springs

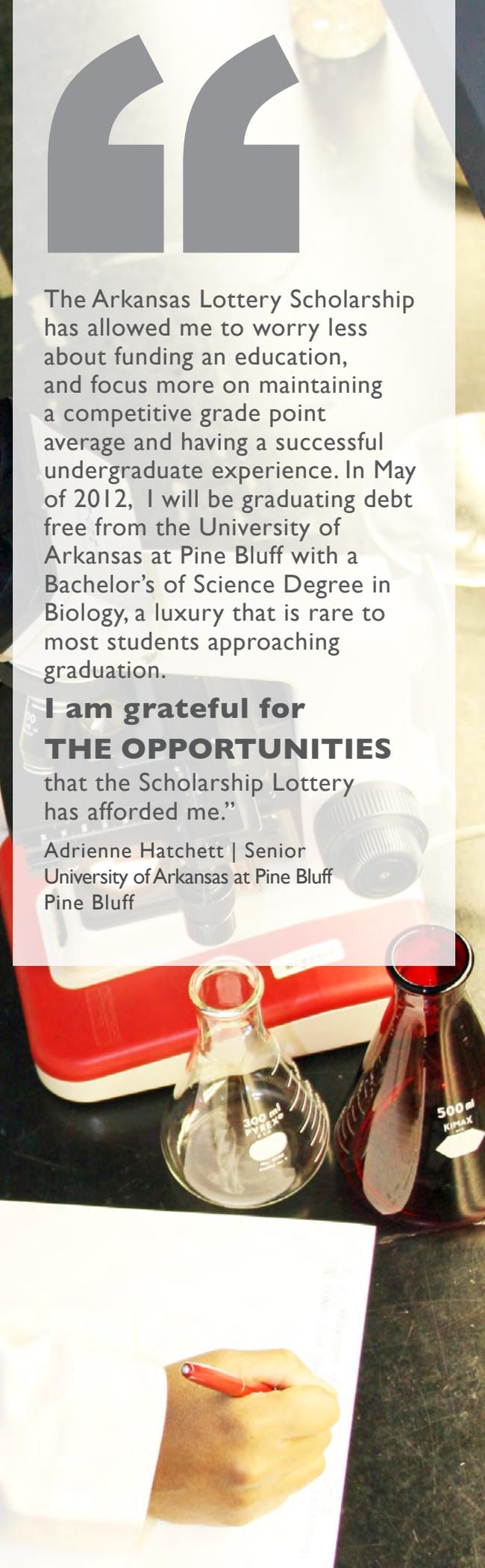


“

The Arkansas Lottery Scholarship has allowed me to worry less about funding an education, and focus more on maintaining a competitive grade point average and having a successful undergraduate experience. In May of 2012, I will be graduating debt free from the University of Arkansas at Pine Bluff with a Bachelor's of Science Degree in Biology, a luxury that is rare to most students approaching graduation.

**I am grateful for THE OPPORTUNITIES** that the Scholarship Lottery has afforded me.”

Adrienne Hatchett | Senior  
University of Arkansas at Pine Bluff  
Pine Bluff



**Arkansas Lottery Commission**  
**Statement of Net Assets**  
**June 30, 2011**

**ASSETS**

**Current assets:**

Cash and cash equivalents	\$ 5,294,347
Restricted assets:	
Cash and cash equivalents	63,029,157
Accounts receivable	11,230,161
Prepaid items	77,257
Total current assets	<u>79,630,922</u>

**Noncurrent assets:**

Restricted assets:	
Cash and cash equivalents	20,042,205
Deposits with Multi-State Lottery Association	1,138,133
Capital assets:	
Equipment	526,665
Leasehold improvements	498,417
Less accumulated depreciation	(302,393)
Total noncurrent assets	<u>21,903,027</u>

Total assets	<u><u>\$ 101,533,949</u></u>
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**LIABILITIES**

**Current liabilities:**

Accounts payable	\$ 1,267,778
Prizes payable	15,981,897
Accrued and other liabilities	1,263,592
Due to other funds of the State	1,329,766
Due to Arkansas Department of Higher Education	62,029,157
Compensated absences	51,665
Deferred revenue	355,237
Total current liabilities	<u>82,279,092</u>

**Long-term liabilities:**

Compensated absences	239,933
Net postemployment benefits payable	457,990
Total long-term liabilities	<u>697,923</u>

Total liabilities	<u>82,977,015</u>
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**NET ASSETS**

**Net assets:**

Invested in capital assets	722,689
Restricted for:	
Scholarship Shortfall Reserve Trust Account	20,000,000
Retailer fidelity fund	42,205
Deposits with Multi-State Lottery Association	1,138,133
Future prizes or special prize promotions	1,000,000
Unrestricted	<u>(4,346,093)</u>

Total net assets	<u>18,556,934</u>
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Total liabilities & net assets	<u><u>\$ 101,533,949</u></u>
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The notes to the financial statements are an integral part of this statement.

**Arkansas Lottery Commission**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Year Ended June 30, 2011**

<b>Operating revenues:</b>	
Instant ticket sales	\$ 390,114,991
Online ticket sales	73,904,360
Retailer application, fidelity and service fees	1,055,538
Other revenue	<u>5,450</u>
Total operating revenues	<u>465,080,339</u>
<b>Operating expenses:</b>	
Instant game prizes	271,709,950
Online game prizes	35,744,755
Retailer commissions	26,217,851
Gaming contract costs	24,111,720
Compensation and benefits	6,226,266
Marketing, advertising and promotions	4,631,388
General and administrative expenses	1,434,229
Services provided by other agencies:	
Arkansas Department of Higher Education	1,170,710
Arkansas Division of Legislative Audit	280,728
Legal and professional services	8,484
Depreciation	<u>179,750</u>
Total operating expenses	<u>371,715,831</u>
Operating income	93,364,508
<b>Nonoperating revenue:</b>	
Interest income	<u>464,252</u>
Income before transfers	93,828,760
Transfers to:	
Arkansas Department of Higher Education	(74,229,349)
Arkansas Department of Human Services	<u>(200,000)</u>
Change in net assets	19,399,411
Total net assets - beginning	(842,477)
Total net assets - ending	<u><u>\$ 18,556,934</u></u>

The notes to the financial statements are an integral part of this statement.

**Arkansas Lottery Commission**  
**Statement of Cash Flows**  
**Year Ended June 30, 2011**

<b>Cash flows from operating activities:</b>	
Cash received from retailers and others	\$ 468,220,833
Cash paid for prizes	(306,303,849)
Cash paid for gaming vendors	(24,016,144)
Cash paid for retailer commissions	(26,217,851)
Cash paid for marketing and advertising	(4,009,445)
Cash paid for employee services	(6,157,322)
Cash paid for other expenses	(1,897,589)
Net cash provided by operating activities	<u>99,618,633</u>
<b>Cash flows from noncapital financing activities:</b>	
Nonoperating payments to Arkansas Department of Higher Education	(115,000,000)
Nonoperating payments from Arkansas Department of Higher Education	20,000,000
Nonoperating payments to Arkansas Department of Human Services	(200,000)
Net cash used by noncapital financing activities	<u>(95,200,000)</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchases of capital assets	<u>(34,832)</u>
<b>Cash flows from investing activities:</b>	
Interest received	<u>464,252</u>
Net increase in cash and cash equivalents	4,848,053
<b>Cash and cash equivalents, beginning of year</b>	83,517,656
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 88,365,709</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 93,364,508
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	179,750
Net changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	3,059,565
Prepaid items	(72,138)
Multi-State Lottery Association Reserves	(680,865)
Increase (decrease) in:	
Accounts payable	521,541
Prizes payable	1,831,721
Accrued and other liabilities	338,875
Due to other funds	958,107
Compensated absences	(191,329)
Deferred revenue	80,930
Net post employment benefits	227,968
Net cash provided by operating activities	<u><u>\$ 99,618,633</u></u>

The notes to the financial statements are an integral part of this statement.



# NOTES TO FINANCIAL STATEMENTS



“

**THE LOTTERY HAS  
BROUGHT IN EXTRA  
TRAFFIC – NEW  
FACES IN OUR SMALL  
TOWN. IT’S CREATED  
NEW BUSINESS WE  
DIDN’T EXPECT.”**

- Cindy & Jason Langston  
The Pit Stop  
Stephens



“

I am extremely grateful for the Arkansas Lottery Scholarship. It has **made it possible for me TO RETURN TO SCHOOL, which is especially difficult for non-traditional students** such as myself. The money I have received has been used toward tuition, fees, books, and living costs. It is ensuring a better education and quality of life for me and my future.”

Chuck Bell | Sophomore  
Northwest Arkansas  
Community College  
Hindsville

**Arkansas Lottery Commission  
Notes to Financial Statements  
June 30, 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Reporting Entity**

The Arkansas Lottery Commission (ALC) was created by Acts 605 and 606 of 2009 (Act) for the purpose of establishing, operating, and regulating State lotteries as authorized by the Arkansas Constitution. The primary purpose of the Act is to supplement higher education scholarships with net proceeds from State lottery operations. The ALC is charged with overseeing the lottery operations of the state and consists of nine members with three members appointed by each of the following: the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate.

The ALC is a self-supporting, revenue-raising agency of the state. The ALC commenced sales of instant scratch-off tickets on September 28, 2009; Powerball® on October 31, 2009; Cash 3 on December 14, 2009; Mega Millions® on January 31, 2010; Cash 4 on July 12, 2010; Arkansas Million-Dollar Raffle on July 14, 2010; Fast Play games on October 25, 2010; and Decades of Dollars on May 3, 2011. Sales for the Arkansas Million Dollar Raffle concluded April 6, 2011. Powerball and Mega Millions are offered through the Multi-State Lottery Association (MUSL). Decades of Dollars is offered through a consortium of participating lottery states.

For financial reporting purposes, the Lottery is a major enterprise fund of the primary government of the State of Arkansas (State) and is reported as such in the Comprehensive Annual Financial Report (CAFR) of the State. These financial statements for the ALC are separate and apart from those of the State and do not present the financial position of the State nor changes in the State's financial position and cash flows.

**b. Basis of Presentation**

The ALC is accounted for as a proprietary type enterprise fund. Enterprise funds operate more like a commercial business such as: (1) where the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges; or (2) where the periodic determination of net income is considered appropriate.

**c. Basis of Accounting**

Basis of accounting refers to the timing of recognition of revenue and expenses in the accounts and reporting in the financial statements. The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting, published by the Financial Accounting Standards Board (FASB) which were issued on or before November 30, 1989, are followed in the enterprise fund financial statements to the extent that such standards do not conflict with standards issued by the Governmental Accounting Standards Board (GASB). As permitted by the GASB, the ALC has elected not to adopt FASB guidance issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. New GASB Statements and Interpretations are adopted in the years they become effective.

As an enterprise fund, the ALC is accounted for using the economic resources measurement focus. All assets and liabilities related to its operations are included on its statement of net assets, and its operating statement includes all revenues (increases) and expenses (decreases) in total assets. Operating revenues and expenses generally relate to the ALC's primary ongoing operations of selling lottery tickets and redeeming prizes; all revenues and expenses not meeting this definition are reported as non-

**Arkansas Lottery Commission  
Notes to Financial Statements  
June 30, 2011**

operating. The principal operating revenues of the ALC are charges to retailers for sales of lottery products. The significant operating expenses include the cost of prizes, retailer commissions, gaming contract costs, vendor charges, personnel, marketing/advertising, and other administrative expenses.

**d. Cash and Cash Equivalents**

Cash and cash equivalents include demand accounts, impress accounts, cash on hand, all certificates of deposit with maturities at purchase of 90 days or less and all short-term instruments with maturities at purchase of 90 days or less.

**e. Accounts Receivable**

Accounts Receivable primarily represents amounts due from retailers for activation of instant ticket packs and sales of online games less retailer prizes paid and commissions. Electronic Funds Transfers are used to collect receivables weekly from retailer bank accounts that were set up in trust for the ALC.

**f. Capital Assets**

Capital assets are stated at cost less accumulated depreciation. The ALC follows the policy of the Arkansas Department of Finance and Administration and uses a capitalization threshold of two thousand five hundred dollars (\$2,500) and useful life extending beyond one year. Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Equipment:	5 - 7 years
Leasehold improvements:	over the initial term of the lease

When capital assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the Statement of Revenues, Expenses, and Changes in Net Assets, in the period of disposal. The ALC did not dispose of capital assets during the year ended June 30, 2011.

**g. Net Assets**

Net Assets include categories for net investments in capital assets and restricted net assets for the Scholarship Shortfall Reserve Trust Account, Retailer Fidelity Fund, MUSL deposits and for future prizes or special prize promotions. The net investment in capital assets category represents the purchases of capital assets, recorded at cost less accumulated depreciation. The restricted net assets for Scholarship Shortfall Reserve Trust Account represents monies set aside to fund scholarships, if needed, due to a lack of ALC Net Lottery Proceeds. The MUSL deposits represent funds set aside to fund Powerball and Mega Millions prizes in the event of multiple grand prize winners. The Reserve for future prizes or special prize promotions represents monies set aside from unclaimed prizes to be used to supplement future prizes or special prize promotions. Act 1180 enacted April 6, 2011 authorized the reserve for future prizes or special prize promotions. It is the practice of the ALC to use restricted resources first, then unrestricted resources when both restricted and unrestricted resources are available.

**h. Revenue Recognition**

Lottery games are sold to the public by contracted retailers. Revenue is recognized when online tickets are sold to players and when books of instant scratch-off tickets are activated for sale by the retailer.

**Arkansas Lottery Commission**  
**Notes to Financial Statements**  
**June 30, 2011**

**Deferred Revenue** – Funds collected from retailers for online game tickets sold in advance of the game drawings are recorded as deferred revenue and recognized as revenue once the related drawing occurs.

**i. Commissions**

Retailers receive a commission of five percent on all instant tickets settled and online tickets sold. In addition, (1) retailers receive a cashing commission of one percent of each one dollar redeemed up to the cashing limit of \$500 per ticket, and (2) retailers receive a selling commission of one percent of a prize amount of \$10,000 or more on each ticket validated and paid to a player. The maximum selling commission for selling tickets with a prize of \$10,000 or more is \$50,000.

**j. Prizes and Unclaimed Prizes**

For instant scratch-off games, prize expense is accrued based on the end of production prize structure percentage provided by the gaming vendor for each game and recorded based on value of packs activated for sale by retailers. Prize expense for merchandise prizes is recognized as invoiced by the gaming vendor. Any prize that remains unclaimed 90 days after a scratch-off game ends is considered unclaimed.

Prize expenses for online games are recorded based on prizes won by the players, as revenue is recognized. Any prize that remains unclaimed at the end of a 180-day period following a draw is considered unclaimed.

During fiscal year 2011 unclaimed prize money totaled \$4,848,332 of which \$3,848,332 was credited to Net Proceeds for deposit into the Education Trust Account. Act 1180 enacted April 6, 2011 required \$1,000,000 of unclaimed prizes be set aside to supplement future prizes or special prize promotions. All unclaimed prize money reduces overall prize expense.

**k. Compensated Absences**

Employees earn the right to be compensated during absences for vacation, illness, overtime worked for non-exempt employees, and unused special compensatory leave earned for hours worked during lottery start-up operations and on legal holidays. Compensated absences for annual leave and legal holidays banked are recorded as a liability when the benefits are earned. Compensated absences for sick leave are calculated based on the vesting method for employees that are eligible for retirement benefits. Within the limits established by law or rule, unused leave benefits are paid to employees upon separation from State service for vacation, banked holidays, and eligible sick leave, but not compensatory leave earned during ALC start-up operations. The compensated absences amounts are based on current year-end salary rates and include employer social security contributions at current rates.

**l. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, restricted net assets, revenues, and expenses, and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

**m. Bad Debt Expense**

Bad debt expense is recognized when a Lottery retailer's uncollected revenue is past due and in excess of amounts deemed to be collectible. The amount of expense is based on an accounts receivable age analysis and the amount of fidelity bond and fidelity trust

**Arkansas Lottery Commission  
Notes to Financial Statements  
June 30, 2011**

account coverage available to offset the potential loss. The ALC did not record bad debt expense for the fiscal year ended June 30, 2011.

***n. Due to Arkansas Department of Higher Education***

The Act requires the ALC to deposit each month's Net Proceeds into an Education Trust Account by the 15th of the following month. This amount is accrued as a liability on the Statement of Net Assets using accrual basis accounting as required by GAAP. However, the amount actually deposited into the Education Trust Account is computed using modified cash basis revenues for monies received from retailers for instant ticket games. The Act requires these funds to be held in trust for the funding of higher education scholarships.

**2. DEPOSITS**

Arkansas Code Annotated requires that agencies holding monies not deposited in the State Treasury (cash fund agencies), other than institutions of higher learning, abide by the recommendations of the State Board of Finance as to the best investment decisions for any idle cash balances. The State Board of Finance promulgated certain cash management and investments standards and procedures, effective September 1, 1990 as referenced by the Department of Finance and Administration within the Financial Management Guide for use by all State agencies.

The stated primary goal of state cash management is the protection of principal, while maximizing investments and minimizing non-interest bearing balances. Deposits are to be made within the borders of the State of Arkansas and placed with an Arkansas Bank or Savings and Loan Association. Policy requires a minimum of four (4) bids to be sought on interest bearing deposits, in order to obtain the highest rate possible.

Policy states that funds may be maintained in demand deposit accounts for the purposes of meeting day-to-day operating expenditures. It is suggested that service charges associated with this type of account can generally be avoided by maintaining required minimum balances or compensating balances in other accounts. A single checking account should be sufficient for each cash fund. Funds in excess of immediate expenditure requirements (excluding minimum balances) should not remain in non-interest bearing accounts.

The ALC has a seven-year contract with Bank of the Ozarks to provide banking services to its operations. The contract has the provision that all banking services be provided to ALC at no cost. Additionally, the contract calls for interest to be paid on all ALC deposits at a rate of 20 basis points over the Federal Funds Target rate with a floor of 55 basis points. During the year ended June 30, 2011, the ALC was paid 55 basis points on all ALC deposits. All cash and equivalents at June 30, 2011 were held in accounts at the Bank of the Ozarks. As agreed to in their contract, the Bank of the Ozarks has agreed to pledge collateral on all accounts of the ALC in an amount to exceed the State requirement of 102 percent of deposits. As of June 30, 2011, total collateral pledged to the ALC was \$97,089,758 to secure total bank balances of \$88,706,193. The collateral is held in the ALC's name by Arkansas Banker's Bank and the Federal Home Loan Bank of Dallas.

***Custodial Credit Risk*** – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the ALC will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The ALC has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. It is the opinion of management that none of the ALC's bank balances of \$88,706,193 were exposed to custodial credit risk as of June 30, 2011.

**Arkansas Lottery Commission  
Notes to Financial Statements  
June 30, 2011**

**3. EDUCATION TRUST ACCOUNT AND UNCLAIMED PRIZE RESERVE**

Each month on or before the 15th day, the ALC must deposit the net proceeds of the previous month into a trust account. The Education Trust Fund Account is restricted for higher education scholarships administered by the Arkansas Department of Higher Education (ADHE). Funds are transferred to the ADHE based on scholarship needs reported to the ALC. During fiscal year 2011 a total of \$115,000,000 was transferred to the ADHE. The Education Trust Account is included as a restricted cash and cash equivalent on the Statement of Net Assets. The Educational Trust Account balance as of June 30, 2011 of \$58,380,613 and the June 2011 Net Proceeds of \$3,648,544, transferred July 15, 2011, are included in current restricted cash and cash equivalents on the Statement of Net Assets.

Act 1180 enacted April 6, 2011 required \$1,000,000 of unclaimed prizes be set aside to supplement future prizes or special prize promotions. The reserve for future prizes or special prize promotions represents monies set aside for this purpose. The reserve for future prizes or special prize promotions is also shown as current restricted cash and cash equivalents on the Statement of Net Assets; the balance at June 30, 2011 was \$1,000,000.

**4. ACCOUNTS RECEIVABLE**

Management believes that an allowance for uncollectable accounts is not necessary at June 30, 2011. Subsequent collections, surety bond and fidelity fund account balances are sufficient to cover past due accounts. Amounts due from retailers and others are summarized as follows:

Amount due for activated instant scratch-off tickets, not yet settled	\$ 9,636,918
Amount due for partial week sales for week including June 30	1,547,344
Past due accounts and other receivables	<u>45,899</u>
Total accounts receivable	<u>\$ 11,230,161</u>

**5. SCHOLARSHIP SHORTFALL RESERVE TRUST ACCOUNT AND FIDELITY FUNDS**

The Scholarship Shortfall Reserve Trust Account represents monies set aside to fund scholarships, if needed, due to a lack of ALC Net Lottery Proceeds. The balance of the Scholarship Shortfall Reserve Trust Account at June 30, 2011 was \$20,000,000.

In accordance with the Act, ACL retailers are assessed an annual fidelity fund fee. Fidelity fund proceeds are held in a separate demand deposit account and are classified as restricted on the Statement of Net Assets. These funds may be used to cover losses incurred as a result of the nonfeasance, malfeasance, or misfeasance of ALC retailers. The ALC did not sustain losses that were charged to the fidelity fund during the year ended June 30, 2011. At the end of each fiscal year, fidelity funds exceeding \$500,000 may be treated as net proceeds from the ALC, subject to deposit into the Educational Trust Account. The balance of the Fidelity Trust fund at June 30, 2011 was \$42,205.

**6. JOINT VENTURES**

GASB Statement No.14, The Financial Reporting Entity, as amended, defines a joint venture as a legal entity which results from a contractual arrangement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The ALC is an active participant in two separate joint venture arrangements; MUSL and the Decades of Dollars Consortium. MUSL is audited by a separate audit firm. For Decades

**Arkansas Lottery Commission  
Notes to Financial Statements  
June 30, 2011**

of Dollars, each Party Lottery shall subject transactions, account and processes to a test of agreed upon procedures by an independent auditor in its state.

***Multi-State Lottery Association***

In July 2009, the ALC joined the MUSL, composed of a group of U.S. lotteries that combine jointly to sell online Powerball and Mega Millions lottery tickets. The chief executive officer of each member lottery serves on the MUSL board of directors.

Powerball sales began on October 31, 2009. Mega Millions sales began on January 31, 2010. As a member of MUSL, the ALC is required to contribute to various prize reserve funds maintained by MUSL. The prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen prize payments. MUSL periodically reallocates the prize reserve funds among the states based on relative Powerball and Mega Millions sales levels. All remaining funds remitted, and the related interest earnings (net of administrative costs), will be returned to the ALC upon leaving the MUSL, less any portion of unanticipated prize claims that may have been paid from the fund. As of June 30, 2011, the ALC had deposits with MUSL of \$1,138,133, representing ALC's deposits of reserve funds.

A copy of the MUSL financial statements may be obtained by submitting a written request to MUSL, 4400 N.W. Urbandale Drive, Urbandale, Iowa 50322.

ALC's portion of the MUSL's games for the fiscal year ended June 30, 2011 is summarized below:

	<u>Powerball</u>	<u>Mega Million</u>
Operating Revenues	\$ 34,961,543	\$ 24,113,365
Prizes	15,986,341	12,168,144

***Decades of Dollars Consortium***

On May 3, 2011, the ALC joined the Decades of Dollars Consortium composed of the Georgia Lottery Corporation, Kentucky Lottery Corporation and Virginia Lottery to create and operate a multi-state lottery game entitled "DECADES OF DOLLARS". The chief officials of the each member lottery shall serve as the Executive Committee.

The ALC's portion of revenues for "DECADES of DOLLARS" game for the fiscal year ended June 30, 2011 was \$932,820 and prizes were \$545,600.

**7. CAPITAL ASSETS**

The activity for capital assets for the year ended June 30, 2011, was:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
<b><u>Capital assets</u></b>				
Equipment	\$ 509,147	\$ 17,518	-	\$ 526,665
Leasehold improvements	481,103	17,314	-	498,417
Total capital assets	990,250	34,832	-	1,025,082
Less accumulated depreciation for:				
Equipment	(63,563)	(96,974)		(160,537)
Leasehold improvements	(59,080)	(82,776)	-	(141,856)
Total accumulated depreciation	(122,643)	(179,750)	-	(302,393)
Capital assets, net	\$ 867,607	\$ (144,918)	-	\$ 722,689

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Notes to Financial Statements  
June 30, 2011**

**8. LIABILITIES**

**a. Prizes Payable**

Prizes payable at June 30, 2011 consisted of instant and online game prizes as well as related state and federal withholdings. Instant ticket prizes are estimated based on the end of production prize structure provided by Scientific Games. Prize payable by category is as follows:

Instant ticket prizes	\$14,152,301
Powerball prizes	716,881
Mega Millions prizes	486,993
Decades of Dollars prizes	295,037
Arkansas Million Dollar Raffle prizes	167,140
Income tax withholdings	105,675
Cash 4 prizes	29,100
Cash 3 prizes	28,770
Total	<u>\$15,981,897</u>

**b. Due to Other Funds of the State**

The Act requires that the ADHE be reimbursed for the costs associated with the administration of scholarships funded with lottery proceeds. The amount recorded as administrative cost due is listed in the table below.

The Division of Legislative Audit (DLA) is required by law to perform an annual audit of the ALC financial position. The law also states that the ALC shall reimburse DLA at an hourly rate set by the Legislative Joint Auditing Committee for work performed. The amount due to DLA is listed in the table below.

The amounts listed below due to the Department of Finance and Administration, Department of Information Systems, and University of Arkansas are for services performed by these Agencies within the normal course of business for the ALC.

ADHE	\$1,170,710
DLA	13,520
Department of Finance and Administration	1,144
Department of Information Systems	15,430
University of Arkansas	128,962
Total	<u>\$ 1,329,766</u>

**c. Due to Arkansas Department of Higher Education**

The ALC is required by law to deposit each month's Net Proceeds into an Education Trust Account. Net Proceeds is defined under the Act as lottery proceeds less specified operating expenses. Net Proceeds for the year ended June 30, 2011 was \$94,229,349. Activity in the Due to ADHE account consists of:

Educational Proceeds for year ended 6/30/10	\$ 82,799,808
Educational Proceeds for year ended 6/30/11	<u>94,229,349</u>
Total Available	177,029,157
Transfers to ADHE during fiscal year ended 6/30/11	<u>115,000,000</u>
Due to ADHE for the ended 6/30/11	<u>\$ 62,029,157</u>

**Arkansas Lottery Commission  
Notes to Financial Statements  
June 30, 2011**

**d. Accounts Payable, Accrued Liabilities and Compensated Absences**

Accounts payable consist of amounts due to vendors for operating costs of the lottery. Accrued liabilities consist of amounts due to gaming vendors for gaming costs of the lottery, accrued payroll earned and related health insurance withholdings as of June 30, 2011, and amounts due to the Internal Revenue Service. The Internal Revenue Service has assessed the ALC \$99,325 for penalties and interest for late deposits on federal tax withholdings from prize winnings. The ALC has filed an appeal with the IRS and the disposition is not known at the time of this report.

In the enterprise fund financial statements, the ALC accrues liabilities for compensated absences as services are incurred and benefits accrue to employees. The compensated absences payable to ALC employees for annual, sick, and compensatory leave at June 30, 2011 totaled \$291,598. During the current year, the ALC adopted the State of Arkansas methodology of determining the current vs. long-term portion of this liability. This computation is based upon the State average for all state employees. The compensated absences payable balance of \$482,927 at June 30, 2010 was increased by \$234,280 and decreased by \$425,609 during the year ended June 30, 2011.

**e. Deferred Online Revenue**

Funds collected from retailers for online game tickets sold in advance of the game drawings are recorded as deferred revenue and recognized as revenue once the related drawing occurs. Deferred revenue at June 30, 2011 is summarized as follows:

Powerball	\$ 181,771
Mega Millions	151,558
Decades of Dollars	16,628
Cash 3	3,250
Cash 4	2,030
Total	\$ 355,237

**9. ONLINE GAME REVENUE**

Online game tickets are produced through terminals at lottery retailer locations based on player instructions for number selection. Drawings are conducted to determine winning number combinations. Online game sales as of June 30, 2011 consisted of the following:

Powerball	\$	34,961,543
Mega Millions		24,113,365
Cash 3		5,805,414
Cash 4		3,091,218
Arkansas Raffle		5,000,000
Decades of Dollars		932,820
Total	\$	73,904,360

**10. OPERATING LEASES**

The ALC has entered into operating leases for the rental of office space for its headquarters, as well as its three district claim centers. These leases are renewable at the option of the ALC at the end of their initial terms. The office which houses the ALC headquarters is currently under a six-year lease, expiring August 31, 2015. The claim center leases are five-year terms, ending on various dates in 2014. Annual rent expense for the year ended June 30, 2011 was \$433,518.

**Arkansas Lottery Commission  
Notes to Financial Statements  
June 30, 2011**

Future minimum rental payments as of June 30, 2011, are scheduled as follows:

2012	445,061
2013	456,740
2014	468,553
2015	438,405
2016	69,673

**11. TRANSFERS**

Transfers to the ADHE include \$94,229,349 of Net Proceeds for the year ended June 30, 2011 and a transfer from the ADHE in the amount of \$20,000,000 for the Scholarship Shortfall Reserve Trust Account as stated in notes 8c and 5, respectively.

The ALC also made a transfer to the Arkansas Department of Human Services (DHS) in the amount of \$200,000 as stated in note 12.

**12. COMPULSIVE GAMBLING CONTRIBUTION**

The Act requires the ALC to make an annual transfer of at least \$200,000 to the DHS for the treatment of compulsive gambling disorder and educational programs related to compulsive gambling disorder.

**13. RETIREMENT PLANS**

**a. Plan Description**

The ALC contributes to the Arkansas Public Employees' Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Board of Trustees of the APERS. The State is considered the employer and the ALC is an agency of the State. APERS provides retirement, disability and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. The Constitution of Arkansas, Article 5, vests with the General Assembly the legislative power. This power includes the enactment and amendment of benefit provisions of APERS as published in Chapters 2, 3 and 4 of Title 24 of the Arkansas Code Annotated. Since all State agencies are considered collectively to be a single employer, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the ALC's employees cannot be determined. Similarly, the net assets available for benefits of ALC employees cannot be determined. APERS issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees' Retirement System, One Union National Plaza, 124 West Capitol, Little Rock, Arkansas, 72201 or by calling 1-501-682-7855

**b. Funding Policy**

Contributory plan members are required to contribute 5% of their annual covered salary. The ALC is required to contribute at an actuarially determined rate. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the ALC are established and may be amended by the Board of Trustees of the APERS. ALC is required to contribute to this

**Arkansas Lottery Commission  
Notes to Financial Statements  
June 30, 2011**

plan for all covered State employees for the year ended June 30, 2011, 2010 and 2009 at the rate of 12.46%, 11% and 0% of annual covered payroll respectively. ALC's contributions to APERS for the year ended June 30, 2011, 2010, and 2009 were \$598,408, \$436,304 and \$0 respectively. The employee contributions for the year ended June 30, 2011, 2010 and 2009 were \$230,580, \$187,750 and \$0 respectively. There were no covered employees in 2009. No pension liability exists for APERS as the State's contribution to each plan was equal to or exceeded its annual required contributions.

**14. CONTRACTUAL ARRANGEMENTS AND OTHER COMMITMENTS**

ALC has contracted with two vendors, INTRALOT Corporation (INTRALOT) and Scientific Games, Inc. (SGI), for its online lottery game services, gaming system, and instant ticket lottery games services.

INTRALOT operates the gaming network that consists of over 1,850 instant and online retailer ticket terminals and associated software. In accordance with its contract, INTRALOT receives the negotiated fee on the selling price of online tickets sold and on instant ticket settlements. During the year ended June 30, 2011, INTRALOT was compensated at the rate of 2.45 percent for all online and instant ticket game sales. ALC has a seven-year contract with INTRALOT which includes an option for renewal of up to three additional times in one-year increments or a portion thereof. The contractor's compensation for online game services for the fiscal year ended June 30, 2011 was \$11,400,391.

SGI prints, warehouses, and distributes the instant game tickets to retailers. In accordance with its contract, SGI receives the negotiated fee on the selling price of all instant ticket settlements. During the year ended June 30, 2011, SGI was compensated \$7,439,657 which represents a rate of 1.92 percent of sales for these services. Additionally SGI is paid a fee of 1.50 percent of the prize fund for the Points for Prizes program; during the year ended June 30, 2011 this fee totaled \$4,204,857. This program provides merchandise prizes awarded to players based upon tickets registered by the players. In addition, SGI provides other products and services for which ALC pays various contracted fees. Total fees paid to SGI for all services for the fiscal year ended June 30, 2011 was \$12,658,623. ALC has a seven-year contract with SGI ending in 2016.

**15. CONTINGENCIES**

There are pending lawsuits to which the ALC is a party, both as a Plaintiff and Defendant, as a result of matters which have arisen in the ordinary course of business. The final outcome of the lawsuits is not presently determinable. ALC management does not anticipate the resolution of these matters to have a material adverse effect on the financial condition of the ALC.

**16. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which became effective with the fiscal year ending June 30, 2008. The Statement establishes standards for the measurement, recognition and display of other Postemployment Benefits (OPEB). Post-retirement medical and prescription drugs benefits are provided to ALC employees through the Arkansas State Employee Health Insurance Plan (AEP) sponsored by the State and administered by Department of Finance and Administration Employee Benefits Division. The ALC is an agency of the State. The OPEB actuarial accrued liability is reported at the State level. The ALC's portion of the net OPEB liability at June 30, 2011, 2010 and 2009 totaled \$457,990, \$230,022 and \$0, respectively. There were no covered employees in 2009. Net OPEB liability is based on the ALC's number of employees participating in insurance coverage as a pro rata share of the total budgeted positions for the State.

**Arkansas Lottery Commission  
Notes to Financial Statements  
June 30, 2011**

**17. RISK MANAGEMENT**

The ALC is exposed to various types of risk related to its operations. These risks can result in losses incurred from property damage or destruction, inability to operate gaming activities and worker compensation claims. The ALC manages these risks by participating in the various self-insurance programs established by the State for property and casualty losses and employee health insurance. Coverages include property, general liability, automobile liability, workers' compensation, state unemployment, court-awarded attorney fees, and Federal civil rights actions. Property is self-insured for actual cash value to an aggregate of \$1.7 million per loss event for all perils. Losses from earthquake and flood are also subject to an annual aggregate loss for the State of \$1 million. Workers' compensation is provided in compliance with the applicable law. The employee health and dental insurance program provides for payment of medical claims of employees and covered dependents. Claims and settlements incurred for fiscal years 2011, 2010 and 2009 have not exceeded the ALC's insurance coverage.



# STATISTICAL SECTION



“

**I PLAN TO GIVE  
SOME OF THE  
MONEY TO A FEW  
CHURCHES — AND  
PUT THE REST  
IN THE BANK!”**

- Randy Worlow  
Henderson



“

**Having an Arkansas Challenge Scholarship has been A HUGE BLESSING.**

Without it, coming to an expensive school would have been out of the question. It almost cut my student loans in half.”

Landon Downing | Junior  
Lyon College  
Sidney

## **STATISTICAL SECTION**

(Unaudited)

The Arkansas Lottery Commission comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosures information says about the Commission's overall financial health.

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b>	28
<p>These schedules contain trend information to help the reader understand how the Commission's financial performance and well-being have changed over time.</p>	
<b>Demographics and Operation Information</b>	32
<p>These schedules offer demographic and operation indicators to help the reader understand the environment within which the Commission's financial activities take place.</p>	
<b>National Lottery Statistics</b>	36
<p>This schedule provides the reader with an understanding of lottery sales across the United States by State.</p>	

**Arkansas Lottery Commission  
Principal Revenue Sources (Unaudited)  
Last Three Fiscal Years**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Operating revenues:</b>			
Instant ticket sales:			
Instant Game Sales	\$ 387,478,608	\$ 335,487,156	\$ -
Fast Play	2,636,383	-	-
Online ticket sales:			-
Cash 3	5,805,414	5,277,255	-
Cash 4	3,091,218	-	-
Arkansas Million Dollar Raffle	5,000,000	-	-
Powerball	34,961,543	34,998,429	-
Mega Millions	24,113,365	7,935,615	-
Decades of Dollars	932,820	-	-
Retailer application, fidelity and service fees	1,055,538	867,023	-
Other revenue	5,450	5,650	-
	<u>465,080,339</u>	<u>384,571,128</u>	<u>-</u>
Total operating revenues			
	<u>465,080,339</u>	<u>384,571,128</u>	<u>-</u>
<b>Nonoperating revenue:</b>			
Interest income	464,252	181,807	-
	<u>464,252</u>	<u>181,807</u>	<u>-</u>
<b>Total revenues</b>	<u>\$ 465,544,591</u>	<u>\$ 384,752,935</u>	<u>\$ -</u>

Commission was established in fiscal year 2009.

Source: Annual Financial Report and general ledger for the respective years.

**Arkansas Lottery Commission**  
**Revenue, Expenses and Change In Net Assets (Unaudited)**  
**Last Three Fiscal Years**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Operating revenues:</b>			
Instant ticket sales	\$ 390,114,991	\$ 335,487,156	\$ -
Online ticket sales:			
Cash 3	5,805,414	5,277,255	-
Cash 4	3,091,218	-	-
Arkansas Million Dollar Raffle	5,000,000	-	-
Powerball	34,961,543	34,998,429	-
Mega Millions	24,113,365	7,935,615	-
Decades of Dollars	932,820	-	-
Retailer application, fidelity and service fees	1,055,538	867,023	-
Other revenue	5,450	5,650	-
	<u>465,080,339</u>	<u>384,571,128</u>	<u>-</u>
Total operating revenues			
	<u>465,080,339</u>	<u>384,571,128</u>	<u>-</u>
<b>Operating expenses:</b>			
Instant game prizes	271,709,950	224,341,940	-
Online game prizes	35,744,755	23,381,100	-
Retailer commissions	26,217,851	21,578,603	-
Gaming contract costs	24,111,720	20,448,694	-
Compensation and benefits	6,226,266	6,118,300	-
Marketing, advertising and promotions	4,631,388	4,352,303	-
General and administrative expenses	1,434,229	1,841,340	11,683
Services provided by other agencies:			
Arkansas Department of Higher Education	1,170,710	216,849	-
Arkansas Division of Legislative Audit	280,728	153,180	-
Legal and professional services	8,484	24,182	4,786
Depreciation	179,750	122,643	-
	<u>371,715,831</u>	<u>302,579,134</u>	<u>16,469</u>
Total operating expenses			
	<u>371,715,831</u>	<u>302,579,134</u>	<u>16,469</u>
Operating income	93,364,508	81,991,994	(16,469)
<b>Nonoperating revenue:</b>			
Interest income	464,252	181,807	-
	<u>464,252</u>	<u>181,807</u>	<u>-</u>
Income before transfers	93,828,760	82,173,801	(16,469)
Transfers to:			
Arkansas Department of Higher Education	(74,229,349)	(82,799,809)	-
Arkansas Department of Human Services	(200,000)	(200,000)	-
	<u>(74,429,349)</u>	<u>(82,999,809)</u>	<u>-</u>
<b>Change in net assets</b>	<u>\$ 19,399,411</u>	<u>\$ (826,008)</u>	<u>\$ (16,469)</u>

Commission was established in fiscal year 2009.  
Source: Annual Financial Report for the respective years

**Arkansas Lottery Commission  
Net Assets by Component (Unaudited)  
Last Three Fiscal Years**

<b>ASSETS</b>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Net assets:</b>			
Invested in capital assets	\$ 722,689	\$ 867,607	\$ -
Restricted for:			
Scholarship shortfall fund	20,000,000	-	-
Retailer fidelity fund	42,205	18,831	-
Deposits with MUSL	1,138,133	457,268	-
Future prizes or special prize promotions	1,000,000	-	-
Unrestricted	<u>(4,346,093)</u>	<u>(2,186,183)</u>	<u>(16,469)</u>
<b>Total net assets</b>	<u>\$ 18,556,934</u>	<u>\$ (842,477)</u>	<u>\$ (16,469)</u>

Commission was established in fiscal year 2009.

Source: Annual Financial Report for the respective years

**Arkansas Lottery Commission**  
**Changes in Cash and Cash Equivalents (Unaudited)**  
**Last Three Fiscal Years**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>			
Cash received from retailers and others	\$ 468,220,833	\$ 370,120,513	\$ -
Cash paid for prizes	(306,303,849)	(231,877,356)	-
Cash paid for gaming vendors	(24,016,144)	(22,766,421)	-
Cash paid for retailer commissions	(26,217,851)	(20,594,364)	-
Cash paid for marketing	(4,009,445)	(3,515,419)	-
Cash paid for employee services	(6,157,322)	(5,114,532)	-
Cash paid for other expenses	(1,897,589)	(1,914,665)	(11,657)
Net cash provided by operating activities	<u>99,618,633</u>	<u>84,337,756</u>	<u>(11,657)</u>
<b>Cash flows from noncapital financing activities:</b>			
Repayment of interagency advances	-	(6,000,000)	-
Payments to ADHE	(115,000,000)	-	-
Payments from ADHE	20,000,000	-	6,000,000
Payments to ADHS	(200,000)	-	-
Net cash used by Noncapital Financing Activities	<u>(95,200,000)</u>	<u>(6,000,000)</u>	<u>6,000,000</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchases of Capital Assets	<u>(34,832)</u>	<u>(990,250)</u>	<u>-</u>
<b>Cash flows from investing activities:</b>			
Interest received	<u>464,252</u>	<u>181,807</u>	<u>-</u>
Net increase in cash and cash equivalents	4,848,053	77,529,313	5,988,343
<b>Cash and cash equivalents, beginning of year</b>	83,517,656	5,988,343	-
<b>Cash and cash equivalents, end of year</b>	<u>\$ 88,365,709</u>	<u>\$ 83,517,656</u>	<u>\$ 5,988,343</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income (loss)	\$ 93,364,508	\$ 81,991,994	\$ (16,468)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	179,750	122,643	-
Net changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	3,059,565	(14,289,726)	-
Prepaid assets	(72,138)	(5,119)	-
MUSL Reserves	(680,865)	(457,268)	-
Increase (decrease) in:			
Accounts payable	521,541	746,237	-
Prizes payable	1,831,721	14,150,175	-
Accrued and other liabilities	338,875	924,716	-
Due to other funds	958,107	396,869	4,811
Compensated absences	(191,329)	482,927	-
Deferred revenue	80,930	274,307	-
Net post employment benefits	227,968	-	-
Net cash provided by operating activities	<u>\$ 99,618,633</u>	<u>\$ 84,337,756</u>	<u>\$ (11,657)</u>

Commission was established in fiscal year 2009.

Source: Annual Financial Report for the respective years

**Arkansas Lottery Commission**  
**Total Personal and Per Capita Income and Unemployment Rate (Unaudited)**  
**Last Three Years**

<u>Calendar year</u>	<u>Total population (in thousands)</u>	<u>Total personal income (in millions)</u>	<u>Per capita personal income</u>	<u>Unemployment Rate</u>
2011*	2,946	100,573	34,141	7.8%
2010	2,924	96,663	33,057	7.9%
2009	2,892	92,307	31,917	7.3%

\* Estimated Amounts

Commission was established in fiscal year 2009.

Source: Arkansas Department of Finance and Administration Economic Analysis and Tax Research

**Arkansas Lottery Commission  
State of Arkansas Principal Employers (Unaudited)  
Current Year as Compared to 2009**

<b>2011</b>	<b>Employer</b>	<b>Total Employees</b>	<b>% of Total Arkansas Employment</b>
1	Arkansas State Government	56,751	4.8%
2	Wal-Mart Stores, Inc.	47,796	4.1%
3	Tyson Foods, Inc.	24,000	2.0%
4	U.S. Federal Government	20,900	1.8%
5	Baptist Health	7,813	0.7%
6	Sisters of Mercy Health System	6,300	0.5%
7	J.B. Hunt Transport Services	4,300	0.4%
8	Arkansas Children's Hospital	4,261	0.4%
9	Simmons Foods	3,935	0.3%
10	FedEx	3,750	0.3%
		179,806	15.3%

<b>2009</b>	<b>Employer</b>	<b>Total Employees</b>	<b>% of Total Arkansas Employment</b>
1	Arkansas State Government	55,871	4.8%
2	Wal-Mart Stores, Inc.	48,470	4.1%
3	Tyson Foods, Inc.	24,005	2.1%
4	U.S. Federal Government	20,939	1.8%
5	Baptist Health	7,400	0.6%
6	J.B. Hunt Transportation Services, Inc.	6,250	0.5%
7	Sisters of Mercy Health System	5,493	0.5%
8	Arkansas Children's Hospital	4,337	0.4%
9	Community Health Systems, Inc.	3,750	0.3%
10	Dillard's Inc.	3,750	0.3%
		180,265	15.4%

Commission was established in fiscal year 2009.

Source: Arkansas Business Publishing Group and Arkansas Dept. of Economic Development

**Arkansas Lottery Commission**  
**Employees by Department and by Function (Unaudited)**  
**Last Three Fiscal Years**

<b>Function</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Executive	2	2	2
Administration:			
Admin-VP	1	1	-
Finance	5	4	-
Human Resources	1	7	-
IT-Admin	3	4	-
Procurement	4	2	-
Treasury	13	13	-
Minority Business	4	1	-
Gaming:			
Gaming-VP	1	1	-
Marketing	7	7	-
Gaming-IT	7	6	-
Security	7	8	-
Legal	2	2	-
Sales	23	22	-
Product Development	1	1	-
Sales & Training	1	1	-
Internal Audit	2	2	-
<b>Total Employees</b>	<b>84</b>	<b>84</b>	<b>2</b>

**Gender:**

Female	41	41	1
Male	43	43	1

**Race:**

Black/ Non-Hispanic	23	24	
Caucasian	57	57	2
Hispanic	2	1	
Other	2	2	

**Age:**

	<b>Age:</b>		
Under 40	35	36	
40+	49	48	2

Commission was established in fiscal year 2009.  
Source: Payroll Department

**Arkansas Lottery Commission  
Capital Assets by Department (Unaudited)  
Last Three Fiscal Years**

<b>Function</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Executive	-	-	-
Administration:			
Furniture and Fixtures	9	8	-
Computer Equipment	1	1	-
Vehicles	2	1	-
Buildings/Building Improvements	8	8	-
Gaming:			
Furniture and Fixtures	6	5	-
Computer Equipment	7	5	-
Vehicles	2	2	-
Internal Audit	-	-	-
<b>Total Number of Assets</b>	<b>35</b>	<b>30</b>	<b>-</b>

Commission was established in fiscal year 2009.  
Source: Finance Division

**Arkansas Lottery Commission**  
**U.S. Lotteries' Sales (Unaudited)**  
**Fiscal Year 2011**

<b>Lottery Jurisdiction</b>	<b>Population (millions)</b>	<b>Sales (millions)</b>	<b>Sales Per Capita</b>	<b>Instant Sales (millions)</b>	<b>Instant Sales Per Capita</b>
Arizona	6.7	\$ 583.5	\$ 87.1	\$ 373.5	\$ 55.75
<b>Arkansas</b>	<b>2.9</b>	<b>464.0</b>	<b>160.0</b>	<b>390.1</b>	<b>134.5</b>
California	37.3	3,438.6	92.2	2,002.1	53.7
Colorado	5.1	518.9	101.7	344.9	67.6
Connecticut	3.5	1,016.6	290.5	610.6	174.5
Delaware	0.9	124.0	137.8	56.5	62.8
D.C.	0.6	231.3	385.5	40.9	68.2
Florida	18.7	4,008.7	214.4	2,225.7	119.0
Georgia	9.9	3,597.9	363.4	2,423.8	244.8
Idaho	1.6	147.2	92.0	90.6	56.6
Illinois	12.9	2,278.8	176.7	1,279.6	99.2
Indiana	6.4	791.4	123.7	508.5	79.5
Iowa	3	271.4	90.5	165.3	55.1
Kansas	2.8	243.8	87.1	128.6	45.9
Kentucky	4.3	772.3	179.6	477.6	111.1
Louisiana	4.5	383.6	85.2	148.1	32.9
Maine	1.3	216.4	166.5	156.9	120.7
Maryland	5.7	1,714.4	300.8	493.5	86.6
Massachusetts	6.6	4,403.4	667.2	2,998.4	454.3
Michigan (1)	9.9	2,364.1	238.8	754.4	76.2
Minnesota	5.3	504.4	95.2	354.8	66.9
Missouri	6	1,001.3	166.9	666.8	111.1
Montana	1	46.0	46.0	15.0	15.0
Nebraska	1.8	131.9	73.3	71.9	39.9
New Hampshire	1.3	228.4	175.7	160.8	123.7
New Jersey	8.7	2,636.4	303.0	1,364.6	156.9
New Mexico	2	135.5	67.8	75.8	37.9
New York (1)	19.6	6,758.7	344.8	3,546.4	180.9
North Carolina	9.5	1,461.1	153.8	862.1	90.7
North Dakota	0.7	23.0	32.9	-	-
Ohio	11.5	2,596.1	225.7	1,460.3	127.0
Oklahoma	3.7	198.2	53.6	103.0	27.8
Oregon	3.9	317.5	81.4	115.9	29.7
Pennsylvania	12.6	3,207.9	254.6	1,922.1	152.5
Rhode Island	1.1	230.7	209.7	77.2	70.2
South Carolina	4.6	1,047.1	227.6	698.3	151.8
South Dakota	0.8	46.6	58.3	22.1	27.6
Tennessee	6.3	1,186.6	188.3	948.7	150.6
Texas (1)	25.2	3,783.2	150.1	2,826.6	112.2
Vermont	0.6	95.6	159.3	71.3	118.8
Virginia	8	1,482.7	185.3	756.8	94.6
Washington	6.7	510.5	76.2	309.0	46.1
West Virginia	1.8	193.6	107.6	115.7	64.3
Wisconsin	5.7	502.5	88.2	298.9	52.4
<b>Total</b>	<b>293.0</b>	<b>\$55,895.8</b>	<b>\$190.8</b>	<b>\$32,513.7</b>	<b>\$111.0</b>

(1) Fiscal year ends 6/30 except New York (3/31), Texas (8/31) and Michigan (9/30)

Source: La Fleur's Magazine - September/October 2011

**Arkansas Lottery Commission**  
**U.S. Lotteries' Sales (Unaudited)**  
**Fiscal Year 2010**

<b>Lottery Jurisdiction</b>	<b>Population (millions)</b>	<b>Sales (millions)</b>	<b>Sales Per Capita</b>	<b>Instant Sales (millions)</b>	<b>Instant Sales Per Capita</b>
Arizona	6.6	\$ 551.5	\$ 83.6	\$ 336.9	\$ 51.0
<b>Arkansas (9/28/09- 6/30/10)</b>	<b>2.9</b>	<b>383.7</b>	<b>132.3</b>	<b>335.5</b>	<b>115.7</b>
California	37.0	3,041.0	82.2	1,661.3	44.9
Colorado	5.0	501.2	100.2	328.1	65.6
Connecticut	3.5	996.8	284.8	593.4	169.5
Delaware	0.9	123.2	136.9	36.1	40.1
D.C.	0.6	233.9	389.8	47.4	79.0
Florida	18.5	3,900.5	210.8	2,078.1	112.3
Georgia	9.8	3,645.4	372.0	2,413.5	246.3
Idaho	1.5	146.9	97.9	90.6	60.4
Illinois	12.9	2,209.3	171.3	1,190.1	92.3
Indiana	6.4	740.3	115.7	464.8	72.6
Iowa	3.0	256.3	85.4	143.8	47.9
Kansas	2.8	246.7	88.1	125.1	44.7
Kentucky	4.3	772.5	179.7	458.8	106.7
Louisiana	4.5	372.4	82.8	136.0	30.2
Maine	1.3	217.0	166.9	152.1	117.0
Maryland	5.7	1,706.6	299.4	490.9	86.1
Massachusetts	6.6	4,412.1	668.5	3,015.7	456.9
Michigan (1)	10.0	2,359.2	235.9	750.9	75.1
Minnesota	5.3	499.0	94.1	338.1	63.8
Missouri	6.0	971.6	161.9	637.6	106.3
Montana	1.0	47.0	47.0	14.3	14.3
Nebraska	1.8	130.6	72.5	66.9	37.2
New Hampshire	1.3	233.2	179.4	160.3	123.3
New Jersey	8.7	2,605.2	299.4	1,301.5	149.6
New Mexico	2.0	143.6	71.8	78.4	39.2
New York (1)	19.5	6,781.1	347.7	3,611.1	185.2
North Carolina	9.4	1,421.3	151.2	855.6	91.0
North Dakota	0.6	24.3	40.5	-	-
Ohio	11.5	2,487.1	216.3	1,375.8	119.6
Oklahoma	3.7	199.7	54.0	89.0	24.1
Oregon	3.8	320.7	84.4	113.3	29.8
Pennsylvania	12.6	3,065.7	243.3	1,748.7	138.8
Rhode Island	1.1	234.8	213.5	78.0	70.9
South Carolina	4.6	1,007.5	219.0	646.5	140.5
South Dakota	0.8	45.7	57.1	20.4	25.5
Tennessee	6.3	1,138.4	180.7	890.3	141.3
Texas (1)	24.8	3,738.4	150.7	2,761.0	111.3
Vermont	0.6	97.5	162.5	71.4	119.0
Virginia	7.9	1,435.1	181.7	711.2	90.0
Washington	6.7	491.0	73.3	289.3	43.2
West Virginia	1.8	181.2	100.7	97.5	54.2
Wisconsin	5.7	480.8	84.4	269.3	47.2
<b>Total</b>	<b>291.3</b>	<b>\$54,596.9</b>	<b>\$187.4</b>	<b>\$31,074.6</b>	<b>\$106.7</b>

(1) Fiscal year ends 6/30 except New York (3/31), Texas (8/31) and Michigan (9/30)

Source: La Fleur's Magazine - September/October 2011

**Arkansas Lottery Commission  
Demographic Summary (Unaudited)  
Fiscal Year Ended June 30, 2011**

	<u>Census1</u>	<u>All Respondents</u>	<u>Lottery Players</u>				<u>Non-Players</u>		
			<u>Players Total</u>	<u>Core</u>	<u>Light</u>	<u>Lapsed</u>	<u>Non-Player Total</u>	<u>Trier/Rejecter</u>	<u>Non-Player</u>
Number of respondents =	2.8 Million	1,198	856	296	460	100	342	54	288
Male	48%	48%	49%	50%	49%	45%	48%	50%	47%
Female	52%	52%	51%	50%	51%	55%	52%	50%	53%
18-24	13%	13%	11%	8%	13%	7%	14%	6%	15%
25-34	18%	18%	24%	20%	26%	14%	14%	16%	14%
35-44	17%	17%	23%	28%	21%	16%	14%	19%	14%
45-54	18%	18%	19%	19%	19%	25%	18%	23%	18%
55-64	15%	15%	14%	16%	12%	20%	16%	22%	15%
65 or older	19%	19%	10%	10%	9%	18%	24%	16%	25%
Some high school		6%	7%	6%	7%	5%	6%	4%	6%
Completed high school		24%	23%	28%	22%	18%	25%	32%	24%
Technical or vocational school above high school level		11%	10%	8%	11%	7%	12%	15%	12%
Some college or university		29%	33%	35%	33%	29%	26%	20%	27%
College or university degree or diploma (Bachelor's Degree)		19%	19%	17%	20%	21%	19%	17%	20%
Post-graduate degree (Masters, Doctorate, or equivalent)		10%	8%	6%	9%	20%	12%	11%	12%
Hispanic, Latino or Spanish origin	95%	95%	94%	97%	93%	92%	95%	90%	95%
Not of Hispanic, Latino or Spanish origin	5%	5%	6%	3%	7%	8%	5%	10%	5%
Caucasian	78%	80%	75%	73%	76%	81%	83%	80%	83%
African American	16%	15%	22%	25%	21%	16%	12%	14%	11%
Native American or Alaska Native	1%	2%	2%	0%	3%	1%	2%	0%	2%
Asian	1%	1%	0%	1%	0%	1%	2%	3%	1%
Other (includes Multi – racial, hence may sum to greater than 100%)	4%	3%	3%	1%	3%	3%	3%	3%	3%
Less than \$25,000		29%	26%	19%	29%	28%	31%	41%	30%
\$25,000 to just under \$50,000		34%	37%	45%	34%	29%	32%	20%	33%
\$50,000 to just under \$75,000		19%	22%	21%	22%	23%	18%	24%	17%
\$75,000 to just under \$100,000		10%	11%	11%	10%	16%	10%	7%	10%
\$100,000 or more		7%	4%	4%	4%	4%	9%	8%	9%

Source: ALC Demographic Research Study January 2011, Crestwood Associates -  
U.S. Census Bureau, 2005-2009 American Community Survey

# SUPPLEMENTARY INFORMATION



“

**WE'RE THE NUMBER  
ONE LOTTERY  
RETAILER IN  
THE STATE.”**

- Paul & Lein Le  
G&B Liquor  
Stuttgart



“

I'm originally from Wisconsin and moved here from south Florida in 2003. While working at UALR in 2004, I started taking courses part-time and found out in January that I was eligible to receive the scholarship. I'm double majoring in criminal justice and sociology, and the Challenge scholarship is helping me to complete my degree debt-free by covering the cost of my books and fees. I'm proud to be an example for all other traditional students regardless of age, like my 4 year-old granddaughter. I hope to use my 40 years of experience in accounts receivable along with my education to

**ONE DAY RUN A CHILD SUPPORT AGENCY OR SECURITY for a school district.”**

Mary Babieneau | Senior  
University of Arkansas at Little Rock  
Little Rock, AR

**Arkansas Lottery Commission  
Unclaimed Lottery Prize Money (Unaudited)  
Fiscal Year Ended June 30, 2011**

Month	<u>Unclaimed lottery prize money</u>	<u>Expenditures from unclaimed lottery prize money</u>	<u>Reserved for future prizes and promotions</u>	<u>Deposits to net lottery proceeds from unclaimed lottery prize money</u>
July	\$ 110,325	\$ -	\$ -	\$ 110,325
August	314,723	-	-	314,723
September	143,960	-	-	143,960
October	142,540	-	-	142,540
November	1,079,758	-	-	1,079,758
December	289,784	-	-	289,784
January	627,484	-	-	627,484
February	354,807	-	-	354,807
March	99,579	-	-	99,579
April	275,790	-	-	275,790
May	410,138	-	-	410,138
June	999,444	-	1,000,000	(556)
<b>Total</b>	<u>\$ 4,848,332</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 3,848,332</u>

Source - ALC general ledger

**Arkansas Lottery Commission  
Scholarship Shortfall Reserve Trust Account (Unaudited)  
Fiscal Year Ended June 30, 2011**

	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>
Beginning Balance	\$ -	\$ -	\$ 20,008,740	\$ 20,009,041	\$ 20,009,342	\$ 20,009,041
Shortfall Deposits	-	20,000,000	-	-	-	-
Interest Earned	-	8,740	9,041	9,342	9,041	9,343
Transfers	-	-	8,740	9,041	9,342	9,041
Ending Balance	<u>\$ -</u>	<u>\$ 20,008,740</u>	<u>\$ 20,009,041</u>	<u>\$ 20,009,342</u>	<u>\$ 20,009,041</u>	<u>\$ 20,009,343</u>

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
Beginning Balance	\$ 20,009,343	\$ 20,009,343	\$ 20,008,438	\$ 20,009,342	\$ 20,009,041	\$ 20,009,345
Shortfall Deposits	-	-	-	-	-	-
Interest Earned	9,343	8,438	9,342	9,041	9,345	9,041
Transfers	9,343	9,343	8,438	9,342	9,041	9,345
Ending Balance	<u>\$ 20,009,343</u>	<u>\$ 20,008,438</u>	<u>\$ 20,009,342</u>	<u>\$ 20,009,041</u>	<u>\$ 20,009,345</u>	<u>\$ 20,009,041</u>

Source - ALC general ledger and corresponding bank statements

**Arkansas Lottery Commission  
 Minority-owned and Female-owned Business Participation (Unaudited)  
 Fiscal Year Ended June 30, 2011**

**Arkansas Lottery Commission Minority- and Female-Owned Diversity Compliance Report**

<u>VENDORS</u>	<u>Amount Paid</u>	<u>Goods or Services</u>	<u>Classification</u>
TRIVIA MARKETING	\$ 1,901	Advertising/Public Relations	Female-Owned
GODDESS PRODUCTS	84,027	Office Furniture/Supplies	Minority-Owned
LAF PRODUCTIONS, INC	4,622	Advertising/Public Relations	Minority-Owned
SHI INTERNATIONAL, CORP	8,868	Computer Software	Female-Owned
HOLA! ARKANSAS	1,000	Advertising/Public Relations	Minority-Owned
MR. B'S 2 MOBILE HAND WASH & WAX	705	Car Detail and Inspection	Minority-Owned
STAND NEWS	3,600	Advertising/Public Relations	Minority-Owned
INCLUSION MAGAZINE	3,750	Advertising/Public Relations	Minority-Owned
AFRICAN AMERICAN PERSPECTIVES	3,750	Advertising/Public Relations	Minority-Owned
RB PROFESSIONAL CLEANING SERVICE	5,499	Janitorial Svcs	Female-Owned
BEST BANNER AND SIGN	27	Promotional Items	Female-Owned
DR. B'S WINDSHIELD REPAIR COMPANY	70	Vehicle Maintenance	Minority-Owned
THE AMERICAN BANNER PUBLISHING, LLC	2,466	Advertising/Public Relations	Minority-Owned
HOG WASH DETAIL DENT & TINT	269	Auto Detail & Cosmetic Repair	Minority-Owned
RU-MEL & ASSOCIATES, INC	950	Advertising/Public Relations	Minority-Owned
<b>Total</b>	<b>\$ 121,504</b>		

**Intralot Minority- and Female-Owned Diversity Compliance Report**

<u>VENDORS</u>	<u>Amount Paid</u>	<u>Goods or Services</u>	<u>Classification</u>
GODDESS PRODUCTS	\$ 500	Office Furniture/Supplies	Minority-Owned
FINDERS KEEPERS	58,822	Technical Support	Female-Owned
J KELLY REFERRALS AND INFORMATION SVCS, INC	206,986	Call Center/Information Svcs	Minority-Owned
<b>Total</b>	<b>\$ 266,308</b>		

**Scientific Games Minority- and Female-Owned Diversity Compliance Report**

<u>VENDORS</u>	<u>Amount Paid</u>	<u>Goods or Services</u>	<u>Classification</u>
MR. KLEAN CARPET AND JANITORIAL SVCX	\$ 3,758	Janitorial Svcs	Minority-Owned
CHOICE PROMOTIONS	61,783	Promotional Items	Female-Owned
ENDLESS POWER	5,150	Power Supply Svc	Minority-Owned
INDOFF INCORPORATED	2,504	Office Supplies	Minority-Owned
PREMIER STAFFING	16,647	Staffing Svcs	Female-Owned
STATE IMAGING SUPPLY	651	Office Supplies	Female-Owned
LAURA'S DRAPERIES AND BLINDS	90	Blinds for Office	Female-Owned
EXPEDITED TRANSPORTATION SERVICE	25,411	Transportation Svcs	Female-Owned
<b>Total</b>	<b>\$ 115,995</b>		

Source - ALC accounts payable records; Scientific Games and Intralot records

**Arkansas Lottery Commission**  
**Retail Sales By County (Unaudited)**  
**Fiscal Year Ended June 30, 2011**

COUNTY	DECADES OF								TOTAL SALES FOR COUNTY
	CASH 3*	CASH 4*	DOLLARS	FAST PLAY*	INSTANT *	MEGA MILLIONS*	POWERBALL*	RAFFLE*	
ARKANSAS	\$46,105	\$51,451	\$12,600	\$41,722	\$5,852,194	\$240,794	\$322,583	\$48,260	\$6,615,709
ASHLEY	\$120,849	\$96,946	\$4,074	\$18,205	\$1,253,258	\$93,082	\$161,228	\$11,920	\$1,759,562
BAXTER	\$55,732	\$33,934	\$11,838	\$32,885	\$3,642,778	\$257,625	\$459,467	\$38,740	\$4,532,999
BENTON	\$52,178	\$24,707	\$31,608	\$61,621	\$8,885,403	\$836,007	\$1,335,454	\$219,540	\$11,446,517
BOONE	\$26,140	\$20,196	\$6,632	\$33,931	\$3,819,878	\$166,303	\$289,604	\$29,180	\$4,391,864
BRADLEY	\$10,005	\$7,292	\$2,118	\$9,164	\$973,023	\$56,669	\$88,465	\$9,780	\$1,156,516
CALHOUN	\$7,400	\$3,262	\$890	\$7,500	\$644,806	\$30,654	\$46,263	\$6,680	\$747,454
CARROLL	\$7,233	\$9,371	\$4,866	\$21,625	\$2,804,929	\$109,922	\$210,775	\$21,260	\$3,189,981
CHICOT	\$63,937	\$33,054	\$8,074	\$7,829	\$1,719,905	\$257,732	\$423,516	\$18,560	\$2,532,607
CLARK	\$47,409	\$14,760	\$6,934	\$45,136	\$5,257,229	\$212,423	\$293,799	\$45,900	\$5,923,590
CLAY	\$3,493	\$1,065	\$1,494	\$6,895	\$1,051,420	\$36,453	\$54,376	\$8,350	\$1,163,545
CLEBURNE	\$18,351	\$5,482	\$10,396	\$34,225	\$3,644,904	\$312,931	\$436,408	\$79,290	\$4,541,986
CLEVELAND	\$9,879	\$6,007	\$2,468	\$6,036	\$1,155,369	\$58,885	\$94,366	\$12,860	\$1,345,869
COLUMBIA	\$104,847	\$56,679	\$5,434	\$19,477	\$2,100,398	\$88,338	\$158,139	\$12,600	\$2,545,912
CONWAY	\$73,672	\$36,960	\$10,778	\$45,469	\$4,850,354	\$300,485	\$414,782	\$61,490	\$5,793,989
CRAIGHEAD	\$79,274	\$45,725	\$21,544	\$59,079	\$13,636,439	\$627,781	\$924,282	\$120,340	\$15,514,464
CRAWFORD	\$37,449	\$13,705	\$16,676	\$34,132	\$4,384,512	\$449,312	\$766,992	\$106,060	\$5,808,838
CRITTENDEN	\$135,611	\$78,683	\$9,884	\$30,966	\$6,207,061	\$429,750	\$755,680	\$31,180	\$7,678,814
CROSS	\$27,189	\$21,969	\$4,648	\$18,995	\$2,612,814	\$124,336	\$185,893	\$15,670	\$3,011,514
DALLAS	\$26,271	\$16,262	\$5,286	\$38,277	\$2,312,108	\$110,761	\$157,996	\$20,500	\$2,687,460
DESHA	\$14,366	\$6,107	\$4,228	\$10,900	\$2,222,529	\$126,472	\$176,219	\$23,640	\$2,584,460
DREW	\$16,428	\$8,814	\$5,234	\$12,616	\$2,092,401	\$132,226	\$203,789	\$26,810	\$2,498,318
FAULKNER	\$99,988	\$58,503	\$36,294	\$81,964	\$13,503,438	\$1,029,655	\$1,390,815	\$235,250	\$16,435,906
FRANKLIN	\$8,454	\$5,323	\$5,206	\$35,538	\$2,518,489	\$134,987	\$225,039	\$42,440	\$2,975,476
FULTON	\$2,400	\$798	\$1,408	\$3,119	\$648,799	\$32,448	\$54,152	\$5,870	\$748,994
GARLAND	\$80,445	\$47,986	\$44,506	\$65,171	\$10,154,303	\$1,152,362	\$1,632,520	\$192,270	\$13,369,563
GRANT	\$7,609	\$4,749	\$7,434	\$13,943	\$1,908,924	\$149,328	\$204,953	\$26,120	\$2,323,060
GREENE	\$53,768	\$15,241	\$8,556	\$25,246	\$6,004,349	\$226,028	\$350,793	\$73,480	\$6,757,461
HEMPSTEAD	\$243,791	\$86,715	\$4,014	\$22,917	\$4,457,562	\$139,095	\$194,377	\$22,970	\$5,171,441
HOT SPRING	\$29,127	\$18,509	\$12,274	\$34,540	\$3,892,643	\$259,424	\$349,288	\$46,190	\$4,641,994
HOWARD	\$121,516	\$43,462	\$3,516	\$10,618	\$1,849,705	\$71,905	\$88,575	\$16,740	\$2,206,037
INDEPENDENCE	\$43,051	\$21,247	\$17,254	\$50,811	\$7,193,840	\$335,740	\$472,750	\$97,140	\$8,231,833
IZARD	\$3,406	\$1,852	\$1,738	\$4,803	\$898,354	\$56,741	\$92,254	\$18,500	\$1,077,648
JACKSON	\$138,723	\$60,762	\$11,260	\$28,869	\$3,882,967	\$172,967	\$246,845	\$32,990	\$4,575,383
JEFFERSON	\$463,664	\$284,735	\$41,204	\$110,514	\$18,208,450	\$881,856	\$1,232,971	\$156,550	\$21,379,944
JOHNSON	\$8,878	\$2,746	\$7,270	\$17,746	\$2,960,740	\$167,130	\$278,484	\$48,290	\$3,491,283
LAFAYETTE	\$30,891	\$12,203	\$1,036	\$11,482	\$900,171	\$24,257	\$42,621	\$4,990	\$1,027,651
LAWRENCE	\$23,332	\$7,495	\$3,102	\$19,486	\$3,287,854	\$99,041	\$136,444	\$22,570	\$3,599,324
LEE	\$29,144	\$19,514	\$2,538	\$10,414	\$1,425,756	\$36,034	\$54,048	\$3,400	\$1,580,848
LINCOLN	\$6,681	\$2,536	\$1,666	\$5,254	\$1,554,565	\$68,324	\$94,378	\$13,720	\$1,747,124
LITTLE RIVER	\$27,377	\$14,965	\$2,402	\$20,006	\$855,223	\$47,274	\$50,755	\$5,350	\$1,023,352
LOGAN	\$14,107	\$5,461	\$7,674	\$39,707	\$3,025,974	\$153,045	\$274,494	\$83,970	\$3,604,432
LONOKE	\$68,479	\$36,969	\$30,900	\$72,484	\$13,000,205	\$792,216	\$1,098,351	\$184,060	\$15,283,664
MADISON	\$1,526	\$1,677	\$2,092	\$14,664	\$1,082,967	\$57,430	\$101,325	\$16,020	\$1,277,701
MARION	\$18,742	\$4,987	\$4,444	\$24,115	\$2,036,563	\$100,015	\$165,566	\$18,100	\$2,372,532
MILLER	\$247,097	\$76,052	\$8,004	\$27,708	\$3,874,467	\$193,306	\$215,344	\$41,680	\$4,683,658
MISSISSIPPI	\$391,627	\$165,424	\$7,168	\$64,247	\$6,864,228	\$199,047	\$316,580	\$32,830	\$8,041,151
MONROE	\$42,858	\$27,311	\$4,352	\$11,102	\$1,693,990	\$128,627	\$173,831	\$17,720	\$2,099,791
MONTGOMERY	\$438	\$136	\$1,120	\$2,049	\$248,615	\$38,123	\$57,192	\$9,750	\$357,423
NEVADA	\$31,154	\$11,238	\$4,522	\$20,114	\$3,259,337	\$85,940	\$101,423	\$10,660	\$3,524,388
NEWTON	\$2,542	\$703	\$698	\$3,325	\$646,176	\$25,032	\$42,509	\$2,330	\$723,314

(continued)

**Arkansas Lottery Commission**  
**Retail Sales By County (Unaudited)**  
**Fiscal Year Ended June 30, 2011**

<u>COUNTY</u>	<u>CASH 3*</u>	<u>CASH 4*</u>	<u>DECADES</u>			<u>MEGA</u>	<u>POWERBALL*</u>	<u>RAFFLE*</u>	<u>TOTAL SALES</u>
			<u>DOLLARS</u>	<u>FAST PLAY*</u>	<u>INSTANT *</u>				
OUACHITA	\$119,045	\$64,788	\$10,968	\$55,493	\$5,447,610	\$227,171	\$331,038	\$37,560	\$6,293,673
PERRY	\$16,186	\$6,243	\$2,498	\$6,460	\$1,112,905	\$89,883	\$122,227	\$17,780	\$1,374,182
PHILLIPS	\$52,664	\$46,637	\$4,556	\$14,914	\$2,458,636	\$158,592	\$280,479	\$14,190	\$3,030,668
PIKE	\$1,418	\$868	\$2,654	\$9,791	\$1,306,885	\$90,090	\$118,527	\$15,890	\$1,546,123
POINSETT	\$90,357	\$33,581	\$7,316	\$49,904	\$6,395,961	\$164,568	\$265,318	\$31,480	\$7,038,485
POLK	\$6,923	\$1,660	\$4,952	\$9,318	\$1,796,200	\$115,932	\$207,528	\$32,360	\$2,174,873
POPE	\$72,035	\$44,705	\$25,692	\$38,929	\$9,847,428	\$624,712	\$892,204	\$173,570	\$11,719,275
PRAIRIE	\$52,290	\$16,322	\$2,758	\$11,307	\$1,730,519	\$78,918	\$105,518	\$16,860	\$2,014,492
PULASKI	\$1,173,766	\$765,677	\$222,380	\$468,350	\$77,603,606	\$5,559,964	\$7,013,400	\$962,170	\$93,769,313
RANDOLPH	\$2,352	\$1,203	\$3,270	\$2,784	\$1,762,610	\$67,700	\$100,188	\$18,990	\$1,959,097
ST. FRANCIS	\$92,252	\$48,917	\$5,704	\$19,964	\$2,985,173	\$163,653	\$259,253	\$16,650	\$3,591,566
SALINE	\$73,569	\$35,447	\$40,346	\$93,334	\$15,116,900	\$1,211,852	\$1,580,283	\$245,260	\$18,396,990
SCOTT	\$3,173	\$1,093	\$1,960	\$5,212	\$1,404,238	\$60,111	\$107,222	\$13,670	\$1,596,679
SEARCY	\$26,869	\$8,348	\$3,076	\$15,915	\$1,188,576	\$56,472	\$83,061	\$13,330	\$1,395,647
SEBASTIAN	\$133,611	\$41,747	\$37,988	\$68,547	\$8,714,163	\$898,720	\$1,657,314	\$262,250	\$11,814,340
SEVIER	\$28,041	\$6,659	\$2,700	\$14,149	\$1,479,080	\$59,939	\$85,165	\$14,400	\$1,690,133
SHARP	\$8,968	\$4,032	\$3,810	\$24,700	\$1,927,526	\$98,680	\$156,454	\$29,110	\$2,253,280
STONE	\$17,023	\$3,874	\$2,372	\$9,580	\$1,165,675	\$74,289	\$123,028	\$15,150	\$1,410,991
UNION	\$409,393	\$214,188	\$12,416	\$66,806	\$7,072,078	\$288,489	\$445,310	\$60,840	\$8,569,519
VAN BUREN	\$12,899	\$7,362	\$4,494	\$9,399	\$2,075,055	\$144,200	\$226,647	\$43,410	\$2,523,466
WASHINGTON	\$103,332	\$68,621	\$45,734	\$86,392	\$15,275,969	\$1,206,798	\$1,942,972	\$320,220	\$19,050,038
WHITE	\$36,691	\$19,103	\$23,010	\$74,385	\$13,261,686	\$609,863	\$847,330	\$147,830	\$15,019,898
WOODRUFF	\$29,096	\$16,248	\$2,744	\$8,235	\$1,988,227	\$89,775	\$117,050	\$18,050	\$2,269,425
YELL	\$16,848	\$4,214	\$4,694	\$23,874	\$2,040,134	\$127,033	\$189,712	\$28,420	\$2,434,928
<b>Grand Totals</b>									
<b>(1)</b>	\$5,803,417	\$3,093,248	\$949,448	\$2,636,383	\$388,119,206	\$24,183,722	\$34,955,981	\$5,000,000	\$464,741,405

(concluded)

\* Estimates

(1) Cash sales, not on accrual basis

**Arkansas Lottery Commission**  
**Demographic reports from the Arkansas Department of Higher Education (Unaudited)**  
**Fiscal Year Ended June 30, 2011**

Insitution	Awards	Scholarships	
		Fall 2010	Spring 2011
Arkansas Baptist College	60	\$ 108,125	\$ 106,250
Arkansas Northeastern College	137	122,343	128,405
Arkansas State University Beebe	686	785,188	749,250
Arkansas State University Jonesboro	3,395	6,473,750	7,069,375
Arkansas State University Mountain Home	253	336,625	292,813
Arkansas State University Newport	193	182,224	184,247
Arkansas Tech University	2,872	6,060,912	6,427,147
Arkansas Tech University Ozark Campus	108	87,250	96,938
Baptist School of Nursing	148	98,813	121,563
Black River Technical College	283	280,820	342,611
Central Baptist College	194	451,413	475,710
Ouachita Technical College ( FY12 College of the Ouachita's)	164	161,963	168,013
Cossatot Community College UA	208	197,722	207,512
Crowley's Ridge College	50	116,875	125,000
East Arkansas Community College	140	139,500	142,683
Ecclesia College	25	60,000	60,000
Harding University	558	1,244,375	1,274,375
Henderson State University	1,281	2,714,080	2,791,606
Hendrix College	336	835,000	852,500
Jefferson School of Nursing	15	5,250	17,500
John Brown University	274	503,125	575,625
Lyon College	285	668,125	667,500
Mid South Community College	153	123,563	118,523
National Park Community College	397	389,500	393,125
North Arkansas College	447	452,875	467,688
Northwest Arkansas Community College	861	863,813	821,154
Ouachita Baptist University	503	1,208,585	1,195,285
Ozarka College	166	162,125	180,000
Philander Smith College	71	127,500	156,250
Phillips Community College UA	160	152,438	183,250
Pulaski Technical College	1,109	975,375	1,073,250
Rich Mountain Community College	181	151,500	197,813
South Arkansas Community College	165	133,875	133,750
Southeast Arkansas College	268	251,313	255,500
Southern Arkansas University	755	1,610,151	1,649,680
Southern Arkansas University Tech	93	97,063	95,938
University of Arkansas at Monticello College of Technology - Crossett	6	6,250	5,938
University of Arkansas at Monticello College of Technology - McGehee	2	2,500	938
University of Arkansas Community College Batesville	284	329,625	319,563
University of Arkansas Community College Hope	131	133,063	140,063
University of Arkansas Community College Morrilton	514	578,188	542,688
University of Arkansas Fayetteville	5,559	11,071,434	11,625,912
University of Arkansas for Medical Sciences	407	531,250	659,375
University of Arkansas Fort Smith	1,865	3,695,167	3,943,960
University of Arkansas Little Rock	2,372	3,554,136	4,420,328
University of Arkansas Monticello	624	1,268,374	1,287,199
University of Arkansas Pine Bluff	468	914,845	914,658
University of Central Arkansas	3,739	8,011,501	8,270,438
University of the Ozarks	188	494,375	474,375
Williams Baptist College	287	656,875	679,375
<b>Total</b>	<b>33,440</b>	<b>\$ 59,580,731</b>	<b>\$ 63,082,632</b>

Source: Arkansas Department of Higher Education

**Arkansas Lottery Commission**  
**Projected Obligations from Scholarship and Grant Funding Sources**  
**from Arkansas Department of Higher Education (Unaudited)**  
**Fiscal Year Ended June 30, 2011**

Title	Fiscal Year 2012 Budget	Fiscal Year 2013 Budget
Academic Challenge Scholarships	\$ 20,000,000	\$ 20,000,000
AR Geographical Critical Needs	-	-
Chiropractic	102,000	102,000
Dental Aid	1,700,000	1,700,000
Dental Loans	987,370	987,370
Dependents of Law Enforcement Officers	175,000	175,000
Governor's Scholars	11,890,000	10,580,000
Higher Education Opportunities Grants	6,000,000	6,000,000
Minority Teacher Scholars Program	90,000	45,000
Military Dependents of POWS, MIAS, KIAS	355,000	355,000
Minority Masters Fellows	103,750	52,500
National Guard Tuition Assistance	1,500,000	1,500,000
Optometry Grants	320,400	320,400
Optometry Loans	-	-
Osteopathy	148,000	148,000
Podiatry	20,000	20,000
Second Effort Scholarships	-	-
Single Parent Scholarship	175,000	175,000
SREB Minority Doctoral Scholars	200,000	200,000
STEP State Teacher Education Program	1,800,000	1,800,000
SURF Program	150,000	150,000
State Teacher Assistance Resource STAR	485,250	242,500
Teacher Opportunity Program	-	-
Tuition Adjustment	350,000	350,000
Veterinary Aid	929,000	929,000
Washington Center Scholarships	-	-
Workforce Improvement Grants	3,500,000	2,000,000
<b>Total All Financial Aid Programs</b>	<b>\$ 50,980,770</b>	<b>\$ 47,831,770</b>

Source: Arkansas Department of Higher Education

**Arkansas Lottery Commission**  
**Academic Challenge Scholarship Applications and Awards by County**  
**from Arkansas Department of Higher Education (Unaudited)**  
**Fiscal Year Ended June 30, 2011**

<u>County</u>	<u>Population</u>	<u>% State Population</u>	<u>Applicants</u>	<u>Awards</u>
Arkansas	19,019	0.65%	1,651	280
Ashley	21,853	0.75%	495	181
Baxter	41,513	1.42%	929	435
Benton	221,339	7.59%	5,011	1,948
Boone	36,903	1.27%	1,123	475
Bradley	11,508	0.39%	312	95
Calhoun	5,368	0.18%	137	62
Carroll	27,446	0.94%	400	160
Chicot	11,800	0.40%	247	86
Clark	22,995	0.79%	840	353
Clay	16,083	0.55%	277	150
Cleburne	25,970	0.89%	641	285
Cleveland	8,689	0.30%	277	125
Columbia	24,552	0.84%	695	237
Conway	21,273	0.73%	687	312
Craighead	96,443	3.31%	2,831	1,212
Crawford	61,948	2.12%	1,963	718
Crittenden	50,902	1.75%	2,158	472
Cross	17,870	0.61%	561	229
Dallas	8,116	0.28%	241	89
Desha	13,008	0.45%	457	133
Drew	18,509	0.63%	555	218
Faulkner	113,237	3.88%	4,658	1,894
Franklin	18,125	0.62%	602	227
Fulton	12,245	0.42%	345	143
Garland	96,024	3.29%	2,695	1,055
Grant	17,853	0.61%	586	242
Greene	42,090	1.44%	1,354	518
Hempstead	22,609	0.78%	716	205
Hot Spring	32,923	1.13%	1,016	403
Howard	13,789	0.47%	513	198
Independence	36,647	1.26%	1,208	469
Izard	13,696	0.47%	337	177
Jackson	17,997	0.62%	418	177
Jefferson	77,435	2.66%	2,983	915
Johnson	25,540	0.88%	701	310
Lafayette	7,645	0.26%	221	62
Lawrence	17,415	0.60%	423	222
Lee	10,424	0.36%	262	69
Lincoln	14,134	0.48%	342	118

(continued)

**Arkansas Lottery Commission**  
**Academic Challenge Scholarship Applications and Awards by County**  
**from Arkansas Department of Higher Education (Unaudited)**  
**Fiscal Year Ended June 30, 2011**

<u>County</u>	<u>Population</u>	<u>% State Population</u>	<u>Applicants</u>	<u>Awards</u>
Little River	13,171	0.45%	288	90
Logan	22,353	0.77%	672	258
Lonoke	68,356	2.34%	2,265	896
Madison	15,717	0.54%	347	168
Marion	16,653	0.57%	352	160
Miller	43,462	1.49%	463	152
Mississippi	46,480	1.59%	1,090	324
Monroe	8,149	0.28%	235	87
Montgomery	9,487	0.33%	276	122
Nevada	8,997	0.31%	292	86
Newton	8,330	0.29%	301	120
Ouachita	26,120	0.90%	851	281
Perry	10,445	0.36%	335	132
Phillips	21,757	0.75%	677	180
Pike	11,291	0.39%	323	144
Poinsett	24,583	0.84%	642	245
Polk	20,662	0.71%	607	294
Pope	61,754	2.12%	2,315	921
Prairie	8,715	0.30%	241	113
Pulaski	382,748	13.13%	14,016	4,754
Randolph	17,969	0.62%	597	246
Saline	28,258	0.97%	3,644	1,379
Scott	107,118	3.67%	335	153
Searcy	11,233	0.39%	243	109
Sebastian	8,195	0.28%	4,285	1,507
Sevier	125,744	4.31%	437	172
Sharp	17,058	0.58%	477	194
St. Francis	17,264	0.59%	767	202
Stone	12,394	0.43%	428	146
Union	41,639	1.43%	1,207	441
Van Buren	17,295	0.59%	382	159
Washington	203,065	6.96%	5,869	2,304
White	77,076	2.64%	2,207	946
Woodruff	7,260	0.25%	185	71
Yell	22,185	0.76%	499	219
Not Reported			147	6
<b>Total</b>	<u>2,915,918</u>	100.00%	<u>90,165</u>	<u>33,440</u>

(concluded)

Source: Arkansas Department of Higher Education

**Arkansas Lottery Commission  
Debt Set-off Collections (Unaudited)  
Fiscal Year Ended June 30, 2011**

Department of Finance and Administration:	(1)
Taxes due to the State	\$ 84,904
Delinquent Child Support	<u>41,116</u>
<b>Total</b>	<u><u>\$ 126,020</u></u>

(1) In accordance with regulation 23-115-403, the ALC off-sets against any prize the sum of any debt in excess of \$100 owed to the State of Arkansas or to persons on whose behalf the State and its claiming agencies act.

Source: Arkansas Lottery Commission

**Arkansas Lottery Commission  
Fund Balance and Other Information  
from Arkansas Department of Higher Education (Unaudited)  
Fiscal Year Ended June 30, 2011**

**Fund Balances:**

Higher Education Grants Fund Account	\$	16,478,411
First Security Bank*	\$	12,516,078

**Evaluation of Net Proceeds:**

The Arkansas Department of Higher Education has determined that the net proceeds from the State lottery for the program supplements and does not supplant nonlottery State educational resources.

**Recommendations by the Arkansas Department of Higher Education for changes to the program:**

None.

\* Trust accounts maintained by the Director of the Department of Higher Education to hold the net proceeds from the State lottery.

Source: Arkansas Department of Higher Education

**Arkansas Lottery Commission  
Term Contracts for Goods and Services  
Fiscal Year Ended June 30, 2011**

1. On September 14, 2010, The Arkansas Lottery Commission (ALC) entered into a Non-Exclusive Licensing Agreement with Scientific Games International to allow the ALC to reproduce, use, and make copies of the Monopoly™ licensed property. The agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee.
2. On January 25, 2011, ALC entered into an amended Betty Boop™ Instant Ticket Game Working Papers agreement with Scientific Games International. The amended agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee.
3. On May 3, 2011, ALC entered into an amended and restated Decades of Dollars agreement with Georgia Lottery Corporation, Virginia Lottery Department, and Kentucky Lottery Corporation. The amended and restated agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee.
4. On June 15, 2011, ALC entered into a Non-Exclusive Licensing Agreement with Scientific Games International to allow the ALC to reproduce, use, and make copies of the Wheel of Fortune™ licensed property. The agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee.
5. On June 28, 2011, ALC and Intralot, Inc., through National Software Escrow, entered into a Software Escrow Agreement to ensure ALC has access to certain proprietary computer software programs and related documentation in the event Intralot, Inc. is unable to satisfy its obligations.

# OTHER REPORTS



“

**I PLAN TO HELP  
SOMEONE WITH  
MY WINNINGS.”**

- Barbara Dotson  
Fort Smith



“

[The Arkansas Academic Challenge Scholarship] meant a lot.

**Because I can't work full-time, it means EXTRA MONEY in my pocket.”**

Jazzilyn Curley | Sophomore  
South Arkansas Community College  
El Dorado

Sen. Bill Pritchard  
Senate Chair  
Rep. Tim Summers  
House Chair  
Sen. David Wyatt  
Senate Vice Chair  
Rep. Toni Bradford  
House Vice Chair

# Arkansas



Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Arkansas Lottery Commission  
and Members of the Legislative Joint Auditing Committee

We have audited the financial statements of the major fund of the Arkansas Lottery Commission (the "Agency"), a Commission of Arkansas State government, as of and for the year ended June 30, 2011, which collectively comprise the Arkansas Lottery Commission's basic financial statements and have issued our report thereon dated October 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-1 through 2011-4 to be significant deficiencies.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### SCHEDULE OF FINDINGS AND RESPONSES

2011-1 Ark. Code Ann. § 23-115-205(a)(12) provides that the Commission has powers necessary to select and contract with vendors. Additionally, Ark. Code Ann. § 23-115-701(c)(2) requires the Commission to solicit competitive bids for major procurement contracts, which Ark. Code Ann. § 23-115-103(14)(A) defines as a contract for a gaming product or service costing more than \$75,000. The Commission awarded the comprehensive advertising, marketing, and media service contract to a vendor, for which JM Associates, Inc. was a subcontractor. Subsequently, without a contract, the Agency paid JM Associates, Inc. \$91,740 for producing commercials for broadcast, thus circumventing procurement law.

We recommend the Agency seek advice from the Arkansas Lottery Commission and the Attorney General as to the legality of this arrangement.

Management response: Following discussion with the Division of Legislative Audit, the Arkansas Lottery Commission (ALC) reverted to the previous procedure for procuring projects from JM Associates, Inc. through its Advertising, Marketing and Media Services vendor, The Communications Group. This change took place in August 2011. All future project procurement and invoicing will occur through The Communications Group.

2011-2 Questionable travel costs noted in the prior year audit resulted with an in-depth analysis of employee travel reimbursement (TR-1) forms and supporting documentation. This review disclosed the following:

- A. Based on travel reimbursement credits received by the Agency from the instant ticket vendor, seven instant ticket planning sessions in Alpharetta, Georgia, appeared to have been attended by management. Because the Agency did not have adequate controls relating to vendor travel reimbursements, the vendor's Director of Security was contacted to verify the attendance of management at these planning sessions, each scheduled for three days. Information obtained indicated the following:
- For three of the seven instant ticket planning sessions, there was no record of any Agency representatives in attendance; however, the instant ticket vendor's Customer Service Team Leader confirmed attendance at one of these sessions.
  - For three of the seven instant ticket planning sessions, Agency representatives signed in for only one of the three days.
  - One instant ticket planning session coincided with the instant ticket vendor's annual security symposium in Atlanta, Georgia; therefore, no attendance information was available for this planning session.

- B. Based on analysis of vendor reimbursed travel costs and the number of business trips that resulted in the Executive Director or Vice-President of Gaming flying home, we question whether some travel was reasonable and necessary. While the Agency's employee manual requires 80 hours to constitute a full pay period, it appears the Executive Director and Vice-President of Gaming worked alternate work schedules based on analysis of travel. However, a policy authorizing alternate work schedules did not exist, and a review of leave records was inconclusive as to whether proper leave time was recorded.
- The Executive Director traveled to South Carolina, where he maintains a residence, 61 of the 261 working days in fiscal year 2011. In addition, for 10 of 16 business trips the Executive Director flew to South Carolina on the last day of the trip. As a result, the Executive Director was in non-business travel status for all or part of 71 days, or 27% of work days.
  - The Vice-President of Gaming traveled to either South Carolina or Maine, where he maintains residences, 48 of the 261 working days in fiscal year 2011. In addition, for seven of 10 business trips, the Vice-President of Gaming flew to South Carolina on the last day of the trip. As a result, the Vice-President of Gaming was in non-business travel status for all or part of 55 days, or 21% of work days.
- C. Department of Finance and Administration (DFA) travel regulations require that the administrative head of each agency ensure all supporting documentation is maintained in connection with business travel. However, examination of supporting documentation indicated the following:
- Several instances of redacted information, including portions of flight schedules, addresses, and payment methods, were found.
  - Supporting documentation for numerous TR-1 forms contained conflicting information.

We recommend management review DFA travel regulations to ensure travel reimbursements are adequately explained and documented. The Commission should also review the matters discussed above and assist the Agency in implementing sound business practices that strengthen controls over travel, vendor travel reimbursements, and alternate work schedules.

*Management response:* **A:** The Agency will review travel policies and procedures related to vendor funded travel reimbursements to determine if a more comprehensive or restrictive policy is necessary to satisfy the concerns of the Division of Legislative Audit. **B:** The ALC will require future directors to notify the Chairman of the Commission in writing (either by hard copy or electronic mail) prior to the use of annual leave for absences from work. Further, the ALC will review its own personnel policies to determine if alternate work schedules or flex-time working arrangements similar to those used of other state agencies are advisable in light of the unique nature of this agency. **C:** The ALC will revise its current travel policy to require that all travel related information must be submitted in un-redacted form in order to be eligible for reimbursement.

2011-3

The Control Objectives for Information and related Technology (COBIT) Deliver and Support 12 requires that physical access controls to Agency facilities be regularly reviewed to determine proper functioning. A review indicated the following deficiencies:

- Numerous vendors and auditors had physical access to Agency offices; however, Agency security did not periodically verify that these individuals still required access, creating the risk that unauthorized individuals may access Agency facilities.
- Although policy requires data retention for 5 years, the Agency maintained records of key card door access for only 30 days, which did not sufficiently allow for examination in the event of a security breach.

We recommend the Agency strengthen security controls and retain an electronic record of key card door access for 5 years to comply with the Agency's internal policy GS10010.

Management response: **Bullet One:** The Security Department, via email, will request a monthly list from each vendor/auditor detailing employees who require access to ALC facilities and the back office system (BOS). Any person with access who is not listed by the vendors/auditors in their monthly response will be deleted from access to ALC facilities/BOS. **Bullet Two:** A review of the Agency's Records Retention Policy was completed on September 13, 2011, with the staff tasked with maintaining these records. The key card door access records have been retained in accordance with the policy since that date. ALC Security data shall be stored and retained for at least five (5) years in accordance with ALC Record Retention Policy.

2011-4

The Control Objectives for Information and related Technology (COBIT) Deliver and Support 5 - Ensure Systems Security requires logical access controls be in place to safeguard information against damage, loss, or unauthorized use, disclosure, or modification. A third party application manages day-to-day gaming functions and provides game-specific financial data. A review indicated the following security deficiencies that increased the risk of accidental or intentional errors, fraud, or disclosure of confidential and proprietary information:

- The Agency did not periodically review user access.
- The Agency allowed the use of user-ids not attributable to a single individual.
- Password rules were inadequate as defined in State of Arkansas policy 70-002 *Password Management*.
- Vendor access allowed for modification of the application and data without Agency monitoring.
- Agency and vendor users had access to transactions not necessary to complete their job duties.

We recommend the Agency strengthen security controls to ensure user access is commensurate with the individual's job requirements, vendor transactions are adequately monitored, and password rules meet State of Arkansas policy.

Management response: **Bullets 1, 2 and 5:** To monitor user transactions and log-in to BOS, the following actions have been taken: ALC Security will conduct a quarterly review of the “event log application and user role report” to ensure that a person using BOS has been granted proper access for their job duties. Generic passwords will not be granted for test purposes. **Bullet 3:** To ensure compliance with State Policy 70-002 concerning password security, BOS users will be required to change their password at least once every six (6) months and the required password will comply with the requirements of State Policy 70-002. Further, passwords will not be re-used within six (6) password changes. **Bullet 4:** To grant Intralot emergency administrative BOS access privilege, the following actions have been taken: A sealed envelope with a BOS user name/password, granting administrative privileges, will be stored at Intralot’s location for emergency use. The envelope will be sealed and signed by the Director of Security. If used, Intralot will notify the ALC Security Department immediately. The Security Department will verify usage/non-usage monthly.

We also noted certain additional matters that we reported to management of the Agency in a separate letter dated October 20, 2011.

The Agency’s response to the findings identified in our audit, excluding management letter findings is described above. We did not audit the Agency’s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, agency management, Arkansas Lottery Commission and other parties as required by Arkansas Code and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, appearing to read "Roger A. Norman".

Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
October 20, 2011





Robin Rucker  
Newport



Hollye Holdman  
Benton



Crystal Pannell  
Evening Shade



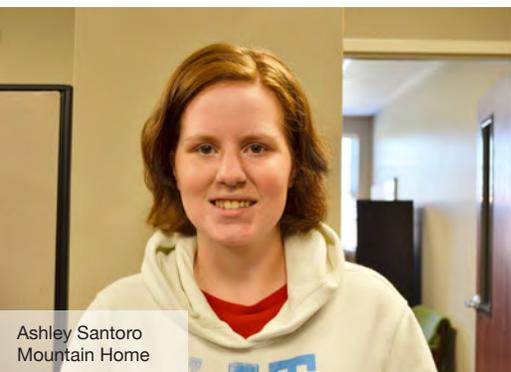
Palsa Paisley  
Monticello



Will Brazear  
North Little Rock



Kendal Harris  
Pine Bluff



Ashley Santoro  
Mountain Home



Mandi Carreiro  
Little Rock





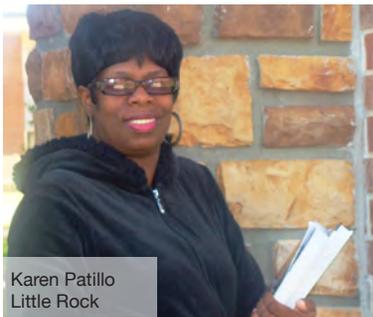
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Glenwood



Chuck Ray  
Kirby



Destiny Harper  
El Dorado



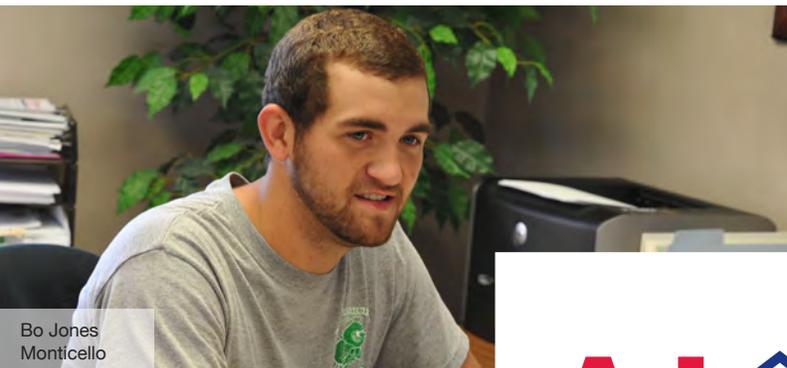
Karen Patillo  
Little Rock



Sherry Whitted  
Marianna



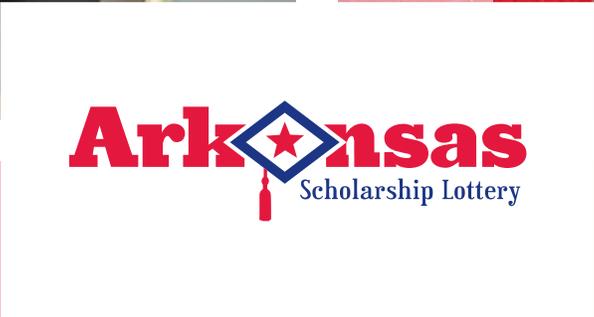
Kambri Campbell  
Batesville



Bo Jones  
Monticello



Pam Skinner  
Bradford



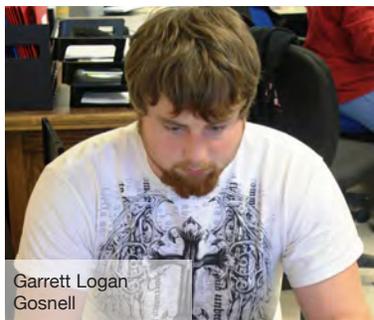
Dena Watson  
Little Rock



Bronda Kennedy  
Mountain Home



Shannon Pointer  
Lowell



Garrett Logan  
Gosnell



Jessica Farmer  
Poughkeepsie



Daryl Burks  
Malvern



Candi Mey-Biggers  
Jonesboro

