

MINUTES

ARKANSAS LOTTERY COMMISSION

Wednesday, December 2, 2013

10:00 a.m.

**124 West Capitol Avenue, Third Floor
Little Rock, Arkansas**

Call to Order

Chairman George Hammons called the meeting to order. Commissioners Smokey Campbell, Julie Baldrige, Ben Pickard, Dianne Lamberth, Raymond Frazier, Doug Pierce and Mark Scott were also present. Staff members present included Director Bishop Woosley, Matt Brown, Jean Block, Jerry Fetzer, Robert Stebbins, Joanna Bunten, Lance Huey, Angela Meredith, Patti Vick, Maria Craig, Terry Williams, Valerie Basham and Jeremy Smith.

Approval of Minutes

The first order of business was the approval of the minutes of the meeting held on October 16, 2013. Commissioner Campbell made a motion to approve, Commissioner Frazier seconded the motion, and the minutes were approved unanimously.

Report from the Internal Auditor

Internal Auditor Brown was recognized to give his monthly Internal Audit Update (in file). Mr. Brown reported that Audit Project No. 15, Instant Ticket Warehouse Operations, was complete and a report had been issued on October 17, citing no observations or recommendations. Audit Project No. 23, Claim Center Operations, was completed and a report issued on November 25. There were observations and recommendations made (on file). Audit Follow-Up No. 14F, Back Office System (BOS) Administration Follow-Up Procedures, was completed and a report was issued on November 1, with observations and recommendations made (on file). Audit Follow-Up No. 36F, Accounting Close & Reporting Follow-Up Procedures, was complete and a report was issued on November 20. There was an observation noted and recommendations made (on file). He reported that work had begun on Consulting Project No. 45, Financial Statements & CAFR Review, and that Audit Project No. 47, Instant Ticket Reconstructions, was in the planning stage.

Report from the Director

Director Woosley was recognized to give his regular report (in file). He reminded the commissioners that there would be an LOC meeting on December 10 at 1:30 and the Joint Legislative Audit Committee would be meeting on December 12 at 9:30. He also reminded the commission that Statements of Financial Interest would be due no later than January 31, noting that they had each been given two forms to complete, and asked that they return the forms to Ms. Vick. She would have all copies file-marked by

the Secretary of State, providing one copy to that office for filing, and one copy to retain for ALC records.

Noting the end of the calendar year, Director Woosley asked the commissioners to consider that Claim Center leases would be expiring in 2014 and suggested that it was time for the commission to begin considering options. He added that ALC's Advertising and Marketing contract was also due to expire in 2014, and asked that the commissioners begin considering what course to take in that regard.

Director Woosley reported on the monthly Comparative Income Statements. In comparing October 2013 to October 2012, he noted that instant ticket sales were down, which he attributed to the launch of a \$20 ticket in October 2012. Online ticket sales had improved, up over \$1.5 million compared to October 2012, which he said could possibly be because two very popular games, Natural State Jackpot and Fast Play AR Progressive Jackpot, had been introduced this year. Net proceeds were up a little over \$141,000 compared to the same month last year. In reviewing the Actual versus Budget Comparative Income Statement for October 2013, instant ticket sales were down considerably, approximately \$4.4 million less than budgeted. He reported that he and ASL sales staff had recently made visits to lottery retailers throughout the state and they had been told at virtually every location that overall sales were slow. Net proceeds for the month were a little lower than projected, which he explained could be related to "jackpot fatigue." Director Woosley then reported on Year-to-Date October 31, 2013, compared to Year-to-Date October 2012. Instant ticket sales for FY 2013 were \$6.2 million less than at this point in FY 2012, but online ticket sales for the current FY had grown by \$6.3 million. In reviewing the transfer analysis year-to-date, he reported that 2014 transfers were a little lower than anticipated, about \$1.7 million under budget for the current fiscal year.

Commissioner Lamberth asked how the Arkansas Million Dollar Raffle was performing. Director Woosley told her that sales were still slow, but he was expecting sales to spike near the date of the draw, which would be held January 2, 2014. During his retailer visits, many store owners relayed to him that they believed most people were delaying the purchase of raffle tickets until closer to the draw date, either because they were superstitious or because they believed they would have better chances of winning if "their tickets were on top."

Commissioner Pickard asked if a revision of the annual budget should be considered, perhaps in January. Director Woosley stated that a revision could still be possible, but that he would like to see the final sales numbers for the Million Dollar Raffle and for the current Mega Millions jackpot before making that decision. He added that generally speaking, the months of February, March and April are the months that generate the most revenue.

Commissioner Pickard asked if the commission could get a report on the Ticket Vending Machine installations, and also to provide monthly updates on the installations, to which Director Woosley agreed.

Commissioner Scott asked Director Woosley if the lottery had considered permitting the use of debit cards to purchase lottery tickets. Director Woosley said that he liked the idea of players being able to purchase lottery tickets using debit cards, but that there was pushback from the lottery retailers. He said that it would need to be brought before the commission to consider. He added that the commission may have to ask the state legislature to define the meaning of the word, "cash." Commissioner Scott asked that the conversation be continued at the next meeting. He added that he would like to know if it was possible to quantify the amount of sales lost by not accepting debit cards.

Reports from ALC Committees

Chairman Hammons recognized Commissioner Pickard to give the Personnel Committee report. Commissioner Pickard reminded the commission that in September it had voted to approve a change to the personnel evaluation period to have an end of May deadline for the current fiscal year, with merit recommendations payable on the last payday of the current fiscal year. On October 16, 2013, the ALC Personnel Committee voted unanimously to forward to the full commission the coordination of the process, to ensure it was conducted in a timely and fair manner. Commissioner Pickard made the following motion:

- 1. Any merit bonus paid to an employee in CY2014 will be based upon the higher performance category percentage received by that employee as between his/her FY2013 and FY2014 performance evaluations.**
- 2. Any merit bonus paid to an employee in CY2015 will be based upon the employee's FY2015 performance evaluation.**

This process will continue in all following years.

The motion was seconded by Commissioner Lamberth and the motion passed unanimously.

Chairman Hammons recognized Commissioner Pierce to provide an update on the Retail & Marketing Committee. Chairman Pierce reported that the committee had met earlier this date and had voted to move out of committee the consideration of the increase in the ALC mileage rate from the state rate of 42 cents per mile to the current GSA rate. He also reported that the committee had been asked by Director of Sales Robert Stebbins to review the Retailer Newsletter and possibly discuss ideas and suggestions for the newsletter at the next committee meeting.

Chairman Hammons recognized Commissioner Scott, who reported that the Vendor Committee had met on October 16 and that ALC Vendors Scientific Games and Intralot had given presentations. Commissioner Scott invited the vendors to return at 1:00 p.m. on January 15 to discuss future opportunities.

Commissioner Frazier reminded Audit and Legal Committee members to consider the upcoming building leases at their next meeting.

Meeting Date

The next commission meeting was set for 10:00 a.m. on Wednesday, January 15, 2014.

There being no further business, the meeting was adjourned.

MINUTES

ARKANSAS LOTTERY COMMISSION
Via Conference Call
Friday, December 20, 2013
09:00 a.m.
124 West Capitol Avenue, Third Floor
Little Rock, Arkansas

Chairman George Hammons called the meeting to order via conference call. Also present by telephone were Commissioners Smokey Campbell, Julie Baldrige, Ben Pickard, Dianne Lamberth, Bruce Engstrom, Doug Pierce and Mark Scott. Staff members Director Woosley and Internal Auditor Brown were present via telephone. Also present were staff members Valerie Basham and Patricia Vick.

The sole item on the agenda was the consideration of carryover leave. Director Woosley explained to the commissioners that ALC employees accrue annual and sick leave according to state policy. ALC employees also follow the standard state employee policy of "Use It or Lose It": ALC employees who accrue over 30 days of annual leave, or over 120 days of sick leave, lose the excess leave at the end of the calendar year. Other state agencies have Catastrophic Leave Banks to which employees can donate any excess leave they would otherwise lose at the end of the year. He stated that ALC does not have a valid Catastrophic Leave Policy; it is not allowed to participate in the state's Catastrophic Leave program because the agency is not on the AASIS accounting system. Director Woosley asked that the commission temporarily suspend ALC's current leave policy until a new Catastrophic Leave Policy specific to ALC employees is in place.

Commissioner Pickard, noting that the matter had been brought before the Personnel Committee on December 2 and unanimously approved, made a motion to temporarily suspend current ALC leave policy until ALC has a new Catastrophic Leave Policy in place. Commissioner Lamberth seconded the motion.

Commissioner Engstrom asked if, while the current leave policy is suspended and pending the establishment of the Catastrophic Leave Bank, employees would be able to utilize carryover leave and not contribute it to the Catastrophic Leave Bank. Director Woosley responded that employees would be able to use their leave or donate it to the leave bank once it was in place. Commissioner Engstrom then asked if the proposed policy would affect the budget. Director Woosley stated that he had discussed the matter with CFO Fetzer and Internal Auditor Brown and there were no accounting or audit issues.

The Commission voted unanimously to approve the motion for the temporary suspension of ALC's current leave policy.

There being no further business, the meeting was adjourned.

**Arkansas Lottery Commission
Monthly Internal Audit Update
January 15, 2014**

FY 2014 Audit Plan Status Report	2
FY 2013 Audit Plan Status Report	4
Federal & State Tax Withholding & Reporting Audit	5
Internal Audit Project Universe (for reference)	7

Arkansas Lottery Commission
FY 2014 Internal Audit Plan Status Report
January 15, 2014

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
1	Audit	Online Games & Gaming System Contract Compliance	Compliance with Contract for Online Games & Gaming System (Intralot).	Scheduled		150
7	Audit	Instant & Online Ticket Game Development	Controls and processes surrounding the development of instant and online ticket games.	Scheduled		100
8	Audit	Points for Prizes & Play It Again	Controls and procedures surrounding the Points for Prizes and Play It Again programs.	Planning Stage	Status Update: Audit kick-off planned for week of January 20, with fieldwork in mid-February.	239
9	Audit	IT Gaming Operations	Overall control environment surrounding the IT Gaming functions and operations, including controls and procedures surrounding multi-state games.	Planning Stage	Status Update: Audit kick-off planned for week of January 20, with fieldwork in early February.	159
13	Audit	In-State Draw Security & Controls	Controls and procedures that ALC draws are secure and reliable.	In Process	Status Update: Fieldwork began January 2, 2014 and continues.	125
17	Audit	Security Investigations	Controls and procedures involving the investigation process, including allegations of theft, retailer non-compliance, and reported cases of fraud.	Scheduled		86
29	Audit	Payroll & Leave	Controls and procedures surrounding leave, including the authorization and approval of requested leave and related payments to employees, and the payroll function.	Scheduled		130
30	Audit	Federal & State Tax Withholding & Reporting	Controls and procedures surrounding federal and state tax withholding, reporting to appropriate taxing authorities, and remittance of amounts owed.	Complete	Status Update: Report issued on January 10, 2014. See Page 5 for additional information.	-
38	Audit	IT General Controls	General IT/Computer-related controls that apply to all system components, processes, and data. ITGCs include logical and physical data center access, system development, change management, backup and recovery, and computer operation controls.	Scheduled		160
40A	Audit	Transparency Reporting & Compliance	Controls and procedures surrounding required reporting of information and compliance with requirements under Act 303 of 2011, that created the transparency.arkansas.gov website.	Scheduled		81
43	Consulting Project	Facilitation/Review of Risk Assessment required by DFA (Biennially)	Risk Assessment required by DFA.	Scheduled		25
45	Consulting Project	Financial Statements & CAFR Review (Annually)	Review of financial statements and related notes, management discussion and analysis, and other aspects of the CAFR.	Substantially Complete	Status Update: Final review and reporting still outstanding.	15
46	Consulting Project	Instant Ticket Vendor Security Review (Annually)	Coordinated security review of instant ticket vendor (Scientific Games) with outside firm.	Scheduled		24
47	Audit	Instant Ticket Reconstructions (Annually)	Controls and procedures surrounding instant ticket reconstruction requests.	Substantially Complete	Status Update: Final wrap-up and reporting underway.	8

Total Estimated Hours to Complete FY 2014 Plan (Excluding Follow-Up)

1,302

**Arkansas Lottery Commission
FY 2014 Internal Audit Plan Status Report
January 15, 2014**

Follow-Up Audit Projects Resulting from FY 2014 Audits⁴

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
19F	Audit Follow-Up	Human Resources Processes Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	Open	Status Update: Expected to be performed in May and June 2014.	45
23F	Audit Follow-Up	Claim Center Operations Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	Open	Status Update: Expected to be performed by April 2014.	40
30F	Audit Follow-Up	Federal & State Tax Withholding & Reporting Follow-Up Procedures	Follow-up procedures regarding observations from FY 2014 audit.	Open	Status Update: Timing unknown at this time.	75

Total Estimated Hours to Complete FY 2014 Plan (Including Follow-Up) 1,462

Supplemental Projects Approved by the Audit & Legal Committee⁵

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
11	Review	Instant Ticket Quality	Review of independent quality control reports for instant tickets.	Open		18
33	Audit	Travel Reimbursements	Controls and procedures surrounding travel reimbursements, including travel documentation and accurate travel and expense reimbursement reporting.	Open		160
32	Audit	Education Trust Fund	Controls and procedures that ensure existence and proper handling of education trust and shortfall reserve funds.	Open		70
18	Audit	Background Checks	Controls and procedures surrounding the background check process.	Open		120
27	Audit	Fixed Assets	Controls and procedures surrounding the fixed asset process including asset acquisition/disposition, depreciation, and tracking of fixed assets.	Open		160

Notes

¹Project Number based on number of all projects within the project universe. "F" indicates follow-up procedures. Follow-up procedures for audits in a given fiscal year may be incorporated into the following fiscal year's audit plan depending on several factors, including the timing of any Management remediation activities and available Internal Audit resources. See Page 7 for complete, numbered project universe.

²Definition of Project Status: Open - Project has not yet been scheduled; Scheduled - Project has been scheduled and is included in the Internal Audit master schedule. Project timing subject to change based on a number of factors including business need, internal audit resources, etc.; Planning Stage - Project planning beyond scheduling has begun. Actual fieldwork may be several weeks away and finalization of all phases of the project may be several months away; In Progress - Fieldwork is underway. Project completion and finalization may still be several weeks away; Complete - Project is complete for the fiscal year unless otherwise noted (i.e. partially complete, substantially complete).

³Estimated hours to complete based on current knowledge of expected scope and complexity of the project. Actual hours needed to complete a project are subject to change based on the overall complexity of the project (including the nature and volume of any audit findings), the timing of the project, the availability of Internal Audit resources, and the discretion of the Internal Auditor and/or Audit & Legal Committee.

⁴Follow-Up Projects result from planned audits where items or issues were identified and Internal Audit must perform additional audit procedures to affirm their resolution.

⁵On December 2, 2013, the Audit & Legal Committee approved a list of supplemental audit projects for completion during FY 2014, should all planned projects be completed ahead of schedule. These projects should generally be prioritized for completion after any follow-up projects.

**Arkansas Lottery Commission
FY 2013 Internal Audit Plan Status Report
January 15, 2014**

Project Number ¹	Project Category	Project	Description	Status ²	Comments	Estimated Remaining Hours ³
36A	Audit	Financial Accounting & CAFR	Controls and procedures surrounding production of the external financial statements, related notes to the statements, and other items/schedules included in the CAFR.	Substantially Complete	Status Update: Final review and reporting still outstanding.	30
Total Estimated Hours to Complete FY 2013 Plan						30

Notes

¹Project Number based on number of all projects within the project universe. "F" indicates follow-up procedures. Follow-up procedures for audits in a given fiscal year may be incorporated into the following fiscal year's audit plan depending on several factors, including the timing of any Management remediation activities and available Internal Audit resources. See Page 7 for complete, numbered project universe.

²Definition of Project Status: Open - Project has not yet been scheduled; Scheduled - Project has been scheduled and is included in the Internal Audit master schedule. Project timing subject to change based on a number of factors including business need, internal audit resources, etc.; Planning Stage - Project planning beyond scheduling has begun. Actual fieldwork may be several weeks away and finalization of all phases of the project may be several months away; In Progress - Fieldwork is underway. Project completion and finalization may still be several weeks away; Complete - Project is complete for the fiscal year unless otherwise noted (i.e. partially complete, substantially complete).

³Estimated hours to complete based on current knowledge of expected scope and complexity of the project. Actual hours needed to complete a project are subject to change based on the overall complexity of the project (including the nature and volume of any audit findings), the timing of the project, the availability of Internal Audit resources, and the discretion of the Internal Auditor and/or Audit & Legal Committee.

⁴Follow-Up Projects result from planned audits where items or issues were identified and Internal Audit must perform additional audit procedures to affirm their resolution.

⁵On December 2, 2013, the Audit & Legal Committee approved a list of supplemental audit projects for completion during FY 2014, should all planned projects be completed ahead of schedule. These projects should generally be prioritized for completion after any follow-up projects.

Arkansas Lottery Commission
Federal & State Tax Withholding & Reporting Audit
FY 2014
January 15, 2014

General Information

- The audit centered on controls, procedures, and processes to assure that the ALC remits and reports tax withholdings and amounts paid to its retailers and contractors in a timely, complete, and accurate fashion, in accordance with the appropriate taxing authority's regulations.
- Fieldwork included review of documentation and information generated in fiscal years 2012 through 2014.

Observations

- One retailer that received a Form 1099 for 2012 that should not have, four retailers that did not receive a Form 1099 for 2012 that should have, and one retailer that received a Form 1099 for 2012 that did not include all amounts earned in commissions by the retailer for that period.
 - Conditions noted resulted from inaccurate or incomplete retailer records, with inaccuracies dating back as far as 2009, which have impacted successive tax years.
 - Based on the conditions noted, the ALC could be subject to penalties in excess of \$1,000 from the IRS for failure to file or failure to include all information required in an information return (in this case, Form 1099).
 - The procedures performed by Internal Audit (IA) were limited to the current data within ALC systems at the time of testing, and as such, IA cannot provide assurance as to whether other inaccuracies in the data may exist that would impact past or future tax reporting requirements.
 - IA recommended that the Licensing Section begin requiring prospective retailers to provide documentation of legal entity type upon application or next renewal for a license from the ALC and that Licensing also perform annual confirmation of status with the Department of Finance and Administration to both prevent and detect future potential issues that could lead to tax reporting issues. Further, IA recommended that the Treasury Division issue Form 1099 to those retailers impacted and file such forms with the IRS for all years noted.
 - Management has responded stating that the Treasury Division will work with Licensing and IT to develop a process to perform a quarterly Tax Identification Number (TIN) matching with IRS records to detect any issues, including legal entity mismatches. Further, Management stated that it will issue new or revised 1099s to the retailers impacted and will amend applicable filings with the IRS.
 - Additional follow-up is necessary in order to consider the observation cleared.

Observations continued on the next page.

**Arkansas Lottery Commission
Federal & State Tax Withholding & Reporting Audit
FY 2014
January 15, 2014**

Observations (continued)

- The ALC was assessed and paid a penalty to the IRS in calendar year 2013, for tax year 2010, but Management has been unable to obtain the detail from the IRS to resolve the issue and seek reimbursement.
 - The total penalty amount was \$9,500, and per the IRS notice informing the ALC of the penalty it was assessed for “Failure to Furnish Taxpayer Identification Numbers,” presumably as reported on Form W2-G for player winnings.
 - Had the penalty not been paid, the ALC would have incurred interest in addition to the penalty assessed from July 8, 2013 forward.
 - The IRS notice indicates a detail of misreported information has been sent to the ALC, but Management has no record of such detail.
 - Management noted in previous correspondence with the IRS that the ALC mailing address included on its notices was incorrect, and this issue may have impacted the ALC’s receipt of information that supports the penalty assessed.
 - IA recommended that Management continue to contact the IRS until supporting documentation is received to support the penalty paid, and that once the detail is received, Management begin efforts to demonstrate it has taken the actions necessary to receive a full or partial refund of the penalty paid.
 - Management responded stating that it concurs with IA’s recommendation.
 - Additional follow-up is necessary in order to consider the observation cleared.

Arkansas Lottery Commission
Internal Audit Project Universe for FY 2014 - 2016 Audit Plan

Process Owner / Area	Audit History / Plan					
	FY	12	13	14	15	16
Legal - Block						
1 Online Games & Gaming System Contract Compliance			X			
2 Instant Ticket Lottery Game Services Contract Compliance	X					
3 Banking Contract Compliance				X		
4 Advertising Contract Compliance				X		
5 Record Retention				X		
6 Legal Compliance & Monitoring				X		
6A Major Procurement Contracts						X
Gaming & Product Development - Smith						
7 Instant & Online Ticket Game Development			X			
8 Points for Prizes & Play It Again			X			
9 IT Gaming Operations			X		X	
10 IT Gaming Quality Assurance		X			X	
11 Instant Ticket Quality	X				X	X
Security & Licensing - Huey						
12 Lottery Facilities Security & Controls				X		
13 In-State Draw Security & Controls			X			
14 Back Office System (BOS) Administration		X				X
15 Instant Ticket Warehouse Operations			X		X	
16 Licensing & Retailer Compliance	X					X
17 Security Investigations			X			
Human Resources - Basham						
18 Background Checks				X		
19 Human Resource Processes (Hiring, Benefits, Terminations, etc.)			X			
Commission & Legislative Affairs - TBD						
20 Public & Legislative Relations				X		
Sales - Stebbins						
21 Sales Force Reporting				X		
Marketing - Bunten						
22 Advertising & Marketing (excl Contract Compliance)				X		

Process Owner / Area	Audit History / Plan					
	FY	12	13	14	15	16
Treasury - Fetzer/Parrish						
23 Claim Center Operations	X		X		X	
24 Cash Receipts				X		
25 Retailer Sweeps/Commissions/Accts Receivable & Adjustments	X					X
26 Cash Management				X		
Financial Control - Fetzer/Williams						
27 Fixed Assets				X		
28 Accounts Payable/Purchasing/Expenditures		X				X
29 Payroll & Leave			X			
30 Federal & State Tax Withholding & Reporting			X			
31 Unclaimed Prize Fund				X		
32 Education Trust Fund	X	X				
33 Travel Reimbursements	X	X				X
34 Revenue/Prize Payments/Reserves - Online Games	X					X
35 Revenue/Prize Payments - Instant Ticket Games	X					X
36 Accounting Close & Reporting		X				X
36A Financial Accounting & CAFR		X				X
37 Financial Planning/Budgeting		X				X
Information Technology - Fetzer/Gilmore/Smith						
38 IT General Controls			X			
39 Disaster Recovery/Business Continuity			X			X
40 IT Help Desk & Desktop Support				X		
40A Transparency Reporting & Compliance			X			X
Internal Operations - Fetzer/TBD						
41 Lottery Vehicles				X		
42 Building & Facility Maintenance				X		
Recurring Projects						
43 Facilitation/Review of Risk Assessment required by DFA (Biennially)	X		X			X
44 Gaming System SSAE 16 SOC1 Review (Annually)	X	X	X	X	X	X
45 Financial Statements & CAFR Review (Annually)	X	X	X	X	X	X
46 Instant Ticket Vendor Security Review (Annually)		X	X	X	X	X
47 Instant Ticket Reconstructions (Annually)			X	X	X	X

Arkansas



Scholarship Lottery

Report from the Director
January 15, 2014

Comparative Income Statements

December 2013 and 2012

GAAP Basis Income Statement	<u>December 2013</u>	<u>December 2012</u>	Favorable/ <u>(Unfavorable)</u>	Percentage <u>Variance</u>
Revenues				
Instant Tickets	\$ 25,057,253	\$ 28,730,841	\$ (3,673,588)	-12.8%
Online Tickets	10,384,815	5,474,079	4,910,736	89.7%
Retailer App/Fidelity	<u>53,945</u>	<u>52,370</u>	<u>1,575</u>	<u>3.0%</u>
TOTAL Revenues	<u>35,496,013</u>	<u>34,257,290</u>	<u>1,238,723</u>	<u>3.6%</u>
Operating Expense				
Instant Prizes Net	17,472,020	19,992,624	2,520,604	12.6%
Online Prizes Net	5,747,640	2,851,674	(2,895,966)	-101.6%
Retailer Commissions	1,972,466	1,930,595	(41,871)	-2.2%
Gaming Contract Costs	1,769,377	1,697,161	(72,216)	-4.3%
Advertising	566,926	213,809	(353,117)	-165.2%
General and Admin.	485,080	565,366	80,286	14.2%
Other Agency Services	<u>91,233</u>	<u>123,880</u>	<u>32,647</u>	<u>26.4%</u>
TOTAL Operating Expenses	<u>28,104,742</u>	<u>27,375,109</u>	<u>(729,633)</u>	<u>-2.7%</u>
Operating Income	7,391,271	6,882,181	509,090	7.4%
 Interest Income	 <u>24,713</u>	 <u>33,419</u>	 <u>(8,706)</u>	 <u>-26.1%</u>
Income Before Transfers	\$ <u>7,415,984</u>	\$ <u>6,915,600</u>	\$ <u>500,384</u>	<u>7.2%</u>
Net Proceeds	\$ <u>5,831,219</u>	\$ <u>6,914,261</u>	\$ <u>(1,083,042)</u>	<u>-15.7%</u>

Note – Net Proceeds does not include unclaimed prizes.

Comparative Income Statements

Actual Versus Budget December 2013

GAAP Basis Income Statement	December 2013 Actual	December 2013 Budget	Favorable/ <u>(Unfavorable)</u>	Percentage <u>Variance</u>
Revenues				
Instant tickets	\$ 25,057,253	\$ 31,895,833	\$ (6,838,580)	-21.4%
Online Tickets	10,384,815	7,832,797	2,552,018	32.6%
Retailer App/Fidelity	<u>53,945</u>	<u>45,000</u>	<u>8,945</u>	<u>19.9%</u>
TOTAL Revenues	<u>35,496,013</u>	<u>39,773,630</u>	<u>(4,277,617)</u>	<u>-10.8%</u>
Operating Expense				
Instant Game Prizes	17,472,020	22,364,870	4,892,850	21.9%
Online Game Prizes	5,747,640	3,938,863	(1,808,777)	-45.9%
Retailer Commissions	1,972,466	2,246,560	274,094	12.2%
Gaming Contract Cost	1,769,377	2,047,139	277,762	13.6%
Advertising	566,926	375,000	(191,926)	-51.2%
General and Admin.	485,080	666,529	181,449	27.2%
Other Agency Service	<u>91,233</u>	<u>129,167</u>	<u>37,934</u>	<u>29.4%</u>
TOTAL Operating Expenses	<u>28,104,742</u>	<u>31,768,128</u>	<u>3,663,386</u>	<u>11.5%</u>
Operating Income	7,391,271	8,005,502	(614,231)	-7.7%
Interest Income	<u>24,713</u>	<u>20,000</u>	<u>4,713</u>	<u>23.6%</u>
Income before transfers	\$ <u>7,415,984</u>	\$ <u>8,025,502</u>	\$ <u>(609,518)</u>	<u>-7.6%</u>
Net Proceeds	\$ <u>5,831,219</u>	\$ <u>7,470,576</u>	\$ <u>(1,639,357)</u>	<u>-21.9%</u>

Note – Net Proceeds does not include unclaimed prizes.

Comparative Income Statements

YTD December 31, 2013 Compared to December 31, 2012

<u>Statement</u>	<u>Actual</u> <u>YTD 12/31/13</u>	<u>Actual</u> <u>YTD 12/31/12</u>	<u>Favorable/</u> <u>(Unfavorable)</u>	<u>Percentage</u> <u>Variance</u>
Revenues				
Instant tickets	\$ 151,620,510	\$ 165,148,734	\$ (13,528,224)	-8.2%
Online Tickets	47,503,199	40,749,283	6,753,916	16.6%
Retailer app. fidelity	<u>294,375</u>	<u>293,567</u>	<u>808</u>	<u>0.3%</u>
TOTAL Revenues	<u>199,418,084</u>	<u>206,191,584</u>	<u>(6,773,500)</u>	<u>-3.3%</u>
Operating Expense				
Instant Prizes Net	107,821,743	114,917,750	7,096,007	6.2%
Online Prizes Net	25,132,772	20,026,836	(5,105,936)	-25.5%
Retailer Commissions	11,094,051	11,510,526	416,475	3.6%
Gaming Contract Costs	9,788,270	10,258,838	470,568	4.6%
Advertising	2,099,764	1,713,863	(385,901)	-22.5%
General and Admin.	3,530,998	3,559,462	28,464	0.8%
Other Agency Services	<u>547,398</u>	<u>798,880</u>	<u>251,482</u>	<u>31.5%</u>
TOTAL Operating Expenses	<u>160,014,996</u>	<u>162,786,155</u>	<u>2,771,159</u>	<u>1.7%</u>
Operating Income	39,403,088	43,405,429	(4,002,341)	-9.2%
Interest Income	<u>142,366</u>	<u>176,027</u>	<u>(33,661)</u>	<u>-19.1%</u>
Income before transfers	\$ <u>39,545,454</u>	\$ <u>43,581,456</u>	\$ <u>(4,036,002)</u>	<u>-9.3%</u>
Net Proceeds	\$ <u>36,690,475</u>	\$ <u>40,521,807</u>	\$ <u>(3,831,332)</u>	<u>-9.5%</u>

Note – Net Proceeds does not include unclaimed prizes.

ADHE Transfer Analysis

<u>Month</u>	<u>2014 Transfers</u>	<u>2014 Unclaimed Prizes</u>	<u>2014 Budget</u>	<u>Over/Under Budget</u>	<u>Cumulative Balance</u>
July, 2013	\$4,891,372	\$747,115	\$5,621,039	\$17,448	\$17,448
August	6,401,829	87,431	6,959,900	-470,640	-453,192
September	6,023,766	618,079	7,279,088	-637,243	-1,090,435
October	6,773,937	94,334	7,497,572	-629,301	-1,719,736
November	6,768,352	257,183	7,629,131	-603,596	-2,323,332
December	5,831,219	672,632	8,025,502	-1,521,651	-3,844,983
January, 2014					
February					
March					
April					
May					
June					
Totals	<u>\$36,690,475</u>	<u>\$2,476,774</u>	<u>\$43,012,232</u>		

Arkansas Lottery Commission
Mega Millions and Powerball Jackpots
Greater than \$330 Million

Powerball

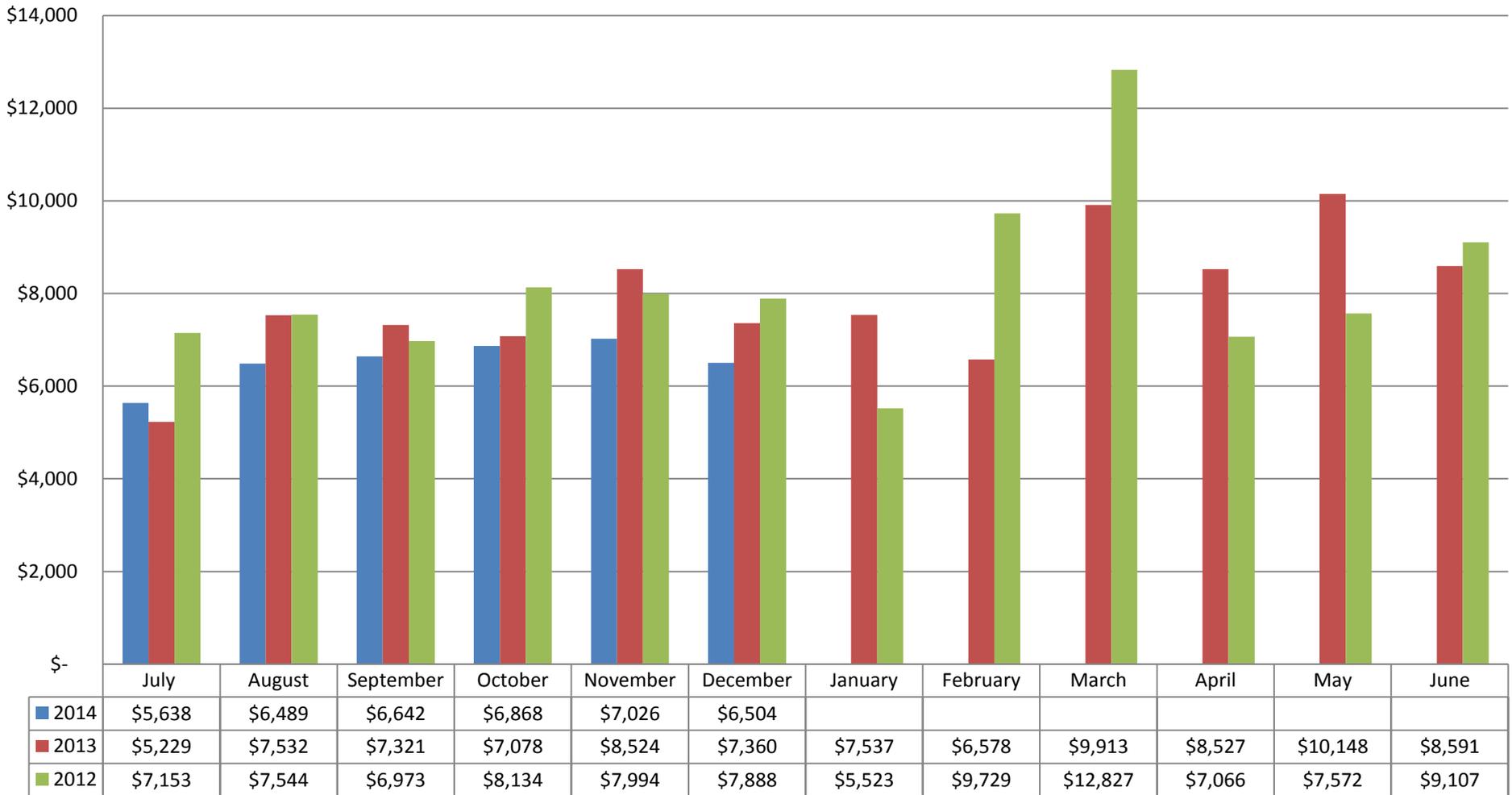
Mega Millions

Run Dates	Jackpot (000's)	ALC Sales (000's)	Run Dates	Jackpot (000's)	ALC Sales (000's)
12/25/11 - 2/11/12	\$ 336,400	\$ 7,234	1/25/12 - 3/30/12	\$ 640,000	\$ 10,698
6/24/12 - 8/15/12	\$ 337,000	\$ 6,763	10/2/13 - 12/17/13	\$ 636,000	\$ 7,242
10/4/12 - 11/28/12	\$ 587,500	\$ 10,575			
3/31/13 - 5/18/13	\$ 590,500	\$ 9,711			
6/23/13 - 8/7/13	\$ 448,400	\$ 6,686			
8/8/13 - 9/18/13	\$ 399,400	\$ 5,790			

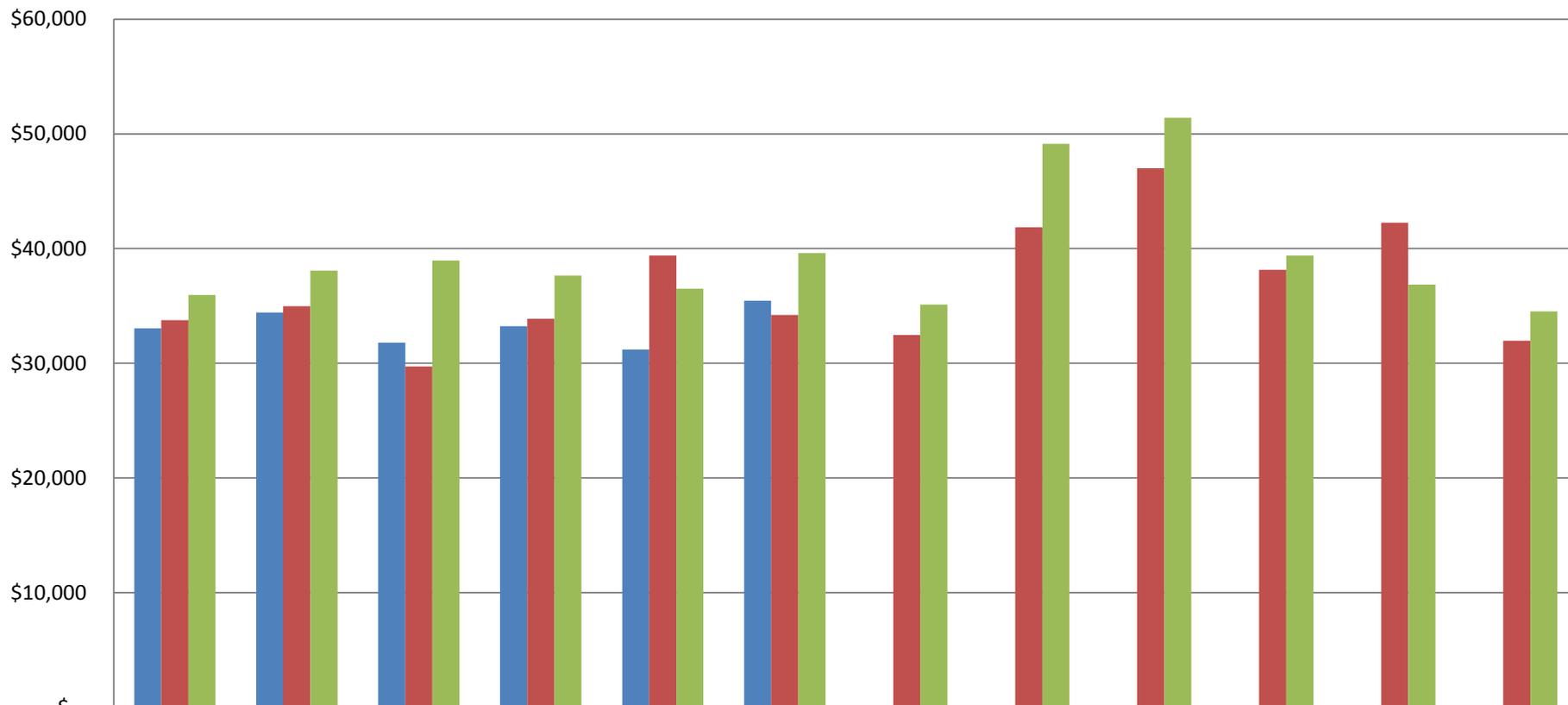
Arkansas Lottery Commission

Net proceeds (000's)

(Includes Unclaimed Prizes)



Arkansas Lottery Commission Sales (000's)



	July	August	September	October	November	December	January	February	March	April	May	June
■ 2014	\$33,035	\$34,426	\$31,799	\$33,226	\$31,196	\$35,442						
■ 2013	\$33,750	\$34,975	\$29,719	\$33,864	\$39,385	\$34,205	\$32,462	\$41,845	\$47,009	\$38,141	\$42,241	\$31,952
■ 2012	\$35,955	\$38,064	\$38,955	\$37,642	\$36,499	\$39,605	\$35,118	\$49,121	\$51,386	\$39,385	\$36,846	\$34,510

Instant Game Launches

JANUARY

(\$1) Popeye®



(\$2) Triple Dynamite 7's



(\$5) Joker's Wild



(\$10) Money Multiplier



FEBRUARY

(\$1) Hit \$100!



(\$2) Hit \$200!



(\$3) Jumbo Bucks Crossword



(\$5) Hit \$500!



(\$20) Platinum Payout



Instant Game Launches

MARCH

<p>(\$1) 10X The Cash</p> 	<p>(\$2) 20X The Cash</p> 	<p>(\$5) 50X The Cash</p> 	<p>(\$10) 100X The Cash</p> 
---	---	---	---

APRIL

<p>(\$1) Hot Dice</p> 	<p>(\$2) St. Louis Cardinals</p>  <p>(\$2) Extreme Jumbo Bucks</p> 	<p>(\$3) Queen of Diamonds</p> 	<p>(\$5) Money Matters</p> 
--	--	---	---

Player Promotions Schedule

Date	Type	Description
January, 2014	Buy X bundle, Get Y	Jackpot Bundle – Buy a \$2 Powerball, \$1 Mega Millions and a \$2 Decades of Dollars, get a free \$1 Natural State Jackpot ticket.
February, 2014	Buy X, Get Y	Buy a \$5 Arkansas 50/50 ticket, get a free \$1 Cash Count Up Fast Play ticket.
February 14, 2014 through March 31, 2014	Coupon	Instant \$1 off coupon. Insert in Sunday newspapers mid February.
April, 2014	Coupon	Instant \$1 off coupon. Mailer to both players in The Club and non-players.
May, 2014	Bonus Payout	Natural State Jackpot \$10,000 rolls (usually \$5,000).

Promotion schedule is subject to change.

SPECIAL PROMOTION!

AVAILABLE JANUARY 1 THROUGH JANUARY 31.

BUY

ASK FOR THE JACKPOT BUNDLE

GET

\$1 Natural State JACKPOT FREE

Purchase of a \$2 Powerball® ticket, a \$1 Mega Millions® ticket and a \$2 Decades of Dollars ticket will qualify players for one free \$1 Natural State Jackpot ticket. All Powerball®, Mega Millions® and Decades of Dollars tickets must be purchased using the Jackpot Bundle terminal key to receive a free Natural State Jackpot ticket.

All Jackpot Bundle plays will be quick picks.

SPECIAL PROMOTION!

AVAILABLE FEBRUARY 1 THROUGH FEBRUARY 28.

BUY

\$5 **ARKANSAS**
50/50
RAFFLE
TICKET

GET

\$1 **CASH COUNT UP**
FAST PLAY
TICKET

FREE

Arkansas

Scholarship Lottery



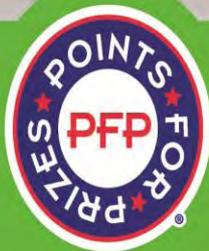
PLAY PLATINUM
PAYOUT FOR
THE CHANCE TO
WIN UP TO

\$1,000,000

TOP PRIZE ODDS: 1 in 540,000.

EARN TRIPLE

POINTS IN FEBRUARY WITH
ANY ELIGIBLE \$1 INSTANT TICKET.



SIGN UP ON OUR WEBSITE AT WWW.MYARKANSASLOTTERY.COM.

A GIFT FOR YOU!

Offer valid 2/13/2014 - 3/31/2014

YOU MUST PRESENT COUPON PRIOR TO PURCHASE.

\$1 INSTANT
TICKET
COUPON

Use toward your next purchase
or redeem for a \$1 instant ticket

FREE!



This coupon can be redeemed at any Arkansas Scholarship Lottery retailer. All transactions are subject to Lottery rules and applicable laws. Coupon can only be redeemed once. Limit one coupon per transaction. For promotional use only. No cash value. Original coupon required. Offer expires end of day 3/31/2014. This coupon may not be used in combination with any other Lottery coupon or promotional offer.

ATTENTION LOTTERY RETAILERS:

To process this coupon, follow these steps below:
From the main terminal screen, press the "COUPON" button and scan the barcode on the coupon. For your records, a receipt will print out that confirms the \$1 credit. You will receive a \$1 credit adjustment on your Financial Sales and Invoice reports.

For more information, visit any lottery retailer or call 501-683-2000. Call 1-800-522-4700 for problem gambling helpline. Please play responsibly.



RUSSELLVILLE HAS A MILLION DOLLAR WINNER!



FACEBOOK TWITTER EMAIL PROMOTIONS APPS

\$500+ Winners 10000 playing RAFFLE Jeff of Marked Tree won \$5000 p < | | >

ENTER TO WIN Bass Pro Shops SECOND-CHANCE PROMOTION

play again

Need a Scholarship?

Arkansas Academic Challenge Scholarships

"The Arkansas Academic Challenge Scholarship is more than just a check; it is providing a way for me to further my education." **LEARN MORE**

Net Proceeds To Date:
\$401,487,073

Learn How to Play!

ARKANSAS POWERBALL 01/11/2014

10 15 33 48 54 34

Current Estimated Jackpot: \$93

ARKANSAS MEGA MILLIONS 01/10/2014

8 37 36 57 28 8 x3

Current Estimated Jackpot: \$30

Natural State JACKPOT 01/13/2014

11 15 20 24 37

Current Jackpot: \$295,000

DECADES OF DOLLARS 01/13/2014

2 16 17 28 32 44

AR 01/14/2014 - 01:00 PM Updated Hourly

Estimated Jackpot: \$3,252

ARKANSAS 50/50 01/07/2014

000748

Estimated Jackpot: \$825

Cash 3 01/14/2014 - Midday 6 8 4

01/13/2014 - Evening 9 4 7

Cash 4 01/14/2014 - Middle 9 1 0 8

01/13/2014 - Evening 8 9 5 8

YOUR LOTTERY DOLLARS

Net proceeds from the Arkansas Scholarship Lottery are used to provide scholarships and grants to Arkansas residents enrolled in public and private non-profit two-year and four-year colleges and universities within the state.

THE ARKANSAS ACADEMIC CHALLENGE SCHOLARSHIP

The Arkansas Academic Challenge Program provides educational assistance to Arkansas residents in pursuit of a higher education. For information on requirements and to apply, please visit the Arkansas Department of Higher Education's website, www.adhe.edu, or contact the Arkansas Department of Higher Education's Financial Aid department: fnaid@adhe.edu | (800) 54-STUDY | (501) 371-2050 - Greater Little Rock

RECIPIENTS

We are proud of our scholarship recipients. There have been a total of **98,279** Arkansas Academic Challenge Scholarships awarded to date, making a difference forever in Arkansas education.



SCHOLARSHIP AWARDS BY COUNTY



“The Arkansas Academic Challenge [Scholarship] has helped me realize my dream of going to college and making my own way in the world.”



“The Arkansas Academic Challenge [Scholarship] has helped me realize my dream of going to college and making my own way in the world.”



“The Arkansas Academic Challenge [Scholarship] is more than just a check. It is providing a way for me to better my education. With this scholarship, I must take to pay for books and afford to live on campus, which brings me closer to my dreams.”

County	Fall 2010 & Spring 2011	Fall 2011 & Spring 2012	Fall 2012 & Spring 2013
Arkansas	290	220	243
Ashley	181	164	206
Baxter	435	380	376
Benton	1,948	1,834	2,114
Boone	475	424	411
Bradley	85	100	102
Calhoun	62	48	54
Cannell	160	148	153
Chicot	66	94	99
Clark	353	358	313
Clay	150	150	280
Clatsop	286	286	286
Cleveland	129	118	101
Columbia	237	225	255
Conway	312	288	283
Craighead	1,212	1,192	1,247
Crawford	718	795	848
Crittenden	472	441	498
Crosby	229	209	209
Dallas	89	80	68
DeWitt	153	153	113
Drew	218	209	211
Faulkner	1,884	1,784	1,774
Franklin	227	218	281
Fulton	143	142	136
Garland	1,055	985	1,054
Grant	205	180	202
Greene	518	548	507
Hempstead	206	180	202
Hot Spring	403	375	351
Howard	198	191	193
Independence	469	399	381
Izard	177	153	148
Jackson	177	135	148
Jefferson	915	813	786
Johnson	310	289	297
Lafayette	62	57	66
Lawrence	222	229	225
Lee	69	67	80
Lincoln	118	110	126
Little River	90	106	124
Lodge	281	281	305
Loraine	898	908	991
Madison	158	152	164
Marion	160	141	128
Miller	152	169	211
Mississippi	324	345	418
Monroe	87	80	75
Montgomery	122	88	77
Newton	86	78	96
Newton	120	80	89
Ouachita	281	288	326
Perry	132	149	138
Phillips	180	195	200
Pike	144	132	148
Poinsett	245	231	244
Polk	284	248	219
Pope	921	890	881
Prairie	113	102	95
Pulaski	4,754	4,193	4,164
Randolph	248	221	191
St. Francis	202	184	173
Saline	1,379	1,448	1,528
Scott	153	137	154
Searcy	109	83	83
Selma	1,507	1,518	1,587
Searcy	172	180	199
Sharp	184	230	233
Stone	146	127	131
Union	441	435	503
Van Buren	159	145	143
Washington	2,304	2,269	2,332
White	946	905	934
Woodruff	71	78	71
Yell	219	229	252
Not Reported	6	6	37
Total	33,440	31,958.00	32,881

Source: Arkansas Department of Higher Education

HOW TO APPLY

Visit the Department of Higher Education's website, www.adhe.edu, and complete the Arkansas YOUniversal Scholarship Application or download the free YOUniversal app for your smart phone. The online YOUniversal application is your one-stop shop for state and lottery funded financial aid.



APPLY ONLINE



DOWNLOAD THE APP

GIVING BACK

Intralot and Scientific Games are contributing to our communities by providing gifts to college and university Upward Bound Programs.



Intralot and Scientific Games, in partnership with the Arkansas Scholarship Lottery, recently unveiled the two vendors' financial gifts totaling \$40,000 to the Upward Bound programs throughout Arkansas. Lottery Director Bishop Woosley pointed to the contributions as just one more way to serve education in our state. "The lottery's funding for scholarships for Arkansas students is moving toward the \$400 million mark, but there are many underserved students who, with help from Upward Bound, can reach their goals and get access to higher education. The lottery and its vendor partners Intralot and SGI wanted to do our part to make sure even more students benefit from our efforts," Woosley said.

The gifts are directed specifically at technology for the use of the Upward Bound students, and the sale of lottery tickets depends on a massive technological structure that produces the tickets and monitors the sales for each of the almost 2000 retailers in Arkansas who sell lottery tickets. Arkansas Lottery Commissioner Ben Pickard of Searcy, with input from ALC Higher Education Chair Raymond Frazier, originated the idea and worked with staff and vendor representatives to bring the program to fruition.

Upward Bound is part of TRIO, which is a set of federally-funded college opportunity programs that motivate and support students from disadvantaged backgrounds in their pursuit of college degrees. The TRIO programs were the first national college access and retention programs to address the serious social and cultural barriers to education in the U.S. They began in the early 1960s as part of President Johnson's War on Poverty to ensure educational opportunity for all Americans, regardless of race, ethnic background, or economic circumstance. In many communities, these programs, which now serve traditional students, displaced workers and veterans, are some of the only programs available that help students overcome the class, social, academic and cultural barriers to higher education.

Special recognition goes to Mary Kate Snow, President, Arkansas Association of Student Assistance Programs, and Dr. Constance Nowell, TRIO Coordinator, who guided the process to make sure the funding would be applied in a way most beneficial to the students they serve. The gift was made by Scientific Games of Alpharetta, Georgia, and Intralot, Inc., of Duluth, Georgia, the ALC's two major vendors, who support the operation of the Arkansas Scholarship Lottery's instant and draw games. Sale of those tickets is the sole source for the more than \$375 million provided for college scholarships in Arkansas by the lottery operation during the last four years. Intralot and SGI have pledged to make these gifts annually through 2016, and the benefits will continue to accrue to Arkansas students with hopes for a college education.

In Arkansas, the Upward Bound programs are administered through these institutions of higher education, each receiving an equal portion of the \$40,000 for technology for the UB programs:

- Arkansas Baptist College, Little Rock
- Arkansas State University, Jonesboro
- Arkansas State University, Beebe
- Arkansas State University, Heber Springs
- Arkansas Tech University, Russellville
- Harding University, Searcy
- Lyon College, Batesville
- Northwest Arkansas Community College, Bentonville
- Ouachita Baptist University, Arkadelphia
- Philander Smith College, Little Rock
- Rich Mountain Community College, Mena
- South Arkansas Community College, El Dorado
- Southern Arkansas University, Magnolia (2 programs)
- University of Arkansas, Fayetteville (2 programs)
- University of Arkansas, Fort Smith
- University of Arkansas, Monticello
- University of Arkansas, Pine Bluff
- University of Central Arkansas, Conway