



Arkansas Lottery Commission

An Enterprise Fund Of The State Of Arkansas



Byron Wesson | Little Rock



Allison Rubio | Cabot



Jasper Stewart | Little Rock



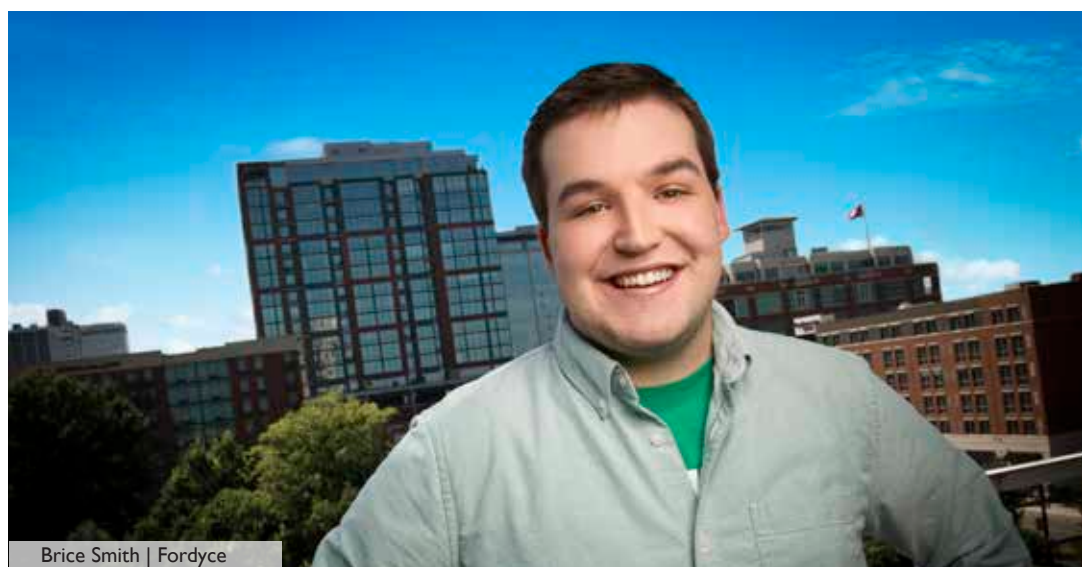
Karey Russell | Pine Bluff



Amanda Shults | El Dorado



Corey Parks | Fort Smith



Brice Smith | Fordyce

Comprehensive Annual Financial
Report For The Fiscal Year Ended
JUNE 30, 2013



“

I'm thankful that I have received the Arkansas Academic Challenge Scholarship. It allows me the opportunity to attain a quality education without being burdened with financial hardships. This scholarship allows me to remain home in Arkansas while receiving my education, which prepares me for the future. I appreciate those who contribute to this scholarship. For this, I am grateful.

Torey Peterson | Freshman | Southeast Arkansas College
White Hall

”

Arkansas Lottery Commission
An Enterprise Fund of the State of Arkansas

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2013**



Mike Beebe
Governor, State of Arkansas

Bishop Woosley
Director

Prepared by
Finance Division



“

The [Arkansas] Academic Challenge Scholarship is allowing me to pursue my passion of teaching young children and helping them find their way in the world.

Teyah Green | Sophomore | University of the Ozarks
Jacksonville

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**Arkansas Lottery Commission
An Enterprise Fund of the State of Arkansas
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2013**

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The [Arkansas Academic] Challenge Scholarship is much more than just money for my education – it is the open door of opportunity for me to better myself. If it were not for this scholarship, I would have never been able to even consider obtaining a doctorate degree, let alone plan to pursue it like I am doing now. This funding allows me to not only achieve the goals that I have set for myself – it allows me to go beyond them.

Kaitlyn Riggin | Sophomore | Arkansas State University-Newport
Weiner

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The Arkansas Academic Challenge [Scholarship] has helped me because I no longer have loans adding up and it is providing me with a brighter future.

Tamara Esaw | Sophomore | University of Arkansas at Monticello
Dumas

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INTRODUCTORY section



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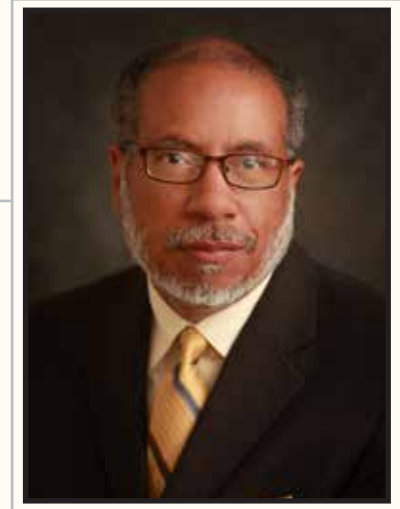
The Arkansas Academic Challenge Scholarship has allowed students to attend Arkansas State University who otherwise may not have had the resources. Additionally, the Academic Challenge Scholarship has enabled students to graduate with reduced student loan debt.”

Dr. Tim Hudson | Chancellor
Arkansas State University

”



November 12, 2013



Fellow Arkansans:

Since 2009, the Arkansas Lottery Commission has remained steadfast in our commitment to maximizing funds for the students of Arkansas. Over the past four years, we have generated \$344,796,599 in net proceeds, resulting in 98,279 scholarships awarded by the Department of Higher Education to deserving college students.

As a commissioner and an educator, I understand the importance of providing opportunities for our students to pursue their dreams through higher education – which, in turn, will help to secure a better future for Arkansas. The \$90 million generated in fiscal year 2013 to provide 32,881 scholarships demonstrates our continuing commitment to the students and families of this state.

Our success would not be possible without the dedication of our employees and retail partners and the support of so many who participate in purchasing lottery tickets. This year, 92 cents of every lottery dollar was returned to the state in the form of scholarships, prizes and retailer commissions. With more than \$292 million in prizes awarded – including five prizes of \$1 million and three prizes of \$2 million – it has been a truly exciting year for lottery participants. Our network of more than 1,890 retailers across the state, who are vital to our organization, received almost \$25 million in retailer commissions.

I invite you to review the details of our 2013 fiscal year, including the audited financial statements. We look forward to proudly continuing with our mission in fiscal year 2014 and hope each of you will continue to contribute to these efforts and accept the challenge to support and reward our deserving college students. This year will be an exciting one as we celebrate the first group of traditional Arkansas Academic Challenge Scholarship recipients who are expected to complete their baccalaureate degrees in the spring.

Please accept our sincere appreciation,

A handwritten signature in black ink that reads "George J. Hammons". The signature is written in a cursive, flowing style.

George Hammons
Chairman, Arkansas Lottery Commission



“

The Arkansas Academic Challenge [Scholarship] has helped me cover the cost of school that financial aid and my family could not cover. It helps keep me focused as a reminder of what I'm here for. The Arkansas Academic Challenge [Scholarship] means a lot to my family and I, and I am very thankful for this opportunity the state has given me.

Braeden Miller | Freshman | University of Central Arkansas
Maumelle

”



State of Arkansas
Arkansas Lottery Commission

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<http://myarkansaslottery.com>

November 12, 2013

The Honorable Mike Beebe, Governor
Members of the Arkansas Lottery Commission Legislative Oversight Committee
Dr. George Hammons, Chair, Arkansas Lottery Commission
Members of the Arkansas Lottery Commission
Citizens of the State of Arkansas

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, 2013. 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.

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 Arkansas Academic Challenge Scholarship program administered by the Arkansas Department of Higher Education (ADHE).



Kaelin Hutchinson | Newport



Alyson Mueller | Newport

PRODUCTS

The public has the opportunity to participate in a variety of instant and terminal-generated games from more than 1,890 ALC-licensed retailers across the state.



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. For fiscal year ended June 30, 2013, we released 48 instant ticket games with price points of \$1, \$2, \$3, \$5, \$10 and \$20.

TERMINAL-GENERATED 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 won. We offer seven different types of terminal-generated games: Powerball®, Mega Millions®, Decades of Dollars, Natural State Jackpot, Cash 3, Cash 4, Fast Play, Arkansas 50/50 and AR Progressive Jackpot.



POWERBALL® is a multi-state draw game jointly operated by the 33 member lotteries of the Multi-State Lottery Association and sold in 45 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 35. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$40 million, which increases for each subsequent draw when the jackpot is not won. Each Powerball® play costs \$2. For an additional dollar, the PowerPlay® feature allows players to win an additional fixed prize of up to \$1,000,000. 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.



MEGA MILLIONS® is a second multi-state draw game sold in accordance with a cross-selling agreement between the 12 Mega Millions® member states and the Multi-State Lottery Association. Mega Millions® is sold in 45 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.



DECADES OF DOLLARS is a draw game sold in Arkansas, Georgia, Kentucky, and Virginia. 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. Drawings are held every Monday and Thursday night.



The **Natural State Jackpot** is an Arkansas-only lotto style draw game that uses a standard matrix where a player selects five different numbers from one to thirty-nine. The game offers overall odds of one in nine of winning a prize, with top prize odds of 1 in 575,757. The top (jackpot) prize starts at \$25,000, with incremental growth of \$5,000 following each draw held without a top prize winner. The game also offers additional prize levels of one dollar for correctly matching two of the numbers drawn; seven dollars for correctly matching three of the numbers drawn; and \$300 for matching four of the numbers drawn. The Natural State Jackpot amount re-sets to \$25,000 when the current jackpot is won by a player (or players) who correctly matched all five numbers drawn in a drawing. Drawings take place nightly Monday through Saturday at 8:00 PM (CT).



CASH 3 is a terminal-generated game in which 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.



CASH 4 is played similarly 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 conducted twice per day except Sunday, which has one drawing.



FAST PLAY is an instant play-style game that prints from retail terminals so players can determine instantly whether they have won. 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.



The **AR Progressive Jackpot Fast Play** launched on April 15, 2013. This game incorporates a new progressive jackpot gaming theme along with fixed lower-tier prizes. This Fast Play game offers the player a chance to win a prize at different fixed-prize levels or a portion of the cumulative jackpot or the entire cumulative jackpot with each play/ticket purchase. The game is available at three different price points (\$1, \$2, and \$5). On the AR Progressive Jackpot Fast Play ticket, a play can win up to five times, \$250 (or 20% of the current jackpot) on a single \$1 ticket; up to ten times, \$500 (or 40% of the current jackpot) on a single \$2 ticket; and up to fifteen times, \$1,000 (or 100% of the current jackpot) on a single \$5 ticket. The AR Progressive Jackpot amount re-sets to \$1,000, if the entire \$5 AR Progressive Jackpot is won. If the \$1 or \$2 AR Progressive Jackpot is won, the current jackpot is reduced to the greater of \$1,000 or by that price points jackpot percentage (\$1=20%, \$2=40%) and continues to grow from that level. The AR Progressive Jackpot amount continuously grows with each ticket sold (10% of each ticket sale is contributed to the current AR Progressive Jackpot amount).





ARKANSAS 50/50 is a raffle-style draw game exclusive to Arkansas. Draw sales begin on the first of every month and end on the last day of every month. Arkansas 50/50 tickets are generated from the retail terminal in sequential order, beginning with 000001 for each drawing. Twenty-five winning numbers are selected in each drawing, which is held on the first Tuesday of each month. Fifty percent of sales during the month preceding the draw are allocated to prizes. Of that amount, 75% is won by one ticket number. The remaining 25% is divided among 24 winning tickets. A player wins if the number on his or her ticket matches, with digits in exactly the same order, any of the winning numbers drawn by ALC.

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. There were a total of 47,968 new player registrations and 23,388,771 tickets entered into the program in the fiscal year ended June 30, 2013, bringing the membership total to 303,883.



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. Forty-two Play It Again™ drawings occurred during fiscal year ended June 30, 2013.



The **Points for Prizes®** program gives players loyalty rewards points for eligible instant and terminal-generated tickets entered into their accounts. A player's points accumulate and may be redeemed for merchandise in the Points for Prizes® on-line store, merchandise ranges from music downloads to electronics. There were a total of 415,286,388 points redeemed in the Points for Prizes® program during the fiscal year ended June 30, 2013. Points may also be used for special drawing prizes; there were a total of 12 Points for Drawings™ during fiscal year ended June 30, 2013.

Points for Drawings™	Entry Period	Draw Date	# of winners	# of entries
Ultimate Fishing Package	05/25/12-07/10/12	07/11/12	5	109,204
Summer SPAtacular	05/16/12-07/16/12	07/17/12	1	45,546
Aloha Pontoon Package	06/13/12-08/13/12	08/14/12	1	78,716
High-Tech Apple Harvest	08/09/12-10/03/12	10/04/12	3	131,318
An Extraordinary Escape (Crescent Hotel Package)	09/04/12-10/03/12	10/04/12	3	102,913
Shuffle Up and Deal	09/24/12-11/18/12	11/19/12	2	20,531
Family Fun Night	10/03/12-12/04/12	12/05/12	2	65,103
Xtreme Give-a-way	11/21/12-12/12/12	12/13/12	10	151,163
Play Ball! (Arkansas Travelers)	12/12/12-02/11/13	02/12/13	1	31,013
Bad Boy Mower	02/11/13-03/17/13	03/18/13	1	60,441
Dream Kitchen Upgrade	03/17/13-04/28/13	04/29/13	2	109,623
The Return of The Great Cookout	04/28/13-05/29/13	05/30/13	3	78,155

In addition to Points for Prizes® and Play It Again™, players may 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 three motorcycles in drawings held for players who entered non-winning \$5 Harley-Davidson® instant tickets into their accounts. Upon entering an eligible ticket, players received one entry for the next upcoming drawing. Three drawings for Harley-Davidson® Fat Boy® motorcycles occurred during fiscal year ended June 30, 2013.



The **WHEEL OF FORTUNE®** Second-Chance Promotion awarded three entries into a million dollar bonus drawing where the winning entry selected had the opportunity to win between \$50,000 and \$1,000,000. The winning entry was selected from 86 total entries submitted by each of the 19 states that participated in the WHEEL OF FORTUNE® Second-Chance Promotion.



The **Mardi Gras World™** Second-Chance Promotion awarded three prize trips to players who entered non-winning Mardi Gras World™ instant tickets into their accounts. The prize was five-day, four-night trips for the prizewinners and one guest to Mardi Gras in New Orleans, Louisiana.



The **Family Feud®** Second-Chance Promotion awarded three prize trips for a chance to play in an exclusive non-broadcast, lottery players-only \$1 million Las Vegas Game Show Experience. The prize was four-day, three-night trips for the prizewinners and one guest to Las Vegas, Nevada.



In honor of the ALC's fourth \$20 instant game which launched in January 2013, the **Arkansas \$2,000,000 Gold Rush** Second-Chance Promotion began, awarding 42 players a portable Blu-ray player and \$100 gift card, 10 players a 60" HDTV home theater system, and one grand prize winner the choice of an Alaskan cruise or a trip to Hawaii for two to players who entered non-winning Arkansas \$2,000,000 Gold Rush instant tickets into their accounts. One drawing was held to select the 53 winners during fiscal year ended June 30, 2013.



The **American Muscle®** Second-Chance Promotion awarded one muscle car to players who entered non-winning American Muscle® instant tickets into their accounts. The lucky prize winner received the choice of one of four muscle cars; a Chevrolet Camaro, Ford Mustang, Dodge Charger, or Dodge Challenger. One drawing occurred during fiscal year ending June 30, 2013.

Second-Chance Promotion	Entry Period	Draw Date	# of winners	# of entries
Harley-Davidson® (Fat Boy® motorcycle)	Drawing #2: 06/18/12-07/15/12	07/17/12	1	59,682
Harley-Davidson® (Fat Boy® motorcycle)	Drawing #3: 07/16/12-08/12/12	08/14/12	1	45,746
Wheel of Fortune® (\$1 million bonus draw)	Drawing #2: 08/02/11-08/21/12	08/29/12	3	3,172,199
Harley-Davidson® (Fat Boy® motorcycle)	Drawing #4: 08/13/12-09/16/12	09/18/12	1	43,500
Mardi Gras World™	Drawing #1: 08/28/12-10/28/12	10/30/12	2	112,899
Mardi Gras World™	Drawing #2: 10/29/12-12/03/12	12/05/12	1	67,263
Family Feud® (Las Vegas Game Show Trips)	Drawing #1: 07/31/12-12/03/12	12/05/12	2	670,301
Family Feud® (Las Vegas Game Show Trips)	Drawing #2: 12/04/12-02/25/13	02/27/13	1	230,589
\$2 Million Gold Rush (Grand Prize Trip)	Drawing #1: 01/29/13-03/25/13	03/28/13	1	199,388
\$2 Million Gold Rush (2nd Prize)	Drawing #1: 01/29/13-03/25/13	03/28/13	10	199,388
\$2 Million Gold Rush (3rd Prize)	Drawing #1: 01/29/13-03/25/13	03/28/13	42	199,388
American Muscle®	Drawing #1: 04/02/13-06/24/13	06/27/13	1	171,617

ECONOMIC CONDITIONS AND OUTLOOK

The start of the lottery in Arkansas in September 2009 was at a time when the nation and state were still experiencing the impact of a severe economic recession. Economic activity started to improve in the third quarter of calendar year 2009 and continued to improve through the first half of 2013, with inflationary adjusted Gross Domestic Product (GDP) and industrial production both showing continued gains.

GROSS DOMESTIC PRODUCT

GDP is the broadest measure of economic activity. The economic output of the national economy, as measured by the GDP, significantly decreased due to the economic recession which began in December 2007, but has been expanding each quarter since the third quarter of calendar year 2009. The last half of calendar year 2012 and the first half of calendar year 2013 continued to show small, incremental gains in the GDP, and the unemployment rate for the State finished the June 30th fiscal year at 7.3%.

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 \$104.07 billion in fiscal year 2013. This represented an increase of \$3.63 billion, or 3.6%, over fiscal year 2012. Fiscal year 2014 is estimated at \$108.21 billion (current dollars), an increase of \$4.14 billion, or 4.0%, over fiscal year 2013.

ARKANSAS WAGE AND SALARY DISBURSEMENTS

Measured in current dollars, wage and salary rose to \$48.33 billion in fiscal year 2013, an increase of \$1.33 billion, or 2.9%, from fiscal year 2012. Fiscal year 2014 is estimated at \$49.80 billion (current dollars), an increase of \$1.47 billion, or 3.0%, from fiscal year 2013.

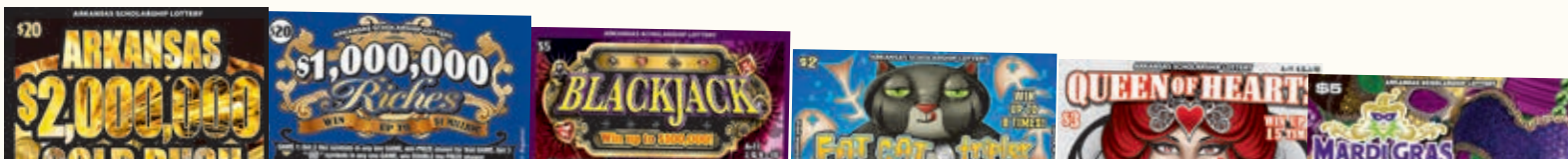
EMPLOYMENT

In fiscal year 2013, wage and salary employment in Arkansas increased to 1.180 million jobs. This represents an increase of 3,617 jobs, or .31%, compared to fiscal year 2012. In fiscal year 2014, wage and salary employment is expected to average 1.196 million jobs. This represents a projected increase of 15,486 jobs, or 1.3%, from fiscal year 2013.

HIGHLIGHTS OF THE PAST YEAR

Management's discussion and analysis (MD&A) can be found immediately following the independent auditor's 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 2013 included:

- Surpassing \$1.7 billion in ticket sales since the lottery's inception.
- Transferring \$115 million to the ADHE for the purpose of funding scholarships.
- The ADHE awarding \$129 million in scholarships during the fall 2012 and spring 2013 semesters.
- Launching the Natural State Jackpot game.
- Launching the AR Progressive Jackpot Fast Play game.



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 scholarship lottery act, 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 scholarship lottery act, the ALC established a Scholarship Shortfall Reserve Trust account. As of June 30, 2013, the trust account was fully funded in the amount of \$20 million.

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 assurances 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. A.C.A. § 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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the ALC for its CAFR for the fiscal year ended June 30, 2012. This was the second consecutive year that the ALC has achieved this prestigious award. 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 generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. Management believes that the 2013 CAFR presented continues to meet the Certificate of Achievement Program's requirements and as required by the rules of the ALC, we are submitting it 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. 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 by visiting ncpgambling.org, or by contacting Gamblers Anonymous at gamblersanonymous.org. If you have questions or would like to speak with a representative of the ALC, call (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. Management would also like to recognize Commission Chairman Dr. George Hammons, commissioners John "Smokey" Campbell III, Julia Baldrige, Bruce Engstrom, Raymond Frazier, Dianne Lamberth, Ben Pickard, Doug Pierce, Mark Scott, and past commissioners Steve Faris, Mike Malone and Patty Shipp 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 be "Bishop Woosley". The signature is stylized with large, flowing loops and a long horizontal tail.

Bishop Woosley
Director

A handwritten signature in black ink, appearing to be "Jerry Fetzer". The signature is written in a cursive style with distinct letter shapes.

Jerry Fetzer
Chief Fiscal Officer

MISSION

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

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

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.
- Playing responsibly: We strongly support the concept of playing responsibly.
- Treating 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.



LISTING OF COMMISSIONERS



**DR. GEORGE HAMMONS,
CHAIRMAN**

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.



**JOHN C. (SMOKEY) CAMPBELL III,
VICE CHAIR**

Campbell spent most of his life in Helena and now resides in Hot Springs. 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.



**JULIA A. BALDRIDGE,
SECRETARY-TREASURER**

Baldrige, whose career spanned more than 40 years as a journalist, gubernatorial press secretary, congressional chief of staff, and law school assistant dean, retired April 30, 2013, after working at the Arkansas lottery for four years during startup. She served the lottery as public affairs and legislative relations director and as interim director. She grew up in Heber Springs and attended Arkansas Tech, where she received a degree in English, followed by graduate school at the University of Arkansas at Fayetteville. This appointment by Senator Michael Lamoureux expires April 1, 2017.



BRUCE R. ENGSTROM

Alifelong 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 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.



DIANNE LAMBERTH

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.



BEN PICKARD

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, 2019.



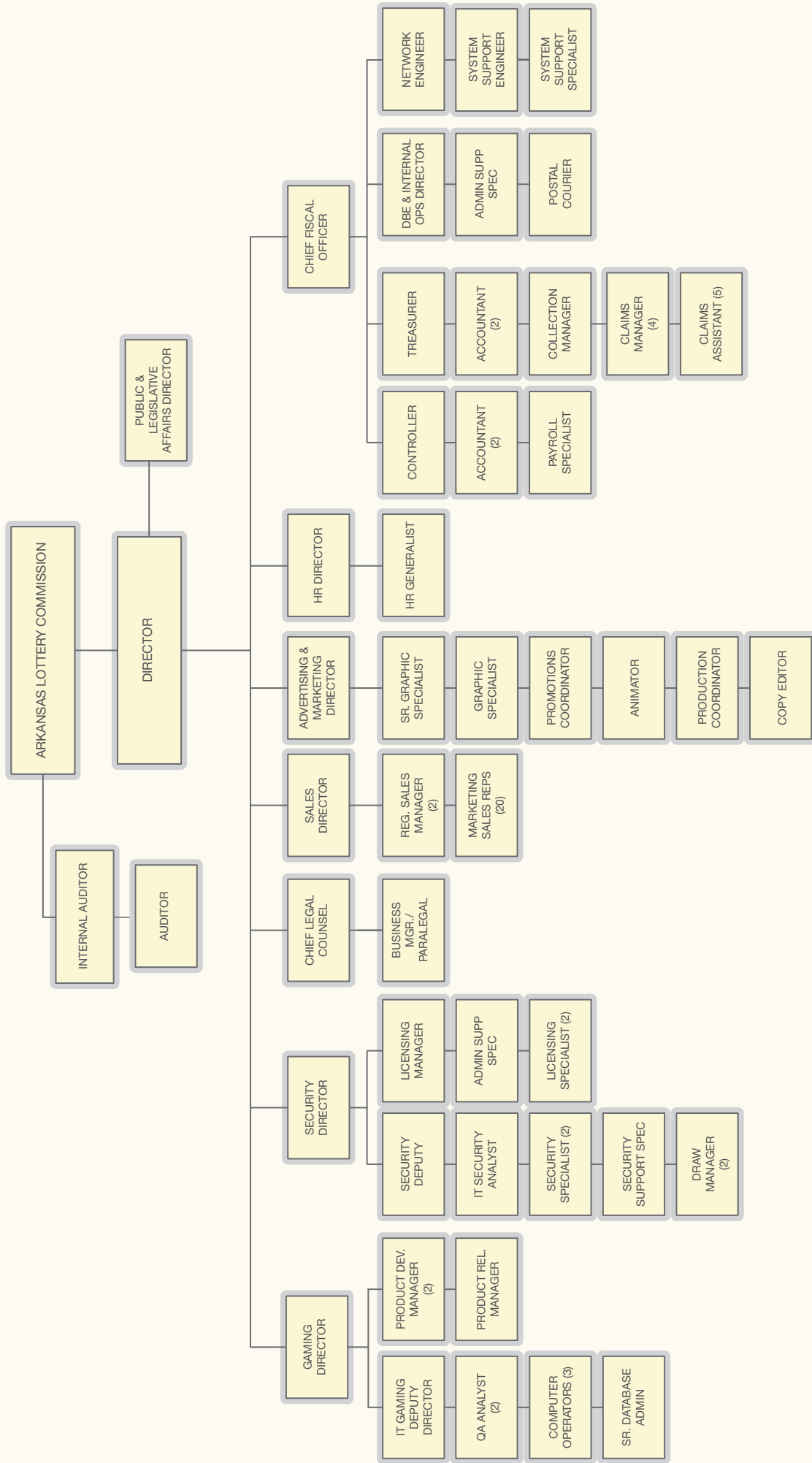
DOUG PIERCE

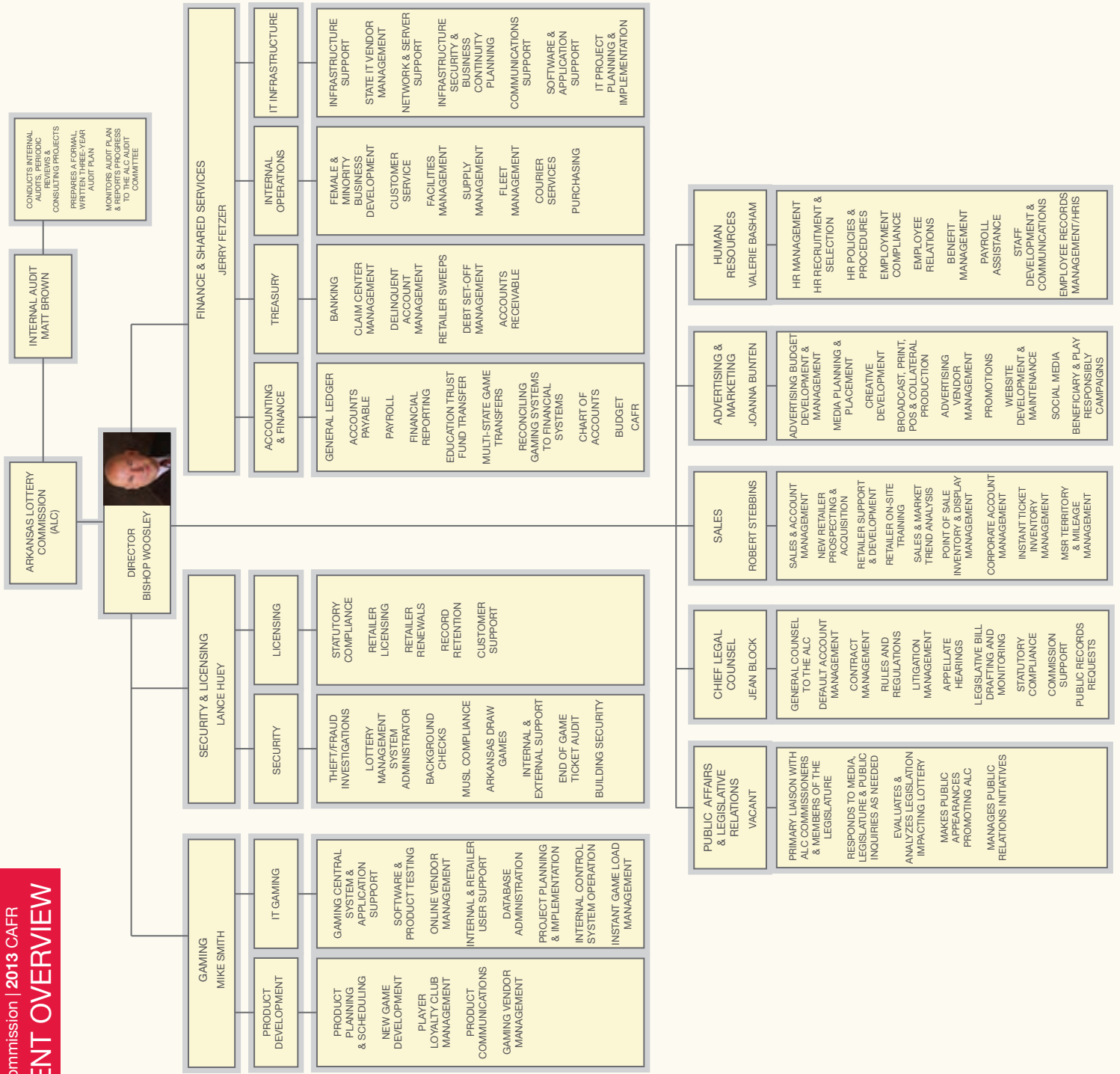
Pierce is the southeast U.S. division sales manager for biotechnology firm Genentech. A 1995 graduate of Arkansas State University, he has held a variety of leadership roles within the biotechnology industry. Prior to coming back home to Arkansas in 2011, Pierce worked in Knoxville, Atlanta and San Francisco. This appointment by Speaker of the House Davy Carter expires April 1, 2019.



MARK SCOTT

Scott has more than 20 years in marketing and communications experience in Arkansas, beginning as a journalist for *The Courier* in Russellville and *The Morning News of Northwest Arkansas*. He served on the communications team of Gov. Mike Huckabee before beginning a career in higher education communications at Hendrix College in Conway and Northwest Arkansas Community College in Bentonville. He is currently public relations manager for Sam's Club. This appointment by Senator Michael Lamoureux expires April 1, 2019.







Government Finance Officers Association

**Certificate of
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Reporting**

Presented to

Arkansas Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

A handwritten signature in black ink, reading "Jeffrey R. Emmer". The signature is written in a cursive style.

Executive Director/CEO

FINANCIAL section



“

The Arkansas Academic Challenge Scholarship is more than just a check; it is providing a way for me to further my education. With this scholarship, I was able to pay for books and afford to live on campus, which brings me closer to my friends.”

Trevor Collins | Sophomore
University of Arkansas at Little Rock
Maumelle



“The Arkansas [Academic] Challenge Scholarship affords many Arkansans the opportunity to continue their education in a college or university. We embrace any student financial assistance program that will help the student achieve his or her college education with minimal debt.

Dr. Dean Kahler | Vice Chancellor for
Enrollment Management
University of Arkansas at Little Rock

”



“

The Arkansas Academic Challenge [Scholarship] has helped me immensely by allowing me to attend school at a much more workable rate than if I did not have it. The Arkansas Academic Challenge [Scholarship], to me, means hope. It gives people like me the hope and capability to attend school without having to face as many financial difficulties.

Spencer Griffin | Senior | University of Central Arkansas
Greenwood

”

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
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

Report on the Financial Statements

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, 2013, which collectively comprise the Arkansas Lottery Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, 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, 2013, 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.

Emphasis of Matter

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, 2013, or the changes in its financial position or its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

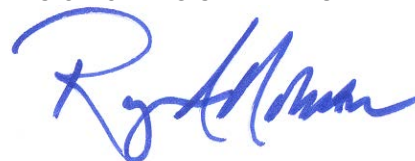
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Arkansas Lottery Commission's basic financial statements. The introductory section, statistical section, and supplementary information, listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The introductory section, statistical section, and supplementary information have not been 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2013, 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, 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* in considering the Arkansas Lottery Commission's internal control over financial reporting and compliance.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
October 23, 2013
SALC08513

MANAGEMENT'S discussion & analysis



“The Arkansas Academic Challenge [Scholarship] has helped many SAU Tech students choose to attend college and stay focused on their academic plans.”

Emily Stover | Recruiter
Southern Arkansas University Tech

“

The Arkansas Academic Challenge [Scholarship] has given me incentive to maintain my GPA and to keep following my future education goals.

Kyla Woody | Sophomore | Southern Arkansas University Tech
Camden

”



“

The Arkansas Academic Challenge [Scholarship] has given me the opportunity to purchase books and other college necessities. It has eased the stress of finding other means to pay for these expenses and allowed me to fully focus on my education. I truly appreciate all the scholarship has done for me.

Morgyn Ellis | Junior | University of Arkansas at Monticello
White Hall

”

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013
(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, 2013. Please read it in conjunction with the ALC's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Operating revenues for the ALC decreased by \$33.5 million in fiscal year 2013 as compared to fiscal year 2012, a decrease of 7.1%. Instant ticket sales decreased \$36.2 million, or 9.3%, and Mega Millions® sales also decreased by \$11.7 million, or 45.7%. Powerball® sales increased \$9.5 million, an increase of 25.1% over fiscal year 2012, and the remaining online games sales increased \$4.9 million, or 26.6%. The increase was primarily related to the introduction of the new Natural State Jackpot game which had initial sales of \$7.0 million.
- As previously mentioned, for fiscal year 2013 the ALC successfully introduced one new online game called Natural State Jackpot, which had revenues of \$7.0 million. Natural State Jackpot is a five number draw game with the jackpot prize starting at \$25,000 and increasing by \$5,000 each drawing until won. Drawings are held each day of the week except Sunday.
- The ALC's operating expenses decreased \$27.1 million, or 7.1%, primarily related to the decrease in prize expense as it relates to the decrease in sales.

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 a proprietary enterprise fund, reporting on all of the activity's assets, deferred outflows, liabilities and deferred inflows 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 position, 2) the statement of revenues, expenses and changes in net position, 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 position presents information on all of the ALC's assets and deferred outflows, as compared to the liabilities and deferred inflows, with the difference between the two groupings reported as net position. However, in the opinion of management, the increase or decrease in net position does not necessarily reflect the condition of the ALC's financial position, because, by statute, the ALC is required to transfer all net proceeds to the Education Trust Account on a monthly basis.

The statement of revenues, expenses and changes in net position reports the ALC's net position and the activities that caused it to change. As stated above, the ALC is required by statute to transfer all net proceeds to an Education Trust Account. Therefore, the change in net position does not necessarily reflect the actual results of the ALC's operating activities.

The statement of cash flows outlines the cash inflows and outflows related to the ALC's primary activities of selling and redeeming prizes for lottery related products and other operating activities.

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 proprietary 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, 2013
(Unaudited)**

**FINANCIAL ANALYSIS
Statement of Net Position**

The ALC's net assets at June 30, 2013, and 2012 were as follows:

Condensed Summary of Assets, Liabilities and Net Position		
	2013	2012
Current assets	\$ 54,893,304	\$ 72,861,057
Non-current assets	21,844,206	21,733,038
Capital assets	358,372	540,530
Total assets	77,095,882	95,134,625
Current liabilities	60,178,793	76,461,089
Long term liabilities	1,306,058	974,130
Total liabilities	61,484,851	77,435,219
Net position:		
Invested in capital assets	358,372	540,530
Restricted	22,844,206	22,733,038
Unrestricted (Deficit)	(7,591,547)	(5,574,162)
Total net position	\$ 15,611,031	\$ 17,699,406

Assets consisted primarily of cash and cash equivalents, which were \$64.1 million and \$81.9 million at June 30, 2013, and 2012, respectively. Accounts receivable were \$10.8 million and \$11.0 million at June 30, 2013, and 2012, respectively. Capital assets, net of depreciation, decreased during the current fiscal year to \$0.4 million from \$0.5 million in fiscal year 2012.

The ALC's liabilities consist primarily of amounts due to the Arkansas Department of Higher Education (ADHE), unclaimed prizes, accrued operating expenses, accrued retirement costs, and unearned sales revenue. Total liabilities decreased during the current fiscal year by \$16 million, or 20.6%.

The ALC's total assets exceed its total liabilities resulting in net position of \$15.6 million at June 30, 2013. This is a decrease in net position of \$2.1 million from the prior year. The restricted net position increased over the prior year by \$0.1 million, which was primarily due to increased deposits with the Multi-State Lottery Association (MUSL). The unrestricted net position (deficit) has decreased from the prior year by an additional \$2.0 million, primarily as a result of timing differences related to the accounting method used to calculate net proceeds and because of increases in the unfunded portion of the Other Post Employment Benefits (OPEB) liability. In the unlikely event that the ALC ceases operations, the Commission or State Legislature may be required to resolve this deficit.

Statement of Revenue, Expenses and Changes in Net Position

During fiscal year 2013, the ALC's activities resulted in a decrease in net position of \$2.1 million compared to a decrease in net position of \$0.9 million in 2012. The decrease in net position for both years was primarily due to timing differences related to the accounting method used to calculate net proceeds and because of increases in the unfunded portion of the OPEB liability. The key elements of the changes in net position for the fiscal years ended June 30, 2013, with comparative information for 2012 are shown in the following table.

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013
(Unaudited)**

Summary of Revenues, Expenses, and Changes in Net Position		
	<u>2013</u>	<u>2012</u>
Operating revenues		
Instant ticket sales	\$ 355,061,785	\$ 391,290,225
Online ticket sales	84,486,209	81,795,382
Retailer application, fidelity and service	556,792	538,584
Other revenue	4,490	15,038
Total operating revenues	<u>440,109,276</u>	<u>473,639,229</u>
Operating expenses		
Instant game prizes	250,246,337	274,203,122
Online game prizes	41,877,845	41,115,706
Commissions and contract costs	47,102,714	50,834,482
General and administrative expenses	11,717,422	11,797,890
Services provided by other agencies	936,736	1,005,549
Depreciation	182,158	182,159
Total operating expenses	<u>352,063,212</u>	<u>379,138,908</u>
Operating income	88,046,064	94,500,321
Nonoperating revenue:		
Interest income	322,722	352,431
Other non-operating income	-	2,000,000
Income before transfers	88,368,786	96,852,752
Transfers to :		
Education Trust Account	(90,257,161)	(97,510,280)
Transfers to ADHS	(200,000)	(200,000)
Increase (decrease) in net position	(2,088,375)	(857,528)
Beginning net position	<u>17,699,406</u>	<u>18,556,934</u>
Ending net position	<u>\$ 15,611,031</u>	<u>\$ 17,699,406</u>

OPERATING REVENUES

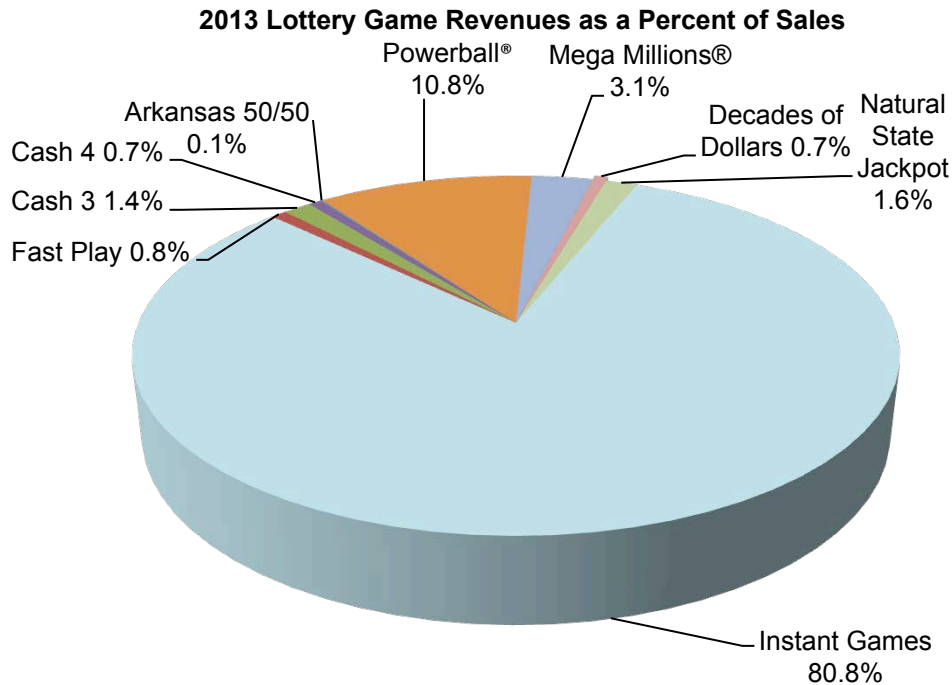
Games Sales

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 the Decades of Dollars Consortium is comprised of four states and operated by the State of Virginia. The ALC also operates Fast Play, Cash 3, Cash 4, and Arkansas 50/50, which are all online games. The ALC also added Natural State Jackpot, which is another online game introduced in August 2012. The table below shows instant ticket sales and sales by online lottery games for the years ended June 30, 2013 and 2012.

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013
(Unaudited)**

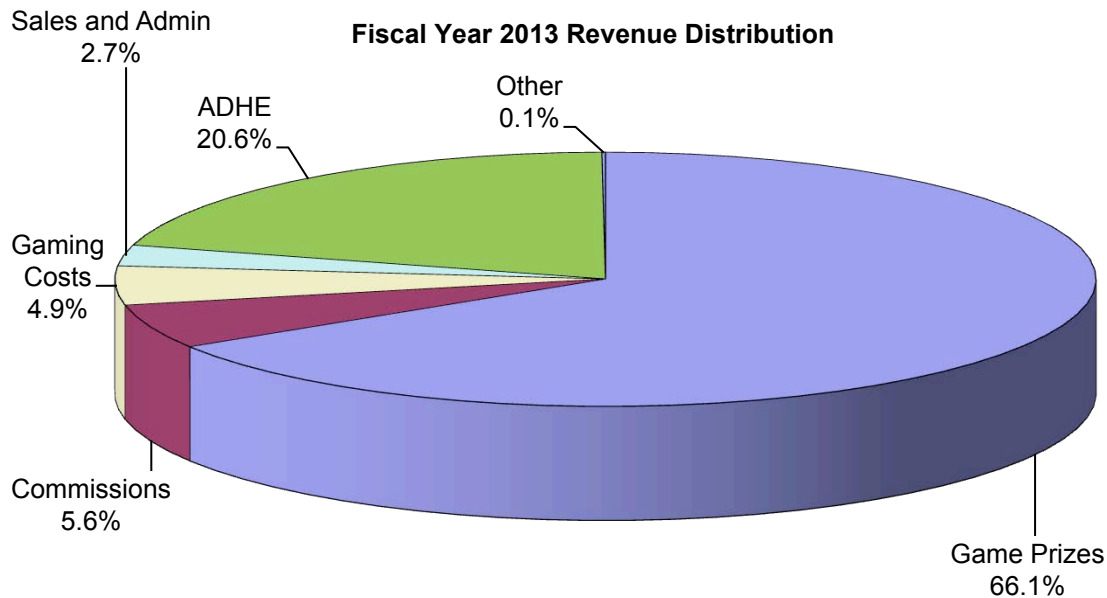
Lottery Games Sales for Years Ended June 30, 2013, and 2012				
Game	2013	2012	Change	% Change
Instant game sales	\$ 355,061,785	\$ 391,290,225	(\$36,228,440)	-9.3%
Fast Play	3,391,691	2,721,436	670,255	24.6%
Cash 3	6,161,706	6,178,537	(16,831)	-0.3%
Cash 4	3,324,150	3,325,490	(1,340)	0.0%
Arkansas 50/50	385,105	857,760	(472,655)	-55.1%
Powerball®	47,409,700	37,903,399	9,506,301	25.1%
Mega Millions®	13,891,465	25,571,602	(11,680,137)	-45.7%
Decades of Dollars	2,927,572	5,237,158	(2,309,586)	-44.1%
Natural State Jackpot	6,994,820	-	6,994,820	100.0%
Total game sales	<u>\$ 439,547,994</u>	<u>\$ 473,085,607</u>	<u>(\$33,537,613)</u>	<u>-7.1%</u>

The ALC saw a \$33.5 million, or 7.1%, decrease in lottery sales for fiscal year 2013 as compared to fiscal year 2012, of which instant ticket sales decreased by \$36.2 million, or 9.3%, while online ticket sales increased by \$2.7 million, or 3.3%. Instant ticket sales continued to be the ALC's most popular product contributing 80.8% and 82.7% to total fiscal year sales for 2013 and 2012, respectively. Correspondingly, the decrease in total game sales for 2013 is primarily attributable to the decrease in sales for instant game tickets. For online game sales, Powerball® had a \$9.5 million, or 25.1%, increase in sales for fiscal year 2013 and Fast Play sales increased by \$0.7 million, or 24.6%, over fiscal year 2012. Natural State Jackpot, which commenced sales in late August 2012, added sales of \$7.0 million for fiscal year 2013. Mega Millions® had a significant decrease in sales of \$11.7 million, or 45.7%, in fiscal year 2013. The other online games such as Cash 3, Cash 4, Arkansas 50/50 and Decades of Dollars also had decreases in sales from fiscal 2012 resulting in an additional reduction of sales from those online games of \$2.8 million, or 18.0%, for fiscal year 2013.



**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013
(Unaudited)**

Distribution of the fiscal year 2013 revenue was as follows:



OPERATING EXPENSES

Prizes

Prizes are the largest operating expense the ALC incurs. Fiscal year 2013 prize expense of \$292.1 million reflects a 7.4% decrease from fiscal year 2012 prize expense of \$315.3 million. This decrease primarily corresponds to the decrease in instant and online ticket sales experienced in fiscal year 2013. The Arkansas Million Dollar Raffle (Raffle) ended in fiscal year 2011. However, because prize liability for online games remains for 180 days after the end of the game, the remaining unclaimed prize liability for Raffle was recognized as a decrease in prize expense of \$159,040 for fiscal 2012 when the 180 days expired.

The following table shows prize expense by lottery game for the years ended June 30, 2013, and 2012, respectively.

Game Prize Expense	Game Prize Expenses			
	2013	2012	Change	% Change
Instant Game prizes	\$ 250,246,337	\$ 274,203,122	\$ (23,956,785)	-8.7%
Fast Play	2,626,718	1,829,979	796,739	43.5%
Cash 3	2,874,240	3,198,570	(324,330)	-10.1%
Cash 4	1,722,300	1,754,300	(32,000)	-1.8%
Arkansas 50/50	152,191	425,722	(273,531)	-64.3%
Powerball®	22,851,049	17,636,208	5,214,841	29.6%
Mega Millions®	6,334,847	12,486,075	(6,151,228)	-49.3%
Decades of Dollars	1,803,152	3,943,892	(2,140,740)	-54.3%
Natural State Jackpot	3,513,348	-	3,513,348	100.0%
Arkansas Million Dollar Raffle	-	(159,040)	159,040	100.0%
Total game prize expense	\$ 292,124,182	\$ 315,318,828	\$ (23,194,646)	-7.4%

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013
(Unaudited)**

The following table shows sales profit margin for instant and online games by for the years ended June 30, 2013, and 2012, respectively.

Lottery Game Profit Margins				
	Instant Tickets		Online Tickets	
	2013	2012	2013	2012
Game revenues	\$ 355,061,785	\$ 391,290,225	\$ 84,486,209	\$ 81,795,382
Prize expense	250,246,337	274,203,122	41,877,845	41,115,706
Gross profit after prizes	<u>\$ 104,815,448</u>	<u>\$ 117,087,103</u>	<u>\$ 42,608,364</u>	<u>\$ 40,679,676</u>
Profit margin after prizes	29.5%	29.9%	50.4%	49.7%

As the table above shows, the profit margin after prizes paid is less for instant games versus online games. High jackpots normally drive sales for online games, whereas the different types of games on the market and the amounts of prizes cashed for a game primarily drive instant ticket sales.

Other Operating Expenses

In addition to prize expense, other expenses include retailer commissions, gaming contract costs, marketing and advertising costs, general administrative costs and depreciation. These other expenses totaled \$59.7 million and \$63.8 million for fiscal years 2013 and 2012, respectively.

The table below shows the profit margin, which is the ALC's total operating revenues less its total operating expenses, for the years ended June 30, 2013, and 2012, respectively.

Operating Expenses Profit Margin				
	2013	2012	Change	Percent Change
Operating revenues	\$ 440,109,276	\$ 473,639,229	\$ (33,529,953)	-7.1%
Operating expenses	352,063,212	379,138,908	(27,075,696)	-7.1%
Operating Income	<u>\$ 88,046,064</u>	<u>\$ 94,500,321</u>	<u>\$ (6,454,257)</u>	-6.8%
Profit margin	20.0%	20.0%		

NON-OPERATING REVENUES AND TRANSFERS

Non-operating revenues were primarily related to interest income of \$322,722 and \$352,431 for the years ended June 30, 2013, and 2012, respectively. For fiscal year 2012, additional non-operating revenues were related to a \$2,000,000 payment by Scientific Games, Inc., as an incentive payment not required by the contract.

In the fiscal years 2013 and 2012, net transfers of \$90.3 and \$97.5 million, respectively, were made to the Education Trust Fund Account bank account. In addition, the net transfers for scholarships from the Education Trust Fund Account bank account to ADHE were \$115,000,000 for both fiscal year 2013 and 2012.

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013
(Unaudited)**

CAPITAL ASSETS

At June 30, 2013, and 2012, the ALC had invested \$1.0 million in capital assets, including equipment and leasehold improvements. These capital assets are depreciating over their estimated useful lives of 5 to 7 years. More detailed information on capital assets may be found in Note 7 of the notes to the financial statements.

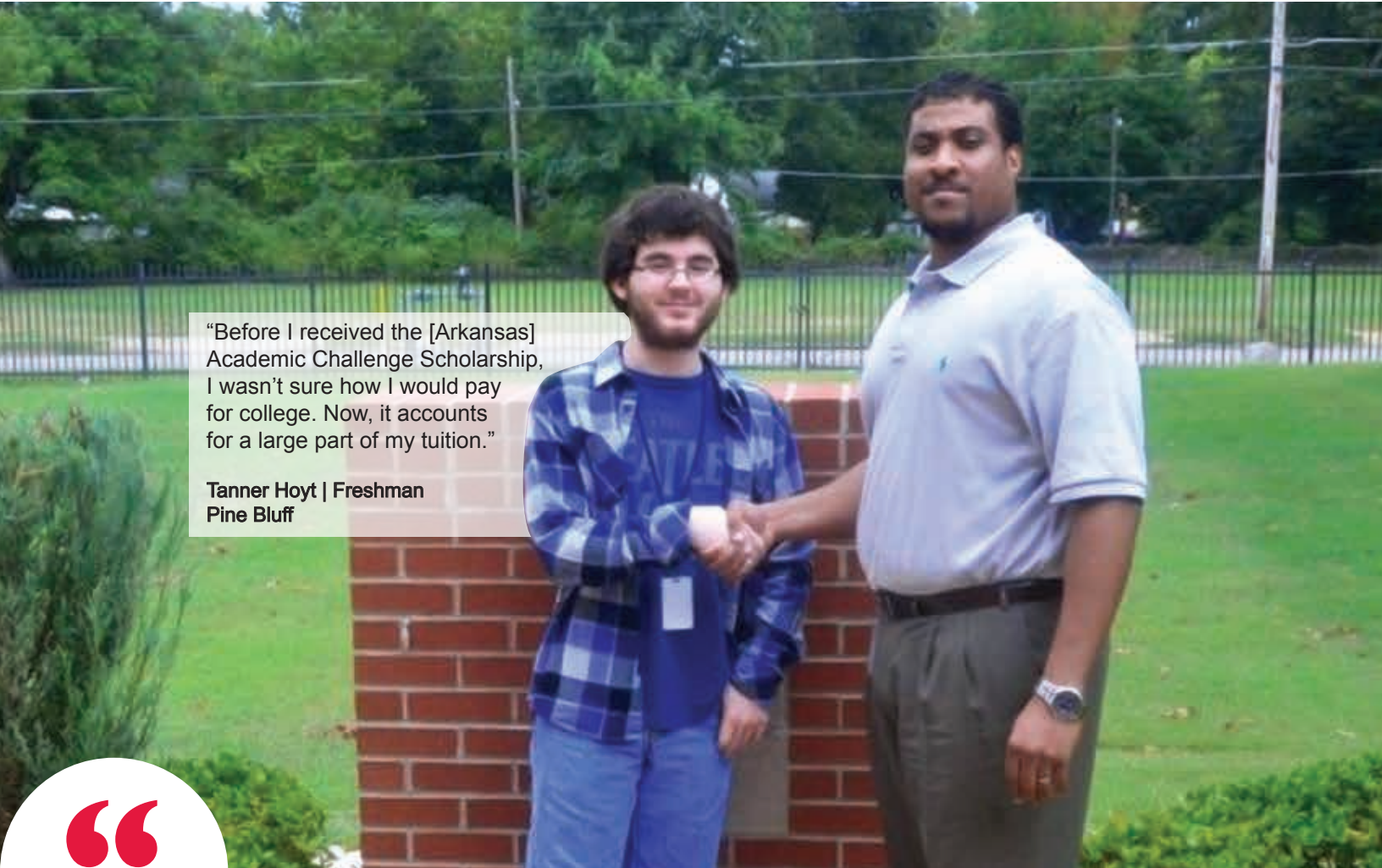
Capital Assets			
	2013	2012	Total % Change
Equipment	\$ 526,665	\$ 526,665	0.0%
Leasehold improvements	498,417	498,417	0.0%
Totals capital assets	1,025,082	1,025,082	0.0%
Total accumulated depreciation	(666,710)	(484,552)	37.6%
Net capital assets	<u>\$ 358,372</u>	<u>\$ 540,530</u>	<u>-33.7%</u>

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



“Before I received the [Arkansas] Academic Challenge Scholarship, I wasn’t sure how I would pay for college. Now, it accounts for a large part of my tuition.”

Tanner Hoyt | Freshman
Pine Bluff

“

The Arkansas Academic Challenge [Scholarship] has helped the student body by providing much-needed funding for those students who could not attend college otherwise. I believe that if we invest in our students, the dividends that are yielded will be evident in every facet of the Arkansas workplace for many years to come.

H. William Smith | Assistant Director of Financial Aid
Southeast Arkansas College

”



“

It has given me the opportunity to chase my dream of becoming a nurse.

Sara Tinsley | Freshman | South Arkansas Community College
El Dorado

”

**Arkansas Lottery Commission
Statement of Net Position
June 30, 2013**

ASSETS

Current assets:

Cash and cash equivalents	\$	4,471,109
Restricted assets:		
Cash and cash equivalents		39,569,121
Accounts receivable		10,814,385
Receivable from other funds of the State		7,020
Prepaid items		31,669
Total current assets		54,893,304

Noncurrent assets:

Restricted assets:		
Cash and cash equivalents		20,070,586
Deposits with Multi-State Lottery Association		1,773,620
Capital assets:		
Equipment		526,665
Leasehold improvements		498,417
Less accumulated depreciation		(666,710)
Total noncurrent assets		22,202,578
 Total assets	 \$	 77,095,882

LIABILITIES

Current liabilities:

Accounts payable	\$	227,467
Prizes payable		18,798,425
Accrued and other liabilities		1,270,319
Due to other funds of the State		963,454
Payable to Arkansas Department of Higher Education		38,569,121
Compensated absences		48,399
Unearned revenue		301,608
Total current liabilities		60,178,793

Long-Term liabilities:

Compensated absences		282,422
Net post employment benefits payable		1,023,636
Total long-term liabilities		1,306,058

Total liabilities		61,484,851
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NET POSITION

Net position:

Invested in capital assets		358,372
Restricted for:		
Scholarship Shortfall Reserve Trust Account		20,000,000
Retailer Fidelity Fund		70,586
Deposits with Multi-State Lottery Association		1,773,620
Unclaimed prizes reserve		1,000,000
Unrestricted		(7,591,547)
Total net position		15,611,031
Total liabilities & net position	\$	77,095,882

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

Arkansas Lottery Commission
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2013

Operating revenues:	
Instant ticket sales	\$ 355,061,785
Online ticket sales	84,486,209
Retailer application, fidelity and service fees	556,792
Other revenue	<u>4,490</u>
 Total operating revenues	 <u>440,109,276</u>
 Operating expenses:	
Instant game prizes	250,246,337
Online game prizes	41,877,845
Retailer commissions	24,986,551
Gaming contract costs	22,116,163
Compensation and benefits	6,049,048
Marketing, advertising and promotions	4,414,655
General and administrative expenses	1,231,212
Services provided by Arkansas Department of Higher Education	794,016
Audit Services provided by Arkansas Division of Legislative Audit	142,720
Legal and professional services	22,507
Depreciation	<u>182,158</u>
 Total operating expenses	 <u>352,063,212</u>
 Operating income	 88,046,064
 Nonoperating revenue:	
Interest income	<u>322,722</u>
 Income before transfers	 88,368,786
 Transfers to:	
Education Trust Account	(90,257,161)
Arkansas Department of Human Services	<u>(200,000)</u>
 Change in net position	 (2,088,375)
 Total net position - beginning	 <u>17,699,406</u>
Total net position - ending	<u><u>\$ 15,611,031</u></u>

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

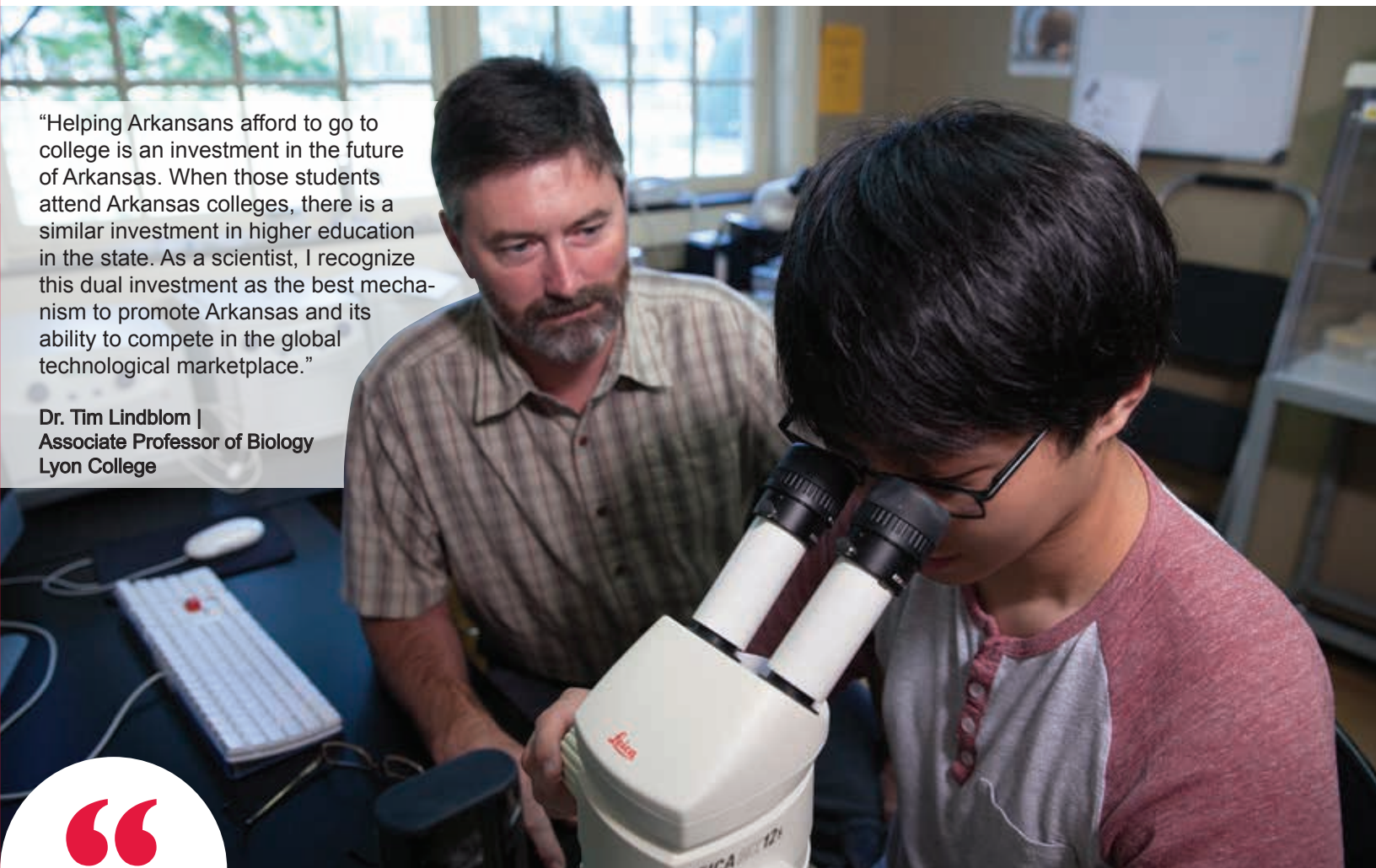
**Arkansas Lottery Commission
Statement of Cash Flows
Year Ended June 30, 2013**

Cash flows from operating activities:	
Cash received from retailers and others	\$ 440,234,069
Cash paid for prizes	(289,313,701)
Cash paid for gaming vendors	(22,410,639)
Cash paid for retailer commissions	(24,986,551)
Cash paid for marketing and advertising	(4,863,664)
Cash paid for employee services	(5,691,914)
Cash paid for other expenses	(2,228,385)
Net cash provided by operating activities	<u>90,739,215</u>
Cash flows from noncapital financing activities:	
Nonoperating transfers to Arkansas Department of Higher Education	(115,000,000)
Nonoperating transfers to Arkansas Department of Human Services	(200,000)
Nonoperating transfers from Arkansas Department of Higher Education	6,342,312
Net cash used by noncapital financing activities	<u>(108,857,688)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	-
Cash flows from investing activities:	
Interest received	<u>322,722</u>
Net decrease in cash and cash equivalents	(17,795,751)
Cash and cash equivalents, beginning of year	81,906,567
Cash and cash equivalents, end of year	<u><u>\$ 64,110,816</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 88,046,064
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	182,158
Net changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	157,254
Receivable from other funds of the State	(7,020)
Prepaid items	414
Deposits with Multi-State Lottery Association	(89,814)
Increase (decrease) in:	
Accounts payable	(273,839)
Prizes payable	2,900,295
Accrued and other liabilities	(494,883)
Due to other funds of the State	16,659
Compensated absences	38,032
Unearned revenue	(32,461)
Net post employment benefits	296,356
Net cash provided by operating activities	<u><u>\$ 90,739,215</u></u>

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



NOTES TO financial statements



“Helping Arkansans afford to go to college is an investment in the future of Arkansas. When those students attend Arkansas colleges, there is a similar investment in higher education in the state. As a scientist, I recognize this dual investment as the best mechanism to promote Arkansas and its ability to compete in the global technological marketplace.”

Dr. Tim Lindblom |
Associate Professor of Biology
Lyon College

“

Without the Arkansas Academic Challenge Scholarship, I wouldn't be able to afford such a worthwhile education. With this scholarship, I have found so many opportunities, like undergraduate research and community leadership. The experiences made possible by the scholarship have proven invaluable in my education and life.

Daniel Trinh | Senior | Lyon College
Fort Smith

”



“

The Arkansas Academic Challenge [Scholarship] has been a great blessing to my life. If it weren't for this scholarship, I honestly don't know how I would've been able to fund school without taking a lot of damaging loans. I'm extremely grateful to be a recipient of this scholarship.

Breyonna Flowers | Senior | University of Central Arkansas
North Little Rock

”

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Arkansas Lottery Commission (ALC) was created by Acts 605 and 606 of 2009 (the Act) for the purpose of establishing, operating, and regulating State of Arkansas (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 governed by a nine-member commission (the Commission) which 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; Fast Play games on October 25, 2010; Decades of Dollars on May 3, 2011, Arkansas 50/50 on October 1, 2011, and Natural State Jackpot on August 27, 2012. Powerball® and Mega Millions® are offered through the Multi-State Lottery Association (MUSL). Decades of Dollars is offered through a consortium of four participating lottery states.

For financial reporting purposes, the ALC is a major enterprise fund of the primary government of the 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.

As a proprietary type enterprise fund of a governmental unit, the ALC must also follow the standards issued by the Governmental Accounting Standards Board (GASB). New GASB Statements and Interpretations are adopted in the years they become effective.

As a proprietary type 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 position, and all revenues (increases) and expenses (decreases) and the change in net position are included in its statement of revenues, expenses and changes in net position. 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-operating. The principal operating revenues of the ALC are from charges to retailers for

Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013

their sales of lottery products. The significant operating expenses include the cost of prizes, retailer commissions, gaming contract costs, other vendor charges, personnel, marketing/advertising, other administrative expenses, inter-agency services and depreciation.

d. Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest 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 activated instant ticket packs and the sales of online games, less the value of prizes paid by the retailer and retailer commissions. Retailer bank accounts are set up in trust for settlements with the ALC and electronic funds transfers are used to collect receivables weekly from such accounts.

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 five thousand dollars (\$5,000) 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 remaining 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 Position, in the period of disposal. The ALC did not dispose of capital assets during the year ended June 30, 2013.

g. Net Position

Net position includes categories for net investments in capital assets and for restricted net position for several items including the Scholarship Shortfall Reserve Trust Account (Scholarship Shortfall Reserve), Retailer Fidelity Fund, Multi-State Lottery Association (MUSL) deposits and for the Unclaimed Prizes Reserve. The net investment in capital assets category represents the purchases of capital assets, recorded at cost less accumulated depreciation. The restricted net position for the Scholarship Shortfall Reserve represents monies set aside to fund scholarships, if needed, due to a lack of ALC net lottery proceeds. The Retailer Fidelity Fund may be used to cover losses due to retailer nonfeasance, malfeasance or misfeasance. The MUSL deposits represent funds set aside to fund Powerball® and Mega Millions® prizes in the event of multiple grand prize winners. The amounts restricted for the Unclaimed Prizes Reserve are by statute only to be used to supplement future prizes, maintain online game reserves at adequate levels or for special prize promotions.

See note 11 for information regarding the unrestricted net position (deficit). It is the practice of the ALC to use restricted resources first, then unrestricted resources when both restricted and unrestricted resources are available.

Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013

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 packs of instant scratch-off tickets are activated for sale by the retailer.

i. Unearned Revenue

Funds collected from retailers for online game tickets sold in advance and are for game drawings which will occur after the end of the monthly accounting period, are recorded as unearned revenue and are subsequently recognized as revenue in the period in which the related drawing for which they were purchased occurs.

Retailer licenses are issued for a two-year period of time. Fee amounts for the periods beyond June 30th of the current fiscal year are recorded as unearned revenue and recognized as revenue in subsequent fiscal year(s).

j. 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 dollar redeemed up to a cashing limit of \$500 per ticket, as tickets for prizes over \$500 must be redeemed at an ALC claim center, and (2) retailers receive an additional selling commission of one percent of each ticket amount of \$10,000 or more for any such prizes validated and paid which were purchased from their retail store. The maximum selling commission for each ticket of \$10,000 or more is \$50,000.

k. Prizes and Unclaimed Prizes

For instant ticket (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 any merchandise prize is recognized when invoiced by the gaming vendor. Any instant game prize that remains unclaimed 90 days after an instant game ending date is considered unclaimed.

Prize expenses for online games are recorded for each game drawing at an established prize payout estimate percentage of the revenue recognized. Any online game prize that remains unclaimed at the end of a 180-day period following a game drawing is considered unclaimed.

Act 1180, enacted April 6, 2011, provided that unclaimed prizes are to be accumulated during the fiscal year, with the Commission being allowed to spend up to \$2,500,000 for future lottery prizes, to maintain online reserves, or for prize promotion. At the end of each fiscal year, the amount of unclaimed prize money, less \$1,000,000, is to be deposited into the Trust Account for net proceeds. For financial statement purposes, unclaimed prizes are a reduction to the overall prize expense recognized.

l. Compensated Absences

Employees earn the right to be compensated during absences for vacation, illness, overtime worked for non-exempt employees, 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

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013**

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. The compensated absences amounts are based on current year-end salary rates and include employer Social Security contributions at the then-current rates.

m. 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.

n. Bad Debt Expense

Bad debt expense is normally recognized when an ALC retailer's uncollected revenue is significantly past due and is in excess of amounts deemed to be collectible. The amount of expense is based on the outstanding aged accounts receivable less the amount of any fidelity bond. The ALC recorded no bad debt expense for the fiscal year ended June 30, 2013. For net proceeds, bad debt expense amounts are recovered from the fidelity fund trust account, which is maintained to offset such potential loss.

2. DEPOSITS

Arkansas Code Annotated (A.C.A.) 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. For fiscal year ended June 30, 2013, the State Board of Finance promulgated certain new cash management and investments standards and procedures, effective July 14, 2012, which replaced the prior standards and procedures established in September 1, 1990. Such standards are 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. Collateral pledged to secure deposits is to be held within the borders of the State of Arkansas and placed with any Federal Reserve Bank; any Federal Home Loan Bank; a banker's bank; or the trust department, or similar safekeeping function, of a commercial bank or trust company primarily located in Arkansas that is unaffiliated with the bank or financial institution in which the funds are deposited. 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. Funds in excess of immediate expenditure requirements (excluding minimum balances) should not remain in non-interest bearing accounts.

In 2009, the ALC entered into a seven-year contract with Bank of the Ozarks to provide primarily all banking services for 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, 2013, the ALC was paid 55 basis points on all ALC deposits. All cash and equivalents at June 30, 2013, were held primarily 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 105 percent of deposits. As of June 30, 2013, total collateral pledged to the ALC was \$76,584,880, to secure total bank balances of \$64,797,369, which was 118.2% of deposits. The collateral is held in the ALC's name by Arkansas Banker's Bank and the Federal Home Loan Bank of Dallas.

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013**

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 \$64,797,369 were exposed to custodial credit risk as of June 30, 2013.

3. ACCOUNTS RECEIVABLE

Management believes that an allowance for uncollectable accounts is not necessary at June 30, 2013. Subsequent collections and surety bond amounts 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 settled	\$ 8,286,255
Amount due for partial week sales through June 30, 2013	2,512,758
Past due accounts and other receivables	<u>15,372</u>
Total accounts receivable	<u>\$ 10,814,385</u>

4. TRUST ACCOUNT for NET PROCEEDS

Per the Act, on or before the 15th day of each month, the ALC is required to deposit the previous month's net proceeds, which per the Act are to be determined by the Commission, as a percentage of lottery proceeds less operating expenses in such a manner to maximize net proceeds and that such proceeds be deposited into one or more trust accounts. Based on the calculation requirement, the Commission determined that the net proceeds calculated each month for transfer to the trust accounts were to be computed using the modified cash basis of accounting for revenues and expenses based on the actual monies received from retailers for instant ticket game sales and for the prize payments made on instant tickets redeemed.

To meet the deposit requirement, an Education Trust Fund Account (the Trust Account) was established with Bank of the Ozarks, and as required by GAAP under accrual based accounting principles, the Payable to Arkansas Department of Higher Education account reflects the corresponding liability on the statement of net position. The Trust Account is restricted for transfers to and from the Arkansas Department of Higher Education (ADHE), and funds are transferred based only on requests from ADHE to meet scholarship needs.

The Trust Account balance as of June 30, 2013, was \$29,644,832, and was reflected as current restricted cash and cash equivalents on the statement of net position. Additionally, the June 2013 net proceeds of \$8,924,289 were transferred from the operating account to the Trust Account subsequent to June 30, 2013. For financial statement purposes, this amount was reflected as current restricted cash and cash equivalents on the statement of net position. Total net proceeds for the year ended June 30, 2013, were \$90,257,161. During fiscal year 2013, a total of \$115,000,000 was transferred to ADHE.

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013**

Activity in the Trust Account for the year ended June 30, 2013, consisted of the following activities:

Education Trust Fund Account balance at 7/01/12	\$	56,969,648
Educational Proceeds for year ended 6/30/13		90,257,161
Returns from ADHE during fiscal year ended 6/30/13		<u>6,342,312</u>
Total Available		153,569,121
Transfers to ADHE during fiscal year ended 6/30/13		<u>115,000,000</u>
Education Trust Fund Account balance at 6/30/13		<u>\$ 38,569,121</u>

5. UNCLAIMED PRIZES RESERVE

Act 1180 of the 2011 Regular Session, enacted by the General Assembly of Arkansas on April 6, 2011, amended the Act to allow the Commission to spend, during a fiscal year, up to \$2,500,000 of unclaimed prizes money for one or more of the following: A) Increasing the pool from which future lottery prizes are awarded; B) Maintaining online game reserves at a fiscally sound level; or for C) Prize promotion. Act 1180 also required that unclaimed prizes should be accumulated for each fiscal year and on the last day of each fiscal year the amount of unclaimed lottery prizes money, less \$1,000,000, be deposited in the trust account for net lottery proceeds.

During fiscal year 2013, in addition to the \$1,000,000 beginning balance, the unclaimed prizes totaled \$5,198,799, of which \$158,385 were approved by the Commission to be used to maintain online game reserves at a fiscally sound level. The unclaimed prizes balance remaining at June 30, 2013, less \$1,000,000, resulted in a deposit of \$5,040,414 to the trust account for net proceeds. At June 30, 2013, the balance of the unclaimed prizes reserve was \$1,000,000, and is reflected as restricted net position, while the corresponding monies related to this reserve are shown as current restricted cash and cash equivalents on the statement of net position.

6. SCHOLARSHIP SHORTFALL RESERVE AND FIDELITY FUNDS

The Scholarship Shortfall Reserve account represents monies set aside to fund scholarships, if needed, due to a lack of ALC net proceeds. The balance of the Scholarship Shortfall Reserve at June 30, 2013, was \$20,000,000, and is reflected as restricted net position on the statement of net position, while the corresponding monies related to the reserve are reflected as noncurrent restricted cash and cash equivalents.

Also, in accordance with the Act, ALC retailers are assessed an annual fidelity fund fee which is recorded to a Retailer Fidelity Fund account, which is reflected as restricted net position on the statement of net position. Fidelity funds collected are deposited in a separate demand deposit account, which is classified as restricted cash and cash equivalents. The balance of the Retailer Fidelity Fund at June 30, 2013, was \$70,586. These funds may be used to cover losses incurred as a result of any nonfeasance, malfeasance or misfeasance of ALC retailers. The ALC sustained losses of \$0 that were charged to the fidelity fund during the year ended June 30, 2013. Per statute, at the end of each fiscal year, fidelity funds exceeding \$500,000 may be treated as net proceeds from the ALC, and subject to deposit into the Trust Account.

7. JOINT VENTURES

GASB Statement No.14, *The Financial Reporting Entity*, as amended, defines a joint venture as a legal entity or other organization that 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 1) an ongoing financial interest or 2) an ongoing financial responsibility. The ALC is an active participant in two separate joint venture arrangements, the Multi-State Lottery Association and the Decades of Dollars Consortium, as described below:

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013**

Multi-State Lottery Association

In July 2009, the ALC joined the Multi-State Lottery Association (MUSL), which is comprised 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. MUSL is audited annually by a separate independent audit firm.

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 payment liabilities. MUSL periodically reallocates the prize reserve funds among the member state lotteries based on relative Powerball® and Mega Millions® sales levels. All remaining funds remitted, and the related interest earnings (net of administrative costs), less any portion of unanticipated prize claims that may have been paid from the fund, will be returned to the ALC, upon leaving MUSL. As of June 30, 2013, the ALC had reserve fund deposits with MUSL of \$1,773,620.

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, 2013, is summarized below:

	<u>Powerball®</u>	<u>Mega Millions®</u>
Operating Revenues	\$ 47,409,699	\$ 13,891,465
Prizes	22,851,049	6,334,847

Decades of Dollars Consortium

On May 3, 2011, the ALC joined the Decades of Dollars Consortium comprised 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 each member lottery shall serve as the Executive Committee. For Decades of Dollars, each lottery in the consortium shall annually subject transactions, accounts and processes to a test of agreed upon procedures by an independent auditor in its state.

The ALC's portion of revenues for "Decades of Dollars" game for the fiscal year ended June 30, 2013, was \$2,927,572, and prizes were \$1,803,151.

8. CAPITAL ASSETS

The activity for capital assets for the year ended June 30, 2013, was:

<u>Capital Assets</u>	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
Equipment	\$ 526,665	\$ -	\$ -	\$ 526,665
Leasehold improvements	498,417	-	-	498,417
Total capital assets	1,025,082	-	-	1,025,082
Less accumulated depreciation for:				
Equipment	(259,439)	(98,902)	-	(358,341)
Leasehold improvements	(225,113)	(83,256)	-	(308,369)
Total accumulated depreciation	(484,552)	(182,158)	-	(666,710)
Capital assets, net	\$ 540,530	\$(182,158)	\$ -	\$ 358,372

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013**

9. LIABILITIES

a. Prizes Payable

Prizes payable at June 30, 2013, consisted of instant and online game prizes as well as any related state and federal withholdings. Instant ticket prizes are estimated based on the end of production prize structure provided by Scientific Games Inc. Prizes payable by category are as follows:

Instant ticket prizes	\$ 15,460,574
Fast Play prizes	86,368
Powerball® prizes	1,921,916
Mega Millions® prizes	353,715
Decades of Dollars prizes	474,058
Cash 4 prizes	24,400
Cash 3 prizes	36,270
Arkansas 50/50	6,489
Natural State Jackpot	408,227
Income tax and other withholdings	26,408
Total	<u>\$ 18,798,425</u>

b. Payable to Other Funds of the State

The Act requires that 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's 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. DLA also provides validation services for certain ALC daily online draw games. The amount due to DLA at June 30, 2013, is listed in the table below.

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

ADHE	\$ 794,016
DLA	24,320
Department of Finance and Administration	3,732
Department of Information Systems	45,980
University of Arkansas	95,406
Total	<u>\$ 963,454</u>

c. 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, 2013.

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013**

As a proprietary type enterprise fund, for financial reporting purposes the ALC recognizes and accrues liabilities for compensated absences as services are performed and the benefits accrue to employees. The compensated absences payable to ALC employees for annual, sick, and compensatory leave at June 30, 2013, totaled \$330,821. The ALC has adopted the State of Arkansas methodology for the computation of the current vs. long-term portion of this liability. This computation is based upon the State average of current vs. long-term portion of this liability for all state employees. For the year ended June 30, 2013, the current portion of the compensated absences liability increased by \$2,460 to a balance of \$48,399, and the long-term portion increased by \$35,572, to a balance of \$282,422.

Long Term Compensated Absences	Beginning Balances	Increases	Decreases	Ending Balances
Annual	\$ 246,250	\$ 413,503	\$ (377,378)	\$ 282,375
Sick	0	0	0	0
Compensatory	<u>600</u>	<u>21</u>	<u>(574)</u>	<u>47</u>
Total	<u>\$ 246,850</u>	<u>\$ 413,524</u>	<u>\$ (377,952)</u>	<u>\$ 282,422</u>

d. Unearned Revenue

Funds collected from retailers for online game tickets sold in advance of the game drawings and are for game drawings which will occur after the end of the monthly accounting period, are recorded as unearned revenue and are subsequently recognized as revenue once the related drawing occurs.

Unearned revenue from online game tickets at June 30, 2013, are summarized as follows:

Powerball®	\$ 127,902
Mega Millions®	87,169
Arkansas 50/50	10,435
Decades of Dollars	20,602
Cash 3	2,811
Cash 4	2,385
Natural State Jackpot	<u>19,694</u>
Total	<u>\$ 270,998</u>

Additionally, retailer licensing and renewal fees collected cover a two-year period. The amounts which pertain to periods beyond the current fiscal year end are also recorded as unearned revenue. At June 30, 2013, the amount of unearned revenue which related to retailer licensing and renewal fees was \$30,610.

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013**

10. 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, 2013, consisted of the following:

Powerball®	\$ 47,409,700
Mega Millions®	13,891,465
Cash 3	6,161,706
Cash 4	3,324,150
Arkansas 50/50	385,105
Decades of Dollars	2,927,572
Fast Play	3,391,691
Natural State Jackpot	6,994,820
Total	<u>\$ 84,486,209</u>

11. 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 ALC headquarters offices are 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, 2013, was \$456,740.

Also, during the year ended June 30, 2013, the ALC entered into a three year operating lease, expiring June 30, 2016, for printing equipment. There was no rent expense for the equipment operating lease in the year ended June 30, 2013.

Future minimum rental payments on operating leases as of June 30, 2013, are scheduled as follows:

2014	\$ 479,827
2015	449,679
2016	80,947
2017	0
2018	0

12. UNRESTRICTED NET POSITION (DEFICIT)

Act 606 of 2009 (Scholarship Lottery Act) section A.C.A. 23-115-801 (a) (3) requires "The percentage of lottery proceeds determined by the commission to be net proceeds shall equal an amount determined by the commission to maximize net proceeds." Section A.C.A. 23-115-103 (19) defines net proceeds to be lottery proceeds less operating expenses; the amount of fidelity fund revenue that exceeds \$500,000; the un-depreciated amount of capital assets; and any accruals that will not result in cash outflow. Per section A.C.A. 23-115-103 (14) "Lottery Proceeds" means all revenue derived from the sale of tickets or shares and all moneys derived from or in connection with the operation of a lottery, including without limitation fees, offsets, reimbursements, insurance proceeds, damages and liquidated damages collected or imposed by the Arkansas Lottery Commission under this chapter. Also A.C.A. 23-115-801 Section (b) (1) requires "On or before the fifteenth day of each month, the commission shall deposit the net proceeds from the lottery into one (1) or more trust accounts at one (1) or more financial institutions."

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013**

To meet these requirements, in October 2009, the ALC developed an accounting method for calculating net proceeds each month. Such method adjusts certain non-cash transactions for instant ticket revenue and for instant ticket prize expense to determine lottery proceeds on a modified cash basis. The Commission has accepted this method for use in the calculation of net proceeds prescribed by section (a) (3) of the Scholarship Lottery Act and such method has been consistently applied for the calculation of net proceeds and the transfers of net proceeds, since its inception.

However, the calculation method utilized results in modified cash basis net proceeds each month which vary from the GAAP net proceeds. Since the net proceeds for each month are transferred to a trust account by the 15th day of the next month, such transfer creates a timing difference for the recognition of certain instant game prize expenses, which results in a debit balance (deficit) in Unrestricted Net Position. At June 30, 2013, the cumulative variance due to the modified cash basis method was a debit balance (deficit) in Unrestricted Net Position of \$(6,567,911).

In addition, the ALC's net OPEB liability (see note 17) of \$1,023,636 has not been funded to date. It will be funded on a pay-as-you-go basis as the benefits related to this liability are due and payable. This creates an additional debit balance (deficit) in Unrestricted Net Position at June 30, 2013 of \$(1,023,636). The total debit balance (deficit) in Unrestricted Net Position at June 30, 2013 was \$(7,591,547).

13. TRANSFERS

Transfers of net proceeds to the Trust Account were \$90,257,161 for the year ended June 30, 2013.

The ALC also made a transfer to the Arkansas Department of Human Services (DHS) in the amount of \$200,000, as stated in note 14.

14. 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.

15. 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 certain 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

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013**

determined. APERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Arkansas Public Employees' Retirement System, One Union National Plaza, 124 West Capitol Ave., 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 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 APERS. ALC is required to contribute to this plan for all covered State employees. For the years ended June 30, 2013, 2012 and 2011, the ALC's required contribution rates were 14.24%, 13.47% and 12.46% of annual covered payroll, respectively.

The annual ALC required contribution amounts and the percentage contributed are determined by the annual actuarial valuation as set forth in the Arkansas Code for APERS. The current year and each of the two preceding years were as follows:

	<u>June 30, 2013</u>		<u>June 30, 2012</u>		<u>June 30, 2011</u>	
	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>
Contributions:						
Employee	5.0 %	\$200,568	5.0 %	\$212,340	5.0 %	\$230,580
ALC	14.24%	<u>613,944</u>	13.47%	<u>606,017</u>	12.46%	<u>598,408</u>
Required Contribution		<u>\$814,512</u>		<u>\$818,357</u>		<u>\$828,988</u>
% Contributed		100%		100%		100%

At June 30, 2013, no pension liability exists for APERS as the State's contribution to each plan was equal to or exceeded its annual required contributions.

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) under government accounting standards.

a. Plan Description

The ALC is an agency of the State. Post-retirement medical and prescription drugs benefits are provided to ALC employees through the Arkansas State Employee Health Insurance Plan (AEP), a single-employer defined benefit healthcare plan, sponsored by the State and administered by Department of Finance and Administration Employee Benefits Division. A copy of the plan and most recent report can be obtained by writing to Employee Benefits Division, 501 Woodlane Ave., Suite 500, Little Rock, AR 72201. For purposes of the plan the State is considered the employer and the ALC is an agency of the State. The plan provides medical and prescription drugs benefits to eligible State employees as established by State law. The contribution requirements of plan members and the State are established and may be amended by the Legislature. The required contribution is based on projected pay-as-you-go financing requirements.

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013**

b. Funding Policy and Funded Status

The State's annual OPEB cost (expense) is calculated and reported at the State level based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and ARC of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The actuarial valuations and funded status of the plan are determined for the State in total and separate valuations and funded status for the ALC are not determined. The ALC's 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.

Projections of benefits are based on actuarial calculations which reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions used in the calculation of the OPEB liability were as follows: Actuarial valuation date: July 2012; Actuarial cost method: Projected Unit Credit; Amortization method: Level Dollar Open; Remaining amortization period: 30 years; Asset valuation method: Market value; Actuarial Assumptions: Investment rate of return, 4.25%; Rate of salary increases, not applicable; Ultimate rate of medical inflation, 4.25%; Inflation, 3.00%.

For the year ended June 30, 2013, there was no required contribution rate and no contributions were made, as the plan is funded on a pay-as-you-go basis and the ALC only had one eligible retiree for whom no contributions were yet due. The ALC's annual OPEB cost for the years ended June 30, 2013, 2012 and 2011 were \$296,356, \$269,290 and \$227,968, respectively. The liability for the current year and each of the two preceding years were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
June 30, 2013	\$ 727,280	\$ 296,356	\$ 0	\$ 1,023,636
June 30, 2012	457,990	269,290	0	727,280
June 30, 2011	230,022	227,968	0	457,990

17. 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, instant ticket lottery games services, and gaming system.

INTRALOT operates the gaming network that consists of approximately 1,890 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. ALC has a seven-year contract with INTRALOT ending in 2016, which includes an option for up to three additional renewals in one-year increments, or a portion thereof. During the year ended June 30, 2013, INTRALOT was compensated at the rate of 2.45% for all online and instant ticket game sales. INTRALOT's compensation for online and instant game services for the fiscal year ended June 30, 2013, was \$10,769,134.

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2013**

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. ALC has a seven-year contract with SGI ending in 2016. During the year ended June 30, 2013, SGI was compensated \$5,600,258, which represents a rate of 1.58% of sales for these services. Additionally, SGI is paid a fee for the Points for Prizes program of 1.50% of the prize fund. During the year ended June 30, 2013, this fee totaled \$5,034,087. 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, 2013, was \$10,939,761.

18. CONTINGENCIES

There are pending lawsuits to which the ALC is a party, as a defendant, primarily as a result of matters which have arisen in the ordinary course of business. One lawsuit is the result of a defalcation. 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.

As mentioned above, during the fiscal year ended June 30, 2013, an employee defalcation involving the misappropriation of instant games tickets was identified. The improper activities were determined to have started during the fiscal year ended June 30, 2010. The estimated total amount of instant games tickets that were improperly activated and cashed was approximately \$478,000. As of June 30, 2013, the ALC had filed bonding and insurance claims which would substantially recover most of the amount.

19. 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, business interruption such as 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 ended June 30, 2013, 2012 and 2011 did not exceed the ALC's insurance coverage.

20. SUBSEQUENT EVENTS

In accordance with GASB 56, ALC's Management has evaluated subsequent events that occurred after June 30, 2013, but prior to October 23, 2013, the date the financial statements were available to be issued.

Such evaluation identified the following transactions related to the Education Trust Fund Account for ADHE (Trust Account) and the corresponding Education Trust Account liability account. On July 17, 2013, ADHE returned \$2,138,092 to the ALC for excess funds for fiscal year 2013, which were deposited to the Trust Account and reflected in the Education Trust Account liability. On August 29, 2013, upon the request of ADHE, a payment of \$45,000,000 was made from the Trust Account to ADHE. On September 13, 2013, upon a supplemental request from ADHE, an additional payment of \$5,000,000 was made from the Trust Account to ADHE.

STATISTICAL section



Bob Stevenson | Theater Arts Instructor
University of Arkansas-Fort Smith

“

The [Arkansas Academic] Challenge [Scholarship] has helped me continue to pursue my goals in education by providing me with financial stability.

Nicole Hutcheson | Freshman | University of Arkansas-Fort Smith
Fayetteville

”



“

The [Arkansas] Academic Challenge Scholarship, along with my work-study jobs as a tutor, lifeguard and fitness center attendant, allow me to afford college. It's a great feeling to know that, with the help of the scholarship, I'm putting my way through college and opening up new opportunities and possibilities about my future.

Kara Willbanks | Senior | University of the Ozarks
Fort Smith

”

STATISTICAL SECTION TABLE OF CONTENTS
(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.

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Financial Trends	30
These schedules contain trend information to help the reader understand how the Commission's financial performance and well-being have changed over time.	
Demographics and Operation Information	34
These schedules offer demographic and operation indicators to help the reader understand the environment within which the Commission's financial activities take place.	
Other Information	38
These schedules provide the reader with an understanding of lottery sales across the United States by state and other player demographics.	

**Arkansas Lottery Commission
Principal Revenue Sources (Unaudited)
Last Four Fiscal Years Ended June 30**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues:				
Instant ticket sales:				
Instant games sales	\$ 355,061,785	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156
Online ticket sales:				
Fast Play	3,391,691	2,721,436	2,636,383	-
Cash 3	6,161,706	6,178,537	5,805,414	5,277,255
Cash 4	3,324,150	3,325,490	3,091,218	-
Arkansas Million Dollar Raffle	-	-	5,000,000	-
Arkansas 50/50	385,105	857,760	-	-
Powerball®	47,409,700	37,903,399	34,961,543	34,998,429
Mega Millions®	13,891,465	25,571,602	24,113,365	7,935,615
Decades of Dollars	2,927,572	5,237,158	932,820	-
Natural State Jackpot	6,994,820	-	-	-
Retailer application, fidelity and service fees	556,792	538,584	1,055,538	867,023
Other revenue	4,490	15,038	5,450	5,650
Total operating revenues	<u>440,109,276</u>	<u>473,639,229</u>	<u>465,080,339</u>	<u>384,571,128</u>
Nonoperating revenue:				
Interest income	322,722	352,431	464,252	181,807
Other non-operating income	-	2,000,000	-	-
Total revenues	<u>\$ 440,431,998</u>	<u>\$ 475,991,660</u>	<u>\$ 465,544,591</u>	<u>\$ 384,752,935</u>

Note: The ALC was established in fiscal year 2009 but began operations with reported revenues in fiscal 2010.
Source: ALC Comprehensive Annual Financial Report for fiscal 2013, 2012, 2011
and ALC Annual Financial Report for fiscal 2010

Arkansas Lottery Commission
Revenue, Expenses and Change In Net Position (Unaudited)
Last Five Fiscal Years

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:					
Instant ticket sales	\$ 355,061,785	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156	\$ -
Online ticket sales	84,486,209	81,795,382	76,540,743	48,211,299	-
Retailer application, fidelity and service fees	556,792	538,584	1,055,538	867,023	-
Other revenue	4,490	15,038	5,450	5,650	-
	<u>440,109,276</u>	<u>473,639,229</u>	<u>465,080,339</u>	<u>384,571,128</u>	<u>-</u>
Operating expenses:					
Instant game prizes	250,246,337	274,203,122	269,898,596	224,341,940	-
Online game prizes	41,877,845	41,115,706	37,556,109	23,381,100	-
Retailer commissions	24,986,551	26,526,329	26,217,851	21,578,603	-
Gaming contract costs	22,116,163	24,308,153	24,111,720	20,448,694	-
Compensation and benefits	6,049,048	5,954,138	6,226,266	6,118,300	-
Marketing, advertising and promotions	4,414,655	4,466,054	4,631,388	4,352,303	-
General and administrative expenses	1,231,212	1,270,047	1,434,229	1,841,340	11,683
Services provided by other agencies:					
Arkansas Department of Higher Education	794,016	846,109	1,170,710	216,849	-
Arkansas Division of Legislative Audit	142,720	159,440	280,728	153,180	-
Legal and professional services	22,507	107,651	8,484	24,182	4,786
Depreciation	182,158	182,159	179,750	122,643	-
	<u>352,063,212</u>	<u>379,138,908</u>	<u>371,715,831</u>	<u>302,579,134</u>	<u>16,469</u>
Operating income (loss)	88,046,064	94,500,321	93,364,508	81,991,994	(16,469)
Nonoperating revenue:					
Interest income	322,722	352,431	464,252	181,807	-
Other non-operating income	-	2,000,000	-	-	-
	<u>88,368,786</u>	<u>96,852,752</u>	<u>93,828,760</u>	<u>82,173,801</u>	<u>(16,469)</u>
Transfers to:					
Education Trust Account	(90,257,161)	(97,510,280)	(74,229,349)	(82,799,809)	-
Arkansas Department of Human Services	(200,000)	(200,000)	(200,000)	(200,000)	-
	<u>(2,088,375)</u>	<u>(857,528)</u>	<u>19,399,411</u>	<u>(826,008)</u>	<u>(16,469)</u>
Change in net position	<u>\$ (2,088,375)</u>	<u>\$ (857,528)</u>	<u>\$ 19,399,411</u>	<u>\$ (826,008)</u>	<u>\$ (16,469)</u>

Note: The ALC was established in fiscal year 2009.

Source: ALC Comprehensive Annual Financial Report for fiscal 2013, 2012 and 2011,
and ALC Annual Financial Report for fiscal 2010 and ALC General Ledger for fiscal 2009

**Arkansas Lottery Commission
Net Position by Component (Unaudited)
Last Five Fiscal Years**

NET POSITION	2013	2012	2011	2010	2009
Net position:					
Invested in capital assets	\$ 358,372	\$ 540,530	\$ 722,689	\$ 867,607	\$ -
Restricted for:					
Scholarship shortfall fund	20,000,000	20,000,000	20,000,000	-	-
Retailer fidelity fund	70,586	49,232	42,205	18,831	-
Deposits with MUSL	1,773,620	1,683,806	1,138,133	457,268	-
Future prizes or special prize promotions	1,000,000	1,000,000	1,000,000	-	-
Unrestricted (deficit)	(7,591,547)	(5,574,162)	(4,346,093)	(2,186,183)	(16,469)
Total net position (deficit)	\$ 15,611,031	\$ 17,699,406	\$ 18,556,934	\$ (842,477)	\$ (16,469)

Note: The ALC was established in fiscal year 2009.

Source: ALC Comprehensive Annual Financial Report for fiscal 2013, 2012, 2011
and ALC Annual Financial Report for fiscal 2010 and ALC general ledger for fiscal 2009

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

	2013	2012	2011	2010	2009
Cash flows from operating activities:					
Cash received from retailers and others	\$ 440,234,069	\$ 473,876,584	\$ 468,220,833	\$ 370,120,513	\$ -
Cash paid for prizes	(289,313,701)	(315,948,269)	(306,303,849)	(231,877,356)	-
Cash paid for gaming vendors	(22,410,639)	(24,588,775)	(24,016,144)	(22,766,421)	-
Cash paid for retailer commissions	(24,986,551)	(26,526,329)	(26,217,851)	(20,594,364)	-
Cash paid for marketing and advertising	(4,863,664)	(4,280,198)	(4,009,445)	(3,515,419)	-
Cash paid for employee services	(5,691,914)	(5,848,550)	(6,157,322)	(5,114,532)	-
Cash paid for other expenses	(2,228,385)	(2,726,247)	(1,897,589)	(1,914,665)	(11,657)
Cash received from other non-operating income	-	2,000,000	-	-	-
Net cash provided (used) by operating activities	<u>90,739,215</u>	<u>95,958,216</u>	<u>99,618,633</u>	<u>84,337,756</u>	<u>(11,657)</u>
Cash flows from noncapital financing activities:					
Interagency advances	-	-	-	(6,000,000)	6,000,000
Payments to Arkansas Department of Higher Education	(115,000,000)	(115,000,000)	(115,000,000)	-	-
Payments from Arkansas Department of Higher Education	6,342,312	12,430,211	20,000,000	-	-
Payments to Arkansas Department of Higher Education	(200,000)	(200,000)	(200,000)	-	-
Net cash provided (used) by noncapital financing activities	<u>(108,857,688)</u>	<u>(102,769,789)</u>	<u>(95,200,000)</u>	<u>(6,000,000)</u>	<u>6,000,000</u>
Cash flows from capital and related financing activities:					
Purchases of capital assets	-	-	(34,832)	(990,250)	-
Cash flows from investing activities:					
Interest received	<u>322,722</u>	<u>352,431</u>	<u>464,252</u>	<u>181,807</u>	<u>-</u>
Net increase in cash and cash equivalents	(17,795,751)	(6,459,142)	4,848,053	77,529,313	5,988,343
Cash and cash equivalents, beginning of year	81,906,567	88,365,709	83,517,656	5,988,343	-
Cash and cash equivalents, end of year	<u>\$ 64,110,816</u>	<u>\$ 81,906,567</u>	<u>\$ 88,365,709</u>	<u>\$ 83,517,656</u>	<u>\$ 5,988,343</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	88,046,064	\$ 94,500,321	\$ 93,364,508	\$ 81,991,994	\$ (16,468)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	182,158	182,159	179,750	122,643	-
Other non-operating income	-	2,000,000	-	-	-
Net changes in assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	157,254	258,522	3,059,565	(14,289,726)	-
Receivable from other Funds of the State	(7,020)				
Prepaid items	414	45,174	(72,138)	(5,119)	-
Deposits with Mult-State Lottery Association	(89,814)	(545,673)	(680,865)	(457,268)	-
Increase (decrease) in:					
Accounts payable	(273,839)	(766,472)	521,541	746,237	-
Prizes payable	2,900,295	(83,767)	1,831,721	14,150,175	-
Accrued and other liabilities	(494,883)	501,610	338,875	924,716	-
Due to other funds of the State	16,659	(382,971)	958,107	396,869	4,811
Compensated absences	38,032	1,191	(191,329)	482,927	-
Unearned revenue	(32,461)	(21,168)	80,930	274,307	-
Net post employment benefits	296,356	269,290	227,968	-	-
Net cash provided (used) by operating activities	<u>\$ 90,739,215</u>	<u>\$ 95,958,216</u>	<u>\$ 99,618,633</u>	<u>\$ 84,337,756</u>	<u>\$ (11,657)</u>

Note: The ALC was established in fiscal year 2009.

Source: ALC Comprehensive Annual Financial Report for fiscal 2013, 2012 and 2011,
ALC Annual Financial Report for fiscal 2010 and ALC general ledger for fiscal 2009

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

Calendar year	Total population (in thousands)	Total personal income (in millions)	Per capita personal income	Unemployment rate
2013*	2,969	104,070	35,052	7.3%
2012*	2,960	101,820	34,399	7.3%
2011	2,940	99,127	33,713	8.0%
2010	2,923	94,581	32,355	7.9%
2009	2,900	91,794	31,651	7.5%

* Estimated amounts

Note: The ALC was established in fiscal year 2009.

Source: IHS Global Insight Inc. (October 2012), derived from data compiled by the U.S. Bureau of Economic Analysis and Census Bureau

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

2013	Employer	Total Employees	% of Total Arkansas Employment
1	Arkansas State Government	57,421	4.8%
2	Wal-Mart Stores, Inc.	47,774	4.0%
3	Tyson Foods, Inc.	23,300	2.0%
4	U.S. Federal Government	20,500	1.7%
5	Baptist Health	7,737	0.7%
6	Sisters of Mercy Health System	6,200	0.5%
7	Arkansas Children's Hospital	4,194	0.4%
8	Arvest Bank Group, Inc.	3,470	0.3%
9	J.B. Hunt Transport Services, Inc.	3,269	0.3%
10	Simmons Foods	3,264	0.3%
		177,129	15.0%

2009	Employer	Total Employees	% of Total Arkansas Employment
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 Transport 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%

Note: The ALC 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 Five Fiscal Years**

Function	2013	2012	2011	2010	2009
Executive	1	1	2	2	1
Public Affairs	0	1	1	1	1
Human Resources	2	2	1	3	-
Legal Counsel	2	1	2	2	-
Internal Audit	2	1	2	2	-
Sales	23	23	23	22	-
Marketing	7	7	7	7	-
Security	5	6	4	4	-
Draw Managers	2	2	1	2	-
Licensing	3	3	4	3	-
Gaming	1	1	1	1	-
IT-Gaming	6	6	7	6	-
Product Development	3	3	2	2	-
Finance					
Chief Fiscal Officer	1	1	1	1	-
Treasurer	3	3	4	4	-
Claims Center	9	9	9	9	-
Controller	5	5	4	3	-
Procurement	2	3	6	6	-
IT-Admin	3	3	3	4	-
Total Employees	80	81	84	84	2
Gender:					
Female	39	41	41	41	1
Male	41	40	43	43	1
Race:					
Black/Non-Hispanic	19	23	23	24	-
Caucasian	54	51	57	57	2
Hispanic	3	2	2	1	-
Other	4	5	2	2	-
Age:					
Under 40	31	34	35	36	-
40+	49	47	49	48	2

Note: The ALC was established in fiscal 2009.
Source: ALC Payroll Department

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

Function	2013	2012	2011	2010	2009
Executive	-	-	-	-	-
Finance:					
Furniture and Fixtures	9	9	9	8	-
Computer Equipment	1	1	1	1	-
Vehicles	2	2	2	1	-
Buildings/Building Improvements	8	8	8	8	-
Gaming:					
Furniture and Fixtures	6	6	6	5	-
Computer Equipment	7	7	7	5	-
Vehicles	2	2	2	2	-
Internal Audit	-	-	-	-	-
Total Number of Assets	35	35	35	30	-

Note: The ALC was established in fiscal 2009.
Source: ALC Finance Division

Arkansas Lottery Commission
U.S. Lotteries' Sales (Unaudited)
Fiscal Year 2013

<u>Lottery Jurisdiction</u>	<u>Population (in millions)</u>	<u>Sales (in millions)</u>	<u>Sales Per Capita</u>	<u>Instant Sales (in millions)</u>	<u>Instant Sales Per Capita</u>
Arizona	6.6	\$ 692.9	\$ 105	\$ 436.6	\$ 66
Arkansas	2.9	439.5	152	355.1	122
California	38.0	4,445.9	117	3,010.1	79
Colorado	5.2	566.3	109	368.6	71
Connecticut	3.6	1,122.7	312	667.3	185
D.C.	0.6	243.8	406	57.9	97
Delaware	0.9	146.3	163	48.2	54
Florida	19.3	5,013.0	260	3,028.5	157
Georgia	9.9	3,912.2	395	2,630.7	266
Idaho	1.6	197.6	124	108.7	68
Illinois	12.9	2,841.3	220	1,768.4	137
Indiana	6.5	934.0	144	614.8	95
Iowa	3.1	339.3	109	202.3	65
Kansas	2.9	255.8	88	126.7	44
Kentucky	4.4	846.7	192	522.2	119
Louisiana	4.6	447.4	97	163.1	35
Maine	1.3	227.8	175	163.4	126
Maryland	5.9	1,756.1	298	485.8	82
Massachusetts	6.6	4,807.5	728	3,343.3	507
Michigan EST (1)	9.9	2,471.1	250	818.8	83
Minnesota	5.4	560.4	104	363.8	67
Missouri	6.0	1,141.2	190	758.9	126
Montana	1.0	57.0	57	17.3	17
Nebraska	1.9	160.9	85	83.6	44
N. Hampshire	1.3	278.7	214	192.1	148
New Jersey	8.9	2,821.4	317	1,474.3	166
New Mexico	2.1	141.8	68	69.9	33
New York (1)	19.6	7,108.9	363	3,724.2	190
N. Carolina	9.8	1,689.8	172	1,011.9	103
N. Dakota (2)	0.7	27.8	40	-	-
Ohio	11.5	2,694.9	234	1,429.7	124
Oklahoma	3.8	200.2	53	89.4	24
Oregon	3.9	330.5	85	117.1	30
Pennsylvania	12.8	3,699.4	289	2,305.1	180
Rhode Island	1.1	253.4	230	85.0	77
S. Carolina	4.7	1,199.2	255	806.0	171
South Dakota	0.8	57.2	72	25.2	32
Tennessee (2)	6.5	1,360.0	209	-	-
Texas EST (1)	26.1	4,356.0	167	3,204.9	123
Vermont	0.6	102.1	170	74.2	124
Virginia	8.2	1,689.2	206	887.1	108
Washington	6.9	569.6	83	356.0	52
West Virginia	1.9	195.6	103	108.6	57
Wisconsin	5.7	565.8	99	323.8	57
Total	297.9	\$ 62,968.2	\$ 211	\$ 36,428.6	\$ 122

(1) Fiscal year ends 6/30 except New York (March 31), Texas (August 31) and Michigan (September 30)

(2) Tennessee and North Dakota Instant sales not reported

Source: *La Fluer's* Magazine - September/October 2013

Arkansas Lottery Commission
U.S. Lotteries' Sales, continued (Unaudited)
Fiscal Year 2012

<u>Lottery Jurisdiction</u>	<u>Population (in millions)</u>	<u>Sales (in millions)</u>	<u>Sales Per Capita</u>	<u>Instant Sales (in millions)</u>	<u>Instant Sales Per Capita</u>
Arizona	6.5	\$ 646.7	\$ 100	\$ 409.8	\$ 63
Arkansas	2.9	473.1	161	391.3	135
California	37.7	4,371.5	116	2,755.4	73
Colorado	5.1	545.3	107	364.2	71
Connecticut	3.6	1,081.7	302	653.3	181
D.C.	0.6	245.0	397	58.3	97
Delaware	0.9	136.0	150	46.1	51
Florida	19.1	4,449.9	233	2,567.0	134
Georgia	9.8	3,834.7	391	2,585.0	264
Idaho	1.6	175.8	111	99.8	62
Illinois	12.9	2,670.4	208	1,624.6	126
Indiana	6.5	855.8	131	547.8	84
Iowa	3.1	310.9	102	188.8	61
Kansas	2.9	253.3	88	130.0	45
Kentucky	4.4	818.8	187	503.1	114
Louisiana	4.6	429.6	94	158.0	34
Maine	1.3	227.7	171	165.1	127
Maryland	5.8	1,794.9	308	506.8	87
Massachusetts	6.6	4,774.1	725	3,295.7	499
Michigan EST (1)	9.9	2,413.3	244	762.0	77
Minnesota	5.3	520.0	97	355.3	67
Missouri	6.0	1,099.7	183	744.2	124
Montana	1.0	52.7	53	16.5	17
Nebraska	1.8	150.1	81	81.5	45
N. Hampshire	1.3	257.9	196	179.4	138
New Jersey	8.8	2,754.9	312	1,417.7	161
New Mexico	2.1	133.7	64	68.7	33
New York (1)	19.5	7,012.7	360	3,578.9	184
N. Carolina	9.7	1,596.7	165	960.0	99
N. Dakota	0.7	26.0	38	-	-
Ohio	11.5	2,733.3	237	1,505.0	131
Oklahoma	3.8	199.9	53	96.0	25
Oregon	3.9	323.2	83	117.5	30
Pennsylvania	12.7	3,480.9	273	2,134.6	168
Rhode Island	1.1	249.5	237	84.0	76
S. Carolina	4.7	1,135.6	243	758.6	161
South Dakota	0.8	52.9	64	24.5	31
Tennessee	6.4	1,311.2	205	1,049.6	164
Texas EST (1)	25.7	4,171.5	162	3,074.8	120
Vermont	0.6	101.0	161	74.6	124
Virginia	8.1	1,616.0	200	842.1	104
Washington	6.8	535.2	78	318.1	47
West Virginia	1.9	201.3	109	117.7	62
Wisconsin	5.7	547.4	96	319.9	56
Total	295.6	\$ 60,771.6	\$ 206	\$ 35,731.3	\$ 121

(1) Fiscal year ends 6/30 except New York (March 31), Texas (August 31) and Michigan (September 30)

Source: *La Fluer's Magazine* - September/October 2012

**Arkansas Lottery Commission
Demographic Summary (Unaudited)
Fiscal Year Ended June 30, 2013**

	Census1	All Respondents	Lottery Players				Non-Players		
			Players Total	Core	Light	Lapsed	Non-Player Total	Trier/Rejecter	Non-Player
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%	9%	9%	9%	18%	24%	14%	24%
Some high school		6%	7%	6%	7%	5%	6%	4%	6%
Completed high school		25%	23%	28%	20%	18%	25%	33%	23%
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	5%	5%	6%	3%	7%	8%	5%	10%	5%
Not of Hispanic, Latino or Spanish origin	95%	95%	94%	97%	93%	92%	95%	90%	95%
Caucasian	78%	79%	73%	73%	73%	79%	81%	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		35%	37%	45%	35%	29%	32%	20%	34%
\$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



“

The Arkansas Academic Challenge Scholarship has allowed me to make lifelong relationships and connections that will take me to the next level. It will also provide an opportunity for me to start a new chapter in my life and help ease the financial burden on my family. My vision and goals have become inevitable! I have absolutely no doubt that with my ambition and hard work, I am now prepared to reach my full potential.”

Lionel Davis II | Sophomore
University of Arkansas, Fayetteville
Fayetteville

“[The Arkansas Academic] Challenge Scholarships make a difference in the lives of thousands of Arkansas students struggling to pay for college. They relieve some of the burden for families as their children pursue the dream of a college education, and they provide students across the state with more options in deciding which college is right for them. The University of Arkansas, [Fayetteville] is the 13th-fastest growing public university in the country in part because of the state’s commitment to [educational] access through the lottery scholarships.

G. David Gearhart | Chancellor
University of Arkansas, Fayetteville

”



“

It has supported me in furthering my education. Knowing that there is financial help to assist you in college provides a sort of comfort.

Kyle Nelson | Freshman | University of Central Arkansas
Little Rock

”

**Arkansas Lottery Commission
Unclaimed Lottery Prize Money (Unaudited)
Fiscal Year Ended June 30, 2013**

Month	Unclaimed lottery prize money	Expenditures from unclaimed lottery prize money	Reserved for future prizes and promotions	Deposits to net lottery proceeds from unclaimed lottery prize money
July	\$ 475,984	\$ -	\$ 475,984	\$ -
August	497,398	158,385	339,013	-
September	736,068	-	736,068	-
October	445,361	-	445,361	-
November	80,425	-	80,425	-
December	445,555	-	445,555	-
January	997,935	-	997,935	-
February	130,658	-	130,658	-
March	138,019	-	138,019	-
April	383,745	-	383,745	-
May	253,558	-	253,558	-
June	614,093	-	(4,426,321)	5,040,414
Total	\$ 5,198,799	\$ 158,385	\$ -	\$ 5,040,414

Source - ALC general ledger

**Arkansas Lottery Commission
Scholarship Shortfall Reserve Trust Account (Unaudited)
Fiscal Year Ended June 30, 2013**

	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>
Beginning Balance	\$ 20,009,018	\$ 20,009,318	\$ 20,009,319	\$ 20,009,018	\$ 20,009,318	\$ 20,009,017
Shortfall Deposits	-	-	-	-	-	-
Interest Earned	9,318	9,319	9,018	9,318	9,017	9,318
Transfers	9,018	9,318	9,319	9,018	9,318	9,017
Ending Balance	<u>\$ 20,009,318</u>	<u>\$ 20,009,319</u>	<u>\$ 20,009,018</u>	<u>\$ 20,009,318</u>	<u>\$ 20,009,017</u>	<u>\$ 20,009,318</u>

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
Beginning Balance	\$ 20,009,318	\$ 20,009,343	\$ 20,008,439	\$ 20,009,343	\$ 20,009,042	\$ 20,009,344
Shortfall Deposits	-	-	-	-	-	-
Interest Earned	9,343	8,439	9,343	9,042	9,344	9,043
Transfers	9,318	9,343	8,439	9,343	9,042	9,344
Ending Balance	<u>\$ 20,009,343</u>	<u>\$ 20,008,439</u>	<u>\$ 20,009,343</u>	<u>\$ 20,009,042</u>	<u>\$ 20,009,344</u>	<u>\$ 20,009,043</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, 2013**

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

<u>VENDORS</u>	<u>Amount Paid</u>	<u>Good or Service</u>	<u>Classification</u>
BSW Advertising	\$ 4,294	Advertising/Public Relations	Minority-Owned
Goddess Products	6,638	Office Furniture/Supplies	Minority-Owned
CCI of Arkansas	660	Electrical Maintenance	Minority-Owned
Northeast Arkansas Cleaning Svcs	5,510	Janitorial Svcs	Female-Owned
Party Prints	5,737	Advertising/Public Relations	Female-Owned
Ride N Shine Detail	206	Auto Detail and Cosmetic Repair	Minority-Owned
SHI International Corporation	7,237	Computer Software	Female-Owned
Trivia Marketing	116	Advertising/Public Relations	Minority-Owned
Total	<u>\$ 30,398</u>		

Intralot Minority- and Female-Owned Diversity Compliance Report

<u>VENDORS</u>	<u>Amount Paid</u>	<u>Good or Service</u>	<u>Classification</u>
Goddess Products	\$ 1,249	Office Furniture/Supplies	Minority-Owned
J Kelly Referrals and Information Svcs, Inc	162,145	Call Center/Information Svcs	Minority-Owned
Total	<u>\$ 163,394</u>		

Scientific Games Minority- and Female-Owned Diversity Compliance Report

<u>VENDORS</u>	<u>Amount Paid</u>	<u>Good or Service</u>	<u>Classification</u>
Mr. Klean Carpet And Janitorial Svcs	\$ 981	Janitorial Svcs	Minority-Owned
Premier Staffing	823	Staffing Svcs	Female-Owned
Central Copiers	4,313	Office Supplies/Equipment	Female-Owned
Expedited Transportation Svcs	175,032	Transportation Svcs	Female-Owned
Total	<u>\$ 181,149</u>		

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

Arkansas Lottery Commission
Retail Sales by County (Unaudited)
Fiscal Year Ended June 30, 2013

COUNTY	Instant*	Cash 3*	Cash 4*	Arkansas 50/50*	Powerball ® *	Mega Millions ® *	Decades of Dollars*	Natural State Jackpot*	Fast Play*	Total
Arkansas	\$ 5,595,596	\$ 75,713	\$ 86,421	\$ 2,055	\$ 416,886	\$ 130,237	\$ 30,766	\$ 99,861	\$ 95,211	\$ 6,532,746
Ashley	1,484,086	115,478	114,538	1,250	252,779	67,523	15,576	24,421	30,250	2,105,901
Baxter	3,824,237	29,216	23,970	4,445	640,287	196,451	51,448	121,068	68,404	4,959,526
Benton	8,808,681	50,263	28,175	13,185	2,483,922	630,011	113,562	168,509	76,977	12,373,285
Boone	4,400,672	28,338	21,877	3,975	502,006	131,869	22,542	60,644	41,843	5,213,765
Bradley	1,695,493	10,666	6,841	2,030	118,801	38,378	9,434	28,290	17,089	1,927,021
Calhoun	526,936	12,029	5,608	220	46,460	14,338	5,750	8,764	3,164	623,269
Carroll	2,769,476	8,293	8,624	1,860	318,436	86,238	16,116	37,282	26,746	3,273,071
Chicot	2,028,983	74,194	41,561	2,685	833,563	229,087	32,072	50,671	16,861	3,309,676
Clark	3,501,122	34,543	14,627	2,085	352,393	96,125	20,594	48,461	35,859	4,105,809
Clay	1,041,467	3,898	929	900	91,695	22,562	7,784	10,115	5,745	1,185,095
Cleburne	3,530,268	15,447	3,591	2,595	514,752	168,490	38,254	103,537	43,089	4,420,023
Cleveland	580,252	3,855	3,699	500	78,578	21,492	4,664	12,517	6,463	712,020
Columbia	2,712,053	136,545	85,689	1,615	234,356	63,800	20,162	43,512	64,686	3,362,417
Conway	4,494,704	84,380	26,288	3,700	471,803	146,713	34,008	84,302	30,305	5,376,203
Craighead	13,571,053	100,587	59,242	10,710	1,495,493	373,724	70,432	180,903	95,856	15,958,000
Crawford	3,941,077	28,896	11,335	6,185	901,611	247,642	39,658	129,622	26,203	5,332,229
Crittenden	5,992,550	171,735	142,675	5,390	1,270,818	341,524	54,292	98,786	75,735	8,153,504
Cross	2,414,432	23,257	19,294	2,845	247,139	68,053	13,214	37,160	41,119	2,866,513
Dallas	1,583,564	16,209	10,766	830	138,215	45,587	8,496	28,880	19,857	1,852,404
Desha	1,853,921	19,498	8,443	1,560	248,874	68,800	12,818	42,357	8,141	2,264,411
Drew	2,030,695	10,063	7,820	2,030	262,799	69,051	17,952	35,262	22,835	2,458,507
Faulkner	13,191,076	108,893	60,460	18,625	1,815,152	547,034	117,516	267,447	86,107	16,212,309
Franklin	1,769,011	8,061	2,281	2,785	292,506	81,141	14,096	38,558	67,181	2,275,620
Fulton	613,755	3,700	1,585	635	89,548	25,335	4,746	11,922	6,401	757,627
Garland	9,518,989	84,778	46,724	15,905	2,085,263	646,964	167,446	354,563	101,055	13,021,686
Grant	1,759,453	5,164	1,960	1,780	250,391	86,973	16,904	45,295	9,574	2,177,493
Greene	6,272,116	20,567	7,789	6,170	609,674	162,463	23,704	77,059	36,837	7,216,379
Hempstead	4,148,947	300,477	102,052	1,835	272,542	90,488	12,560	42,624	32,779	5,004,304
Hot Spring	3,430,862	23,775	8,960	3,235	408,562	129,676	30,854	89,116	22,734	4,147,774
Howard	1,830,232	204,989	63,750	2,460	158,672	54,095	10,202	23,809	14,429	2,362,637
Independence	7,535,909	50,136	17,969	7,940	634,309	191,418	44,252	117,949	72,468	8,672,349
Izard	893,761	4,765	2,974	740	130,137	45,820	9,528	21,615	13,606	1,122,946
Jackson	3,806,080	110,930	68,475	2,825	357,789	109,979	29,972	84,036	43,514	4,613,599
Jefferson	14,583,439	416,675	320,272	10,070	1,467,387	481,745	120,990	382,898	151,694	17,935,170
Johnson	2,454,490	5,977	7,697	4,520	322,736	103,545	16,018	46,622	16,067	2,977,672
Lafayette	767,819	33,042	13,506	310	60,637	16,215	4,440	8,600	11,195	915,763
Lawrence	2,586,332	16,280	3,192	2,160	178,822	45,736	11,220	22,264	22,436	2,888,442
Lee	1,163,753	30,156	26,399	415	88,499	23,035	3,324	9,140	7,801	1,352,522
Lincoln	998,427	5,257	1,725	815	117,753	34,425	5,390	27,322	4,940	1,196,053
Little River	1,042,863	39,324	22,323	510	107,594	33,316	7,762	16,088	8,213	1,277,993
Logan	2,599,572	8,091	2,231	3,015	302,714	90,624	17,300	48,842	28,024	3,100,413
Lonoke	11,453,654	74,220	31,898	9,105	1,392,161	402,544	95,108	202,832	94,424	13,755,945
Madison	575,130	1,220	454	875	117,394	35,020	5,572	14,645	18,654	768,964
Marion	1,772,178	14,166	6,617	1,155	231,937	65,222	23,946	44,520	25,509	2,185,250
Miller	5,035,645	304,610	97,525	2,755	435,114	141,639	24,252	52,446	21,233	6,115,219
Mississippi	5,981,867	462,132	177,181	5,065	567,073	143,629	24,230	58,384	31,082	7,450,643
Monroe	1,565,497	46,088	17,036	850	218,164	58,798	10,442	26,258	10,846	1,953,979
Montgomery	251,149	273	325	315	75,931	22,073	3,500	11,114	8,614	373,294
Nevada	2,668,440	38,107	8,960	990	162,127	50,141	13,090	22,119	34,641	2,998,615
Newton	642,181	730	445	420	52,082	15,427	2,902	7,595	8,244	730,026
Ouachita	5,279,301	100,122	51,301	3,470	389,624	114,558	25,130	86,337	125,778	6,175,621
Perry	889,211	7,002	2,959	835	140,029	46,755	7,640	21,288	5,579	1,121,298
Phillips	2,419,034	78,170	47,777	2,110	447,285	126,507	14,866	32,107	17,689	3,185,545
Pike	943,088	1,380	1,028	1,510	149,402	48,286	7,628	30,875	19,997	1,203,193
Poinsett	4,775,011	58,254	21,265	3,795	386,214	93,861	13,378	63,092	52,814	5,467,684

Arkansas Lottery Commission
Retail Sales by County, continued (Unaudited)
Fiscal Year Ended June 30, 2013

COUNTY	<u>Instant*</u>	<u>Cash 3*</u>	<u>Cash 4*</u>	<u>Arkansas 50/50*</u>	<u>Powerball ® *</u>	<u>Mega Millions ® *</u>	<u>Decades of Dollars*</u>	<u>Natural State Jackpot*</u>	<u>Fast Play*</u>	<u>Total</u>
Polk	1,460,337	6,561	847	1,685	258,282	79,098	17,522	38,974	14,330	1,877,636
Pope	9,265,010	66,152	34,583	9,205	1,130,985	324,732	73,910	181,462	95,135	11,181,174
Prairie	1,906,145	32,227	9,897	855	183,945	48,244	10,852	27,490	9,563	2,229,217
Pulaski	65,324,858	1,144,652	773,676	58,300	8,653,271	2,719,217	652,166	1,498,707	599,373	81,424,220
Randolph	1,817,273	1,254	1,348	1,695	180,148	43,089	14,448	30,292	11,527	2,101,074
Saint Francis	2,756,130	98,177	63,167	2,195	391,214	108,038	12,396	47,030	16,136	3,494,482
Saline	12,841,608	119,167	41,363	13,705	1,929,098	582,107	140,782	285,812	106,432	16,060,074
Scott	1,284,944	3,059	815	1,010	134,342	38,936	4,536	18,343	6,521	1,492,506
Searcy	1,189,746	21,819	6,173	665	107,001	31,000	8,582	16,239	20,893	1,402,118
Sebastian	8,339,449	197,157	44,458	16,440	2,098,165	601,777	97,592	288,735	74,870	11,758,643
Sevier	1,414,880	44,075	9,283	1,020	159,090	48,514	5,838	22,268	11,176	1,716,144
Sharp	2,313,581	10,125	3,702	2,905	230,291	69,869	14,766	35,300	25,108	2,705,646
Stone	1,025,918	11,865	2,650	1,295	154,638	44,583	11,632	27,664	10,847	1,291,092
Union	7,290,655	463,625	248,747	5,250	637,957	188,286	38,374	77,690	56,822	9,007,406
Van Buren	1,728,327	15,740	5,812	2,010	253,280	75,973	15,742	41,578	16,282	2,154,744
Washington	15,396,050	124,317	59,195	21,300	3,001,079	822,463	138,646	261,616	98,961	19,923,627
White	13,129,404	45,786	31,172	8,055	1,094,158	316,272	64,234	190,288	89,209	14,968,578
Woodruff	1,380,042	28,098	5,713	810	131,235	35,883	5,396	22,421	12,234	1,621,832
Yell	2,005,143	6,629	1,627	1,800	259,870	84,286	17,732	39,650	32,251	2,448,988
Grand Total	<u>\$355,469,090</u>	<u>\$6,161,079</u>	<u>\$ 3,323,318</u>	<u>\$ 342,850</u>	<u>\$ 47,424,939</u>	<u>\$13,884,549</u>	<u>\$ 2,924,648</u>	<u>\$7,015,864</u>	<u>\$3,392,267</u>	<u>\$ 439,938,604</u>

*Estimates

(1) Cash Sales, not on accrual basis

Arkansas Lottery Commission
Demographic Report from the Arkansas Department of Higher Education (Unaudited)
Fiscal Year Ended June 30, 2013

<u>Institution</u>	<u>Awards</u>	<u>Scholarships</u>
Arkansas Baptist College	47	\$ 202,001
Arkansas Northeastern College	159	329,037
Arkansas State University Beebe	726	1,481,211
Arkansas State University Jonesboro	3,555	15,998,792
Arkansas State University Mountain Home	213	438,383
Arkansas State University Newport	189	382,580
Arkansas Tech University	3,047	13,612,155
Arkansas Tech University Ozark Campus	97	207,293
Baptist School of Nursing	68	147,972
Black River Technical College	249	499,017
Central Baptist College	203	882,186
College of the Ouachitas	75	154,009
Cossatot Community College UA	168	338,385
Crowley's Ridge College	63	286,250
East Arkansas Community College	102	204,630
Ecclesia College	23	95,313
Harding University	640	2,857,504
Henderson State University	1,385	6,100,304
Hendrix College	314	1,449,000
Jefferson School of Nursing	*	5,252
John Brown University	328	1,938,084
Lyon College	288	1,315,938
Mid South Community College	119	210,225
National Park Community College	306	575,505
North Arkansas College	297	607,027
Northwest Arkansas Community College	814	1,527,281
Ouachita Baptist University	630	2,904,700
Ozarka College	158	319,133
Philander Smith College	64	263,751
Phillips Community College UA	96	206,533
Pulaski Technical College	688	1,276,709
Rich Mountain Community College	95	195,723
South Arkansas Community College	107	214,228
Southeast Arkansas College	126	211,495
Southern Arkansas University	850	3,789,037
Southern Arkansas University Tech	117	247,128
University of Arkansas at Monticello College of Technology - Crossett	14	29,813
University of Arkansas at Monticello College of Technology - McGehee	*	18,658
University of Arkansas Community College Batesville	209	433,692
University of Arkansas Community College Hope	176	366,399
University of Arkansas Community College Morrilton	362	734,328
University of Arkansas Fayetteville	5,882	26,554,851
University of Arkansas for Medical Sciences	172	808,752
University of Arkansas Fort Smith	2,038	8,987,107
University of Arkansas Little Rock	1,927	8,365,747
University of Arkansas Monticello	710	3,117,212
University of Arkansas Pine Bluff	361	1,577,768
University of Central Arkansas	4,139	18,573,862
University of the Ozarks	205	932,000
Williams Baptist College	268	1,193,688
Total	<u>32,881</u>	<u>\$ 133,167,648</u>

Totals include Traditional, Nontraditional, Current Achiever and Original Challenge Recipients.
* Indicates Restricted Value and is used where the aggregate was less than ten (10).
Restricted Values are used to ensure the privacy of student records under Federal and State law.
ADHE Status Reports totals will vary due to Restricted Values (12).
Source: Arkansas Department of Higher Education, unaudited

Arkansas Lottery Commission
Projected Obligations from Scholarship and Grant Funding Sources
from Arkansas Department of Higher Education (Unaudited)
Fiscal Year Ending June 30, 2013

Title	FY 14 Budget	FY 15 Budget
Academic Challenge Scholarships	\$ 20,000,000	\$ 20,000,000
AR Geographical Critical Needs	150,000	150,000
Chiropractic	260,000	260,000
Dental Aid	987,370	987,370
Dental Loans	2,133,900	2,932,200
Law Enforcement Dependents	400,000	400,000
Governor's Scholars	13,200,000	12,750,000
Opportunities Grants	5,200,000	6,000,000
Military Dependents of POWS, MIAS, KIAS	450,000	450,000
Scholarship Administration	505,000	505,000
National Guard Tuition Assistance	1,310,000	1,500,000
Optometry Scholarships	410,000	410,000
Optometry Loans	140,000	140,000
Osteopathy	230,000	230,000
Podiatry	130,400	130,400
Second Effort Scholarships	10,000	10,000
Single Parent Scholarship	160,000	175,000
SREB Minority Doctoral Scholars	175,000	200,000
STEP State Teacher Education Program	1,380,000	1,580,860
SURF Program	150,000	150,000
Teacher Opportunity Program	785,000	2,000,000
Tuition Adjustment	350,000	350,000
Veterinary Aid	1,100,000	1,100,000
Washington Center Scholarships	120,000	120,000
Web Based Application	250,000	250,000
Workforce Improvement Grants	3,500,000	3,500,000
DHE Program Coordinator	90,000	90,000
Total All Financial Aid Programs	\$ 53,576,670	\$ 56,370,830

Source: Arkansas Department of Higher Education, unaudited

**Arkansas Department of Higher Education
Academic Challenge Scholarship Program
County Report
Fiscal 2013**

County	2012 Population Estimate	% State Population	Awards	Amount
Arkansas	18,892	0.64%	243	\$ 958,209
Ashley	21,524	0.73%	206	858,628
Baxter	41,048	1.39%	378	1,391,251
Benton	232,268	7.88%	2,110	8,591,430
Boone	37,327	1.27%	411	1,483,469
Bradley	11,397	0.39%	102	411,909
Calhoun	5,307	0.18%	54	222,001
Carroll	27,610	0.94%	153	582,913
Chicot	11,433	0.39%	99	431,239
Clark	22,936	0.78%	313	1,320,044
Clay	15,684	0.53%	140	557,816
Cleburne	25,808	0.88%	280	1,023,997
Cleveland	8,627	0.29%	101	431,544
Columbia	24,473	0.83%	255	1,094,040
Conway	21,287	0.72%	263	1,043,430
Craighead	99,735	3.38%	1,247	5,278,858
Crawford	61,946	2.10%	848	3,729,038
Crittenden	50,021	1.70%	499	1,962,211
Cross	17,683	0.60%	209	832,189
Dallas	7,987	0.27%	68	281,690
Desha	12,545	0.43%	118	506,193
Drew	18,743	0.64%	211	921,208
Faulkner	118,704	4.03%	1,774	7,325,651
Franklin	18,045	0.61%	261	1,119,359
Fulton	12,318	0.42%	136	488,931
Garland	96,903	3.29%	1,054	4,107,970
Grant	17,986	0.61%	206	856,019
Greene	43,163	1.46%	507	2,086,805
Hempstead	22,373	0.76%	202	755,722
Hot Spring	33,394	1.13%	351	1,400,481
Howard	13,735	0.47%	190	752,539
Independence	37,025	1.26%	381	1,420,989
Izard	13,474	0.46%	149	535,413
Jackson	17,600	0.60%	148	513,244
Jefferson	74,723	2.53%	786	3,195,008
Johnson	25,901	0.88%	297	1,268,846
Lafayette	7,447	0.25%	68	267,568
Lawrence	17,012	0.58%	225	826,047
Lee	10,216	0.35%	60	238,907
Lincoln	14,101	0.48%	126	508,159
Little River	12,919	0.44%	124	492,313
Logan	21,983	0.75%	305	1,315,333
Lonoke	69,839	2.37%	991	3,854,739
Madison	15,645	0.53%	164	612,306

**Arkansas Department of Higher Education
Academic Challenge Scholarship Program, continued
County Report
Fiscal 2013**

<u>County</u>	<u>2012 Population Estimate</u>	<u>% State Population</u>	<u>Awards</u>	<u>Amount</u>
Marion	16,568	0.56%	126	462,038
Miller	43,634	1.48%	211	817,707
Mississippi	45,562	1.54%	416	1,503,819
Monroe	7,828	0.27%	75	309,876
Montgomery	9,340	0.32%	77	271,741
Nevada	8,925	0.30%	96	355,502
Newton	8,086	0.27%	86	300,982
Ouachita	25,396	0.86%	326	1,276,766
Perry	10,339	0.35%	138	535,950
Phillips	20,784	0.70%	200	768,122
Pike	11,247	0.38%	146	521,761
Poinsett	24,307	0.82%	244	987,436
Polk	20,471	0.69%	219	822,221
Pope	62,765	2.13%	881	3,806,627
Prairie	8,458	0.29%	96	358,876
Pulaski	388,953	13.19%	4,164	17,289,983
Randolph	17,930	0.61%	191	721,989
St. Francis	27,858	0.94%	173	658,089
Saline	111,845	3.79%	1,536	6,343,546
Scott	11,010	0.37%	154	612,910
Searcy	8,007	0.27%	92	320,164
Sebastian	127,304	4.32%	1,587	7,066,922
Sevier	17,177	0.58%	199	695,470
Sharp	17,054	0.58%	235	826,721
Stone	12,663	0.43%	131	483,626
Union	40,867	1.39%	500	2,039,759
Van Buren	17,030	0.58%	143	533,941
Washington	211,411	7.17%	2,332	9,616,615
White	78,493	2.66%	934	3,538,009
Woodruff	7,100	0.24%	71	272,250
Yell	21,932	0.74%	252	1,042,529
Not Reported			37	150,045
Total	2,949,131	100%	32,881	\$ 133,167,648

Source: Arkansas Department of Higher Education; U.S. Census Bureau

**Arkansas Lottery Commission
Debt Set-off Collections (Unaudited)
Fiscal Year Ended June 30, 2013**

Department of Finance and Administration:	
Taxes due to the State	\$ 164,385
Delinquent Child Support	<u>66,672</u>
Total	<u>\$ 231,057</u> *

* Note: In accordance with regulation 23-115-403 of the Arkansas Scholarship Lottery Act, the ALC set-offs 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: ALC Finance Division

**Arkansas Lottery Commission
Fund Balance and Other Information
from Arkansas Department of Higher Education (Unaudited)
Fiscal Year Ending June, 2013**

Fund Balances

Higher Education Grants Fund	\$	9,509,718
Lottery Net Proceeds Trust Account*	\$	2,138,094

State Lottery Net Proceeds Trust Account

Deposits	\$	135,130,900
Disbursements		132,992,806
June 30, 2013, Balance	\$	<u>2,138,094</u>

Evaluation of Net Proceeds

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

ADHE 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, unaudited

**Arkansas Lottery Commission
Term Contracts for Goods and Services
Fiscal Year Ended June 30, 2013**

1. On July 3, 2012, a Non-Exclusive Licensing Agreement was executed between the Arkansas Lottery Commission (ALC) and Scientific Games International (SGI). SGI grants the ALC the non-exclusive right in the state of Arkansas to reproduce, use and make copies of the Property in association with the sale, marketing, advertising and promotion of a scratch-off instant win lottery game to be conducted by the ALC and identified as AR-160 Pink Panther™. A copy of the agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee.
2. On July 9, 2012, a Non-Exclusive Licensing Agreement was executed between the Arkansas Lottery Commission and Scientific Games International. SGI grants the ALC the non-exclusive right in the state of Arkansas to reproduce, use and make copies of the Property in association with the sale, marketing, advertising and promotion of a scratch-off instant win lottery game to be conducted by the ALC and identified as AR-162 Mardi Gras World™. A copy of the agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee.
3. On October 15, 2012, the Arkansas Lottery Commission approved the language of the First Amendment to the August 15, 2009, Agreement for Contractual Services for Online Lottery Game Services and Lottery Gaming System and Services between the Arkansas Lottery Commission and Intralot, Inc. for the remainder of the contract term. This amendment was effective as of the day and year first written. It did not change the term (length) of the contract between the parties. The value of the agreement is the projected increase in sales due to additional advertising; that amount is not yet known. There are no additional costs associated with this amendment.
4. On October 22, 2012, a Non-Exclusive Licensing Agreement was executed between the Arkansas Lottery Commission and Scientific Games International. SGI grants the ALC the non-exclusive right in the state of Arkansas to reproduce, use and make copies of the Property in association with the sale, marketing, advertising and promotion of a scratch-off instant win lottery game to be conducted by the ALC and identified as AR-170 Pac-Man™. A copy of the agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee.
5. On February 4, 2013, the Arkansas Lottery Commission and Advent Systems, Inc. entered into a Security Equipment Service Agreement for service to ALC's Claim Centers. These Claim Centers are located in Little Rock, Camden, Jonesboro and Springdale. The agreement is for a period of six (6) months, from January 1, 2013, through June 30, 2013. Service includes: (1) Scheduled Maintenance Visits; (2) Software Maintenance; (3) Hardware Repair Service; (4) Instant Loaner; (5) On-Call Telephone Support; (6) Emergency Services; (7) Service Calls; and (8) Off-Hour Support. The total amount for the six-month period is \$19,486.00.
6. On February 22, 2013, ALC entered into a Non-Exclusive Licensing Agreement with Scientific Games International to allow ALC to reproduce, use and make copies of "American Muscle®" licensed property. A copy of the agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee on February 28, 2013.
7. On March 26, 2013, ALC entered into a Non-Exclusive Licensing Agreement with Scientific Games International to allow ALC to reproduce, use and make copies of "Monopoly™" licensed property. A copy of the agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee on May 6, 2013.
8. On June 25, 2013, the Arkansas Lottery Commission (ALC) entered into a contract with Advent Systems, Inc. for a Security System. The Security System includes all labor, materials, equipment and supervision necessary to install and maintain a security system for the Arkansas Lottery Commission and four ALC claim centers.

Length of Contract:	Little Rock HQ and Claim Center: July 1, 2013-August 31, 2015 Camden Claim Center: July 1, 2013-November 30, 2014 Jonesboro Claim Center: July 1, 2013-November 30, 2014 Springdale Claim Center: July 1, 2013-September 30, 2014
Total Projected Value:	\$120,785.61

OTHER reports



“The Arkansas Academic Challenge [Scholarship] means that I can achieve my goals and live a successful life.”

**Wade James | Sophomore
Danville**

“I am very honored to receive this scholarship, and I am greatly appreciative for all the financial assistance needed to help fund my education.”

**Jasmine J. Canady | Sophomore
Morrilton**

“

The Arkansas Academic Challenge Scholarship has definitely made a positive impact at UA Community College at Morrilton. It has given more students the opportunity to get a higher education, especially those students who don't qualify for federal money because of income requirements.

Stacy Stracner | Financial Aid Scholarship Technician
University of Arkansas Community College at Morrilton

”



“

The Arkansas Academic Challenge [Scholarship] has helped me function as a student. It has been a saving grace financially. [I am] very thankful to have received it.

Samuel Pettit | Senior | University of Central Arkansas
Cabot

”

Sen. Bryan B. King
Senate Chair
Rep. Kim Hammer
House Chair
Sen. Linda Chesterfield
Senate Vice Chair
Rep. John W. Walker
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

INDEPENDENT AUDITOR'S REPORT

Arkansas Lottery Commission
and Members of the Legislative Joint Auditing Committee

We have audited, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Arkansas Lottery Commission's basic financial statements and have issued our report thereon dated October 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as 2013-1, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from 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

2013-1

Ark. Code Ann. § 23-115-206(a)(1) requires the Commission to establish effective internal controls. However, controls over access to instant tickets stored at the Agency's instant ticket vendor's warehouse were inadequate. Access to instant tickets combined with a security employee's ability to activate, change the status of, and assign instant tickets to inactive vendors in the Agency's Back Office System (BOS) resulted in the theft of 2,662 packets of instant tickets. From fiscal years 2010 through 2013, 22,710 tickets totaling \$478,073 were cashed by Deputy Security Director Remmele Mazyck, whose employment was terminated on November 14, 2012. The Agency also paid retailers commissions totaling \$4,781 as a result of lottery ticket theft. After an investigation by Internal Revenue Service personnel, Mazyck pleaded guilty to wire fraud and money laundering in federal court on July 12, 2013. As of report date, sentencing is scheduled for November 7, 2013.

We recommend the Agency strengthen internal controls by limiting employee access to instant tickets, requiring more than one employee to pick up promotional tickets from the warehouse, establishing a system that notifies designated Agency management when instant tickets have been issued from the warehouse, and periodically reviewing changes made to instant tickets in the BOS system. We further recommend the Agency review each employee's access to the BOS system and separate the duties of employees so that no one employee has the ability to pick up instant tickets, activate or change instant tickets to a promotional status, or assign instant tickets in a promotional status to inactive retailers.

Management personnel responded: Upon discovery of the ticket theft noted in this finding, the ALC immediately suspended the use of promotional tickets and deactivated the movement to promotional ticket status on the system. Those limitations remain in place and will remain until such time as the staff of the ALC is directed to permanently suspend the use of promotional tickets or is asked to reinstate the use of promotional tickets with sufficient policies, procedures and safeguards to prevent future fraud and theft. In the event that the ALC chooses to use promotional tickets again, policies and procedures will be put into place with input from both ALC Internal Audit and Legislative Audit to guard against future fraud or theft.

Agency's Response to Findings

The Agency's response to the finding identified in our audit is described above. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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



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

Little Rock, Arkansas
October 23, 2013



“The Arkansas Academic Challenge Scholarship is an important resource. Since 70 percent of our students come from Arkansas, it affects a large portion of our student body.”

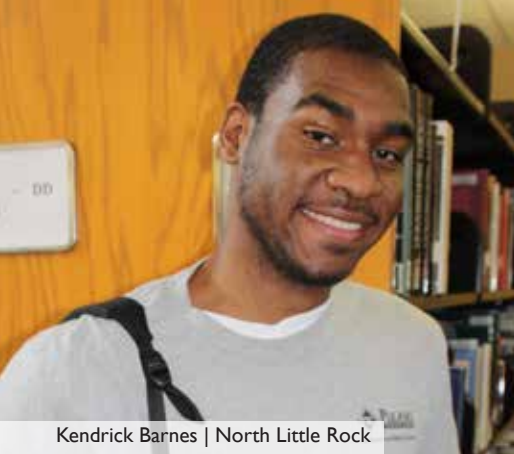
Dr. Donald Weatherman | Lyon College President

“

The Arkansas Academic Challenge Scholarship has enabled me to attend my first-choice school, Lyon College. Because of this, I am receiving an excellent education, and have been exposed to many wonderful opportunities that I never dreamed of having.

Laura Winters | Sophomore | Lyon College
Holiday Island

”



Kendrick Barnes | North Little Rock



Kerry Wilmoth | Rison



Jonathan Pennington | Woodlawn



Emily Thacker | Texarkana



Lauren Rush | Redfield



Juan Guajardo | Pine Bluff



Clifford Gray | Pine Bluff



Roger Luttrell Sr. | Pine Bluff



Heather Pesnell | El Dorado



Keely Young | El Dorado



Sydney Smith | Des Arc