



Arkansas Department of Finance
and Administration
Office of the Arkansas Lottery
An Enterprise Fund of the State of Arkansas



Comprehensive Annual Financial
Report For The Fiscal Year Ended
JUNE 30, 2015



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“Without the Arkansas Academic Challenge Scholarship, I wouldn’t be where I am today. Without receiving the scholarship money, I wouldn’t be able to attend nursing school, buy my textbooks, or afford basic living expenses. I am extremely grateful for the opportunities I’ve had—all thanks to the Academic Challenge Scholarship.”

Lindsey Martin | Senior
University of Arkansas
Bentonville

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
An Enterprise Fund of the State of Arkansas**

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2015**



**Asa Hutchinson
Governor, State of Arkansas**

**Larry W. Walther
Director Arkansas Department of Finance and Administration**

**Bishop Woosley
Director Office of the Arkansas Lottery**

**Prepared by
Finance Division**



“

“The Arkansas [Academic Challenge] Scholarship has enhanced my financial status and my integrity as well.”

Kenan Dzide | Freshman
University of Arkansas at Pine Bluff
Pine Bluff

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
An Enterprise Fund of the State of Arkansas
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2015**

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“The Arkansas Academic Challenge Scholarship means the ability to go to college. Without the Arkansas Academic Challenge Scholarship, I wouldn’t have cared after high school. The Arkansas Academic Challenge Scholarship allowed me to be in school without having to have a job, which has helped improve my grades significantly.”

Edwin Turner | Senior
University of Arkansas at Monticello
Sheridan

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“The Arkansas Academic Challenge Scholarship has eased financial strain for myself and my family. The scholarship has also provided an opportunity for me to pursue a degree that will help me to better myself and my community.”

Hope Bratton | Senior
National Park College
Jessieville

INTRODUCTORY SECTION



“The scholarship has benefitted me because it’s helped me pay for school and has helped me pursue my career to become an industrial designer.”

Keifer Beckford | Junior
University of Arkansas at Pine Bluff
Chicago, Illinois



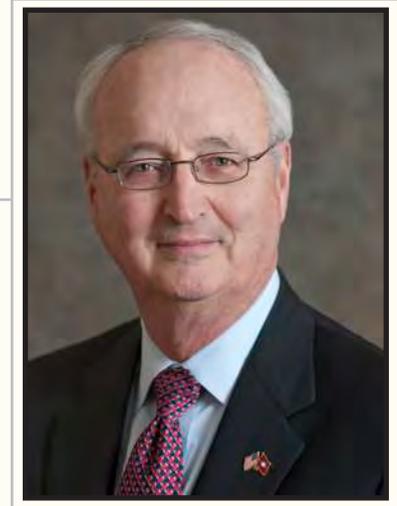


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“This scholarship means opportunity. Without it, there is a great chance that I would not be attending the school of my dreams right now. This scholarship gave me the chance to chase my dreams.”

Celeste McKey | Junior
University of Arkansas
Conway

November 17, 2015



To the citizens of the State of Arkansas,

The attached report contains a comprehensive overview of the operations of the Office of the Arkansas Lottery (OAL) for the fiscal year ended June 30, 2015. The report details the lottery's performance, finances and products, and the retailers and students assisted in its seventh year of operation.

The fiscal year covered in the attached report represents the first year of operation under the guidance and management of the Arkansas Department of Finance and Administration. In that time, the OAL distributed \$72.6 million in funds for scholarships, allowing 34,322 students to attend college in the state. Since its inception, the lottery has generated \$518 million in proceeds for scholarships.

It is the firm intent of this agency that the OAL continues and expands upon this record of success. The promise of the lottery is that of a higher education for the best and brightest of our state. That goal can only be met through open, honest and ethical operations and through meeting the high expectations of the General Assembly and the people of Arkansas. This Comprehensive Annual Financial Report represents the efforts of this agency during the past fiscal year to meet those expectations, and to help the OAL fulfill its promise.

Sincerely,

A handwritten signature in black ink that reads "Larry W. Walther". The signature is fluid and cursive, with a large loop at the end.

Larry W. Walther
Director



“The Arkansas Academic Challenge [Scholarship] has helped me further my education at a university that wants nothing but the best for its students.”

Jacey Jones | Senior
University of Arkansas at Monticello
Monticello



State of Arkansas
Arkansas Department of Finance
and Administration
Office of the Arkansas Lottery

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

November 17, 2015

The Honorable Asa Hutchinson, Governor
Members of the Arkansas Legislative Council Lottery Oversight Subcommittee
Director Larry Walther, Arkansas Department of Finance and Administration
Citizens of the State of Arkansas

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Department of Finance and Administration Office of the Arkansas Lottery (OAL) for the fiscal year ended June 30, 2015. The CAFR is prepared in accordance with the requirements set forth in Arkansas Code Annotated (A.C.A.) § 23-115-206 (a)(8)(C).

This report has been prepared by the OAL in conformance with accounting principles generally accepted in the United States of America (GAAP) for governments as promulgated 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 OAL. We have included all disclosures necessary to enable the reader to gain an understanding of the OAL's financial activities.

Management of the lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets of the OAL are protected from loss, theft or misappropriation, that adequate accounting data is compiled to provide a reasonable basis for asserting that the financial statements are fairly presented and to assure that the OAL is in compliance with applicable laws and regulations. The internal control structure has been designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, the reliability of financial records for preparing financial statements and compliance with applicable laws and regulations. The structure does not provide a guarantee, but rather reasonable assurances that these objectives are met. The concept of reasonable assurance recognizes that the cost

of a control should not exceed the benefits likely to be derived and that valuation of costs and benefits require estimates and judgments by management.

A.C.A. § 23-115-206(b)(1)(A) requires Arkansas Legislative Audit, to conduct an annual audit of the OAL and they 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. Auditing standards generally accepted in the United States of America were used by the auditors in conducting the engagement. The auditor's unqualified opinion on the fair presentation of the OAL's basic financial statements is included in their report on page 1 in the financial section of this report.

Management's Discussion and Analysis, or MD&A, addresses the basic financial statements and provides an analytical overview of the OAL's financial activities. This letter of transmittal complements the MD&A and should be read in conjunction with it. The OAL's MD&A can be found on page 3 in the financial section of this report.

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 Arkansas Lottery Commission. During the 2015 legislative session, the Arkansas legislature approved a statute which eliminated the Arkansas Lottery Commission and established the Office of the Arkansas Lottery within the Arkansas Department of Finance and Administration. Ticket sales began on September 28, 2009, with the introduction of four instant ticket games. OAL proceeds are utilized to fund college scholarships under the Arkansas Academic Challenge Scholarship program administered by the Arkansas Department of Higher Education (ADHE).

PRODUCTS

The public has the opportunity to participate in a variety of instant and terminal-generated games from nearly 1,900 OAL-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 OAL. For fiscal year ended June 30, 2015, the OAL released 56 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. In fiscal year ended June 30, 2015, the OAL sold 11 different types of terminal-generated games: Powerball®, Mega Millions®, Decades of Dollars, Natural State Jackpot, Cash 3, Cash 4, Fast Play, Arkansas 50/50, AR Progressive Jackpot, MONOPOLY™ MILLIONAIRES' CLUB, and Lucky for Life.



POWERBALL® is a multi-state draw game jointly operated by the 36 member lotteries of the Multi-State Lottery Association and sold in 44 states, Washington D.C., Puerto Rico, and the U.S. Virgin Islands. Players select one set of five numbers from a pool of one to 69 and one additional number designated as the "Powerball" from a second pool of one to 26. 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 \$1, the Power Play® feature allows players to multiply their non-jackpot winnings by 2,3,4,5 or 10 times (the match 5 prize tier is set at \$2,000,000). 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 44 states, Washington D.C. and U.S. Virgin Islands. Players select one set of five numbers from a pool of one to 75 and one additional number from a second pool of one to 15. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$15 million, which increases for each subsequent draw when the jackpot is not won. Each Mega Millions® play costs \$1. For an additional \$1, the Megaplier® feature allows players to multiply non-jackpot winnings up to five times. A jackpot winner may select either an annuitized prize paid in one immediate payment followed by 29 annual installments or a lump sum payment. Drawings are held every Tuesday and Friday night.



DECADES OF DOLLARS was a draw game sold in Arkansas, Georgia, Kentucky, and Virginia. Players had 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 top prize. Prizes were also paid for matching two to five numbers. Drawings were held every Monday and Thursday night. The last draw for Decades of Dollars was held in October 2014.



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 jackpot starts at \$25,000, with incremental growth of \$5,000 following each draw held without a top prize winner. 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. The game incorporates a new progressive jackpot gaming theme along with fixed lower-tier prizes. The game offers 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 jackpot) on a single \$1 ticket; up to ten times, \$500 (or 40% of the jackpot) on a single \$2 ticket; and up to fifteen times, \$1,000 (or 100% of the 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 jackpot is reduced to the greater of \$1,000, or by that price point's 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 AR Progressive Jackpot amount).





ARKANSAS 50/50 was a raffle-style draw game exclusive to Arkansas. Draw sales began on the first of every month and ended on the last day of every month. Arkansas 50/50 tickets were generated from the retail terminal in sequential order, beginning with 000001 for each drawing. Twenty-five winning numbers were selected in each drawing, which was held on the first Tuesday of each month. Fifty percent of sales during the month preceding the draw were allocated to prizes. Of that amount, 75% was won by one ticket number. The remaining 25% was divided among 24 winning tickets. A player won if the number on his or her ticket matched, with digits in exactly the same order, any of the winning numbers drawn by OAL. Arkansas 50/50 sales ended in February 2015.



MONOPOLY™ MILLIONAIRES' CLUB was designed as a multi-tiered drawing-style game that debuted October 19, 2014, in 23 states, including Arkansas. For years the industry had been hearing from players who expressed the desire for a game that offered more winners of a million dollars instead of one person winning multi-millions. The MONOPOLY™ MILLIONAIRES' CLUB game was designed to provide that option, but players across the country did not respond to it as was hoped, with sales coming in below industry projections. The Texas Lottery Commission suspended sales of the game in that state following the December 12, 2014, drawing. Other lotteries participating in the game, including Arkansas, made the decision to end all sales in its current format after the drawing on December 26, 2014. The game was not selling well and the top prizes were not being funded as projected, so the multi-state group voted to suspend sales.

PLAYERS CLUB SERVICES

The OAL 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 23,482 new player registrations and 20,040,085 tickets entered into the program in fiscal year ended June 30, 2015, bringing the membership total to 120,884.



The **Play It Again™** program allows players to submit eligible, non-winning instant tickets for entry into cash prize drawings. After the last day to redeem tickets for any eligible instant game(s), one entry is drawn to win a monetary prize. The same entry mechanism gives players both their Play It Again™ entry(s) and Points for Prizes® rewards points. There were 54 Play It Again™ drawings held during fiscal year ended June 30, 2015.



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® online store. Merchandise ranges from music downloads to electronics. There were a total of 247,571,125 points redeemed in the Points for Prizes® program during the fiscal year ended June 30, 2015. Points may also be used for special drawing prizes; there were a total of 18 Points for Drawings™ during fiscal year ended June 30, 2015.

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



The Arkansas Scholarship Lottery's Cardinals™ Second-Chance Promotion awarded two hundred merchandise prize packs, six Cardinals® suite prize trips, and two MLB™ World Series® prize trips to players who entered non-winning St. Louis Cardinals™ instant tickets into their accounts. The merchandise prize packs each included one Cardinals® mega can cooler seat, two digital LCD TV's with FM radio, one weekender kit, two Cardinals® caps, and one Cardinals® watch. Each suite prize trip included a \$400 travel allowance, two suite tickets, two Cardinals® caps, one Cardinals® plush blanket, and an appearance by a Cardinals® player with a photographer. Each MLB™ World Series® prize trip included round trip airfare, hotel, two tickets to games 3 & 4, two Cardinals® caps, one Cardinals® plush blanket, and \$1,000 spending money. Two drawings occurred during fiscal year ended June 30, 2015.

Points for Drawings™	Entry Period	Draw Date	# of winners	# of entries
Weber® Smokey Mountain Cooker Smoker	06/26/14-07/31/14	08/01/14	3	39,292
Ride the Wave!	08/01/14-09/02/14	09/03/14	4	57,300
Dell Laptop Bundle	09/03/14-09/30/14	10/01/14	2	60,821
Dyson	10/01/14-10/30/14	10/31/14	3	34,923
5th Anniversary Cash Bash!	09/02/14-11/03/14	11/04/14	20	168,628
Dooney and Bourke Purse Set	10/31/14-12/01/14	12/02/14	3	33,756
Blend It!	12/02/14-01/05/15	01/06/15	3	23,774
Fix It Up, Cook It Up, Turn It Up!	10/01/14-01/05/15	01/06/15	1	71,531
Samsung TV	11/04/14-01/05/15	01/06/15	1	85,616
Popcorn! Get your popcorn!	01/04/15-02/01/15	02/03/15	4	22,528
Let there be Light!	01/06/15-03/02/15	03/03/15	2	82,166
iPad Air Wi-Fi	02/02/15-03/02/15	03/03/15	2	88,022
Home Security System	03/03/15-04/02/15	04/03/15	3	35,527
Edge 553 Duck Boat	02/04/15-05/04/15	05/05/15	1	59,314
iMac Bundle	03/02/15-05/04/15	05/05/15	1	59,038
Keurig 2.0 Brewing System	04/03/15-05/04/15	05/05/15	3	21,165
Callaway Golf Set	05/04/15-06/01/15	06/02/15	4	15,787
Outdoor Theater and Gaming Bundle	05/04/15-06/29/15	06/30/15	2	40,354

Second-Chance Promotion	Entry Period	Draw Date	# of winners	# of entries
AR-218 St Louis Cardinals™ (Suite Prize Trips)	Drawing #2: 05/15/14-07/16/14	07/21/14	6	331,103
AR-218 St Louis Cardinals™ (Prize Packs)			200	
AR-218 St Louis Cardinals™ (World Series Prize Trips)	Drawing #3: 04/01/14-08/20/14	08/25/14	2	665,038

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 2014 and the first half of 2015, 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 GDP growth averaged 2.73% during the last half of calendar year 2014 and the first half of calendar year 2015. The unemployment rate for the State of Arkansas finished the June 30th fiscal year at 5.6%.

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. Non-farm personal income for the State of Arkansas, measured in current dollars, reached a total of \$112.6 billion at the end of fiscal year 2015. This represented an increase of \$5.15 billion, or 4.5% over fiscal year 2014. fiscal year 2016 non-farm personal income is estimated at \$116.888 billion (current dollars), an increase of \$4.29 billion, or 3.67%, over fiscal year 2015.

ARKANSAS WAGE AND SALARY DISBURSEMENTS

Measured in current dollars, non-farm wage and salary disbursements rose to \$51.002 billion in fiscal year 2015, an increase of \$1.65 billion, or 3.23%, from fiscal year 2014. Non-farm wage and salary disbursements for fiscal year 2016 is estimated at \$53.973 billion (current dollars), an increase of \$2.593 billion, or 5%, from fiscal year 2015.

EMPLOYMENT

In fiscal year 2015, wage and salary employment in Arkansas increased to 1.212 million jobs. This represents an increase of 24,000 jobs, or 2.1%, compared to fiscal year 2014. In fiscal year 2016, wage and salary employment is expected to average 1.226 million jobs. This represents a projected increase of 22,600 jobs, or 1.9%, from fiscal year 2015.

HIGHLIGHTS OF THE PAST YEAR

Management's discussion and analysis (MD&A) provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it. In addition to financial accomplishments, other noteworthy accomplishments during fiscal year 2015 included:

- **Surpassing \$ 2.5 billion in ticket sales since the lottery's inception.**
- **Surpassing \$ 1.6 billion in prizes paid to players since the lottery's inception.**
- **Transferring over \$518 million to the ADHE for the purpose of funding scholarships since the lottery's inception, including transfers of \$72 million for fiscal year 2015.**
- **The ADHE awarding over \$100 million in scholarships during the fall 2014 and spring 2015 semesters.**

RELEVANT FINANCIAL POLICIES

Budgetary Controls: The lottery finance division, through the Arkansas Department of Finance and Administration, prepares an operating budget for the next fiscal year for submission to the Arkansas Legislative Council Lottery Oversight Subcommittee.

Transfers to ADHE: In accordance with the Arkansas Scholarship Lottery Act, on or before the fifteenth day of each month, the OAL shall deposit the net proceeds from the lottery into a trust account. Upon certification from the director of the Department of Higher Education, the OAL shall transfer the funds requested to the ADHE.

Shortfall Reserve: In accordance with the Arkansas Scholarship Lottery Act, legislation was enacted which required the OAL to establish a Scholarship Shortfall Reserve Trust account. As of June 30, 2015, the Scholarship Shortfall Reserve 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 Arkansas Legislative Audit, to conduct an annual audit of the OAL 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 OAL for its CAFR for the fiscal year ended June 30, 2014. This was the fourth consecutive year that the OAL 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 2015 CAFR presented continues to meet the Certificate of Achievement Program's requirements and as required by the rules of the Arkansas Scholarship Lottery Act, we are submitting it to the GFOA to determine its eligibility for the certificate.

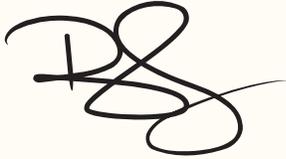
OTHER INFORMATION

Information on rules, gaming and frequently asked questions can be found on the OAL's website at www.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 OAL, 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 Department of Finance and Administration Director Larry Walther for his support, guidance and dedication in operating the OAL in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bishop Woosley". The signature is stylized with large, flowing loops and a long horizontal stroke at the end.

Bishop Woosley
Director

A handwritten signature in black ink, appearing to read "Jerry Fetzer". The signature is written in a cursive style with distinct, connected letters.

Jerry Fetzer
Chief Fiscal Officer

MISSION

The Office of the Arkansas Lottery (OAL) is a self-supporting and revenue-producing agency of the State of Arkansas. The Arkansas Constitution states that the OAL's net proceeds, through administration of the Department of Higher Education, 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

OAL'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 requires a talented and well-trained workforce. With this understanding, we want to be known for our integrity and employing the brightest, best and most diverse workforce, as well as for our support of responsible gaming.

We 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.

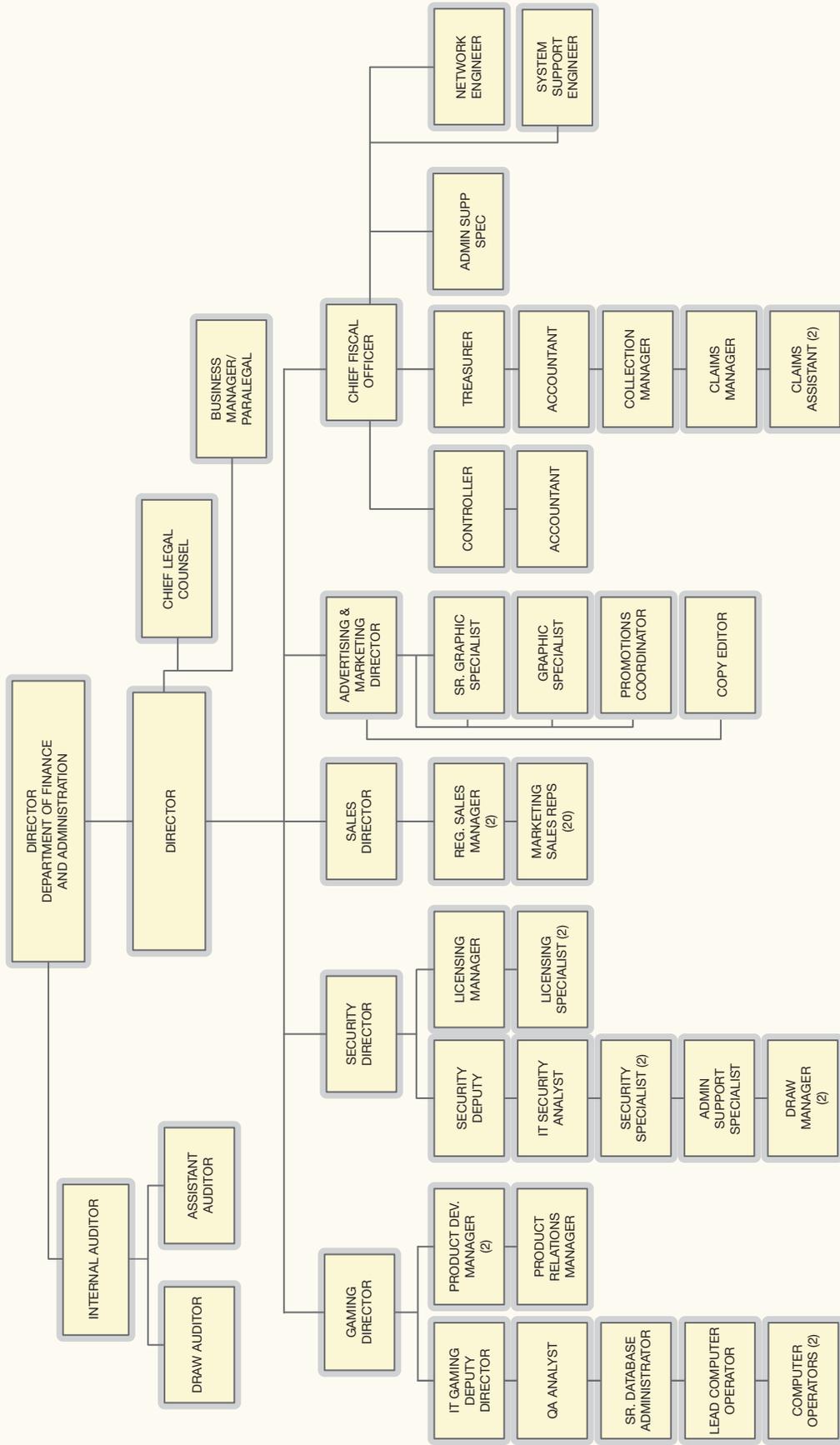
VALUES

OAL's values include:

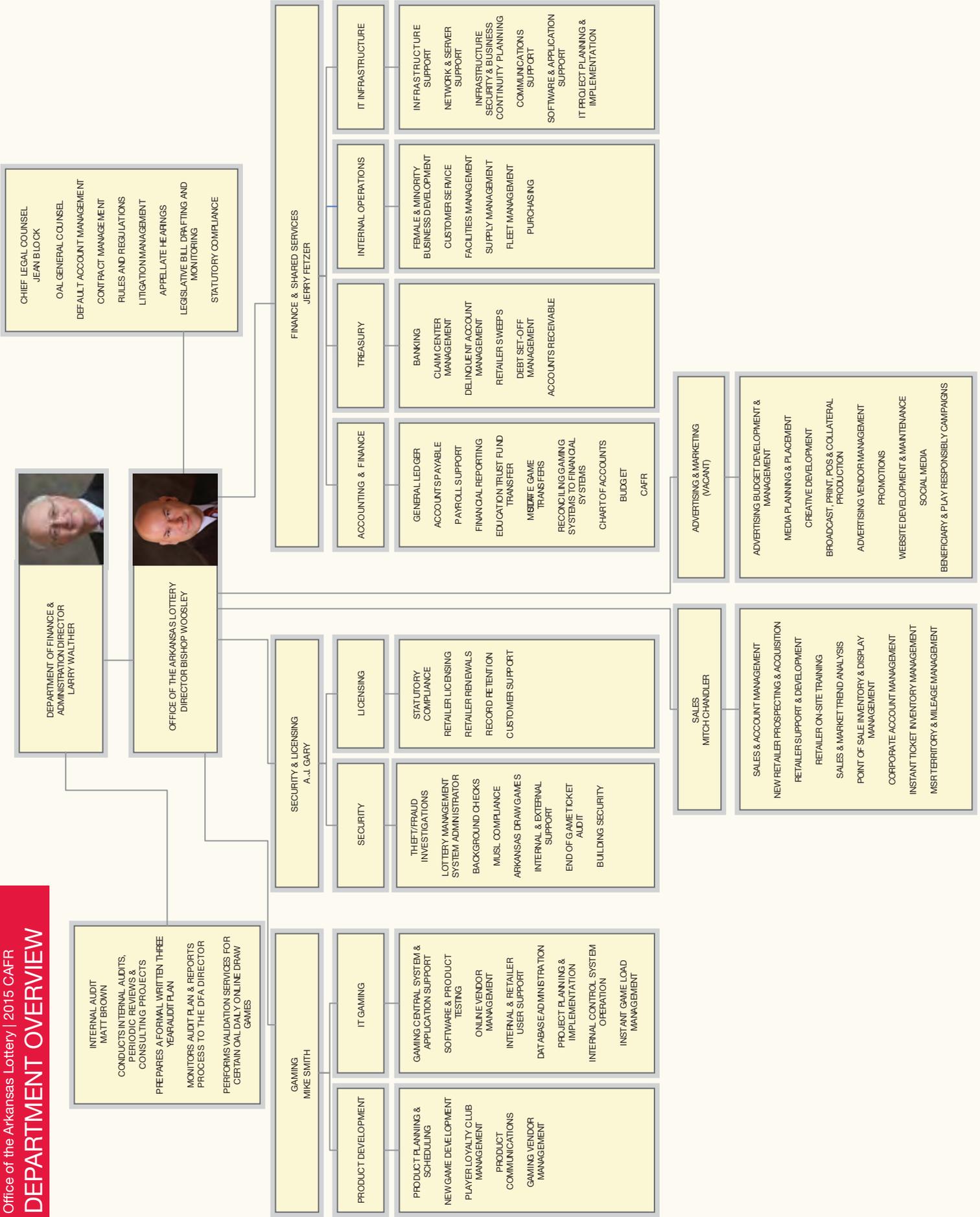
- Integrity: We maintain public trust through our high ethical standards.
- Security and oversight: Built-in standards and processes at every step to ensure the integrity of the games and administration of the OAL.
- Education: The purpose of sustaining support for the educational funding of Arkansas.
- 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 OAL 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.



ORGANIZATIONAL CHART



DEPARTMENT OVERVIEW





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

Arkansas Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

FINANCIAL SECTION



“Thanks to the Academic Challenge Scholarship, I am not only about to earn a college degree, but I can begin graduate school with less debt and less stress. And I’m one step closer to my goal of becoming an athletic trainer.”

Grady Finley | Senior
University of the Ozarks
Sheridan





Arkansas
Scholarship Lottery

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Linda Chesterfield
Senate Vice Chair



Rep. Mary Broadaway
House Chair
Rep. Sue Scott
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Department of Finance and Administration – Office of the Arkansas Lottery
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 Department of Finance and Administration - Office of the Arkansas Lottery, an office of Arkansas state government, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department of Finance and Administration - Office of the Arkansas Lottery'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 opinion.

Opinion

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 Department of Finance and Administration - Office of the Arkansas Lottery as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As indicated above, the financial statements of the Department of Finance and Administration - Office of the Arkansas Lottery 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 Department of Finance and Administration - Office of the Arkansas Lottery. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2015, 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 who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department of Finance and Administration - Office of the Arkansas Lottery'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 November 17, 2015 on our consideration of the Department of Finance and Administration - Office of the Arkansas Lottery'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 Department of Finance and Administration - Office of the Arkansas Lottery's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
November 17, 2015
SALC08515

MANAGEMENT'S DISCUSSION & ANALYSIS



“As a single parent, my dad has always been the one to provide for me. I have always worked while in school. When I was accepted in to the nursing program at ANC, I was no longer able to manage my studies as a full-time nursing student and also work. This scholarship is a huge help to not only me, but my dad, who works so hard to help me. ”

Tessa Fulling | Sophomore
Arkansas Northeastern College
Blytheville





Arkansas
Scholarship Lottery

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015
(Unaudited)

As management of the Arkansas Department of Finance and Administration (DFA) Office of the Arkansas Lottery (OAL), we offer readers of the OAL's financial statements this narrative overview and analysis of the financial activities of the OAL for the fiscal year ended June 30, 2015. Please read it in conjunction with the OAL's financial statements, which follow this section.

FINANCIAL AND OPERATING HIGHLIGHTS

- During the 2015 legislative session, the Arkansas Legislature approved a statute, which became effective on February 26, 2015, which eliminated the Arkansas Lottery Commission and established the Office of the Arkansas Lottery within the Arkansas Department of Finance and Administration.
- Operating revenues for the OAL decreased by \$1.4 million in fiscal year 2015 as compared to fiscal year 2014, a decrease of -0.3%. Instant ticket sales increased \$12.6 million or 3.9%. For online ticket sales, Powerball® experienced a sales decrease of \$7.9 million or -22.7%, Mega Millions® sales decreased \$4.7 million or -23.6% and Natural State Jackpot sales decreased \$1.8 million or -20.6%. The other online games, Fast Play, Cash 3 and Cash 4 had total sales increases of \$1.3 million or 6.6%.
- During the fiscal year ended June 30, 2015 the OAL introduced new online games of Monopoly Millionaires' Club™ and Lucky for Life which had sales during the fiscal year of \$0.4 million and \$2.0 million respectively. The OAL discontinued sales of Decades of Dollars®, Arkansas 50/50 Raffle and Monopoly Millionaires' Club™ during fiscal year 2015.
- The OAL's operating expenses increased in fiscal year 2015 as compared to the previous fiscal year by \$5.4 million or 1.6% which was primarily due to a \$12.3 million increase in instant game prizes expense which was partially offset by a \$6.8 million decrease in online game prizes. These changes were consistent with the changes in instant and online ticket sales.
- For fiscal year 2015 transfers to the Education Trust Account of net proceeds were \$72.6 million, which was a decrease of \$8.9 million or -10.9% from the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the OAL's basic financial statements. The OAL is accounted for as a proprietary enterprise fund of the State of Arkansas, reporting on all of the activity's assets, liabilities and net position using the accrual basis of accounting, much like a private business entity. The OAL'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 comprehensive annual financial report also contains other supplementary information in addition to the basic financial statements.

The statement of net position presents information on all of the OAL's assets, as compared to the liabilities, with the difference between the two groupings reported as net position. However, in the opinion of management the increase or decrease in net position will not necessarily reflect the true condition of the OAL's financial position, because by statute the OAL is required to transfer all accumulated net proceeds, net of unclaimed prizes, to the Education Trust Account on a monthly basis. Also, at the end of June of each fiscal year, the OAL is required by statute to transfer the accumulated unclaimed prizes reserve, less \$1 million which is held back, to the Education Trust Account.

The statement of revenues, expenses and changes in net position reports the OAL's net position and the summarized revenue and expense activities that created the changes. As stated above, the OAL is required by statute to transfer all monthly net proceeds to an Education Trust Account. Net proceeds are calculated using a modified cash basis for game revenues and prizes to arrive at the changes in net position. Income before transfers is calculated using the accrual basis of accounting prescribed by Generally Accepted Accounting Principles (GAAP). Therefore, in the opinion of management, the changes in net position will not necessarily reflect the actual results of the OAL's changes in its operating activities.

**Arkansas Department of Finance and Administration
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(Unaudited)**

The statement of cash flows outlines the cash inflows and outflows related to the OAL's primary activities of selling and redeeming prizes for lottery related products and its 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 OAL is a self-supporting office within the Arkansas Department of Finance and Administration (DFA). For financial reporting purposes, the OAL is a major proprietary enterprise fund within the Arkansas Department of Finance and Administration and is reported as such in the Comprehensive Annual Financial Report (CAFR) of the State of Arkansas (State).

FINANCIAL ANALYSIS
Net Position

The OAL's total net position at June 30, 2015 and 2014 were as follows:

<u>Condensed Summary of Assets, Liabilities and Net Position</u>		
	2015	2014 (Restated)
Current assets	\$ 37,770,708	\$ 42,323,387
Non-current assets	21,875,968	21,885,212
Capital assets	223,178	246,113
Total assets	<u>59,869,854</u>	<u>64,454,712</u>
Deferred outflow s of resources	992,965	631,802
Total assets and deferred outflow s	<u>\$ 60,862,819</u>	<u>\$ 65,086,514</u>
Current liabilities	\$ 44,745,237	\$ 49,035,299
Long term liabilities	5,161,646	6,247,697
Total liabilities	<u>49,906,883</u>	<u>55,282,996</u>
Deferred inflow s of resources	1,383,462	0
Total liabilities and deferred inflow s	<u>51,290,345</u>	<u>55,282,996</u>
Net position:		
Invested in capital assets	223,178	246,113
Restricted	22,875,968	22,885,212
Unrestricted (Deficit)	<u>(13,526,672)</u>	<u>(13,327,807)</u>
Total net position	<u>9,572,474</u>	<u>9,803,518</u>
Total liabilities, deferred inflow s and net position	<u>\$ 60,862,819</u>	<u>\$ 65,086,514</u>

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Management's Discussion and Analysis
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(Unaudited)

Assets consisted primarily of cash and cash equivalents which were \$45.6 million and \$51.6 million at June 30, 2015 and 2014 respectively. Accounts receivable were \$12.3 million and \$10.8 million at June 30, 2015 and 2014 respectively. Capital assets, net of depreciation, were \$0.2 million at June 30, 2015 and June 30, 2014.

At June 30, 2015 the OAL's liabilities consist primarily of amounts due to the Arkansas Department of Higher Education (ADHE), accrued prizes expense, accrued operating expenses and accrued pension and other retirement costs. Total liabilities were \$49.9 million which was a decrease of \$5.4 million or -9.8% from fiscal year 2014.

For the fiscal year ended June 30, 2015 the OAL implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*. Statement 68 was required to be implemented retroactively and the beginning net position for the fiscal year ended June 30, 2014 was restated for the cumulative effects of implementation. Implementation required reporting a beginning balance for the net pension liability and a beginning balance for deferred outflows of resources related to pensions for employer contributions made to the pension plan in 2014.

At June 30, 2015 the OAL's total assets and deferred outflows of resources exceed its total liabilities and deferred inflows of resources resulting in net position of approximately \$9.6 million at June 30, 2015. This is a decrease in net position of \$0.2 million from fiscal year 2014 restated net position. The restricted net position was approximately the same as the prior year. Unrestricted net position (deficit) was \$(13.5) million which was an increase in the deficit of \$0.2 million from the fiscal year 2014 restated unrestricted net position. This deficit relates primarily to timing differences related to the adjusted cash basis accounting method used to calculate net proceeds for transfer to the Arkansas Department of Higher Education, due to the change in liability of the OAL's unfunded portion of the OPEB liability and due to the accrual of the OAL's pension liability. In the unlikely event that the OAL ever ceases operations, the Arkansas State Legislature may be required to resolve this deficit in unrestricted net position.

Statement of Revenues, Expenses and Changes in Net Position

During fiscal year 2015, the OAL's activities resulted in net proceeds transfers to the Education Trust Account of \$72.6 million, which was a decrease of \$8.9 million or -10.9% from the prior fiscal year. Also, as previously discussed, the net position of the OAL decreased by \$0.2 million from the prior fiscal year. This decrease was primarily due to timing differences related to the accounting method used to calculate net proceeds. The key elements of the revenues, expenses and changes in net position for the fiscal year ended June 30, 2015, with comparative information for fiscal year 2014 are shown in the following table.

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015
(Unaudited)**

<u>Summary of Revenues, Expenses and Changes in Net Position</u>		
	<u>2015</u>	<u>2014</u>
Operating revenues		
Instant ticket sales	\$ 335,000,613	\$ 322,415,276
Online ticket sales	73,662,767	87,657,850
Retailer fees	550,952	554,292
Other operating revenue	20,346	10,550
Total operating revenues	<u>409,234,678</u>	<u>410,637,968</u>
Operating expenses		
Instant game prizes	241,758,220	229,462,196
Online game prizes	38,708,574	45,487,903
Commissions and contract costs	43,875,903	43,557,849
General and administrative expenses	11,701,392	11,884,325
Services provided by other agencies	668,447	890,636
Depreciation	158,363	188,270
Total operating expenses	<u>336,870,899</u>	<u>331,471,179</u>
Operating income	72,363,779	79,166,789
Non-operating revenue		
Interest Income	224,546	252,614
Other non-operating revenue	0	461,047
Income before transfers	72,588,325	79,880,450
Transfers to		
Education Trust Account	(72,619,369)	(81,488,844)
Department of Human Services	(200,000)	(200,000)
Decrease in net position	(231,044)	(1,808,394)
Beginning net position	9,803,518	15,611,031
Restatement of pension liability	0	(3,999,119)
Ending net position	<u>\$ 9,572,474</u>	<u>\$ 9,803,518</u>

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
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(Unaudited)

OPERATING REVENUES

Games Sales

The OALs games revenues are made up of a variety of instant and online lottery products. The OAL is an active member of a joint venture arrangement with the Multi-State Lottery Association (MUSL). Powerball®, Mega Millions® and Lucky for Life are online games operated under MUSL, which also operated the Monopoly Millionaires' Club™ game from October 19, 2014 until December 26, 2014. During fiscal year 2014 and part of fiscal year 2015, the OAL was also a member of the Decades of Dollars Consortium, which was comprised of four state lotteries and operated by the State of Virginia Lottery. The OAL withdrew from the Decades of Dollars Consortium after the drawing of October 16, 2014. The OAL also operates Fast Play, Cash 3, Cash 4, and Natural State Jackpot which are all online games. For fiscal year 2014 the OAL introduced an Arkansas Million Dollar Raffle game in July 2013 for which sales ended on December 31, 2013. Also, during fiscal year 2014 and part of fiscal year 2015 the OAL operated Arkansas 50/50 Raffle, for which sales ended in February 2015. The table below shows instant ticket sales and sales for online lottery games for the years ended June 30, 2015 and 2014.

Game	Lottery Games Sales for Years Ended June 30, 2015 and 2014			
	2015	2014	Change	% Change
Instant ticket sales	\$ 335,000,613	\$ 322,415,276	\$ 12,585,337	3.9%
Powerball®	27,099,705	35,042,460	(7,942,755)	-22.7%
Mega Millions®	15,158,385	19,847,674	(4,689,289)	-23.6%
Fast Play	10,770,484	10,126,554	643,930	6.4%
Natural State Jackpot	7,035,843	8,863,034	(1,827,191)	-20.6%
Cash 3	6,712,769	6,255,741	457,028	7.3%
Cash 4	3,832,385	3,606,990	225,395	6.2%
Decades of Dollars	612,932	2,345,532	(1,732,600)	-73.9%
AR Raffle	0	1,426,490	(1,426,490)	-100.0%
Arkansas 50/50 Raffle	38,210	143,375	(105,165)	-73.3%
Lucky for Life	2,013,064	0	2,013,064	100.0%
Monopoly Millionaires' Club™	388,990	0	388,990	100.0%
Total games sales	<u>\$ 408,663,380</u>	<u>\$ 410,073,126</u>	<u>\$ (1,409,746)</u>	-0.3%

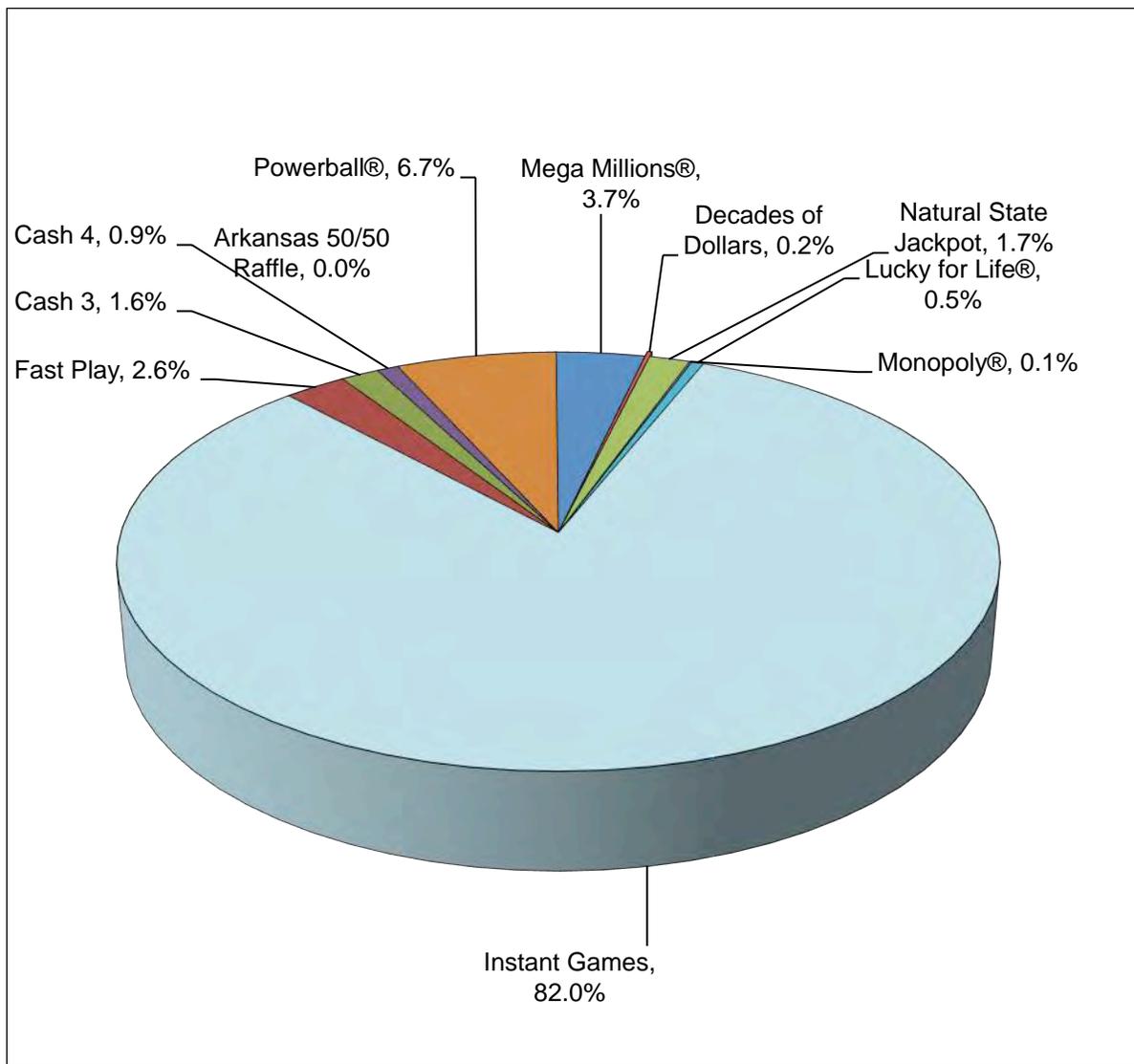
The OAL experienced a decrease of \$1.4 million or -0.3% in total lottery sales for fiscal year 2015 as compared to fiscal year 2014. For fiscal year 2015 instant ticket sales increased by \$12.6 million or 3.9% while online games sales decreased by \$14.0 million or -16.0%. Instant ticket sales continued to be the OAL's most popular product contributing 82.0% and 78.6% to total fiscal year sales for 2015 and 2014 respectively. For online games sales, Fast Play had a \$0.6 million or 6.4% increase in sales, Cash 3 had a \$0.5 million or 7.3% increase in sales, Cash 4 had a \$0.2 million or 6.2% increase in sales. Powerball® and Mega Millions® had significant decreases in sales of \$7.9 million or -22.7% and \$4.7 million or -23.6% respectively for fiscal year 2015 as compared to 2014. Natural State Jackpot also experienced a decrease in sales for fiscal year 2015 from fiscal 2014 of \$1.8 million or -20.6%. Monopoly Millionaires' Club™ game sales started on October 16,

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015
(Unaudited)**

2014 and were ended, due to poor sales, after the drawing on December 26, 2014. Lucky for Life game sales started on January 27, 2015.

The graph below summarizes the fiscal year 2015 sales as a percent of total ticket revenues:

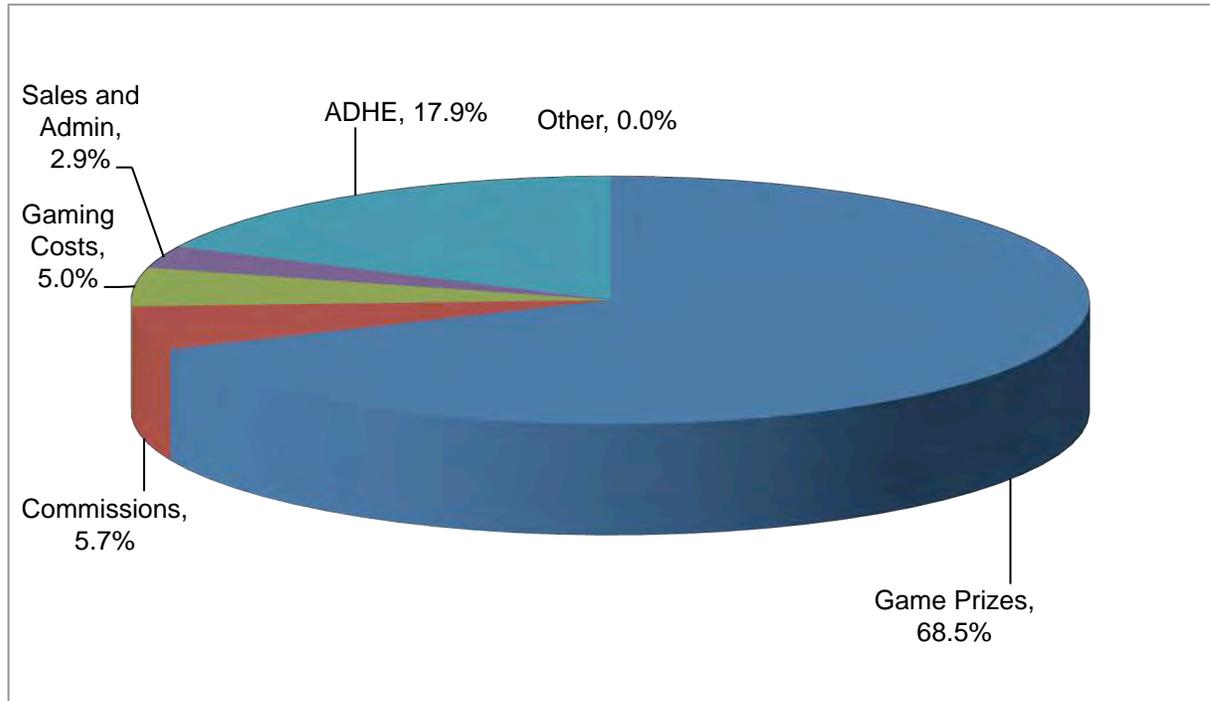
2015 Lottery Game Revenues as a Percent of Sales



**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015
(Unaudited)**

Distribution of the fiscal year 2015 revenues were as follows:

Fiscal Year 2015 Revenue Distribution



OPERATING EXPENSES

Prizes

Prizes are the largest operating expense the OAL incurs. Fiscal year 2015 prizes expense of \$280.5 million reflects a \$5.5 million or 2.0% increase from fiscal year 2014 prizes expense of \$275.0 million. This increase primarily corresponds to the increase in instant ticket sales experienced in fiscal year 2015.

The following table shows prizes expense by lottery game for the years ended June 30, 2015 and 2014 respectively.

Game Prizes Expense	Game Prizes Expense			
	2015	2014	Change	% Change
Instant Game prizes	\$ 241,758,220	\$229,462,196	\$12,296,024	5.4%
Powerball®	13,017,136	16,602,837	(3,585,701)	-21.6%
Mega Millions®	7,343,615	9,247,319	(1,903,704)	-20.6%
Fast Play	8,536,575	8,085,383	451,192	5.6%
Natural State Jackpot	3,516,677	3,951,793	(435,116)	-11.0%
Cash 3	3,382,610	2,900,040	482,570	16.6%
Cash 4	1,693,800	1,623,700	70,100	4.3%
Decades of Dollars	(394,249)	1,319,055	(1,713,304)	-129.9%
Arkansas Million Dollar Raffle	(22,500)	1,697,000	(1,719,500)	-101.3%
Arkansas 50/50 Raffle	17,525	60,776	(43,251)	-71.2%
Lucky for Life	1,290,851	0	1,290,851	100.0%
Monopoly Millionaires' Club™	326,534	0	326,534	100.0%
Total game prizes expense	\$ 280,466,794	\$274,950,099	\$ 5,516,695	2.0%

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015
(Unaudited)

The prizes expense credits reflected for Decades of Dollars and Arkansas Million Dollar Raffle for 2015 reflect the effect of the flow through of the unclaimed prizes for those games after their ticket sales were ended.

The following table shows sales profit margin for instant and online games by for the years ended June 30, 2015 and 2014.

<u>Lottery Game Profit Margins</u>				
	<u>Instant Tickets</u>		<u>Online Games</u>	
	2015	2014	2015	2014
Game revenues	\$ 335,000,613	\$ 322,415,276	\$ 73,662,767	\$ 87,657,850
Prize expense	241,758,220	229,462,196	38,708,574	45,487,903
Gross profit after prizes	<u>\$ 93,242,393</u>	<u>\$ 92,953,080</u>	<u>\$ 34,954,193</u>	<u>\$ 42,169,947</u>
Profit margin after prizes	27.8%	28.8%	47.5%	48.1%

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

Other Operating Expenses

In addition to prizes expense, other expenses include retailer commissions, gaming contract costs, marketing & advertising costs, general administrative costs and depreciation. These other expenses totaled \$56.4 million and \$56.5 million for fiscal years 2015 and 2014 respectively.

The table below shows the expense profit margin, which is the OAL's total operating revenues less its total operating expenses, for the years ended June 30, 2015 and 2014, respectively.

<u>Operating Expenses Profit Margin</u>				
	2015	2014	Change	Percent Change
Operating revenues	\$ 409,234,678	\$ 410,637,968	\$(1,403,290)	-0.3%
Operating expenses	336,870,899	331,471,178	5,399,721	1.6%
Operating Income	<u>\$ 72,363,779</u>	<u>\$ 79,166,790</u>	<u>\$(6,803,011)</u>	-8.6%
Profit margin	17.7%	19.3%		

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015
(Unaudited)**

NON-OPERATING REVENUES AND TRANSFERS

Non-operating revenues were primarily related to interest income of \$224,546 and \$252,614 for the years ended June 30, 2015 and 2014 respectively. For fiscal year 2014, additional non-operating revenues of \$461,047 were recognized which were from bond and insurance proceeds received related to an employee defalcation.

In fiscal years 2015 and 2014, net transfers of \$72.6 million and \$81.5 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 \$80,000,000 for fiscal year 2015 as compared to \$95,000,000 for fiscal year 2014.

CAPITAL ASSETS

At June 30, 2015 and 2014 the OAL had \$1.1 million in capital assets. Capital assets are primarily composed of 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 8 of the notes to the financial statements.

	<u>Capital Assets</u>		
	2015	2014	Total % Change
Equipment	\$ 621,189	\$ 602,676	3.1%
Leasehold improvements	492,796	498,417	-1.1%
Totals capital assets	1,113,985	1,101,093	1.2%
Total accumulated depreciation	(890,807)	(854,980)	4.2%
Net capital assets	<u>\$ 223,178</u>	<u>\$ 246,113</u>	-9.3%

CONTACT INFORMATION

This financial report is designed to provide a general overview of the OAL's finances and to demonstrate the OAL's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the OAL's Finance Division at P.O. Box 3238, Little Rock, Arkansas 72201-3238 or call (501) 683-2000.



Arkansas
Scholarship Lottery

BASIC FINANCIAL STATEMENTS



“I am extremely thankful for the Academic Challenge Scholarship because it has helped relieve some of the financial burden of a college education for both me and my parents and allowed me to focus on my academics.”

Madison Sherrer | Sophomore
University of the Ozarks
Mena





Arkansas
Scholarship Lottery

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Statement of Net Position
June 30, 2015**

ASSETS

Current assets:	
Cash and cash Equivalents	\$ 2,337,136
Restricted assets:	
Cash and cash equivalents	23,134,895
Accounts receivable	12,274,782
Prepaid items	23,895
Total current assets	<u>37,770,708</u>
Non-current assets:	
Restricted assets:	
Cash and cash equivalents	20,113,582
Deposits with Multi-State Lottery Association	1,762,386
Capital assets:	
Equipment	621,189
Leasehold Improvements	492,796
Less accumulated depreciation	(890,807)
Total non-current assets	<u>22,099,146</u>
Deferred outflows of resources:	
Related to pension	992,965
Total assets and deferred outflows of resources	<u><u>\$ 60,862,819</u></u>

LIABILITIES

Current liabilities:	
Accounts payable	\$ 489,542
Prizes payable	19,528,702
Accrued and other liabilities	1,653,216
Due to other funds of the State	591,464
Payable to Arkansas Department of Higher Education	22,134,895
Compensated absences	52,118
Unearned revenue	295,300
Total current liabilities	<u>44,745,237</u>
Long-Term liabilities:	
Net other post employment benefits	1,508,779
Compensated Absences	245,273
Net pension liability	3,407,594
Total long-term liabilities	<u>5,161,646</u>
Deferred inflows of resources:	
Related to pension	1,383,462
Total liabilities and deferred inflows of resources	<u>51,290,345</u>

NET POSITION

Net position:	
Invested in capital assets	223,178
Restricted for:	
Scholarship shortfall reserve	20,000,000
Retailer fidelity reserve	113,582
Deposits with Multi-State Lottery Association	1,762,386
Unclaimed prizes reserve	1,000,000
Unrestricted	(13,526,672)
Total net position	<u>9,572,474</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 60,862,819</u></u>

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

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Statement of Revenues, Expenses and Change in Net Position
For Year Ended June 30, 2015

Operating revenues:	
Instant ticket sales	\$ 335,000,613
Online ticket sales	73,662,767
Retailer application, fidelity and service fees	550,952
Other revenue	20,346
	409,234,678
Total operating revenues	409,234,678
 Operating expenses:	
Instant game prizes	241,758,220
Online game prizes	38,708,574
Retailer commissions	23,253,196
Gaming contract costs	20,622,707
Compensation and benefits	5,382,544
Marketing, advertising and promotions	5,032,317
General and administrative expenses	1,274,003
Services provided by Arkansas Department of Higher Education	538,487
Services provided by Arkansas Division of Legislative Audit	129,960
Legal and professional services	12,528
Depreciation	158,363
	336,870,899
Total operating expenses	336,870,899
Operating income	72,363,779
 Non-operating revenue:	
Interest income	224,546
	224,546
Income before transfers	72,588,325
 Transfers to:	
Education Trust Account	(72,619,369)
Arkansas Department of Human Services	(200,000)
	(926,369)
Change in net position	(231,044)
Total net position - beginning (as restated)	9,803,518
Total net position - ending	\$ 9,572,474

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

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Statement of Cash Flows
For the Twelve Months Ended June 30, 2015**

Cash flows from operating activities:

Cash received from retailers and others	\$ 407,714,967
Cash paid for prizes	(279,650,934)
Cash paid for gaming vendors	(20,638,704)
Cash paid for retailer commissions	(23,253,196)
Cash paid for marketing and advertising	(4,772,451)
Cash paid for employee services	(5,432,980)
Cash paid for other expenses	(2,139,793)
Net cash provided by operating activities	<u>71,826,909</u>

Cash flows from noncapital financing activities:

Nonoperating transfers to Arkansas Department of Higher Education	(80,000,000)
Nonoperating transfers to Arkansas Department of Human Services	(200,000)
Nonoperating transfers from Arkansas Department of Higher Education	2,319,469
Net cash used by non-capital financing Activities	<u>(77,880,531)</u>

Cash flows from capital and related financing activities:

Purchases of capital assets	(138,605)
Loss on disposal of fixed assets	3,177
Net cash flows from capital and related financing activities	<u>(135,428)</u>

Cash flows from investing activities:

Interest received	<u>224,546</u>
Net decrease in cash and cash equivalents	(5,964,504)

Cash and cash equivalents, beginning

51,550,117

Cash and cash equivalents, ending

\$ 45,585,613

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 72,363,779
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	158,363
Deferred inflows of resources related to pension	160,135
Deferred outflows of resources related to pension	(361,163)

Net changes in assets and liabilities:

(Increase) decrease in:

Accounts receivable	(1,493,924)
Prepaid items	59,650
Deposits with Multi-State Lottery Association	31,693

Increase (decrease) in:

Accounts payable	(609,762)
Prizes payable	784,166
Accrued and other liabilities	864,662
Due to other funds of the State	(248,295)
Compensated absences	(38,879)
Unearned revenue	(25,787)
Net post employment benefits	182,271

Net cash provided by operating activities \$ 71,826,909

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

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Arkansas Department of Finance and Administration Office of the Arkansas Lottery (OAL) was initially created as the Arkansas Lottery Commission (ALC) by Acts 605 and 606 of 2009 (the Act) for the purpose of establishing, operating, and regulating lotteries for the State of Arkansas (State) 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 was governed by a nine member commission (the Commission), which was charged with overseeing the lottery operations of the State, 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. During the 2015 Legislative session, the Arkansas Legislature enacted Act 218 of 2015 which eliminated the Arkansas Lottery Commission and established the lottery as the Office of the Arkansas Lottery within the Arkansas Department of Finance and Administration (DFA), as part of the Management Services Division.

The OAL is a self-supporting, revenue-raising office within DFA. The OAL commenced sales of instant scratch-off tickets on September 28, 2009; Powerball® on October 31, 2009; Cash 3 on December 14, 2009; Mega Millions® on January 31, 2010; Cash 4 on July 12, 2010; Arkansas Million Dollar Raffle on July 14, 2010 and sales concluded on April 6, 2011; Fast Play games on October 25, 2010; Decades of Dollars on May 3, 2011 and sales concluded on October 16, 2014; Arkansas 50/50 Raffle on October 1, 2011 and sales concluded on February 28, 2015; Natural State Jackpot on August 27, 2012; Arkansas Million Dollar Raffle was re-introduced on September 1, 2013 and sales concluded on December 31, 2013; MONOPOLY™ Millionaires' Club on October 19, 2014 and sales concluded on December 26, 2014; and Lucky for Life commenced sales on January 27, 2015. Powerball®, Mega Millions®, MONOPOLY™ Millionaires' Club and Lucky for Life are offered through the Multi-State Lottery Association (MUSL). Decades of Dollars was offered through a consortium of four participating lottery states.

For financial reporting purposes, the OAL 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 OAL 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. Accounting Restatement

The OAL implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*, in the fiscal year ended June 30, 2015. Statement 68 was required to be implemented retroactively with the beginning net position restated for the cumulative effects of implementation. Implementation required reporting a beginning balance for the net pension liability and a beginning balance for deferred outflows of resources related to pensions for employer contributions made to the pension plan in fiscal year 2014. The net cumulative effects of implementing Statement 68 on beginning Net Position as previously reported on June 30, 2014, is as follows:

Beginning Net Position	\$13,802,637
Deferred Outflow of Resources	631,802
Net Pension Liability	<u>(4,630,921)</u>
Adjusted Beginning Net Position	<u>\$ 9,803,518</u>

Arkansas Department of Finance and Administration
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June 30, 2015

c. *Basis of Presentation*

The OAL 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.

d. *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 OAL 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 OAL 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 Change in Net Position. Operating revenues and expenses generally relate to the OAL's primary ongoing operations of selling lottery tickets and redeeming prizes. Any revenues or expenses not meeting this definition are reported as non-operating. The principal operating revenues of the OAL are from charges to retailers for 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.

e. *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.

f. *Accounts Receivable*

Accounts receivable primarily represents amounts due from retailers for activated instant ticket packs and 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 OAL and electronic funds transfers are used to collect receivables weekly from such accounts.

g. *Capital Assets*

Capital assets are stated at cost less accumulated depreciation. The OAL 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:

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2015

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 Change in Net Position, in the period of retirement/disposition.

h. 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, Retailer Fidelity Reserve, 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 OAL 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, to maintain online game reserves at adequate levels or for special prize promotions. At June 30 of each fiscal year, the amount of the Unclaimed Prizes Reserve, less \$1 million, are transferred to the Education Trust Account.

See note 12 for information regarding the unrestricted net position (deficit). It is the practice of the OAL to use restricted resources first, then unrestricted resources when both restricted and unrestricted resources are available.

i. 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.

j. 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 30 of the current fiscal year are recorded as unearned revenue and recognized as revenue in subsequent fiscal year(s).

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June 30, 2015

k. *Retailer 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 the OAL claim center, and (2) retailers receive an additional selling commission of one percent of each prize 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 any prize of \$10,000 or more is \$50,000.

l. *Prizes and Unclaimed Prizes*

For instant ticket (scratch-off) games, prizes 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. Prizes expense for any merchandise prize is recognized when invoiced by the gaming vendor. Any instant game prizes that remain unclaimed 90 days after an instant game ending date are considered unclaimed.

Prizes expense for online games is recorded for each game drawing at an established prize payout estimate percentage of the revenue recognized. Any online game prizes that remain unclaimed at the end of a 180 day period following a game drawing are considered unclaimed.

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

m. *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 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.

n. *Retirement Plan*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension fund and the additions to and deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension system. See note 15 for additional information regarding the retirement plan.

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2015

o. 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.

p. Bad Debt Expense

Bad debt expense is normally recognized when an OAL 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 OAL recorded no bad debt expense for the fiscal year ended June 30, 2015. For net proceeds calculations, bad debt expense amounts are recovered from the Retailer fidelity reserve, which is maintained to offset such potential loss.

2. DEPOSITS

Arkansas Code Annotated (ACA) requires that agencies holding monies not deposited in the State Treasury (cash fund agencies), other than institutions of higher learning, abide by the recommendations of the State Board of Finance as to the best investment decisions for any idle cash balances. The State Board of Finance promulgated certain 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 OAL 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 OAL at no cost. Additionally, the contract calls for interest to be paid on all OAL deposits at a rate of 20 basis points over the Federal Funds Target rate with a floor of 55 basis points. During the fiscal year ended June 30, 2015, the OAL was paid 55 basis points on all OAL deposits. All cash and equivalents at June 30, 2015 were held in accounts at the Bank of the Ozarks. As agreed to in their contract, the Bank of the Ozarks has agreed to pledge collateral on all accounts of the OAL in an amount to exceed the State requirement of 105 percent of deposits. As of June 30, 2015, total collateral pledged to the OAL had a market value of \$48,776,102 to secure total bank balances of \$45,834,073, which was 106.4% of deposits. The collateral is held in the OAL's name by Arkansas Banker's Bank and the Federal Home Loan Bank of Dallas.

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Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the OAL 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 OAL 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 OAL's bank balances of \$45,834,073 were exposed to custodial credit risk as of June 30, 2015.

3. ACCOUNTS RECEIVABLE

Management believes that an allowance for uncollectable accounts is not necessary at June 30, 2015, as subsequent collections and surety bond coverage amounts are sufficient to cover any past due accounts. Amounts due from retailers and others are summarized as follows:

Amount due for activated instant scratch-off tickets, not settled	\$ 9,212,395
Amount due for partial weeks sales through June 30, 2015	3,006,563
Past due accounts and other receivables	<u>55,824</u>
Total accounts receivable	<u>\$ 12,274,782</u>

4. TRUST ACCOUNT for NET PROCEEDS

Per the Act, on or before the 15th day of each month, the OAL is required to deposit the previous month's net proceeds, which per the Act are to be determined by the OAL as a percentage of lottery proceeds less operating expenses, in such a manner as to maximize net proceeds. Such net proceeds are to be deposited into one or more trust accounts. Based on the calculation requirement, it was 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 at June 30, 2015 was \$13,692,709 and was reflected as current restricted cash and cash equivalents in the OAL's general ledger accounts. Additionally, the net proceeds for the month of June 2015 of \$3,425,102, less \$5,866 of interest which was already transferred to the Trust Account in June 2015, with the Unclaimed Prizes Reserve in excess of \$1,000,000, of \$5,022,950, were transferred from the operating bank account to the Trust Account subsequent to June 30, 2015. For financial statement purposes, the total amount reflected for the Trust Account as current restricted cash and cash equivalents on the statement of net position was \$22,134,895. Total net proceeds for the fiscal year ended June 30, 2015 were \$72,619,369. During fiscal year 2015 a total of \$80,000,000 was transferred to ADHE.

**Arkansas Department of Finance and Administration
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Notes to Financial Statements
June 30, 2015**

Activity in the Trust Account for the fiscal year ended June 30, 2015 consisted of the following activities:

Education Trust Fund Account balance at 7/01/14	\$ 27,196,057
Educational Net Proceeds for fiscal year ended 6/30/15	72,619,369
Returns from ADHE during fiscal year ended 6/30/15	<u>2,319,469</u>
Total Available	102,134,895
Transfers to ADHE during fiscal year ended 6/30/15	<u>80,000,000</u>
Education Trust Fund Account balance at 6/30/15	<u><u>\$ 22,134,895</u></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 OAL 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 be accumulated for each fiscal year and on the last day of each fiscal year the amount of the remaining unclaimed lottery prizes reserve, less \$1,000,000, be deposited in the trust account for net lottery proceeds.

During fiscal year 2015, in addition to the \$1,000,000 beginning balance, the unclaimed prizes totaled \$5,241,115, of which \$218,165 was approved by the Commission to be used to maintain online game reserves for MONOPOLY™ Millionaires' Club at a fiscally sound level. The unclaimed prizes balance remaining at June 30, 2015, less \$1,000,000, resulted in a deposit of \$5,022,950 to the trust account for net proceeds. At June 30, 2015 the balance of the unclaimed prizes reserve was \$1,000,000 and is reflected in the Statement of Net Position as restricted net position, while the corresponding monies related to this reserve are shown as current restricted cash and cash equivalents.

6. SCHOLARSHIP SHORTFALL RESERVE AND RETAILER FIDELITY RESERVE

The Scholarship Shortfall Reserve account represents monies set aside to fund scholarships, if needed, due to a lack of OAL net proceeds. The balance of the Scholarship Shortfall Reserve at June 30, 2015 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 non-current restricted cash and cash equivalents. During fiscal year ended June 30, 2015, some requests by ADHE for scholarship funds exceeded the funds then available in the Trust Account. In order to fulfill these requests it was necessary to transfer \$10,663,081 from the Scholarship Shortfall Reserve account to the Trust Account. The Scholarship Shortfall Reserve account was replenished from subsequent months' net proceeds, as specified by statute, until the Scholarship Shortfall Reserve account balance was restored to \$20,000,000.

Also, in accordance with the Act, OAL retailers are assessed an annual fidelity reserve fee which is recorded to a Retailer Fidelity Reserve account, which is reflected as restricted net position on the statement of net position. The Fidelity reserves collected are deposited in a separate demand deposit account which is classified as non-current restricted cash and cash equivalents. The balance of the Retailer Fidelity Reserve at June 30, 2015 was \$113,582. Per the Act, these reserves may be used to cover losses incurred as a result of any nonfeasance, malfeasance or misfeasance of OAL retailers. The OAL sustained no losses that were charged to the fidelity reserve during the fiscal year ended June 30, 2015. Also, per the Act, at the end of each fiscal year, any fidelity reserve in excess of \$500,000 may be treated as net proceeds from the OAL, and subject to deposit into the Trust Account.

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June 30, 2015**

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. During the fiscal year ended June 30, 2015 the OAL was an active participant in several joint venture arrangements with the Multi-State Lottery Association (MUSL). Also, during the fiscal year ended June 30, 2015 the OAL terminated a joint venture agreement with the Decades of Dollars Consortium as described below:

Multi-State Lottery Association

In July 2009, the OAL 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. During the fiscal year ended June 30, 2015, MUSL added the MONOPOLY™ Millionaires' Club online game and the Lucky for Life online game to the member lotteries for the joint sales of those games. 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 OAL is required to contribute to various prizes reserve funds for Powerball®, Mega Millions® and MONOPOLY™ Millionaires' Club maintained by MUSL. The prizes reserve funds serve as a contingency reserve to protect MUSL and its member state lotteries from unforeseen prizes payment liabilities. MUSL periodically reallocates the prizes reserve funds among the member state lotteries based on relative Powerball®, Mega Millions® and MONOPOLY™ Millionaires' Club 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, would be returned to the OAL if it were to ever leave MUSL. As of June 30, 2015 the OAL had reserve fund deposits with MUSL of \$1,762,386.

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.

The OAL's portion of the MUSL's games for the fiscal year ended June 30, 2015 is summarized below:

	<u>Operating Revenues</u>	<u>Prizes</u>
Powerball®	\$27,099,705	\$13,017,136
Mega Millions®	15,158,385	7,343,615
MONOPOLY™ Millionaires' Club	388,990	326,534
Lucky for Life	2,013,064	1,290,851

MONOPOLY™ Millionaires' Club

On September 2, 2014 MUSL entered into an agreement with MDI Entertainment, LLC/Scientific Games International, Inc. for the sale of lottery tickets for a new online game called MONOPOLY™ Millionaires' Club. As a member of MUSL, the OAL was then allowed to sell tickets for the MONOPOLY™ Millionaires' Club game. Lottery ticket sales for MONOPOLY™

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Millionaires' Club commenced on October 19, 2014. However, the MONOPOLY™ Millionaires' Club tickets did not sell as well as expected and sales for that game were ended by MUSL on December 26, 2014.

Lucky for Life

On October 8, 2014 the OAL entered into another contract with MUSL to sell an online game called Lucky for Life. Ticket sales for Lucky for Life commenced on January 27, 2015. Each lottery participating in Lucky for Life ticket sales must annually subject the transactions, accounts and processes related to Lucky for Life to a test of agreed upon procedures by an independent auditor in its state.

Decades of Dollars Consortium

On May 3, 2011, the OAL joined the Decades of Dollars consortium comprised of the Georgia Lottery Corporation, Kentucky Lottery Corporation and the State of Virginia Lottery to participate in a multi-state lottery game entitled "Decades of Dollars", which was operated by the State of Virginia Lottery. The chief officials of each member lottery served as the Decades of Dollars consortium Executive Committee. For Decades of Dollars, each lottery in the consortium annually subjected transactions, accounts and processes to a test of agreed upon procedures by an independent auditor in its state. During fiscal year ended June 30, 2014 the OAL notified the Decades of Dollars Consortium of its intent to withdraw from the consortium at a date subsequent to the end of fiscal year 2014. The member lotteries, other than the State of Virginia Lottery, also announced their intent to withdraw from the consortium. It was then agreed by the members of the consortium that ticket sales for the Decades of Dollars game would end after the drawing of October 16, 2015.

The OAL's portion of revenues for "Decades of Dollars" game for the fiscal year ended June 30, 2015 were \$612,932. Due to the termination of ticket sales for the game, the subsequent amount of unclaimed prizes and the charge off of excess game reserves for Decades of Dollars resulted in a negative prizes expense of \$(394,249) for fiscal year 2015.

8. CAPITAL ASSETS

The activity for capital assets for the fiscal year ended June 30, 2015, was as follows:

<u>Capital Assets</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
Equipment	\$ 602,676	\$138,605	\$(120,092)	\$ 621,189
Leasehold improvements	498,417	0	(5,621)	492,796
Total capital assets	<u>1,101,093</u>	<u>138,605</u>	<u>(125,713)</u>	<u>1,113,985</u>
Less accumulated depreciation:				
Equipment	(463,354)	(77,365)	116,915	(423,804)
Leasehold improvements	<u>(391,626)</u>	<u>(80,998)</u>	<u>5,621</u>	<u>(467,003)</u>
Total accumulated depreciation	<u>(854,980)</u>	<u>(158,363)</u>	<u>122,536</u>	<u>(890,807)</u>
Capital assets, net	<u>\$ 246,113</u>	<u>\$ (19,758)</u>	<u>\$ (3,177)</u>	<u>\$ 223,178</u>

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9. LIABILITIES

a. Prizes Payable

Prizes payable at June 30, 2015 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. Estimated prizes payable by category are as follows:

Instant tickets	\$	17,819,195
Powerball®		478,090
Mega Millions®		323,723
Natural State Jackpot		400,150
Lucky for Life		364,445
Fast Play		69,270
Cash 3		35,370
Cash 4		26,300
Decades of Dollars		2,461
Arkansas 50/50 Raffle		220
Income tax and other withholdings		<u>9,478</u>
 Total		 <u><u>\$ 19,528,702</u></u>

b. Payable to Other Funds of the State

The Act requires that ADHE be reimbursed by the OAL for the costs associated with the administration of scholarships funded with lottery proceeds. Act 218 of 2015 modified the requirement to only allow direct costs incurred by ADHE for the administration of scholarships to be included in the reimbursement request by ADHE. The amount recorded as administrative cost due is listed for ADHE in the table below.

Arkansas Legislative Audit (ALA) performs an annual audit of the OAL's financial position. The OAL reimburses ALA at an hourly rate set by the Legislative Joint Auditing Committee for work performed. Also, during the fiscal year ended June 30, 2015, ALA provided validation services for certain OAL daily online draw games. However, during the fiscal year 2015 the OAL Internal Audit department began performing such validation services in place of ALA. At June 30, 2015 the OAL had no payable owed to ALA.

The amounts listed below as due to other divisions or offices of the Department of Finance and Administration, Department of Information Systems and the Workers Compensation Commission are for withholdings owed or for services performed for the OAL by these Agencies within the normal course of business.

ADHE	\$	538,486
Department of Information Systems		30,598
Department of Finance and Administration		21,580
Workers Compensation Commission		<u>800</u>
 Total		 <u><u>\$ 591,464</u></u>

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2015**

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, 2015.

As a proprietary type enterprise fund, for financial reporting purposes the OAL recognizes and accrues liabilities for compensated absences as services are performed and the benefits accrue to employees. The compensated absences payable to OAL employees for annual, sick, and compensatory leave at June 30, 2015 totaled \$297,392. The OAL 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 fiscal year ended June 30, 2015 the current portion of the compensated absences liability increased by \$6,116 to a balance of \$52,118 and the long-term portion decreased by \$44,994 to a balance of \$245,274.

Long Term Compensated Absences	Beginning Balances	Increases	Decreases	Ending Balances
Annual	\$ 290,213	\$ 401,379	\$(446,318)	\$ 245,274
Sick	0	0	0	0
Compensatory	55	0	(55)	0
Total	<u>\$ 290,268</u>	<u>\$ 401,379</u>	<u>\$(446,373)</u>	<u>\$ 245,274</u>

d. Unearned Revenue

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

Unearned revenue from online game tickets at June 30, 2015 is summarized as follows:

Powerball®	\$ 164,595
Mega Millions®	53,996
Natural State Jackpot	23,067
Lucky for Life	18,776
Cash 3	3,213
Cash 4	<u>2,112</u>
Total	<u>\$ 265,759</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, 2015 the amount of unearned revenue which related to retailer licensing and renewal fees was \$29,541.

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
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June 30, 2015**

10. ONLINE GAME REVENUES

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 for the fiscal year ended June 30, 2015 consisted of the following:

Powerball®	\$ 27,099,705
Mega Millions®	15,158,385
Fast Play	10,770,484
Natural State Jackpot	7,035,843
Cash 3	6,712,769
Cash 4	3,832,385
Decades of Dollars	612,932
Lucky for Life	2,013,064
MONOPOLY™ Millionaires' Club	388,990
Arkansas 50/50 Raffle	<u>38,210</u>
 Total	 <u>\$ 73,662,767</u>

11. OPERATING LEASES

At its start up in 2009 the OAL entered into operating leases for the rental of office space for its headquarters, as well as for three district claim centers. All of these leases were renewable at the option of the OAL at the end of their initial lease terms. During the fiscal year ended June 30, 2015 the lease of the OAL headquarters offices was extended for an additional six year term expiring on August 31, 2021. The claim center leases were for five-year terms, which ended on dates in September and October, 2014. During the fiscal year ended June 30, 2015 at the decision of the Commission, upon dates just prior to the expiration dates of the claim center leases, the leases were terminated and the claim centers were closed. Annual rent expense for the fiscal year ended June 30, 2015 was \$438,405.

Future minimum rental payments on operating leases as of June 30, 2015, are scheduled as follows:

2016	\$429,937
2017	426,916
2018	439,795
2019	441,955
2020	452,965
2021-2025	531,028

12. UNRESTRICTED NET POSITION (DEFICIT)

Act 606 of 2009 (Scholarship Lottery Act) section ACA 23-115-801 (a) (3) requires "The percentage of lottery proceeds determined by the OAL to be net proceeds shall equal an amount determined by the OAL to maximize net proceeds for scholarships." Section ACA 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 ACA 23-115-103 (14) "Lottery Proceeds" means all revenue derived from the sale of tickets or shares and all moneys derived from or in

Arkansas Department of Finance and Administration
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Notes to Financial Statements
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connection with the operation of a lottery, including without limitation fees, offsets, reimbursements, insurance proceeds, damages and liquidated damages collected or imposed by the OAL under this chapter. Also ACA 23-115-801 Section (b) (1) requires "On or before the fifteenth day of each month, the OAL shall deposit the net proceeds from the lottery into one (1) or more trust accounts at one (1) or more financial institutions."

To meet these requirements, in October 2009, the OAL 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. This method was accepted by the OAL 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, 2015 the cumulative variance due to the modified cash basis method was a debit balance (deficit) in Unrestricted Net Position of \$(12,017,893).

In addition, the OAL's net OPEB liability at June 30, 2015 (see note 16) of \$1,508,779 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, 2015 of \$(1,508,779). The total debit balance (deficit) in Unrestricted Net Position at June 30, 2015 was \$(13,526,672).

13. TRANSFERS

Transfers of net proceeds to the Trust Account were \$72,619,369 for the fiscal year ended June 30, 2015.

For the fiscal year ended June 30, 2015 the OAL 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 required the ALC to make an annual transfer of at least \$200,000 to DHS for the treatment of compulsive gambling disorder and educational programs related to compulsive gambling disorder. Act 218 of 2015, which eliminated the ALC and established the OAL as an office in DFA, also eliminated the requirement to make this annual transfer to DHS.

15. RETIREMENT PLAN

a. Plan Description

The OAL contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Board of

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2015**

Trustees of the APERS. The State is considered the employer and the OAL 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 OAL's employees cannot be determined. Similarly, the net assets available for benefits of OAL employees cannot be 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, Little Rock, Arkansas, 72201 or by calling 1-501-682-7855.

b. Funding Policy and Funded Status

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 OAL are established and may be amended by the Board of Trustees of APERS. The OAL is required to contribute to this plan for all covered State employees. For the fiscal years ended June 30, 2015, 2014 and 2013 the OAL's required contribution rates were 14.76%, 14.88% and 14.24% of annual covered payroll respectively.

The annual OAL 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 fiscal year and each of the two preceding fiscal years were as follows:

	<u>June 30, 2015</u>		<u>June 30, 2014</u>		<u>June 30, 2013</u>	
	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>
Contributions:						
Employee	5.0 %	\$182,437	5.0 %	\$197,053	5.0 %	\$200,568
OAL	14.76%	<u>589,324</u>	14.88%	<u>631,562</u>	14.24%	<u>613,944</u>
Required Contribution		<u>\$771,761</u>		<u>\$828,615</u>		<u>\$814,512</u>
% Contributed		100%		100%		100%

c. Pension Liability

During the fiscal year ended June 30, 2015 the OAL implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*. Statement 68 requires government entities providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. For fiscal year ended June 30, 2015 the OAL reported pension expense of \$(243,506) and the OAL's net pension liability was \$3,407,594. The State Comprehensive Annual Financial Report will contain the complete pension footnote and disclosures for the State's pension plan as required by GASB Statement 68.

Arkansas Department of Finance and Administration
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Notes to Financial Statements
June 30, 2015

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 ended 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 OAL is an agency of the State. Post-retirement medical and prescription drugs benefits are provided to OAL 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, Suite 500, Little Rock, AR 72201. For purposes of the plan the State is considered the employer and the OAL 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.

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 OAL are not determined. The OAL's net OPEB liability is based on the OAL'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 1, 2014; 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, 4.00%; Rate of salary increases, not applicable; Ultimate rate of medical inflation, 4.00%; Inflation, 3.00%.

For the fiscal year ended June 30, 2015, 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 OAL only had one eligible retiree, for whom no contributions were yet due. The OAL's annual

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2015**

OPEB cost for the fiscal years ended June 30, 2015, 2014 and 2013 were \$182,271, \$302,872 and \$296,356 respectively. The liability for the current year and each of the two preceding fiscal years were as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
June 30, 2015	\$1,326,508	\$ 182,271	\$ 0	\$1,508,779
June 30, 2014	1,023,636	302,872	0	1,326,508
June 30, 2013	727,280	296,356	0	1,023,636

17. CONTRACTUAL ARRANGEMENTS AND OTHER COMMITMENTS

The OAL 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 1,900 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. The OAL had an initial seven-year contract with INTRALOT ending in 2016, which included an option for up to three additional renewals in one-year increments, or a portion thereof. During the fiscal year ended June 30, 2015 the OAL exercised the option to extend the INTRALOT contract for a period of three years. The current contract extension will expire on August 15, 2019. During the fiscal year ended June 30, 2015, INTRALOT was compensated at the rate of 2.45% of all online and instant ticket game sales. Total fees paid to INTRALOT for all services for the fiscal year ended June 30, 2015 were \$10,012,840.

SGI prints, warehouses, and distributes the instant game tickets to retailers. In accordance with its contract with the OAL, SGI receives the negotiated fee on the selling price of all instant ticket settlements. The OAL has a seven-year contract with SGI ending with an expiration date of August 18, 2016. During the fiscal year ended June 30, 2015, SGI was compensated \$5,293,509 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 1.35% of the prize fund. During the fiscal year ended June 30, 2015 this fee totaled \$3,641,031. 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 the OAL pays various contracted fees. Total fees paid to SGI for all services for the fiscal year ended June 30, 2015 were \$10,467,000.

18. CONTINGENCIES

At June 30, 2015 there were no pending lawsuits or claims to which the OAL is a party.

19. RISK MANAGEMENT

The OAL 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 OAL 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

Arkansas Department of Finance and Administration
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Notes to Financial Statements
June 30, 2015

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, 2015, 2014 and 2013 did not exceed the OAL's insurance coverage.

20. SUBSEQUENT EVENTS

In accordance with GASB 56, the OAL's Management has evaluated subsequent events that occurred after June 30, 2015, but prior to November 17, 2015, the date the financial statements were available to be issued.

Such evaluation subsequently identified the following transactions related to the Education Trust Fund Account for ADHE (Trust Account), the corresponding Education Trust Account liability account and the Scholarship Shortfall Reserve account. At the requests of ADHE, on September 11, 2015 a payment of \$33,000,000 was made from the Trust Account to ADHE. ADHE also requested another payment of \$9,000,000 from the Trust Account to be made on September 30, 2015. However, the Trust Account did not have a sufficient balance so \$9,000,000 was transferred from the Scholarship Shortfall Reserve account into the Trust Account and the payment was then made to ADHE as requested. Also, on November 12, 2015, ADHE returned \$286,178 to the OAL for excess funds from fiscal year 2015, which were deposited to the Trust Account and reflected in the Education Trust Account liability account.

Such evaluation also subsequently identified a lawsuit, filed on November 2, 2015. Plaintiffs filed a First Amended Class Action Complaint against B.R. Lane, Director of the Illinois Department of the Lottery and others, all of whom are officials connected with the management and operation of state and commonwealth lotteries, including the Multi-State Lottery Association ("MUSL") and Mega Millions Consortium ("MMC"). The OAL and Bishop Woosley, Director of the OAL, are named in the suit, which was filed in the U.S. District Court for the Northern District of Illinois. As of November 17, 2015, Plaintiff's counsel had not perfected service of the Complaint on the OAL as required by the Federal Rules of Civil Procedure ("FRCP"). Nonetheless, the OAL has notified the Arkansas Attorney General's Office of the Complaint and secured legal representation. Upon formal service of the Complaint, the OAL will file a Response with the Court within the timeframe prescribed under the FRCP. The OAL will make all appropriate legal arguments including asserting its Eleventh Amendment / sovereign immunity defenses in its Response. The final outcome of the pending lawsuit is not presently determinable. OAL management does not anticipate the resolution of this matter will have a material adverse effect on the financial condition of the OAL.

Such evaluation also subsequently identified that on November 14, 2015 the OAL executed a contract amendment with Scientific Games, Inc. (SGI) which exercised the remaining extension periods under the contract, such that the contract now expires on August 18, 2026. Also, effective on November 14, 2015, the aggregate percentage of sales SGI is paid for Instant Ticket Lottery Game services is reduced from 1.81% to 1.30% of net sales. Also, effective as of November 14, 2015, SGI will receive a one-time bonus payment should the instant ticket sales exceed \$360,000,000 in a contract year of the agreement, of 4.5% of all such incremental instant ticket sales exceeding \$360,000,000.

STATISTICAL SECTION



“Without the Arkansas [Academic] Challenge Scholarship, I would not be on the professional path I am today. Because I attended college in Arkansas, I have discerned an interest in rural hunger and economic development. However, had I gone “out of state” for college, this would have been an impossible interest to cultivate. In many ways, I owe everything to the scholarship: the past four years of experiences and the countless that are to come during my professional career as a policy maker. ”

Sean Alexander | Senior
Hendrix College
Little Rock





Arkansas
Scholarship Lottery

**STATISTICAL SECTION TABLE OF CONTENTS
(Unaudited)**

The Arkansas Department of Finance and Administration Office of the Arkansas Lottery 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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<p>These schedules contain trend information to help the reader understand how the OAL's financial performance and well -being have changed over time.</p>	
Demographics and Operation Information	41
<p>These schedules offer demographic and operation indicators to help the reader understand the environment within which the OAL's financial activities take place.</p>	
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<p>These schedules provide the reader with an understanding of lottery sales across the United States by state and other player demographics.</p>	

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Principal Revenue Sources (Unaudited)
Last Six Fiscal Years**

	2015	2014
Operating revenues:		
Instant ticket sales:		
Instant games sales	\$ 335,000,613	\$ 322,415,276
Online ticket sales:		
Powerball®	27,099,705	35,042,460
Mega Millions®	15,158,385	19,847,674
Fast Play	10,770,484	10,126,554
Natural State Jackpot	7,035,843	8,863,034
Cash 3	6,712,769	6,255,740
Cash 4	3,832,385	3,606,991
Decades of Dollars	612,932	2,345,532
AR Million Dollar Raffle	-	1,426,490
Arkansas 50/50 Raffle	38,210	143,375
Lucky for Life	2,013,064	-
Monopoly™ Millionaires' Club	388,990	-
Total online ticket sales	73,662,767	87,657,850
Retailer application, fidelity & service fees	550,952	554,292
Other revenue	20,346	10,550
Total operating revenues	409,234,678	410,637,968
Non-operating revenue:		
Interest income	224,546	252,614
Other non-operating income	-	461,047
Total non-operating revenue	224,546	713,661
Total revenues	\$ 409,459,224	\$ 411,351,629

Note: 1) The OAL (ALC) was established in fiscal year 2009 but began operations in fiscal year 2010.

2) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source: OAL Comprehensive Annual Financial Report for fiscal year 2015, and ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011 and ALC Annual Financial Report for fiscal year 2010

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Principal Revenue Sources (Unaudited)
Last Six Fiscal Years**

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 355,061,785	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156
47,409,700	37,903,399	34,961,543	34,998,429
13,891,465	25,571,602	24,113,365	7,935,615
3,391,691	2,721,436	2,636,383	-
6,994,820	-	-	-
6,161,706	6,178,537	5,805,414	5,277,255
3,324,150	3,325,490	3,091,218	-
2,927,572	5,237,158	932,820	-
-	-	5,000,000	-
385,105	857,760	-	-
-	-	-	-
-	-	-	-
<u>84,486,209</u>	<u>81,795,382</u>	<u>76,540,743</u>	<u>48,211,299</u>
556,792	538,584	1,055,538	867,023
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>
322,722	352,431	464,252	181,807
-	2,000,000	-	-
<u>322,722</u>	<u>2,352,431</u>	<u>464,252</u>	<u>181,807</u>
<u>\$ 440,431,998</u>	<u>\$ 475,991,660</u>	<u>\$ 465,544,591</u>	<u>\$ 384,752,935</u>

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Revenue, Expenses and Change In Net Position (Unaudited)
Last Seven Fiscal Years

	2015	2014
Operating revenues:		
Instant ticket sales	\$ 335,000,613	\$ 322,415,276
Online ticket sales	73,662,767	87,657,850
Retailer application, fidelity and service fees	550,952	554,292
Other revenue	20,346	10,550
	409,234,678	410,637,968
Operating expenses:		
Instant game prizes	241,758,220	229,462,196
Online game prizes	38,708,574	45,487,903
Retailer commissions	23,253,196	23,046,410
Gaming contract costs	20,622,707	20,511,439
Compensation and benefits	5,382,544	5,990,541
Marketing, advertising and promotions	5,032,317	4,472,456
General and administrative expenses	1,274,003	1,414,871
Services provided by other agencies:		
Arkansas Department of Higher Education	538,487	751,556
Arkansas Division of Legislative Audit	129,960	139,080
Legal and professional services	12,528	6,457
Depreciation	158,363	188,270
	336,870,899	331,471,179
Total operating expenses		
Operating income (loss)	72,363,779	79,166,789
Non-operating revenue:		
Interest income	224,546	252,614
Other non-operating income	-	461,047
Total non-operating revenue	224,546	713,661
Income (loss) before transfers	72,588,325	79,880,450
Transfers to:		
Education Trust Account	(72,619,369)	(81,488,844)
Arkansas Department of Human Services	(200,000)	(200,000)
	(231,044)	(1,808,394)
Change in net position	\$ (231,044)	\$ (1,808,394)

Note: 1) The OAL (ALC) was established in fiscal year 2009 but began operations in fiscal year 2010.

2) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source: OAL Comprehensive Annual Financial Report for fiscal year 2015, and ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011 and ALC Annual Financial Report for fiscal year 2010

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Revenue, Expenses and Change In Net Position (Unaudited)
Last Seven Fiscal Years

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 355,061,785	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156	-
84,486,209	81,795,382	76,540,743	48,211,299	-
556,792	538,584	1,055,538	867,023	-
4,490	15,038	5,450	5,650	-
440,109,276	473,639,229	465,080,339	384,571,128	-
250,246,337	274,203,122	269,898,596	224,341,940	-
41,877,845	41,115,706	37,556,109	23,381,100	-
24,986,551	26,526,329	26,217,851	21,578,603	-
22,116,163	24,308,153	24,111,720	20,448,694	-
6,049,048	5,954,138	6,226,266	6,118,300	-
4,414,655	4,466,054	4,631,388	4,352,303	-
1,231,212	1,270,047	1,434,229	1,841,340	11,683
794,016	846,109	1,170,710	216,849	-
142,720	159,440	280,728	153,180	-
22,507	107,651	8,484	24,182	4,786
182,158	182,159	179,750	122,643	-
352,063,212	379,138,908	371,715,831	302,579,134	16,469
88,046,064	94,500,321	93,364,508	81,991,994	(16,469)
322,722	352,431	464,252	181,807	-
-	2,000,000	-	-	-
322,722	2,352,431	464,252	181,807	-
88,368,786	96,852,752	93,828,760	82,173,801	(16,469)
(90,257,161)	(97,510,280)	(74,229,349)	(82,799,809)	-
(200,000)	(200,000)	(200,000)	(200,000)	-
\$ (2,088,375)	\$ (857,528)	\$ 19,399,411	\$ (826,008)	\$ (16,469)

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Net Position by Component (Unaudited)
Last Seven Fiscal Years**

	2015	2014 (3)
Net position:		
Invested in capital assets	\$ 223,178	\$ 246,113
Restricted for:		
Scholarship shortfall reserve	20,000,000	20,000,000
Retailer fidelity reserve	113,582	91,133
Deposits with Multi-State Lottery Association	1,762,386	1,794,079
Unclaimed prizes reserve	1,000,000	1,000,000
Unrestricted (deficit)	(13,526,672)	(13,327,807)
 Total net position (deficit)	 \$ 9,572,474	 \$ 9,803,518

Note: 1) The OAL (ALC) was established in fiscal year 2009 but began operations in fiscal year 2010.
2) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.
3) For fiscal year 2014, Unrestricted(deficit) was restated for pension per GASB Statement 68.
Source: OAL Comprehensive Annual Financial Report for fiscal year 2015, and ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011 and ALC Annual Financial Report for fiscal year 2010 and ALC general ledger for fiscal year 2009

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Net Position by Component (Unaudited)
Last Seven Fiscal Years**

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 358,372	\$ 540,530	\$ 722,689	\$ 867,607	\$ -
20,000,000	20,000,000	20,000,000	-	-
70,586	49,232	42,205	18,831	-
1,773,620	1,683,806	1,138,133	457,268	-
1,000,000	1,000,000	1,000,000	-	-
<u>(7,591,547)</u>	<u>(5,574,162)</u>	<u>(4,346,093)</u>	<u>(2,186,183)</u>	<u>(16,469)</u>
<u>\$ 15,611,031</u>	<u>\$ 17,699,406</u>	<u>\$ 18,556,934</u>	<u>\$ (842,477)</u>	<u>\$ (16,469)</u>

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Changes in Cash and Cash Equivalents (Unaudited)
Last Seven Fiscal Years

	2015	2014
Cash flows from operating activities:		
Cash received from retailers and others	\$ 407,714,967	\$ 410,690,974
Cash paid for prizes	(279,650,934)	(275,024,448)
Cash paid for gaming vendors	(20,638,704)	(20,308,816)
Cash paid for retailer commissions	(23,253,196)	(23,046,410)
Cash paid for marketing and advertising	(4,772,451)	(4,319,538)
Cash paid for employee services	(5,432,980)	(5,725,930)
Cash paid for other expenses	(2,139,793)	(2,402,273)
Cash received from other non-operating income	-	461,047
Net cash provided (used) by operating activities	71,826,909	80,324,606
Cash flows from non-capital financing activities:		
Interagency advances	-	-
Non-operating transfers to Arkansas Department of Higher Education	(80,000,000)	(95,000,000)
Non-operating transfers from Arkansas Department of Higher Education	2,319,469	2,138,092
Non-operating transfers to Arkansas Department of Human Services	(200,000)	(200,000)
Net cash provided (used) by non-capital financing activities	(77,880,531)	(93,061,908)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(138,605)	(76,011)
Loss on disposal of fixed assets	3,177	-
Net cash flows from capital and related financing activities	(135,428)	(76,011)
Cash flows from investing activities:		
Interest received	224,546	252,614
Net increase in cash and cash equivalents	(5,964,504)	(12,560,699)
Cash and cash equivalents, beginning	51,550,117	64,110,816
Cash and cash equivalents, ending	\$ 45,585,613	\$ 51,550,117
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 72,363,779	\$ 79,166,789
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	158,363	188,270
Pension Earnings	(201,028)	-
Other non-operating income	-	461,047
Net changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,493,924)	33,527
Receivable from other Funds of the State	-	7,020
Prepaid items	59,650	(51,876)
Deposits with Multit-State Lottery Association	31,693	(20,459)
Increase (decrease) in:		
Accounts payable	(609,762)	871,837
Prizes payable	784,166	(53,889)
Accrued and other liabilities	864,662	(481,765)
Due to other funds of the State	(248,295)	(123,695)
Compensated absences	(38,879)	5,449
Unearned revenue	(25,787)	19,479
Net other post employment benefits	182,271	302,872
Net cash provided (used) by operating activities	\$ 71,826,909	\$ 80,324,606

Note: 1) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and

2) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source: OAL Comprehensive Annual Financial Report for fiscal year 2015, and ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011 and ALC Annual Financial Report for fiscal year 2010 and ALC general ledger for fiscal year 2009

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Changes in Cash and Cash Equivalents (Unaudited)
Last Seven Fiscal Years**

2013	2012	2011	2010	2009
\$ 440,234,069	\$ 473,876,584	\$ 468,220,833	\$ 370,120,513	\$ -
(289,313,701)	(315,948,269)	(306,303,849)	(231,877,356)	-
(22,410,639)	(24,588,775)	(24,016,144)	(22,766,421)	-
(24,986,551)	(26,526,329)	(26,217,851)	(20,594,364)	-
(4,863,664)	(4,280,198)	(4,009,445)	(3,515,419)	-
(5,691,914)	(5,848,550)	(6,157,322)	(5,114,532)	-
(2,228,385)	(2,726,247)	(1,897,589)	(1,914,665)	(11,657)
-	2,000,000	-	-	-
<u>90,739,215</u>	<u>95,958,216</u>	<u>99,618,633</u>	<u>84,337,756</u>	<u>(11,657)</u>
-	-	-	(6,000,000)	6,000,000
(115,000,000)	(115,000,000)	(115,000,000)	-	-
6,342,312	12,430,211	20,000,000	-	-
(200,000)	(200,000)	(200,000)	-	-
<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>
-	-	(34,832)	(990,250)	-
-	-	(34,832)	(990,250)	-
<u>322,722</u>	<u>352,431</u>	<u>464,252</u>	<u>181,807</u>	<u>-</u>
(17,795,751)	(6,459,142)	4,848,053	77,529,313	5,988,343
<u>81,906,567</u>	<u>88,365,709</u>	<u>83,517,656</u>	<u>5,988,343</u>	<u>-</u>
<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>
\$ 88,046,064	\$ 94,500,321	\$ 93,364,508	\$ 81,991,994	\$ (16,468)
182,158	182,159	179,750	122,643	-
-	-	-	-	-
-	2,000,000	-	-	-
157,254	258,522	3,059,565	(14,289,726)	-
(7,020)	-	-	-	-
414	45,174	(72,138)	(5,119)	-
(89,814)	(545,673)	(680,865)	(457,268)	-
(273,839)	(766,472)	521,541	746,237	-
2,900,295	(83,767)	1,831,721	14,150,175	-
(494,883)	501,610	338,875	924,716	-
16,659	(382,971)	958,107	396,869	4,811
38,032	1,191	(191,329)	482,927	-
(32,461)	(21,168)	80,930	274,307	-
<u>296,356</u>	<u>269,290</u>	<u>227,968</u>	<u>-</u>	<u>-</u>
<u>\$ 90,739,215</u>	<u>\$ 95,958,216</u>	<u>\$ 99,618,633</u>	<u>\$ 84,337,756</u>	<u>\$ (11,657)</u>

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Total Personal and Per Capita Income and Unemployment Rate (Unaudited)
Last Ten Years**

Calendar year	Total population (in thousands)	Total personal income (in millions)	Per capita personal income	Unemployment rate
2015*	2,978	\$ 116,068	\$ 38,975	5.7%
2014*	2,975	107,450	36,118	6.3%
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%
2008	2,877	94,461	32,832	5.4%
2007	2,852	89,313	31,316	5.3%
2006	2,824	82,918	29,358	5.3%

* Estimated Amounts

Note: 1) The OAL (ALC) was established in fiscal year 2009 but began operations in fiscal year 2010.

2) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration

Source: IHS Global Insight Inc. (October 2015), derived from data compiled by the U.S. Bureau of Economic Analysis and Census Bureau

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
State of Arkansas Principal Employers (Unaudited)
Current Year as Compared to 2009**

2015	Employer	Total Employees	% of Total Arkansas Employment
1	Arkansas State Government	56,956	4.7%
2	Wal-Mart Stores, Inc.	50,096	4.1%
3	Tyson Foods, Inc.	23,000	1.9%
4	U.S. Government	20,200	1.7%
5	Baptist Health	8,083	0.7%
6	Community Health Systems, Inc.	5,700	0.5%
7	Sisters of Mercy Health System	4,950	0.4%
8	CHI St. Vincent Health System	4,691	0.4%
9	Arkansas Children's Hospital	4,337	0.4%
10	Kroger Co.	4,102	0.3%
		182,115	15.1%

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. 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: 1) The OAL (ALC) was established in fiscal year 2009 but began operations in fiscal year 2010.

2) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration

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

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Employees by Department and by Function (Unaudited)
Last Seven Fiscal Years**

Function	2015	2014	2013	2012	2011	2010	2009
Executive	1	1	1	1	2	2	1
Public Affairs	0	0	0	1	1	1	1
Human Resources	0	2	2	2	1	3	-
Legal Counsel	2	2	2	1	2	2	-
Internal Audit	3	2	2	1	2	2	-
Sales	22	23	23	23	23	22	-
Marketing	4	7	7	7	7	7	-
Security	6	6	5	6	4	4	-
Draw Managers	2	2	2	2	1	2	-
Licensing	3	3	3	3	4	3	-
Gaming	1	1	1	1	1	1	-
IT-Gaming	6	6	6	6	7	6	-
Product Development	3	3	3	3	2	2	-
Finance							
Chief Fiscal Officer	1	1	1	1	1	1	-
Treasurer	3	3	3	3	4	4	-
Claims Center	3	9	9	9	9	9	-
Controller	2	5	5	5	4	3	-
Procurement	1	2	2	3	6	6	-
IT-Admin	2	3	3	3	3	4	-
Total Employees	65	81	80	81	84	84	2
Gender:							
Female	28	40	39	41	41	41	1
Male	37	41	41	40	43	43	1
Race:							
Black/Non-Hispanic	15	19	19	23	23	24	-
Caucasian	43	53	54	51	57	57	2
Hispanic	2	3	3	2	2	1	-
Other	5	6	4	5	2	2	-
Age:							
Under 40	21	29	31	34	35	36	-
40+	44	52	49	47	49	48	2

Note: 1) The OAL (ALC) was established in fiscal year 2009 but began operations in fiscal year 2010.

2) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source: OAL Finance Department

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Capital Assets by Department (Unaudited)
Year Ended June 30, 2015

Function	2015
Executive:	
Furniture and fixtures	\$ 29,541
Computer equipment	20,727
Vehicles	7,073
Buildings/building improvements	45,489
Total executive assets	102,830
 Sales and Marketing:	
Furniture and fixtures	128,010
Computer equipment	89,818
Vehicles	30,648
Buildings/building improvements	197,118
Total sales and marketing assets	445,594
 Gaming and Security:	
Furniture and fixtures	103,392
Computer equipment	72,545
Vehicles	24,754
Buildings/building improvements	159,212
Total gaming and security assets	359,903
 Finance:	
Furniture and fixtures	59,081
Computer equipment	41,454
Vehicles	14,145
Buildings/building improvements	90,978
Total finance assets	205,658
Total assets	\$ 1,113,985

Note: During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration

Source: OAL Finance Division

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
U.S. Lotteries' Sales (Unaudited)
Fiscal year 2015

Lottery Jurisdiction	Population (in millions)	Sales (in millions)	Sales Per Capita	Instant Sales (in millions)	Instant Sales Per Capita
Arizona	6.7	\$ 750.0	\$ 111	\$ 542.0	\$ 81
Arkansas	3.0	408.7	138	335.0	112
California	38.8	5,524.9	142	3,915.4	101
Colorado	5.4	538.0	100	377.2	70
Connecticut	3.6	1,144.0	318	688.0	191
D.C.	0.7	211.0	321	28.3	40
Delaware	0.9	150.5	161	54.5	61
Florida	19.9	5,583.3	281	3,724.0	187
Georgia	10.1	4,195.2	415	2,869.8	284
Idaho	1.6	210.2	129	126.8	79
Illinois	12.9	2,837.3	220	1,821.6	141
Indiana	6.6	1,041.3	158	759.3	115
Iowa	3.1	324.8	105	212.0	68
Kansas	2.9	265.0	91	160.6	55
Kentucky	4.4	896.4	203	558.8	127
Louisiana	4.6	452.5	97	202.2	44
Maine	1.3	253.1	190	199.5	153
Maryland	6.0	1,757.1	294	546.1	91
Massachusetts	6.7	4,990.9	740	3,523.3	526
Michigan EST (1)	9.9	2,758.2	278	1,009.7	102
Minnesota	5.5	546.9	100	375.2	68
Missouri	6.1	1,098.3	181	745.5	122
Montana	1.0	52.5	51	17.5	18
Nebraska	1.9	160.0	85	91.9	48
N. Hampshire	1.3	279.6	211	209.1	161
New Jersey	8.9	3,013.6	337	1,695.1	190
New Mexico	2.1	137.0	66	80.0	38
New York (1)	19.7	7,251.0	367	3,760.1	191
N. Carolina	9.9	1,972.2	198	1,294.0	131
N. Dakota (2)	0.7	27.0	37	-	-
Ohio	11.6	2,890.9	249	1,550.1	134
Oklahoma	3.9	171.6	44	81.6	21
Oregon	4.0	318.4	80	119.6	30
Pennsylvania	12.8	3,819.6	299	2,591.6	202
Rhode Island	1.1	243.1	230	90.5	82
S. Carolina	4.8	1,401.7	290	1,002.5	209
South Dakota	0.9	51.8	61	26.5	29
Tennessee (2)	6.5	1,475.0	225	-	-
Texas EST (1)	27.0	4,524.5	168	3,472.6	129
Vermont	0.6	111.8	179	85.5	143
Virginia	8.3	1,843.9	221	1,018.5	123
Washington	7.1	599.7	85	404.1	57
West Virginia	1.9	180.0	97	103.3	54
Wisconsin	5.8	574.5	100	356.2	61
Wyoming	0.6	17.8	31	-	-
Total	303.1	\$ 67,054.8	\$ 221	\$ 40,825.1	\$ 135

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

(2) Tennessee and North Dakota Instant sales not reported.

Note: During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source: *La Flier's* Magazine - September/October 2015

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
U.S. Lotteries' Sales (Unaudited)
Fiscal year 2014

Lottery Jurisdiction	Population (in millions)	Sales (in millions)	Sales Per Capita	Instant Sales (in millions)	Instant Sales Per Capita
Arizona	6.6	\$ 724.0	\$ 109	\$ 483.9	\$ 73
Arkansas	3.0	410.1	139	322.4	107
California	38.3	5,034.7	131	3,288.9	86
Colorado	5.3	545.0	103	362.0	68
Connecticut	3.6	1,112.4	309	660.2	183
D.C.	0.6	219.4	339	44.2	74
Delaware	0.9	148.4	160	50.7	56
Florida	19.6	5,368.2	275	3,417.1	174
Georgia	10.0	4,022.2	403	2,727.5	273
Idaho	1.6	209.0	130	122.8	77
Illinois	12.9	2,791.8	217	1,757.4	136
Indiana	6.6	1,018.7	155	702.6	106
Iowa	3.1	314.1	102	188.8	61
Kansas	2.9	258.2	89	134.6	46
Kentucky	4.4	856.4	195	519.9	118
Louisiana	4.6	449.0	97	178.9	39
Maine	1.3	219.1	165	170.8	131
Maryland	5.9	1,724.0	291	479.6	81
Massachusetts	6.7	4,824.7	721	3,374.0	504
Michigan EST (1)	9.9	2,609.1	264	900.1	91
Minnesota	5.4	531.5	98	351.6	65
Missouri	6.0	1,143.4	189	768.1	128
Montana	1.0	53.3	52	16.5	17
Nebraska	1.9	157.8	84	84.7	45
N. Hampshire	1.3	275.0	208	194.7	150
New Jersey	8.9	2,895.8	325	1,525.8	171
New Mexico	2.1	136.0	65	69.8	33
New York (1)	19.7	7,314.2	372	3,677.1	187
N. Carolina	9.8	1,839.3	187	1,170.3	119
N. Dakota (2)	0.7	27.0	37	-	-
Ohio	11.6	2,735.0	236	1,424.9	123
Oklahoma	3.9	191.1	50	85.9	22
Oregon	3.9	310.1	79	109.0	28
Pennsylvania	12.8	3,799.6	297	2,444.9	191
Rhode Island	1.1	242.8	231	84.0	76
S. Carolina	4.8	1,264.4	265	875.5	182
South Dakota	0.8	54.9	65	25.9	32
Tennessee (2)	6.5	1,417.0	218	-	-
Texas EST (1)	26.4	4,384.6	166	3,280.2	124
Vermont	0.6	102.3	163	76.0	127
Virginia	8.3	1,810.8	219	988.6	119
Washington	7.0	595.1	85	379.4	54
West Virginia	1.9	188.6	102	105.6	56
Wisconsin	5.7	568.8	99	337.7	59
Total	299.9	\$ 64,896.9	\$ 216	\$ 37,962.6	\$ 127

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

(2) Tennessee and North Dakota Instant sales not reported.

Note: During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source: *La Fluer's Magazine* - September/October 2014

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Demographic Summary (Unaudited)
Fiscal Year Ended June 30, 2015

	Census1	All Respondents	Players Total	Non-Player Total
Number of respondents =	2.9 Million	1,200	730	470
Male	49%	49%	49%	49%
Female	51%	51%	51%	51%
18-34		30%	31%	29%
35-64		51%	55%	48%
65 or older		19%	14%	23%
Single		28%	24%	32%
Married/cohabitating		52%	61%	46%
Divorced/widowed/separated		20%	15%	22%
Some high school		6%	5%	7%
Completed high school		27%	27%	27%
Technical or vocational school above high school level		8%	8%	8%
Some college or university		31%	33%	30%
College or university degree or diploma (Bachelor's Degree) equivalent)		18%	19%	16%
Hispanic, Latino or Spanish origin	7%	6%	7%	5%
Not of Hispanic, Latino or Spanish origin	93%	94%	93%	95%
Caucasian	81%	80%	82%	78%
African American	16%	16%	15%	18%
Native American or Alaska Native	1%	1%	1%	2%
Asian	2%	1%	1%	1%
Other (includes Multi – racial)	1%	2%	1%	1%
Employed full-time		33%	43%	25%
Employed part-time		7%	8%	7%
Self employed		7%	6%	8%
Homemaker		10%	12%	8%
Student		5%	3%	6%
Retired		24%	19%	28%
Not currently in the workforce		14%	9%	18%
Less than \$25,000		30%	26%	35%
\$25,000 to just under \$50,000		33%	37%	29%
\$50,000 to just under \$75,000		19%	20%	17%
\$75,000 to just under \$100,000		8%	7%	9%
\$100,000 or more		10%	10%	10%

Note: During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source: ALC Demographic Research Study January 2015, Crestwood Associates - U.S. Census Bureau, 2005-2009 American Community Survey

SUPPLEMENTARY INFORMATION



“I am a freshmen at National Park College. My goals when searching for the right college for me were an interactive faculty and student body, a fun and safe atmosphere and somewhere not too far from home. The Arkansas Academic Challenge Scholarship has helped aid my decision to attend National Park College, where I plan to obtain my Associate of Science in Early Childhood Education.”

Katherine Hardister | Freshman
National Park College
Hot Springs





Arkansas
Scholarship Lottery

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Unclaimed Lottery Prizes (Unaudited)
Fiscal Year Ended June 30, 2015**

<u>Month</u>	<u>Unclaimed lottery prizes</u>	<u>Expenditures from unclaimed lottery prizes</u>	<u>Reserved for future prizes and promotions</u>	<u>Deposits to net lottery proceeds from unclaimed lottery prizes</u>
July	\$ 700,364	\$ -	\$ 700,364	\$ -
August	437,855	-	437,855	-
September	182,512	-	182,512	-
October	582,802	-	582,802	-
November	81,896	218,165	(136,269)	-
December	664,812	-	664,812	-
January	375,935	-	375,935	-
February	59,085	-	59,085	-
March	716,757	-	716,757	-
April	101,362	-	101,362	-
May	780,994	-	780,994	-
June	556,741	-	(4,466,209)	5,022,950
Total	\$ 5,241,115	\$ 218,165	\$ -	\$ 5,022,950

Note: During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source - OAL general ledger

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Scholarship Shortfall Reserve Trust Fund (Unaudited)
Fiscal Year Ended June 30, 2015**

	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>
Beginning Balance	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000
Shortfall Deposits	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Ending Balance	<u>\$ 20,000,000</u>					

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
Beginning Balance	\$ 20,000,000	\$ 20,000,000	\$ 9,336,919	\$ 15,498,262	\$ 20,000,000	\$ 20,000,000
Shortfall Deposits	-	-	6,161,343	4,501,738	-	-
Transfers	-	(10,663,081)	-	-	-	-
Ending Balance	<u>\$ 20,000,000</u>	<u>\$ 9,336,919</u>	<u>\$ 15,498,262</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>

Note - During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source - OAL general ledger and corresponding bank statements

**Arkansas Department Finance and Administration
Office of the Arkansas Lottery
Minority-owned and Female-owned Business Participation (Unaudited)
Fiscal Year Ended June 30, 2015**

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>
A-Absolute Moving & Hauling	\$ 670	Trucking/Hauling	Minority-Owned
Goddess Products	34,697	Office Furniture/Supplies	Minority-Owned
Government Supply Services, Inc.	1,733	Office Products	Minority-Owned
Northeast Arkansas Cleaning Svcs	1,215	Janitorial Svcs	Female-Owned
Ride N Shine Detail	55	Auto Detail and Cosmetic Repair	Minority-Owned
Trivia Marketing	253	Advertising/Public Relations	Female-Owned
Total	<u>\$ 38,623</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	\$ 1,455	Office Furniture/Supplies	Minority-Owned
J Kelly Referrals and Information Svcs, Inc	129,033	Call Center/Information Svcs	Minority-Owned
Total	<u>\$ 130,488</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	\$ 5,200	Janitorial Svcs	Minority-Owned
Premier Staffing	33,546	Staffing Svcs	Female-Owned
Expedited Transportation Svcs	24,002	Transportation Svcs	Female-Owned
Total	<u>\$ 62,747</u>		

Note - During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source - OAL accounts payable records, Scientific Games and Intralot records

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Retail Sales by County (Unaudited)
Fiscal Year Ended June 30, 2015

COUNTY	Instant*	Powerball ® *	Mega Millions		Fast Play*	Natural	Cash 3*	Cash 4*	Decades of Dollars*	Arkansas 50/50*	Lucky for Life ® *	MONOPOLY™ *	Total
			® *	Jackpot*									
Arkansas	\$ 4,906,554	\$ 234,045	\$ 133,533	\$ 203,232	\$ 75,089	\$ 87,943	\$ 87,619	\$ 5,002	\$ 100	\$ 24,756	\$ 3,745	\$ 5,761,618	
Ashley	1,330,978	164,264	74,629	63,304	24,591	129,521	116,299	3,558	75	9,964	1,995	1,919,178	
Baxter	4,012,638	385,196	189,205	124,437	117,669	45,111	17,754	11,752	840	27,586	8,375	4,940,563	
Benton	9,958,175	1,579,905	856,246	260,513	221,374	56,304	28,824	30,076	1,590	85,380	18,455	13,096,842	
Boone	4,593,446	317,572	170,064	145,892	55,883	23,415	29,342	4,478	295	16,344	4,770	5,361,501	
Bradley	1,479,725	65,202	34,820	31,748	22,200	19,104	18,830	1,612	90	8,056	1,755	1,683,142	
Calhoun	487,486	25,504	15,051	16,734	8,562	19,071	9,537	1,226	-	3,264	495	586,930	
Carroll	2,685,632	219,986	123,351	99,444	38,229	20,715	24,227	6,146	350	13,512	3,195	3,234,787	
Chicot	1,489,146	506,699	251,948	17,866	67,528	95,637	61,311	8,358	735	20,560	5,685	2,525,472	
Clark	3,285,202	208,781	115,674	120,145	55,848	37,362	20,376	3,008	195	15,864	2,505	3,864,960	
Clay	1,013,646	57,366	25,297	10,530	11,042	3,830	901	2,294	180	4,464	765	1,130,315	
Cleburne	3,017,459	276,665	164,856	97,434	110,326	11,500	6,664	6,550	355	25,698	3,915	3,721,422	
Cleveland	516,578	38,054	20,086	28,529	8,156	6,104	5,880	632	65	2,366	650	627,100	
Columbia	2,662,935	151,696	78,528	285,054	36,321	135,460	124,263	3,618	215	14,260	2,140	3,494,490	
Conway	5,319,611	281,981	150,419	125,404	91,811	71,870	36,321	5,270	305	20,222	3,550	6,106,764	
Craighead	12,497,719	822,345	423,752	370,318	163,030	104,420	51,080	12,856	1,780	50,198	10,095	14,507,593	
Crawford	3,312,936	474,700	271,505	88,651	110,116	25,379	9,020	8,326	400	31,624	6,865	4,339,521	
Crittenden	5,577,362	783,665	391,804	83,031	109,063	177,809	148,446	14,402	760	32,552	8,075	7,326,968	
Cross	2,200,167	128,989	65,444	102,872	32,184	22,330	19,003	1,480	95	6,720	1,385	2,580,669	
Dallas	1,298,842	72,854	43,758	48,836	20,589	23,533	7,921	1,482	35	6,792	905	1,525,546	
Desha	1,638,019	149,140	76,496	137,868	41,464	24,437	11,304	2,016	105	10,598	1,330	2,092,777	
Drew	2,026,844	165,635	80,658	49,662	39,046	15,686	10,473	5,306	155	12,524	2,720	2,408,709	
Faulkner	11,578,391	994,777	542,294	302,978	269,476	113,456	78,689	21,710	1,390	80,726	15,385	13,999,272	
Franklin	1,501,828	159,988	93,648	64,982	33,083	5,540	1,473	2,816	195	10,108	2,370	1,876,030	
Fulton	630,183	55,716	26,112	13,764	10,627	4,318	2,946	1,082	165	3,340	895	749,148	
Garland	9,414,678	1,158,519	661,015	428,893	423,038	84,661	75,226	32,236	1,855	104,144	16,535	12,400,800	
Grant	1,502,390	126,975	66,432	41,575	37,610	4,227	2,255	2,488	145	11,500	1,665	1,797,262	
Greene	5,722,478	350,780	185,640	78,142	68,118	12,749	8,341	5,854	675	23,530	4,960	6,461,267	
Hempstead	3,641,358	156,993	99,844	69,457	36,539	317,196	98,230	2,204	200	11,322	1,590	4,434,933	
Hot Springs	3,341,200	241,069	142,431	80,427	86,219	15,755	6,765	6,576	275	23,936	3,595	3,948,248	
Howard	1,941,922	100,554	64,467	50,001	29,759	224,647	89,682	2,294	145	10,574	1,350	2,515,395	
Independence	6,108,524	333,465	177,366	321,977	104,524	43,962	9,672	6,732	245	26,514	6,665	7,139,645	
Izard	775,600	75,981	41,162	50,883	21,759	2,398	1,982	1,922	80	4,782	1,055	977,604	
Jackson	3,000,385	169,492	96,432	86,006	67,286	106,559	56,675	5,078	175	17,522	2,660	3,608,270	
Jefferson	15,365,112	797,009	462,325	531,280	305,984	446,505	301,490	24,808	975	84,122	14,135	18,333,745	
Johnson	2,582,899	192,724	105,680	98,847	43,374	7,025	4,959	4,312	110	10,334	2,870	3,053,134	
Lafayette	721,906	43,306	20,082	37,308	10,227	42,915	18,983	1,138	20	3,512	555	899,952	
Lawrence	2,389,812	100,843	54,578	56,205	19,896	12,513	3,335	2,124	215	8,844	1,685	2,650,050	
Lee	790,119	44,012	26,309	33,654	5,724	25,878	21,504	774	45	3,226	545	951,790	
Lincoln	943,331	63,850	32,903	37,504	31,156	5,915	2,311	1,494	30	7,746	640	1,126,880	
Little River	1,042,463	66,682	45,026	20,104	15,023	43,519	28,673	2,092	260	4,958	510	1,269,310	
Logan	2,039,997	175,253	91,083	66,337	39,359	8,196	2,646	3,610	310	11,842	2,115	2,440,747	
Lonoke	9,784,410	768,905	426,286	319,565	218,006	90,169	59,486	21,770	685	62,684	10,165	11,762,130	
Madison	796,622	88,599	46,050	23,737	13,128	3,841	1,324	1,340	70	6,704	835	982,250	
Marion	1,680,104	135,720	66,756	46,891	42,881	21,830	5,309	5,768	180	10,954	4,335	2,020,728	
Miller	4,660,533	270,418	170,806	76,373	61,578	287,272	110,261	4,906	380	15,414	4,045	5,661,986	
Mississippi	5,838,665	334,311	177,255	91,603	57,105	570,326	350,987	4,862	380	15,028	5,430	7,445,951	
Monroe	1,541,438	114,129	58,927	30,136	24,087	31,161	12,585	1,376	60	8,242	1,170	1,823,311	
Montgomery	235,359	41,363	22,346	40,143	9,193	261	94	1,052	15	3,322	410	353,558	
Nevada	2,081,856	80,123	49,208	53,001	16,209	38,402	9,024	2,950	210	7,744	1,185	2,339,912	
Newton	586,569	32,421	19,473	24,900	10,219	647	162	888	45	2,594	1,115	679,033	
Ouachita	5,324,485	220,372	114,895	187,561	65,743	122,465	69,164	5,600	210	24,202	3,790	6,138,487	
Perry	934,311	80,502	50,249	20,566	18,864	5,276	3,226	1,414	25	4,996	565	1,119,994	
Phillips	2,069,408	319,362	166,848	29,233	30,278	87,668	50,115	3,984	325	13,268	2,575	2,773,064	
Pike	964,209	86,517	44,150	90,033	27,537	4,229	1,048	1,412	85	8,712	755	1,228,687	
Poinsett	4,151,364	221,990	117,209	226,206	63,623	59,534	17,606	2,772	395	12,502	2,635	4,875,836	
Polk	1,406,842	148,914	83,284	45,555	30,745	5,385	1,285	2,322	120	12,126	1,450	1,738,028	
Pope	8,496,149	616,867	337,777	136,950	154,312	62,503	27,983	12,274	475	41,326	9,140	9,895,755	
Prairie	1,887,690	91,501	47,477	64,815	16,950	22,490	6,718	1,978	80	6,468	1,020	2,147,187	
Pulaski	61,942,074	4,787,011	2,870,245	2,090,625	1,597,392	1,231,774	833,496	133,404	4,955	427,236	78,075	75,996,286	
Randolph	1,701,940	96,694	47,592	50,589	24,406	1,247	2,405	3,362	200	8,284	1,795	1,938,514	
Saint Francis	2,693,887	222,915	116,731	39,944	34,718	96,582	74,090	2,322	295	12,634	2,700	3,296,818	

(continued)

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Retail Sales by County (Unaudited)
Fiscal Year Ended June 30, 2015**

COUNTY	Instant*	Powerball @ *	Mega Millions		Fast Play*	Natural	Cash 3*	Cash 4*	Decades of Dollars*	Arkansas 50/50*	Lucky for Life @ *	MONOPOLY™ *	Total
			@ *	Jackpot*									
Saline	10,941,210	1,012,358	548,703	514,450	305,091	90,683	49,915	24,412	1,020	75,378	14,330	13,577,550	
Scott	1,050,141	78,254	44,226	24,836	17,413	2,867	1,169	1,136	95	6,182	1,105	1,227,424	
Searcy	895,257	55,972	29,791	28,514	15,366	4,380	5,911	1,174	40	4,052	485	1,040,942	
Sebastian	7,823,550	1,229,499	701,630	151,472	249,981	225,814	75,916	21,218	2,175	82,014	17,975	10,581,244	
Sevier	1,323,033	107,079	67,027	29,581	17,605	36,991	7,306	2,160	85	6,788	985	1,598,640	
Sharp	2,280,704	151,806	76,521	174,720	47,442	7,282	2,473	3,388	355	11,600	3,770	2,760,061	
Stone	946,644	82,811	45,368	63,666	26,347	11,688	3,078	2,498	65	8,070	1,250	1,191,485	
Union	8,808,768	435,164	241,772	161,769	87,717	595,127	270,419	6,646	560	31,746	6,275	10,645,962	
Van Buren	1,668,144	136,494	74,583	63,146	41,012	16,229	4,263	3,492	70	9,276	1,880	2,018,589	
Washington	14,201,466	1,732,939	1,016,526	393,973	330,474	188,178	70,108	34,302	2,425	112,490	20,370	18,103,250	
White	11,414,250	611,667	334,553	422,423	190,684	59,831	37,000	12,606	665	56,144	9,535	13,149,358	
Woodruff	1,089,041	67,496	34,288	9,296	20,054	40,014	5,848	1,006	25	5,970	780	1,273,818	
Yell	2,071,796	147,796	83,056	62,384	48,941	5,877	854	2,048	135	11,804	1,910	2,436,600	
Grand Total	\$ 333,637,595	\$ 27,126,201	\$ 15,123,561	\$ 10,770,484	\$ 7,034,003	\$ 6,712,480	\$ 3,831,845	\$ 602,634	\$ 33,135	\$ 2,031,840	\$ 388,990	\$ 407,292,767	

Note: During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration

*Estimates - Cash Sales, not on accrual basis

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Demographic Report from the Arkansas Department of Higher Education (Unaudited)
Fiscal Year Ended June 30, 2015**

<u>Institution</u>	<u>Awards</u>	<u>Scholarships</u>
Arkansas Baptist College	28	\$ 87,126
Arkansas Northeastern College	133	247,875
Arkansas State University Beebe	781	1,453,660
Arkansas State University Jonesboro	3,834	12,355,527
Arkansas State University Mountain Home	207	369,719
Arkansas State University Newport	263	458,935
Arkansas Tech University	3,199	9,783,738
Arkansas Tech University Ozark Campus	167	280,838
Baptist Health Schools - Little Rock	60	97,250
Black River Technical College	198	349,908
Central Baptist College	241	710,893
College of the Ouachitas	115	196,532
Cossatot Community College UA	185	322,439
Crowley's Ridge College	50	159,250
East Arkansas Community College	132	237,000
Ecclesia College	22	59,500
Harding University	682	2,208,190
Henderson State University	1,372	4,214,868
Hendrix College	321	1,027,250
Jefferson School of Nursing	*	7,875
John Brown University	373	1,220,190
Lyon College	357	1,073,250
Mid South Community College	90	143,500
National Park Community College	293	508,189
North Arkansas College	285	490,125
Northwest Arkansas Community College	869	1,379,271
Ouachita Baptist University	660	2,214,293
Ozarka College	155	264,375
Philander Smith College	57	169,875
Phillips Community College UA	134	244,250
Pulaski Technical College	694	1,187,166
Rich Mountain Community College	86	155,125
Shorter College	*	5,250
South Arkansas Community College	110	190,972
Southeast Arkansas College	98	163,314
Southern Arkansas University	1,039	3,116,479
Southern Arkansas University Tech	119	228,907
University of Arkansas at Monticello College of Technology - Crossett	15	26,000
University of Arkansas at Monticello College of Technology - McGehee	*	10,844
University of Arkansas Community College Batesville	214	390,750
University of Arkansas Community College Hope	155	285,813
University of Arkansas Community College Morrilton	361	620,970
University of Arkansas Fayetteville	6,064	19,639,412
University of Arkansas for Medical Sciences	136	558,316
University of Arkansas Fort Smith	2,133	6,589,570
University of Arkansas Little Rock	1,901	5,996,341
University of Arkansas Monticello	770	2,278,125
University of Arkansas Pine Bluff	394	1,207,646
University of Central Arkansas	4,303	13,270,958
University of the Ozarks	211	643,250
Williams Baptist College	242	759,250
Total	<u>34,308</u>	<u>\$ 99,660,149</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.

Note - During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source: Arkansas Department of Higher Education

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Projected Obligations from Scholarship and Grant Funding Sources
from Arkansas Department of Higher Education (Unaudited)
Fiscal Year Ended June 30, 2015**

<u>Title</u>	<u>FY 16 Budget</u>	<u>FY 17 Budget</u>
Academic Challenge Scholarships	\$ 20,000,000	\$ 20,000,000
AR Geographical Critical Needs Program	150,000	150,000
Chiropractic Scholarships	260,000	260,000
Dental Scholarships	2,133,900	2,133,900
Dental Loans	987,370	987,370
Dependents of Law Enforcement Officers	400,000	400,000
Governor's Scholars	15,200,000	15,200,000
Higher Ed Opportunities Grants	6,000,000	6,000,000
POW/MIA Dependent Scholarships	450,000	450,000
Scholarship Administration	500,000	500,000
National Guard Tuition Assistance	1,400,000	1,400,000
Optometry Scholarships	410,000	410,000
Optometry Loans	140,000	140,000
Osteopathy Scholarships	230,000	230,000
Podiatry Sholarships	130,400	130,400
Single Parent Scholarship	175,000	175,000
SREB Minority Doctoral Scholars	175,000	175,000
State Teacher Education Program	2,000,000	2,000,000
SURF Program	150,000	150,000
Teacher Opportunity Program	150,000	150,000
Tuition Adjustment	350,000	350,000
Veterinary Scholarships	1,100,000	1,100,000
Washington Center Scholarships	120,000	120,000
Web Based Application	250,000	250,000
Workforce Improvement Grants	3,000,000	3,000,000
DHE Program Coordinator	90,000	90,000
Total All Financial Aid Programs	<u>\$ 55,951,670</u>	<u>\$ 55,951,670</u>

Note: During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source: Arkansas Department of Higher Education

**Arkansas Department of Higher Education
Academic Challenge Scholarship Program
County Report
Fiscal Year Ended June 30, 2015**

<u>County</u>	<u>2014 Population Estimate</u>	<u>% State Population</u>	<u>Awards</u>	<u>Amount</u>
Arkansas	18,594	0.63%	263	\$ 745,626
Ashley	20,948	0.71%	254	735,563
Baxter	40,857	1.38%	348	1,009,219
Benton	242,321	8.17%	2,387	6,787,050
Boone	37,196	1.25%	403	1,103,625
Bradley	11,148	0.38%	96	263,893
Calhoun	5,202	0.18%	57	167,564
Carroll	27,744	0.94%	201	558,267
Chicot	11,180	0.38%	73	214,528
Clark	22,576	0.76%	245	719,537
Clay	15,118	0.51%	153	442,313
Cleburne	25,634	0.86%	306	872,564
Cleveland	8,449	0.28%	113	328,250
Columbia	23,933	0.81%	254	727,503
Conway	21,083	0.71%	244	747,899
Craighead	102,518	3.46%	1,260	3,804,061
Crawford	61,697	2.08%	928	2,736,271
Crittenden	49,548	1.67%	485	1,368,706
Cross	17,227	0.58%	232	651,718
Dallas	7,755	0.26%	64	185,632
Desha	12,264	0.41%	139	425,165
Drew	18,622	0.63%	242	749,918
Faulkner	120,768	4.07%	1,732	5,081,398
Franklin	17,805	0.60%	312	928,028
Fulton	12,125	0.41%	143	390,557
Garland	97,322	3.28%	1,292	3,766,746
Grant	18,144	0.61%	342	1,038,502
Greene	43,694	1.47%	532	1,537,907
Hempstead	22,327	0.75%	224	605,655
Hot Spring	33,368	1.12%	454	1,226,119
Howard	13,500	0.46%	198	552,439
Independence	36,959	1.25%	440	1,199,764
Izard	13,486	0.45%	139	408,000
Jackson	17,534	0.59%	135	369,189
Jefferson	72,297	2.44%	779	2,298,945
Johnson	26,005	0.88%	319	991,854
Lafayette	7,111	0.24%	43	121,250
Lawrence	16,931	0.57%	224	626,875
Lee	9,860	0.33%	67	186,375
Lincoln	13,970	0.47%	117	357,075
Little River	12,532	0.42%	154	423,778
Logan	21,958	0.74%	324	949,292
Lonoke	71,557	2.41%	1,060	3,079,235
Madison	15,740	0.53%	134	389,000

(continued)

**Arkansas Department of Higher Education
Academic Challenge Scholarship Program
County Report
Fiscal Year Ended June 30, 2015**

<u>County</u>	<u>2014 Population Estimate</u>	<u>% State Population</u>	<u>Awards</u>	<u>Amount</u>
Marion	16,367	0.55%	112	314,931
Miller	43,428	1.46%	321	835,373
Mississippi	44,235	1.49%	401	1,113,712
Monroe	7,582	0.26%	65	183,282
Montgomery	9,082	0.31%	72	191,375
Nevada	8,723	0.29%	79	219,875
Newton	7,904	0.27%	103	281,750
Ouachita	24,828	0.84%	381	1,076,906
Perry	10,245	0.35%	150	404,750
Phillips	19,930	0.67%	204	587,190
Pike	11,024	0.37%	169	490,135
Poinsett	24,246	0.82%	263	760,296
Polk	20,225	0.68%	251	720,750
Pope	63,201	2.13%	852	2,565,371
Prairie	8,304	0.28%	85	229,563
Pulaski	392,702	13.24%	4,304	12,588,687
Randolph	17,571	0.59%	177	506,519
St. Francis	26,899	0.91%	196	526,626
Saline	115,719	3.90%	1,492	4,349,686
Scott	10,693	0.36%	117	325,805
Searcy	7,929	0.27%	102	279,705
Sebastian	126,776	4.27%	1,557	4,895,941
Sevier	17,426	0.59%	210	536,922
Sharp	16,906	0.57%	232	608,500
Stone	12,494	0.42%	148	399,375
Union	40,227	1.36%	534	1,518,797
Van Buren	16,851	0.57%	168	513,001
Washington	220,792	7.44%	2,321	6,883,906
White	78,592	2.65%	988	2,832,456
Woodruff	6,910	0.23%	74	208,084
Yell	21,951	0.74%	252	754,837
Not Reported			31	83,188
Total	2,966,369	100%	34,322	\$ 99,660,149

Note - During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.
Source: Arkansas Department of Higher Education; U.S. Census Bureau

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Debt Set-off Collections (Unaudited)
Fiscal Year Ended June 30, 2015**

Department of Finance and Administration:	
Taxes due to the State	\$ 110,093
Delinquent Child Support	<u>66,741</u>
Total	<u><u>\$ 176,834</u></u> (2)

Note: 1) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.
2) In accordance with regulation 23-115-403 of the Arkansas Scholarship Lottery Act, the OAL (ALC) must set-off 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: OAL Finance Division

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Fund Balance and Other Information
from Arkansas Department of Higher Education (Unaudited)
Fiscal Year Ended June 30, 2015**

Fund Balances

Higher Education Grants Fund	\$	16,244,755
Lottery Net Proceeds Trust Account (2)	\$	286,178

Arkansas Academic Challenge Scholarship Trust Account

Deposits	\$	100,061,288
Disbursements		99,775,110
June 30, 2015 Balance	\$	<u>286,178</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

Note: 1) During the 90th General Assembly, Act 215 of 2018 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

2) Trust accounts maintained by the director of the Department of Higher Education to hold transfers of net proceeds from the OAL.

Source: Arkansas Department of Higher Education

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Term Contracts for Goods and Services
Fiscal Year Ended June 30, 2015

1. On July 8, 2014, ALC entered into an agreement with Mangan Holcomb Partners (“Mangan Holcomb”) for Supplemental Advertising, Marketing and Media Services. All information related to the agreement was reviewed by the Arkansas Lottery Commission Legislative Oversight Committee on June 30, 2014.
2. On July 9, 2014, ALC entered into an agreement with Mitchell Communications Group, LLC (“Mitchell Communications”) for Supplemental Advertising, Marketing and Media Services. All information related to the agreement was reviewed by the Arkansas Lottery Commission Legislative Oversight Committee on June 30, 2014.
3. On August 13, 2014, the Arkansas Lottery Commission (ALC) executed a First Amendment to the Agreement for Contractual Services for Advertising, Marketing and Media Services between the ALC and The Communications Group, LLC (TCG). The term of the agreement is for one (1) year, from August 19, 2014, through August 18, 2015. The terms of compensation remain the same as the original agreement executed on August 18, 2009. A copy of the First Amendment to the Agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee on June 27, 2014.
4. On October 8, 2014, The Arkansas Lottery Commission (as the Arkansas Scholarship Lottery) entered into a **Lucky for Life Licensee Lottery Participation** Agreement with fourteen (14) *Lucky for Life* Licensee Lotteries.
5. On December 1, 2014, a 60-month Government Product Lease Agreement was executed between the Arkansas Lottery Commission and MailFinance. The purpose of the agreement is for the leasing of Model # IH600HF postage meter equipment and meter rental. Monthly payment (plus sales tax) is \$97.91, billed quarterly, for a total payment of \$5,874.60 plus tax.
6. On December 1, 2014, a Service Agreement was executed between the Arkansas Lottery Commission and Lineage for service maintenance on Model # IH600HF postage meter. The term of the service agreement is for 60 months at \$26.40 plus tax per month, billed annually, for a total cost of \$1,584.00 plus tax.
7. On December 9, 2014, A Second Amendment to the Agreement for Contractual Services for Instant Ticket Lottery Game Services was executed between the Arkansas Lottery Commission and Scientific Games International, Inc. The amended agreement lowered the Properties Plus loyalty program percentage allocation from the instant ticket prize structures to 1.35% (from 1.5%). The amendment was reviewed by the ALCLOC on December 5, 2014, and the new rate of 1.35% began on the date of execution.
8. On December 19, 2014, a First Amendment to the Agreement for Contract Services for Outdoor Advertising was executed between the Sunshine Electronic Display Corporation (“Sunshine”) and Mangan Holcomb Corporation (“MGH”) on behalf of the Arkansas Lottery Commission (“ALC”). The purpose of the agreement is for the leasing of thirty-two (32) jackpot displays of various sizes. The displays will be attached by Sunshine to sixteen (16) billboards leased through MGH.
9. On December 22, 2014, a Non-Exclusive Licensing Agreement was executed between Scientific Games International, GTECH Corporation, and the Arkansas Lottery Commission. The Agreement allows the ALC 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-283 Bejeweled®. A copy of the agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee on January 8, 2014.
10. On January 8, 2015, the Arkansas Lottery Commission (ALC) and Intralot, Inc. (Intralot), entered into *Amendment No. 2 to Contract Dated August 15, 2009 Between the Arkansas Lottery Commission*

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Term Contracts for Goods and Services
Fiscal Year Ended June 30, 2015**

and Intralot, Inc. The purpose of the amendment was to effectuate the implementation of an Extension to the Contract, pursuant to the agreement entered into between the parties (the Contract) on August 15, 2009. This amendment was reviewed by the Arkansas Lottery Commission Legislative Oversight Committee on January 8, 2015.

11. On May 21, 2015, the Office of the Arkansas Lottery (OAL) and Pollard Banknote Limited (Pollard), entered into an agreement to engage Pollard as a non-exclusive provider of certain scratch-off lottery tickets to OAL. This agreement was reviewed by the Arkansas Legislative Council Lottery Oversight Subcommittee (ALCLOS) on May 14, 2015.

12. On June 11, 2015, Arkansas Department of Finance and Administration Division of Building Authority (ABA), Sublessor, and Arkansas Department of Finance and Administration Office of the Arkansas Lottery (OAL), Sublessee, entered into a Parking Lease Agreement. ABA has agreed to lease to OAL six parking spaces on the premises of 416 Main Street, Little Rock, AR, on a "first come first serve" basis.

13. On June 15, 2015, Mitchell Communications Group (Mitchell Communications) and OAL entered into a First Amendment to the Agreement for Contractual Services for Supplemental Advertising, Marketing, and Media Services. The purpose of the amendment was to extend the agreement for a period of one year, pursuant to the agreement entered into between the parties (the Contract) on July 8, 2014. This First Amendment was reviewed by the Arkansas Legislative Council Lottery Oversight Subcommittee on June 11, 2015.

14. On June 16, 2015, Mangan Holcomb Partners (Mangan Holcomb) and OAL entered into a First Amendment to the Agreement for Contractual Services for Supplemental Advertising, Marketing, and Media Services. The purpose of the amendment was to extend the agreement for a period of one year, pursuant to the agreement entered into between the parties (the Contract) on July 8, 2014. The First Amendment was reviewed by the Arkansas Legislative Council Lottery Oversight Subcommittee on June 11, 2015.

15. On May 18, 2015, Little Rock Union Plaza, LLC (Union Plaza), Lessor, and the Office of the Arkansas Lottery (OAL), through Arkansas Building Authority (ABA), Lessee, entered into an agreement to lease office space located at 124 West Capitol Avenue, Little Rock, Arkansas. The office space, approximately 24,927 square feet, is located in Suites 106, 300, and 1400 of the Union National Plaza Building, 124 West Capitol Avenue, Little Rock, Arkansas.

16. On June 18, 2015, OAL and the Multi-State Lottery Association (MUSL) entered into a First Amendment to the Website Hosting/Cashing Service Level Agreement. The term of the agreement is for one (1) year, from July 1, 2015, through June 30, 2016, and will automatically renew for one (1) year periods unless OAL provides written notice to MUSL that it will not be renewing the contract within thirty (30) days of the current contract end date. The fee is \$21,000 per year, paid annually, for the period of July 1, 2015, through June 30, 2017.

17. On June 18, 2015, a Second Amendment to the Agreement for Contract Services for Outdoor Advertising was executed between the Sunshine Electronic Display Corporation (Sunshine) and Mangan Holcomb Corporation (MGH) on behalf of the Office of the Arkansas Lottery. The purpose of the agreement is for the leasing of thirty-two (32) jackpot displays of various sizes. The displays will be attached by Sunshine to sixteen (16) billboards leased through MGH.



Arkansas
Scholarship Lottery

OTHER REPORTS



“The Arkansas Academic Challenge [Scholarship] allowed me to pursue a degree at my dream school and has helped me not have any student loans as an undergrad. It’s a blessing to have a positive net worth because of hard work in the classroom which leads to scholarship opportunities.”

Bryce Daniels | Senior
University of Arkansas
Greenbrier





Arkansas
Scholarship Lottery



Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Linda Chesterfield
Senate Vice Chair



Rep. Mary Broadaway
House Chair
Rep. Sue Scott
House Vice Chair

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

LEGISLATIVE JOINT AUDITING COMMITTEE
ARKANSAS 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

Department of Finance and Administration – Office of the Arkansas Lottery
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 Department of Finance and Administration – Office of the Arkansas Lottery (the "Agency"), an office of Arkansas state government, as of and for the year ended June 30, 2015, 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 November 17, 2015.

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 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record, and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
November 17, 2015



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“I’m thankful for the scholarship because I won’t have to pay for school at all. There [are] some students that come out of undergrad in debt – I will graduate without it.”

Kionna Henderson | Junior
University of Arkansas at Pine Bluff
Pine Bluff

