



STATE OF ARKANSAS
**Department of Finance
and Administration**

OFFICE OF THE ARKANSAS LOTTERY

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November 10, 2015

The Honorable Jimmy Hickey, Chair
The Honorable Chris Richey, Chair
Arkansas Legislative Council Lottery Oversight Subcommittee
One Capitol Mall, Room R-501
Little Rock, AR 72201

RE: A.C.A. § 23-115-302 Reports

Gentlemen:

Pursuant to A.C.A. § 23-115-302, the following information is enclosed:

1. The total amount of FY 2015 net proceeds from the Lottery;
2. The amount deposited into and disbursed from the Scholarship Shortfall Reserve Trust Account under § 23-115-802 in FY 2015; and
3. The office's projection for net proceeds from the state lottery for the current fiscal year.

Please call me if you have any questions or need additional information.

Respectfully submitted,


Bishop Woosley
Director

Enclosures

cc: The Honorable Asa Hutchinson, Governor
Mr. Larry Walther, Director, Arkansas Department of Finance and Administration

**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
A/R write-offs	
Retailer application, fidelity and service fees	550,952
Other revenue	20,346

Total operating revenues	409,234,678
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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

Total operating expenses	336,870,899
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Operating income	72,363,779
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Non-operating revenue:

Interest income	224,546
Other Non Operating Income	

Income before transfers	72,588,325
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Transfers to:

Education Trust Account	(72,619,369)
Shortfall Account to Trust Account for ADHE	
Arkansas Department of Human Services	(200,000)

Transfers from:

Transfers from ADHE	
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Change in net position	(231,044)
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Total net position - beginning	9,803,518
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Total net position - ending	\$ 9,572,474
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**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>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<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>

Source - OAL general ledger and corresponding bank statements

DFA Office of the Arkansas Lottery
Budget Detail Schedule
For the Fiscal Year Ending June 30, 2016

	<u>FY2014 Audited</u>	<u>FY 2015 Budget</u>	<u>FY 2016 Budget</u>	<u>% of Revenue</u>	<u>% of Revenue</u>	<u>Explanation for Change in Budget Amounts</u>
Operating Revenues:						
Instant Games	\$ 322,415,276	\$ 331,750,000	\$ 333,500,000	79.600%	81.132%	Instant Game sales are forecast approximately \$1.5 million above the FY2015 budget.
On-Line Games	87,657,850	84,700,000	77,240,000	20.323%	18.790%	Online game revenues are forecast to decrease from FY 2015 budget in a manner consistent with the actual decrease in sales of online games during actual FY 2015.
Less: Promotions Discount Retailer application, fidelity	554,292	(250,000)	(250,000)	0.000%	-0.061%	Promotional discounts remain at the same level as FY2015.
Non Gaming Revenue	10,550	10,000	10,000	0.003%	0.002%	Retailer communication and licensing fees are forecast to be the same as for FY 2015 budget.
Total Operating Revenues	<u>410,637,968</u>	<u>416,770,000</u>	<u>411,060,000</u>	<u>100.000%</u>	<u>100.000%</u>	Other miscellaneous revenues are consistent with estimated FY2015.
Operating Expenses:						
Instant Game Prizes	229,462,196	237,022,500	236,406,000	55.879%	57.511%	Instant game prizes are expected to slightly decrease for FY 2016 from FY 2015 budget based on a slight shift in the prize structure for some instant games.
On-Line Game Prizes	45,487,903	43,825,600	39,492,900	11.077%	9.608%	Online games prizes are expected to decrease is proportionate to the decrease in online games revenues
Retailer Commissions	23,046,410	23,307,262	23,352,500	5.612%	5.681%	No significant change in the percentage paid to retailers.
Gaming Contract Costs	20,511,439	20,500,985	19,249,200	4.995%	4.683%	Percentage paid to gaming systems vendor will decrease in FY 2016. Decrease is consistent with the decreased percentage in the contract rate.
Staff Compensation & Benefits	5,990,541	6,450,000	5,370,000	1.459%	1.306%	The decrease relates to the closing of the three outlying claim centers that eliminated six positions, the elimination of six positions related to the OAL becoming a division of the Department of Finance and Administration and the elimination of four other positions which were determined did not need to be refilled.
Marketing, Advertising & Promotions	4,472,456	5,000,000	5,000,000	1.089%	1.216%	Budgeted at the same level as for FY 2015.
General and Administrative Expenses	1,414,871	1,420,000	1,513,000	0.345%	0.368%	Increase for FY 2016 is primarily related to a planned consulting engagement to identify specific opportunities to improve sales and operations with an estimated cost of \$200,000 and an estimate of \$100,000 related to the charge back of DFA systems costs.
Services Provided by Other Agencies:	890,636	800,000	630,000	0.217%	0.153%	The ADHE administrative fees are budgeted for \$500,000, as the actual fees billed for FY2015 were approximately \$700,000 and a statute change only allows ADHE to claim direct costs in the future. An additional \$130,000 is budgeted for estimated Legislative Audit fees for the annual audit.
Legal and Professional Services	6,457	10,000	10,000	0.002%	0.002%	Estimated the same as for FY 2015
Capital Asset Depreciation	188,270	210,000	237,000	0.046%	0.058%	Increase reflects impact of the purchase of approx. \$685,000 of depreciable assets which is expected to occur in FY2016
Total Operating Expenses	<u>331,471,179</u>	<u>338,546,347</u>	<u>331,260,600</u>	<u>80.721%</u>	<u>80.387%</u>	
Operating Income	79,166,789	78,223,653	79,799,400	19.279%	19.413%	
Non-Operating Revenue (Expense):						
Interest Income	252,614	140,000	140,000	0.062%	0.034%	Based upon an anticipated average balance of approximately \$27 million at 55 basis points
Other Non-Operating Income	461,047	-	-	0.112%	0.000%	No non-operating income for FY2016 is anticipated
Income before Transfers	<u>\$ 79,880,450</u>	<u>\$ 78,363,653</u>	<u>\$ 79,939,400</u>	<u>19.453%</u>	<u>19.447%</u>	
Transfers To:						
Arkansas Department of Health Services	(200,000)	(200,000)	-	-0.049%	0.000%	This amount is no longer required due to a change in the statutes.
ADHE Education Trust Account (Regular)	(76,086,995)	(72,530,000)	(74,500,000)	-18.529%	-18.124%	This is the amount of the expected transfer of Net Proceeds to ADHE for F2016
Unclaimed Prizes Reserve-transferred at June 30 by statute	(5,401,849)	(5,665,000)	(5,086,000)	-1.315%	-1.237%	This is the amount of Unclaimed Prizes expected to be transferred to ADHE at June 30 of each year
Total Transfers to ADHE Education Trust Account	<u>(81,488,844)</u>	<u>(78,185,000)</u>	<u>(79,586,000)</u>	<u>-19.844%</u>	<u>-19.561%</u>	
Change in Net Assets	<u>(\$ 1,808,394)</u>	<u>(\$ 21,347)</u>	<u>\$ 353,400</u>	<u>-0.440%</u>	<u>0.086%</u>	