

Arkansas Lottery Commission
An Enterprise Fund Of The State Of Arkansas



Comprehensive Annual Financial
Report For The Fiscal Year Ended
JUNE 30, 2014



“I received the Arkansas Academic Challenge Scholarship my freshman year. Now as a senior at the University of Arkansas, I can see what a huge impact it has had on my college experience. I have had the resources necessary to achieve my dreams!”

Erika Guy | Senior
University of Arkansas at Fayetteville
Fayetteville

Arkansas Lottery Commission
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**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2014**



Mike Beebe
Governor, State of Arkansas

Bishop Woosley
Director

Prepared by
Finance Division



“The Arkansas Scholarship has really helped me continue my education and my dream here at the University of Central Arkansas. I think it will really help people who might not be able to go to college come to college, just like me.”

Brittany Moore | Freshman
University of Central Arkansas
Benton

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“The Arkansas Lottery Scholarship has made a huge impact on my education and life. I've always wanted to become a nurse, and without the scholarship it would be hard to afford an education. This scholarship has helped me pay for my tuition, books, living expenses and much more. I am so grateful to have received this scholarship!”

Jennifer Bailey | Junior
University of Arkansas at Monticello
Monticello

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“The Arkansas Scholarship Lottery is there to empower education, because of the scholarship, more and more students are able to go to college and pay for it and find funding around the state.”

Edrei Miranda | Freshman
University of Central Arkansas
Benton

INTRODUCTORY Section



“The Arkansas Scholarship Lottery has given me the college experience I have always wanted. People are making something of themselves and putting Arkansas on the map.”

Amber Sanders | Senior
Arkansas State University
Maumelle





“The Arkansas Academic Challenge Scholarship has truly taken a weight off my shoulders! I’m grateful for the ADHE and what they have done for me and my fellow Arkansas college students.”

Adia Threatt | Freshman
University of Arkansas at Fayetteville
Siloam Springs

November 18, 2014



Fellow Arkansans:

With five years of operations, nearly \$500,000,000 in net proceeds for scholarships, and more than 160,000 scholarships awarded to students across our state, Arkansas Lottery Commissioners have kept our focus solely on providing educational opportunities to Arkansans, leading to more opportunities, better jobs, and a brighter future for generations to come.

The first Arkansas Challenge Scholarship recipients graduated and entered the workforce in 2014. With the help of these scholarships, they emerged ready to win in the often challenging state and national job market. The individual income boost resulting from higher education, often described in hundreds of thousands of dollars over a lifetime, is no longer beyond the financial reach of many high school graduates. Today's college students must prepare for the added challenges of a market increasingly geared toward sustainability, renewable energy and vast reserves of information. In fiscal 2014, the \$81 million the Arkansas Lottery Commission raised to fund Arkansas Challenge Scholarships is a vital component of our State's drive to build a better-educated workforce and plug into a rapidly expanding information economy.

The success of the Arkansas Challenge Scholarship depends not only on the hard work and graduation of these students, but also on the efforts of our dedicated Commission employees, the nearly 1,900 independent and chain retailer partners who market our products, the people of Arkansas who buy the tickets, and the guidance of Arkansas legislators and our Governor.

In this Comprehensive Annual Financial Report, you will see the fruits of their labors, by the numbers, including the financial statements audited by the Division of Legislative Audit. Entering our sixth year, we anticipate increased sales, increased opportunities, and the promise of a better future through a more educated Arkansas.

Best regards,

A handwritten signature in black ink that reads "John 'Smokey' Campbell". The signature is stylized and cursive.

John "Smokey" Campbell
Chairman, Arkansas Lottery Commission



Woman in black top with red lace and jeans, making a hand gesture.

Woman in red dress, making a hand gesture.

Man in dark suit and tie, making a hand gesture.

Man in red t-shirt with 'ARKANSAS STATE ROCK LEADER' and khaki shorts, making a hand gesture.

Woman in black shirt and red pants, making a hand gesture.



State of Arkansas
Arkansas Lottery Commission

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November 18, 2014

The Honorable Mike Beebe, Governor
Members of the Arkansas Lottery Commission Legislative Oversight Committee
John "Smokey" Campbell III, Chairman, Arkansas Lottery Commission
Members of the Arkansas Lottery Commission
Citizens of the State of Arkansas

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Arkansas Lottery Commission (ALC) for the fiscal year ended June 30, 2014. 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 Arkansas Lottery Commission 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 ALC. We have included all disclosures necessary to enable the reader to gain an understanding of the ALC's financial activities.

Management of the lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets of the ALC 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 ALC 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 the Legislative Joint Auditing Committee, Division of Legislative Audit, to conduct an annual audit of the ALC 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 ALC'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 ALC's financial activities. This letter of transmittal complements the MD&A and should be read in conjunction with it. The ALC'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 ALC. Ticket sales began on September 28, 2009, with the introduction of four instant ticket games. ALC proceeds are utilized to fund college scholarships under the Arkansas Academic Challenge Scholarship program administered by the Arkansas Department of Higher Education (ADHE).

PRODUCTS

The public has the opportunity to participate in a variety of instant and terminal-generated games from nearly 1,900 ALC-licensed retailers across the state.



INSTANT TICKET GAMES are played by removing a scratch-off coating from the play area of the ticket. There are various ways to win, including matching certain symbols, adding up to a specified total or otherwise satisfying the requirements listed on the ticket. If the specified condition occurs, the ticket is an instant winner. These play styles are combined with a variety of game themes and ticket prices. Instant games were the first type of games offered by the ALC. For fiscal year ended June 30, 2014, the ALC released 48 instant ticket games with price points of \$1, \$2, \$3, \$5, \$10 and \$20.

TERMINAL-GENERATED GAMES allow players to select the numbers for their wager, or players may utilize computer-generated plays. Players receive a ticket with the numbers selected or automatically generated and await the results of a drawing to determine if they have matched the numbers and won. In fiscal year ended June 30, 2014, the ALC sold ten different types of terminal-generated games: Powerball®, Mega Millions®, Decades of Dollars, Natural State Jackpot, Cash 3, Cash 4, Fast Play, AR Progressive Jackpot, Arkansas 50/50 and Arkansas Million Dollar Raffle.



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 59 and one additional number designated as the "Powerball" from a second pool of one to 35. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$40 million, which increases for each subsequent draw when the jackpot is not won. Each Powerball® play costs \$2. For an additional \$1, the PowerPlay® feature allows players to multiply their non-jackpot winnings up to five 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 four times. A jackpot winner may select either an annuitized prize paid in 26 annual installments or a lump sum payment. Drawings are held every Tuesday and Friday night.



DECADES OF DOLLARS is a draw game sold in Arkansas, Georgia, Kentucky and Virginia. Players have a chance to win \$250,000 a year for 30 years or a lump sum of \$4 million. Each Decades of Dollars play costs \$2. Players select six numbers from a pool of one to 47, and must match all six numbers to win the top prize. Prizes are also paid for matching two to five numbers. Drawings are held every Monday and Thursday night.



The **Natural State Jackpot** is an Arkansas-only lotto-style draw game that uses a standard matrix where a player selects five different numbers from one to thirty-nine. The game offers overall odds of one in nine of winning a prize, with top prize odds of 1 in 575,757. The 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 is a raffle-style draw game exclusive to Arkansas. Draw sales begin on the first of every month and end on the last day of every month. Arkansas 50/50 tickets are generated from the retail terminal in sequential order, beginning with 000001 for each drawing. Twenty-five winning numbers are selected in each drawing, which is held on the first Tuesday of each month. Fifty percent of sales during the month preceding the draw are allocated to prizes. Of that amount, 75% is won by one ticket number. The remaining 25% is divided among 24 winning tickets. A player wins if the number on his or her ticket matches, with digits in exactly the same order, any of the winning numbers drawn by ALC.



ARKANSAS MILLION DOLLAR RAFFLE ticket sales started on September 1, 2013 and were to be available for sale until the final ticket (number 999,999) was sold, or on December 31, 2013. The odds of winning a prize in the drawing were based on the total number of Raffle numbers sold in the drawing. Thirty-three total Early Bird prizes were drawn. Eleven Raffle numbers were drawn in each of the three Early Bird draws. The first Raffle number drawn in each of the three Early Bird draws won ten thousand dollars, the next ten Raffle numbers drawn in each of the three Early Bird draws won one thousand dollars. Each of the three Early Bird drawings had one winner of ten thousand dollars and ten winners of one thousand dollars. In the one Final drawing, there was one winner of one million dollars, five winners of one hundred thousand dollars, ten winners of ten thousand dollars, and one hundred winners of five hundred dollars. The final draw occurred January 2, 2014.

PLAYERS CLUB SERVICES

The ALC offers a players club at myarkansaslottery.com called The Club. By registering for a free account, players gain access to lottery news, winning number emails, the Play It Again™ and Points for Prizes® programs and special second-chance drawings. There were a total of 31,283 new player registrations and 21,597,806 tickets entered into the program in fiscal year ended June 30, 2014, bringing the membership total to 335,339.



The **Play It Again™** program allows players to submit eligible, non-winning instant tickets for entry into top prize drawings. At the end of each instant game, one entry is drawn to win the final top prize in that game. The same entry mechanism gives players both their Play It Again™ entry and Points for Prizes® rewards points. Fifty-four Play It Again™ drawings occurred during fiscal year ended June 30, 2014.



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

Points for Drawings™	Entry Period	Draw Date	# of winners	# of entries
Calling All Green Thumbs!	05/29/13-07/01/13	07/02/13	2	67,672
Spectacular Home Theater Package!	07/01/13-08/12/13	08/13/13	2	49,161
Ultimate Camping Package	08/13/13-09/23/13	09/24/13	3	52,695
Bobbing for Apples	09/23/13-10/28/13	10/29/13	2	105,432
4 the Gamer in You! PS4!	11/11/13-12/02/13	12/03/13	15	79,969
Live the Legend	10/28/13-12/08/13	12/09/13	3	73,176
TAG, You're IT!	12/05/13-01/13/14	01/14/14	2	114,280
GoPro!	01/13/14-02/24/14	02/25/14	3	63,412
Bad Boy Mower!	02/11/14-03/24/14	03/25/14	1	64,323
Vegas, Baby!	03/24/14-05/05/14	05/06/14	2	37,105
2014 Cardinals® Regular Season Home Game Experience	05/05/14-06/25/14	06/26/14	5	27,714

be redeemed for merchandise in the Points for Prizes® online store. Merchandise ranges from music downloads to electronics. There were a total of 252,060,857 points redeemed in the Points for Prizes® program during the fiscal year ended June 30, 2014. Points may also be used for special drawing prizes; there were a total of 11 Points for Drawings™ during fiscal year ended June 30, 2014.

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



In honor of the ALC's fourth \$20 instant game which launched in January 2013, the **Arkansas \$2,000,000 Gold Rush** Second-Chance Promotion awarded 84 players a portable Blu-ray player and \$100 gift card, 20 players a 60" HDTV home theater system, and two grand prize winners the choice of an Alaskan cruise or a trip to Hawaii for two to players who entered non-winning Arkansas \$2,000,000 Gold Rush instant tickets into their accounts. Two drawings were held to select the 106 winners during fiscal year ended June 30, 2014.



The American Muscle® Second-Chance Promotion awarded one muscle car to players who entered non-winning American Muscle® instant tickets into their accounts. The lucky prize winner received the choice of one of four muscle cars; a Chevrolet Camaro, Ford Mustang, Dodge Charger or Dodge Challenger. One drawing occurred during fiscal year ended June 30, 2014.



The Bass Pro Shops® Second-Chance Promotion awarded three hundred \$500 Bass Pro Shops® gift cards and one NITRO® Z-7 18'8" Bass Boat to players who entered non-winning Bass Pro Shops® instant tickets into their accounts. Four drawings were held to select the 301 winners during fiscal year ended June 30, 2014.



The Arkansas Scholarship Lottery's **Cardinals™** Second-Chance Promotion awarded two hundred merchandise prize packs and six Cardinals® suite 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. One drawing occurred during fiscal year ended June 30, 2014.

Second-Chance Promotion	Entry Period	Draw Date	# of winners	# of entries
AR-178 AR \$2M Gold Rush (Grand Prize Trip)	Drawing #2: 03/26/13-06/26/13	07/01/13	1	228,384
AR-178 AR \$2M Gold Rush (2nd Prize)			10	
AR-178 AR \$2M Gold Rush (3rd Prize)			42	
AR-178 AR \$2M Gold Rush (Grand Prize Trip)	Drawing #3: 06/27/13-10/21/13	10/24/13	1	215,751
AR-178 AR \$2M Gold Rush (2nd Prize)			10	
AR-178 AR \$2M Gold Rush (3rd Prize)			42	
AR-187 American Muscle®	Drawing #2: 06/25/13-09/02/13	09/05/13	1	65,506
AR-200 Bass Pro Shops® (\$500 Gift Cards)	Drawing #1: 08/27/13-11/13/13	11/19/13	100	121,078
AR-200 Bass Pro Shops® (\$500 Gift Cards)	Drawing #2: 11/14/13-02/05/14	02/10/14	100	93,774
AR-200 Bass Pro Shops® (\$500 Gift Cards)	Drawing #3: 02/06/14-05/14/14	05/20/14	100	64,411
AR-200 Bass Pro Shops® (Bass Boat)	Drawing #4: 08/27/13-05/14/14	05/20/14	1	279,140
AR-218 St Louis Cardinals™ (Suite Prize Trips)	Drawing #1: 04/01/14-05/14/14	05/20/14	6	258,068
AR-218 St Louis Cardinals™ (Prize Packs)			200	

ECONOMIC CONDITIONS AND OUTLOOK

The start of the lottery in Arkansas in September 2009 was at a time when the nation and state were still experiencing the impact of a severe economic recession. Economic activity started to improve in the third quarter of calendar year 2009 and continued to improve through the first half of 2014, with inflationary adjusted Gross Domestic Product (GDP) and industrial production both showing continued gains.

GROSS DOMESTIC PRODUCT

GDP is the broadest measure of economic activity. The economic output of the national economy, as measured by the GDP, significantly decreased due to the economic recession which began in December 2007, but has been expanding each quarter since the third quarter of calendar year 2009. The last half of calendar year 2013 and the first half of calendar year 2014 continued to show small, incremental gains in the GDP, and the unemployment rate for the State of Arkansas finished the June 30th fiscal year at 6.3%.

STATE PERSONAL INCOME

Personal income consists of wages and salaries, dividends, interest, rent, and transfer payments such as Social Security and other retirement incomes. Personal income does not include realized capital gains from the sale of assets. Personal income for the State of Arkansas, measured in current dollars, reached a total of \$107.45 billion in fiscal year 2014. This represented an increase of \$1.62 billion, or 1.5%, over fiscal year 2013. Fiscal year 2015 is estimated at \$111.11 billion (current dollars), an increase of \$3.65 billion, or 3.4%, over fiscal year 2014.

ARKANSAS WAGE AND SALARY DISBURSEMENTS

Measured in current dollars, wage and salary disbursements rose to \$49.36 billion in fiscal year 2014, an increase of \$.92 billion, or 1.9%, from fiscal year 2013. Fiscal year 2015 is estimated at \$51.21 billion (current dollars), an increase of \$1.86 billion, or 3.8%, from fiscal year 2014.

EMPLOYMENT

In fiscal year 2014, wage and salary employment in Arkansas increased to 1.184 million jobs. This represents an increase of 8,300 jobs, or .7%, compared to fiscal year 2013. In fiscal year 2015, wage and salary employment is expected to average 1.197 million jobs. This represents a projected increase of 13,430 jobs, or 1.1%, from fiscal year 2014.

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 2014 included:

- Surpassing \$ 2.1 billion in ticket sales since the lottery's inception.
- Surpassing \$ 1.4 billion in prizes paid to players since the lottery's inception.
- Transferring over \$446 million to the ADHE for the purpose of funding scholarships since the lottery's inception, including transfers of \$81 million for fiscal year 2014.
- The ADHE awarding over \$112 million in scholarships during the fall 2013 and spring 2014 semesters.



RELEVANT FINANCIAL POLICIES

Budgetary Controls- The lottery finance division prepares an operating budget for the next fiscal year for submission to the ALC and the Arkansas Lottery Commission Legislative Oversight Committee.

Transfers to ADHE- In accordance with scholarship lottery act, on or before the fifteenth day of each month, the ALC shall deposit the net proceeds from the lottery into a trust account. Upon certification from the director of the Department of Higher Education, the ALC shall transfer the funds requested to the ADHE.

Shortfall Reserve- In accordance with scholarship lottery act, legislation was enacted which required the ALC to establish a Scholarship Shortfall Reserve Trust account. As of June 30, 2014, 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 the Legislative Joint Auditing Committee, Division of Legislative Audit, to conduct an annual audit of the ALC and may conduct other special reports as may be deemed necessary. The annual audit includes a review of internal controls as they relate to the expression of an opinion on the financial statements.

GOVERNMENT FINANCE OFFICERS ASSOCIATION CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the ALC for its CAFR for the fiscal year ended June 30, 2013. This was the third consecutive year that the ALC has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. Management believes that the 2014 CAFR presented continues to meet the Certificate of Achievement Program's requirements and as required by the rules of the ALC, we are submitting it to the GFOA to determine its eligibility for the certificate.

OTHER INFORMATION

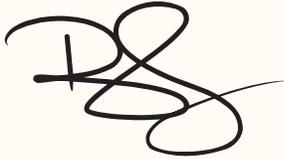
Information on rules, gaming and frequently asked questions can be found on the ALC's website at myarkansaslottery.com. Information on gambling disorder treatment and education programs can be found by calling the National Council on Problem Gambling Helpline at 1-800-522-4700 or by visiting ncpgambling.org, or by contacting Gamblers Anonymous at gamblersanonymous.org. If you have questions or would like to speak with a representative of the ALC, call (501) 683-2000.



ACKNOWLEDGEMENTS

The preparation of this CAFR reflects our commitment to maintain the highest standards of public accountability. We reaffirm our commitment to continually improve our financial management and maintain the public's trust by exhibiting the highest ethical standards and uncompromising integrity. Publication of this report could not have been accomplished without the dedicated efforts of our employees. Management would also like to recognize Commission Chairman John "Smokey" Campbell III, commissioners Julia Baldrige, Bruce Engstrom, Raymond Frazier, George Hammons, Dianne Lamberth, Doug Pierce, Mark Scott and Alex Streett, and past commissioner Ben Pickard for their support, guidance and dedication in operating the ALC in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to be "Bishop Woosley". The signature is stylized with large, flowing loops and a long horizontal tail.

Bishop Woosley
Director

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

Jerry Fetzer
Chief Fiscal Officer

MISSION

The Arkansas Lottery Commission (ALC) is a self-supporting and revenue-producing agency of the State of Arkansas. The Arkansas Constitution states that the ALC's net proceeds, 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

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

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

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

VALUES

ALC's values include:

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



LISTING OF COMMISSIONERS



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

JOHN C. (SMOKEY) CAMPBELL III,
CHAIRMAN



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

JULIA A. BALDRIDGE,
VICE CHAIR



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

DOUG PIERCE,
SECRETARY-TREASURER



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

BRUCE R. ENGSTROM



RAYMOND FRAZIER

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



DR. GEORGE HAMMONS

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



DIANNE LAMBERTH

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



MARK SCOTT

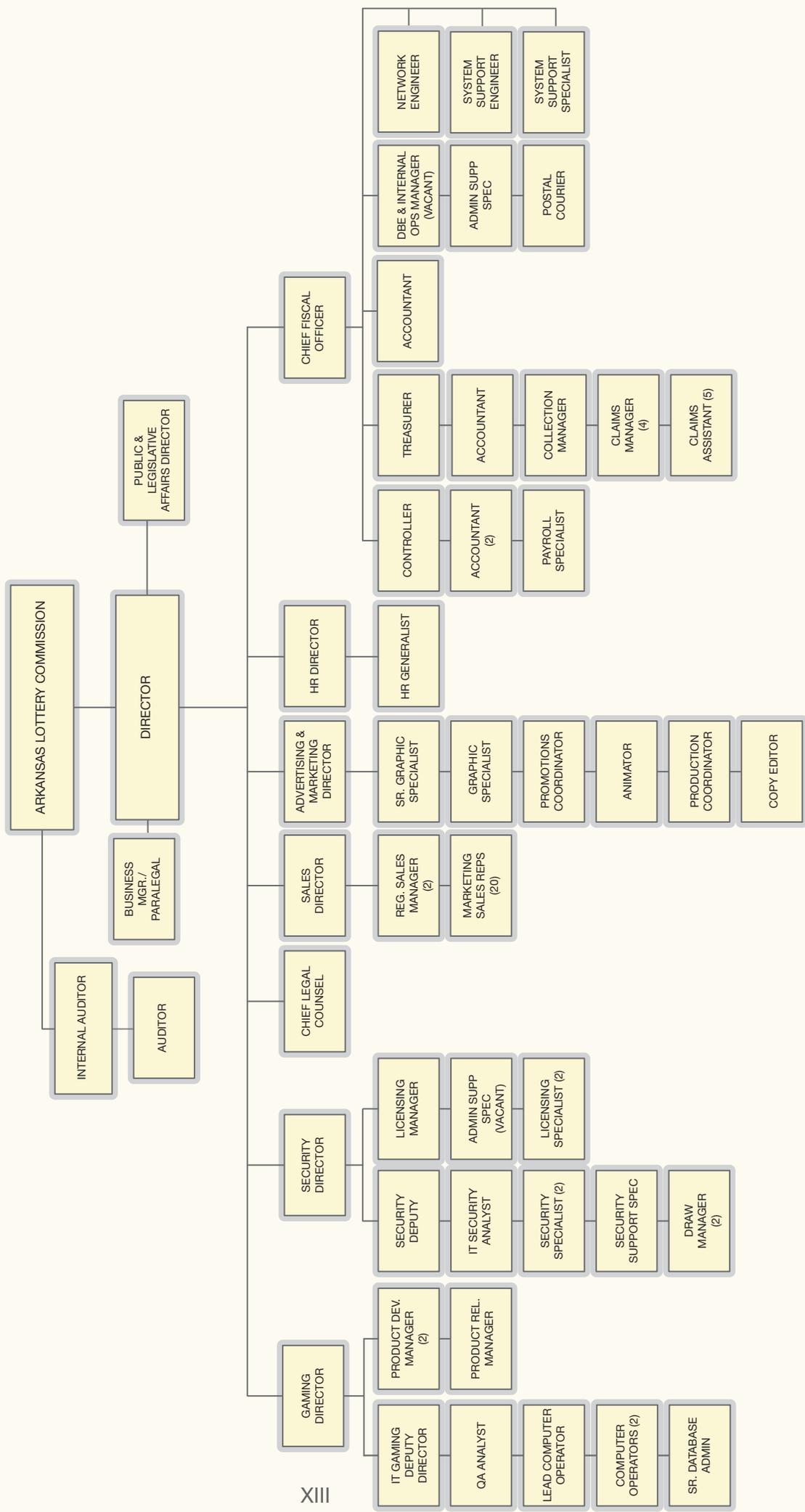
Scott has more than 20 years in marketing and communications experience in Arkansas, beginning as a journalist for *The Courier* in Russellville and *The Morning News of Northwest Arkansas*. He served on the communications team of Gov. Mike Huckabee before beginning a career in higher education communications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

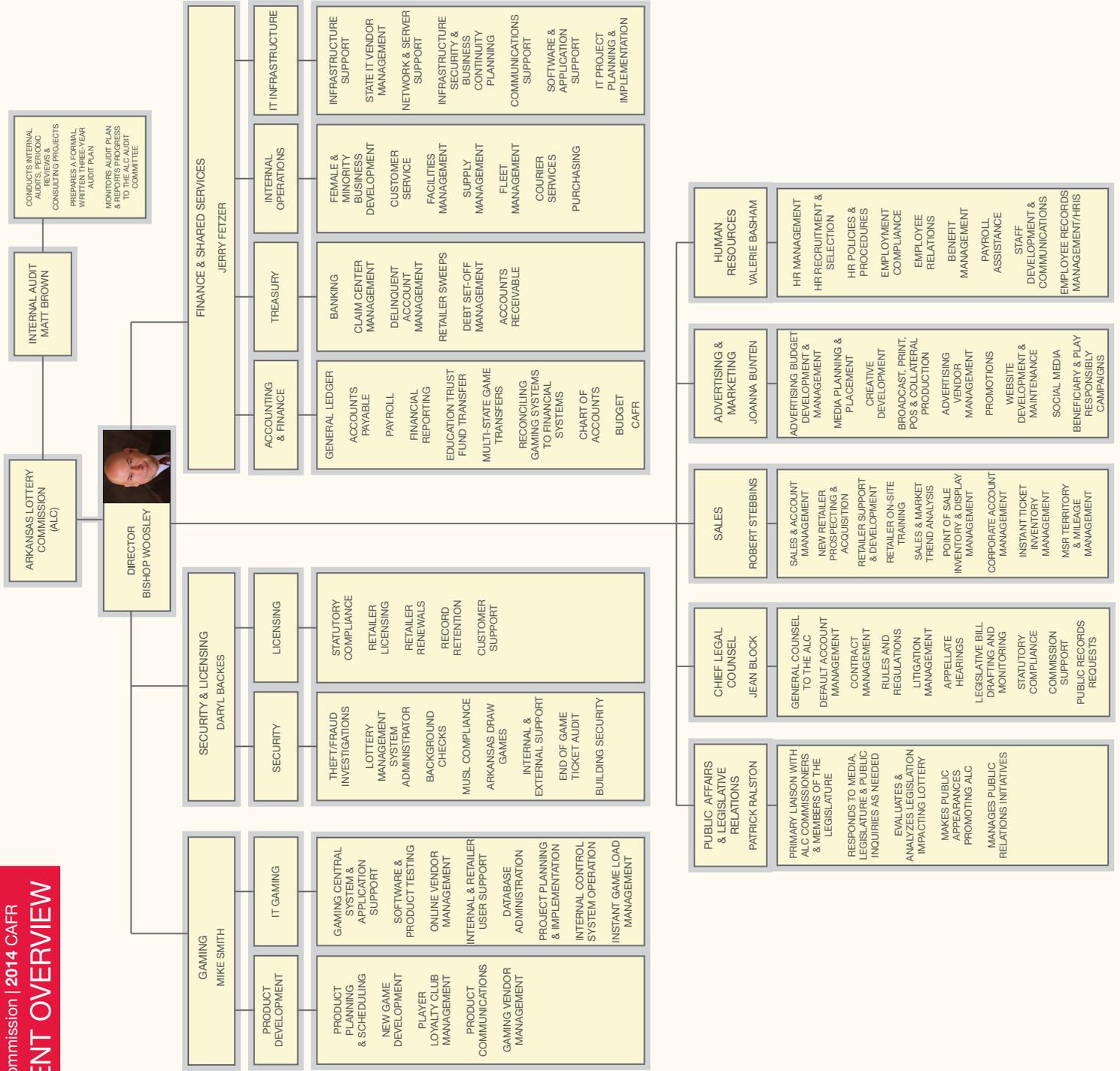


ALEX G. STREETT

Streett is the senior partner at the Streett Law Firm, P.A. A native of Camden, Streett did undergraduate studies at both Henderson State and the University of Arkansas at Fayetteville, while also serving in the U.S. Army. He received his Juris Doctorate degree from the University of Arkansas School of Law in 1965. He was a prosecuting attorney for the 5th judicial district from 1971 to 1982. Streett then went into private law practice in Russellville. This appointment by Governor Mike Beebe expires April 1, 2019.

ORGANIZATIONAL CHART







Government Finance Officers Association

**Certificate of
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Presented to

Arkansas Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

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

Executive Director/CEO

FINANCIAL Section



“The Lottery Scholarship has helped me be successful by making it possible for me to attend college. My family made exactly enough money to make sure we had everything we needed for a decent life. It would have been impossible for them to pay for me to go to college. The scholarship also encourages me to be a better student by setting GPA and hour requirements to keep it. This pushes me to make good grades and remain a full-time student each semester.”

Veniece Walker | Senior
University of Arkansas at Little Rock
Little Rock





“The Arkansas Scholarship Lottery is allowing me to fulfill my dreams. It’s a blessing to students across Arkansas. It’s a relief that my parents don’t have to pay for all of my college.”

Bethany Thweatt | Freshman
University of Central Arkansas
Palestine

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Arkansas Lottery Commission
and Members of the Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund of the Arkansas Lottery Commission, a commission of Arkansas state government, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Arkansas Lottery Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Arkansas Lottery Commission as of June 30, 2014, 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 Arkansas Lottery Commission are intended to present the financial position, and the changes in financial position and cash flows of the major fund of the State that is attributable to the transactions of the Arkansas Lottery Commission. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2014, 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 Arkansas Lottery Commission's basic financial statements. The introductory section, statistical section, and supplementary information, listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The introductory section, statistical section, and supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2014 on our consideration of the Arkansas Lottery Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Arkansas Lottery Commission's internal control over financial reporting and compliance.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
November 18, 2014
SALC08514

MANAGEMENT'S Discussion & Analysis



“The Arkansas Scholarship Lottery is basically my ticket to my dream come true. We start and make a difference here then we can take it all around the world. Great things start in Arkansas.”

Brandon Haley | Junior
Arkansas State University
Marion





“The Arkansas Scholarship Lottery has brought my dreams of becoming a nurse to life. Our education system is what is making us into successful adults. It’s definitely a bright future.”

Kelsey Theall | Senior
University of Central Arkansas
Vilonia

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014
(Unaudited)**

As management of the Arkansas Lottery Commission (ALC), we offer readers of the ALC's financial statements this narrative overview and analysis of the financial activities of the ALC for the fiscal year ended June 30, 2014. Please read it in conjunction with the ALC's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Operating revenues for the ALC decreased by \$ 29.5 million in fiscal year 2014 as compared to fiscal year 2013, a decrease of 6.7%. Instant ticket sales decreased \$ 32.6 million or 9.2%, and Powerball® also experienced a sales decrease of \$12.4 million, or 26.1%. Mega Millions® sales increased \$ 6.0 million, an increase of 42.9% over fiscal year 2013, and the remaining online games sales increased \$9.6 million or 41.3%, which increase was primarily related to an increase in Fast Play sales of \$6.7 million or 198.6% and the Natural State Jackpot game which had an increase in sales of \$ 1.9 million or 26.7%.
- The ALC's operating expenses decreased in fiscal year 2014 as compared to the previous fiscal year by \$20.6 million or 5.8% which was primarily due to a decrease in prize expense of \$17.2 million or 5.9%, which was primarily related to the decrease in sales.
- For fiscal year 2014 transfers to the Education Trust Account from net proceeds decreased \$8.8 million or 9.7% from the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the ALC's basic financial statements. The ALC is accounted for as a proprietary enterprise fund 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 ALC's basic financial statements are comprised of four components: 1) the statement of net position, 2) the statement of revenues, expenses and changes in net position, 3) the statement of cash flows, and 4) notes to the financial statements. This 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 ALC'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 ALC's financial position, because, by statute, the ALC is required to transfer all accumulated net proceeds, net of the unclaimed prizes, to the Education Trust Account on a monthly basis. At the end of June of each fiscal year the ALC is also required, by statute, to transfer the accumulated unclaimed prize 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 ALC's net position and the summarized revenue and expense activities that created the changes. As stated above, the ALC is required by statute to transfer all monthly net proceeds to an Education Trust Account. Net proceeds are calculated using an adjusted 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 ALC's changes in its operating activities.

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

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014
(Unaudited)**

FINANCIAL ANALYSIS

Statement of Net Position

The ALC's net assets at June 30, 2014 and 2013 were as follows:

Condensed Summary of Assets, Liabilities and Net Position		
	2014	2013
Current assets	\$ 42,323,387	\$ 54,893,304
Non-current assets	21,885,212	21,844,206
Capital assets	246,113	358,372
Total assets	<u>64,454,712</u>	<u>77,095,882</u>
Current liabilities	49,035,299	60,178,793
Long term liabilities	1,616,776	1,306,058
Total liabilities	<u>50,652,075</u>	<u>61,484,851</u>
Net position:		
Invested in capital assets	246,113	358,372
Restricted	22,885,212	22,844,206
Unrestricted (Deficit)	<u>(9,328,688)</u>	<u>(7,591,547)</u>
Total net position	<u>\$ 13,802,637</u>	<u>\$ 15,611,031</u>

Assets consisted primarily of cash and cash equivalents which were \$51.6 million and \$64.1 million at June 30, 2014 and 2013 respectively. Accounts receivable were \$10.8 million at both June 30, 2014 and 2013. Capital assets, net of depreciation, decreased during the current fiscal year to \$0.25 million from \$0.36 million in fiscal year 2013.

The ALC's liabilities consist primarily of amounts due to the Arkansas Department of Higher Education (ADHE), unclaimed prizes, accrued operating expenses and accrued retirement costs. Total liabilities decreased during the current fiscal year by \$10.8 million or 17.6% from fiscal year 2013.

The ALC's total assets exceed its total liabilities resulting in net position of \$13.8 million at June 30, 2014. This is a decrease in net position of \$1.8 million from the prior year. The restricted net position was approximately the same as the prior year. The unrestricted net position (deficit) has increased from June 30, 2013 by an additional \$1.7 million, primarily as a result of timing differences related to the adjusted cash basis accounting method used to calculate net proceeds. In the unlikely event that the ALC ceases operations, the Commission or State Legislature may be required to resolve this deficit in the unrestricted net position.

Statement of Revenue, Expenses and Change in Net Position

During fiscal year 2014, the ALC's activities resulted in a decrease in net position of \$1.8 million compared to a decrease in net position of \$2.1 million in fiscal year 2013 from the prior fiscal year. The decrease in net position for both years was primarily due to timing differences related to the accounting method used to calculate net proceeds and because of increases in the unfunded portion of the OPEB liability. The key elements of the changes in net position for the fiscal year ended June 30, 2014, with comparative information for fiscal year 2013 are shown in the following table.

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014
(Unaudited)**

<u>Summary of Revenue, Expense and Change in Net Position</u>		
	2014	2013
Operating revenues		
Instant ticket sales	\$ 322,415,276	\$ 355,061,785
Online ticket sales	87,657,850	84,486,209
Retailer application, fidelity and service	554,292	556,792
Other operating revenue	10,550	4,490
Total operating revenues	<u>410,637,968</u>	<u>440,109,276</u>
Operating expenses		
Instant game prizes	229,462,196	250,246,337
Online game prizes	45,487,903	41,877,845
Commissions and contract costs	43,557,849	47,102,714
General and administrative expenses	11,884,325	11,717,422
Services provided by other agencies	890,636	936,736
Depreciation	188,270	182,158
Total operating expenses	<u>331,471,179</u>	<u>352,063,212</u>
Operating income	79,166,789	88,046,064
Non-operating revenue		
Interest Income	252,614	322,722
Other non-operating revenue	461,047	-
Total non-operating revenue	<u>731,661</u>	<u>322,722</u>
Income before transfers	79,880,450	88,368,786
Transfers to		
Education Trust Account	(81,488,844)	(90,257,161)
Transfers to ADHS	(200,000)	(200,000)
Increase (decrease) in net position	(1,808,394)	(2,088,375)
Beginning net position	<u>15,611,031</u>	<u>17,699,406</u>
Ending net position	<u>\$ 13,802,637</u>	<u>\$ 15,611,031</u>

OPERATING REVENUES

Games Sales

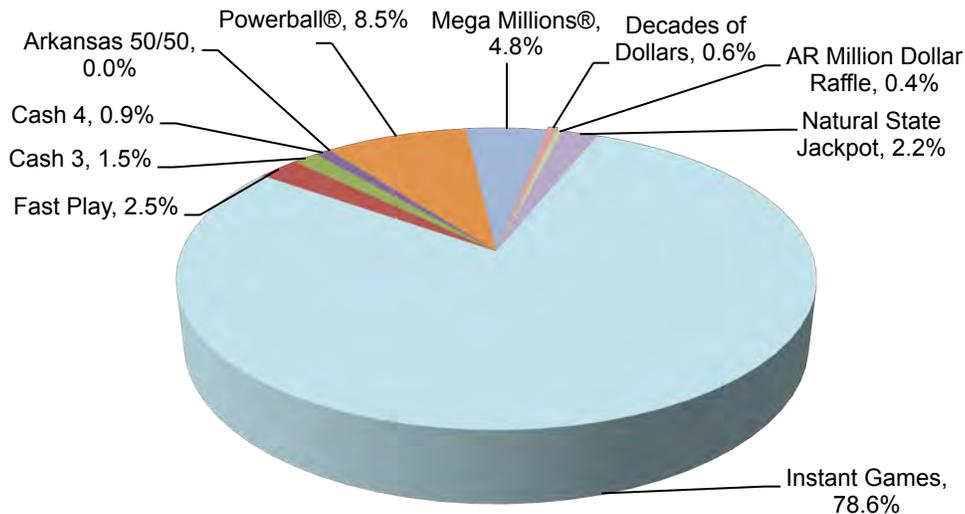
The ALC's games revenues are made up of a variety of instant and online lottery products. The ALC is an active member of two separate joint venture arrangements; the Multi-State Lottery Association (MUSL), and the Decades of Dollars Consortium. Powerball® and Mega Millions® are online games operated under MUSL and the Decades of Dollars Consortium is comprised of four state lotteries and operated by the State of Virginia Lottery. The ALC also operates Fast Play, Cash 3, Cash 4, Natural State Jackpot and Arkansas 50/50 which are all online games. For fiscal year 2014 the ALC re-introduced an AR Million Dollar Raffle game in September 2013 for which sales ended at the end of December 2013. The table below shows instant ticket sales and sales by online lottery games for the years ended June 30, 2014 and 2013.

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014
(Unaudited)**

Lottery Games Sales for Years Ended June 30, 2014 and 2013				
Game	2014	2013	Change	% Change
Instant game sales	\$ 322,415,276	\$ 355,061,785	(\$32,646,509)	-9.2%
Powerball®	35,042,460	47,409,700	(12,367,240)	-26.1%
Mega Millions®	19,847,674	13,891,465	5,956,209	42.9%
Fast Play	10,126,554	3,391,691	6,734,863	198.6%
Natural State Jackpot	8,863,034	6,994,820	1,868,214	26.7%
Cash 3	6,255,741	6,161,706	94,035	1.5%
Cash 4	3,606,990	3,324,150	282,840	8.5%
Decades of Dollars	2,345,532	2,927,572	(582,040)	-19.9%
AR Million Dollar Raffle	1,426,490	-	1,426,490	100.0%
Arkansas 50/50	143,375	385,105	(241,730)	-62.8%
Total game sales	\$ 410,073,126	\$ 439,547,994	(\$29,474,868)	-6.7%

The ALC experienced a decrease of \$29.5 million or 6.7% in total lottery sales for fiscal year 2014 as compared to fiscal year 2013. For fiscal year 2014 instant ticket sales decreased by \$32.6 million or 9.2% while online ticket sales increased by \$3.2 million or 3.8%. Instant ticket sales continued to be the ALC's most popular product contributing 78.6% and 80.8% to total fiscal year sales for 2014 and 2013 respectively. As a result, the decrease in total ticket sales for 2014 is primarily attributable to the decrease in sales for instant game tickets. For online game sales, Fast Play had a \$6.7 million or 198.6% increase in sales, Mega Millions® sales increased by \$6.0 million or 42.9% and Natural State Jackpot increased sales by \$1.9 million or 26.7% for fiscal year 2014. Also the AR Million Dollar Raffle game was re-introduced for fiscal year 2014 and had total sales of \$1.4 million. Cash 3 and Cash 4 both had slight increases in sales for 2014 over 2013. Powerball® had a significant decrease in sales of \$12.4 million or 26.1% in fiscal year 2014 as compared to 2013. Other online games such as Arkansas 50/50 and Decades of Dollars also had decreases in sales for fiscal year 2014 from fiscal 2013 of \$0.8 million or 24.9%.

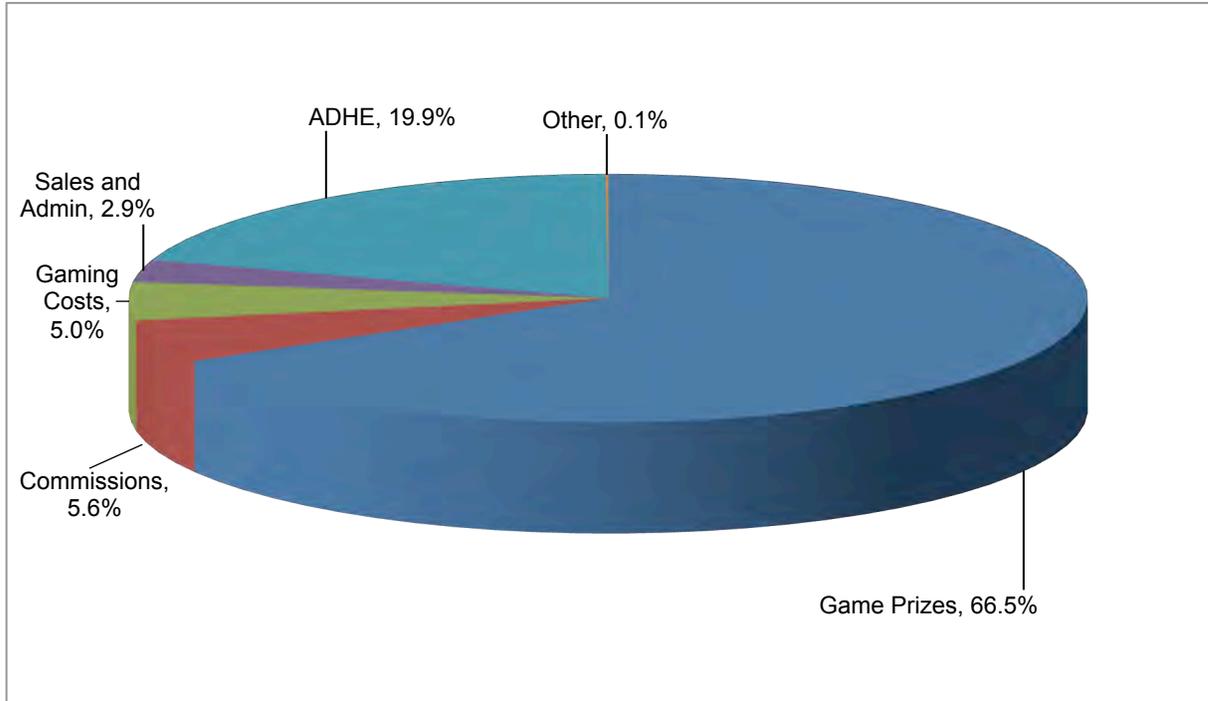
2014 Lottery Game Revenue as a Percent of Sales



**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014
(Unaudited)**

Distribution of the fiscal year 2014 revenue was as follows:

Fiscal Year 2014 Revenue Distribution



OPERATING EXPENSES

Prizes

Prizes are the largest operating expense the ALC incurs. Fiscal year 2014 prizes expense of \$275 million reflects a 5.9% decrease from fiscal year 2013 prizes expense of \$292.1 million. This decrease primarily corresponds to the decrease in instant ticket and Powerball® sales experienced in fiscal year 2014.

The following table shows prizes expense by lottery game for the years ended June 30, 2014 and 2013 respectively.

Game Prizes Expense	Game Prizes Expenses			
	2014	2013	Change	% Change
Instant Game prizes	\$ 229,462,196	\$ 250,246,337	\$ (20,784,141)	-8.3%
Powerball®	16,602,837	22,851,049	(6,248,212)	-27.3%
Mega Millions®	9,247,319	6,334,847	2,912,472	46.0%
Fast Play	8,085,383	2,626,718	5,458,665	207.8%
Natural State Jackpot	3,951,793	3,513,348	438,445	12.5%
Cash 3	2,900,040	2,874,240	25,800	0.9%
Cash 4	1,623,700	1,722,300	(98,600)	-5.7%
Decades of Dollars	1,319,055	1,803,152	(484,097)	-26.8%
AR Million Dollar Raffle	1,697,000	-	1,697,000	100.0%
Arkansas 50/50	60,776	152,191	(91,415)	-60.1%
Total game prizes expense	<u>\$ 274,950,099</u>	<u>\$ 292,124,182</u>	<u>\$ (17,174,083)</u>	<u>-5.9%</u>

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014
(Unaudited)**

The following table shows sales profit margin for instant and online games for the years ended June 30, 2014 and 2013 respectively.

<u>Lottery Game Profit Margins</u>				
	<u>Instant Tickets</u>		<u>Online Tickets</u>	
	2014	2013	2014	2013
Game revenues	\$ 322,415,276	\$ 355,061,785	\$ 87,657,850	\$ 84,486,209
Prizes expense	229,462,196	250,246,337	45,487,903	41,877,845
Gross profit after prizes	<u>\$ 92,953,080</u>	<u>\$ 104,815,448</u>	<u>\$ 42,169,947</u>	<u>\$ 42,608,364</u>
Profit margin after prizes	28.8%	29.5%	48.1%	50.4%

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

Other Operating Expenses

In addition to prizes expense, other expenses include retailer commissions, gaming contract costs, marketing & advertising costs, general administrative costs and depreciation. These other expenses totaled \$56.5 million and \$59.7 million for fiscal years 2014 and 2013 respectively.

The table below shows the profit margin, which is the ALC's total operating revenues less its total operating expenses, for the years ended June 30, 2014 and 2013 respectively.

<u>Operating Expenses Profit Margin</u>				
	2014	2013	Change	Percent Change
Operating revenues	\$ 410,637,968	\$ 440,109,276	\$ (29,471,308)	-6.7%
Operating expenses	331,471,179	352,063,212	(20,592,033)	-5.8%
Operating Income	<u>\$ 79,166,789</u>	<u>\$ 88,046,064</u>	<u>\$ (8,879,275)</u>	-10.1%
Profit margin	19.3%	20.0%		

NON-OPERATING REVENUES AND TRANSFERS

Non-operating revenues were primarily related to interest income of \$252,614 and \$322,722 for the years ended June 30, 2014 and 2013 respectively. For fiscal year 2014, additional non-operating revenues of \$461,047 were recognized which were from bond and insurance proceeds received which were related to an employee defalcation.

In fiscal years 2014 and 2013, net transfers of \$81.5 million and \$90.3 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 \$95,000,000 for fiscal year 2014 as compared to \$115,000,000 for fiscal year 2013.

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014
(Unaudited)**

CAPITAL ASSETS

At June 30, 2014 the ALC had \$1.1 million in capital assets as compared to \$1.0 million at the end of fiscal year 2013. 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>		<u>Total % Change</u>
	<u>2014</u>	<u>2013</u>	
Equipment	\$ 602,676	\$ 526,665	14.4%
Leasehold improvements	<u>498,417</u>	<u>498,417</u>	0.0%
Totals capital assets	<u>1,101,093</u>	<u>1,025,082</u>	7.4%
Total accumulated depreciation	<u>(854,980)</u>	<u>(666,710)</u>	28.2%
Net capital assets	<u>\$ 246,113</u>	<u>\$ 358,372</u>	-31.3%

CONTACT INFORMATION

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

Arkansas  **Scholarship Lottery**

BASIC Financial Statements



“The Arkansas Academic Challenge Scholarship has provided me with the opportunity to attend the college of my dreams. Since I was very young, I have known that I wanted to attend the University of Arkansas. The cost of tuition was something my family’s finances would have struggled with. Thanks to the scholarship, I am able to achieve my goal!”

Jacob Conditt | Junior
University of Arkansas at Fayetteville
Newport





“The Arkansas Lottery Scholarship has paid for virtually all of my education and taken a big financial burden off of my family. I am very grateful for the opportunity this scholarship has given me.”

Shelby Lane | Junior
University of Arkansas at Monticello
Huttig

Arkansas Lottery Commission
Statement of Net Position
June 30, 2014

ASSETS

Current assets:	
Cash and cash equivalents	\$ 3,262,927
Restricted assets:	
Cash and cash equivalents	28,196,057
Accounts receivable	10,780,858
Prepaid items	83,545
Total current assets	42,323,387
Non-current assets:	
Restricted assets:	
Cash and cash equivalents	20,091,133
Deposits with Multi-State Lottery Association	1,794,079
Capital assets:	
Equipment	602,676
Leasehold improvements	498,417
Less accumulated depreciation	(854,980)
Total non-current assets	22,131,325
Total assets	64,454,712

LIABILITIES

Current liabilities:	
Accounts payable	1,099,304
Prizes payable	18,744,536
Accrued and other liabilities	788,554
Due to other funds of the State	839,759
Payable to Arkansas Department of Higher Education	27,196,057
Compensated absences	46,002
Unearned revenue	321,087
Total current liabilities	49,035,299
Long-Term liabilities:	
Net other post employment benefits	1,326,508
Compensated absences	290,268
Total long-term liabilities	1,616,776
Total liabilities	50,652,075

NET POSITION

Net position:	
Invested in capital assets	246,113
Restricted for:	
Scholarship Shortfall Reserve Trust Fund	20,000,000
Retailer Fidelity Fund	91,133
Deposits with Multi-State Lottery Association	1,794,079
Unclaimed prizes reserve	1,000,000
Unrestricted	(9,328,688)
Total net position	13,802,637
Total liabilities & net position	\$ 64,454,712

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

Arkansas Lottery Commission
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended June 30, 2014

Operating revenues:

Instant ticket sales	\$ 322,415,276
Online ticket sales	87,657,850
Retailer application, fidelity and service fees	554,292
Other revenue	10,550
	410,637,968
Total operating revenues	410,637,968

Operating expenses:

Instant game prizes	229,462,196
Online game prizes	45,487,903
Retailer commissions	23,046,410
Gaming contract costs	20,511,439
Compensation and benefits	5,990,541
Marketing, advertising and promotions	4,472,456
General and administrative expenses	1,414,871
Services provided by Arkansas Department of Higher Education	751,556
Audit Services provided by Arkansas Division of Legislative Audit	139,080
Legal and professional services	6,457
Depreciation	188,270
	331,471,179
Total operating expenses	331,471,179

Operating income 79,166,789

Non-operating revenue:

Interest income	252,614
Other non-operating income	461,047
Total non-operating income	713,661

Income before transfers 79,880,450

Transfers to:

Education Trust Account	(81,488,844)
Arkansas Department of Human Services	(200,000)
Change in net position	(1,808,394)

Total net position - beginning 15,611,031

Total net position - ending \$ 13,802,637

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

**Arkansas Lottery Commission
Statement of Cash Flows
Year Ended June 30, 2014**

Cash flows from operating activities:

Cash received from retailers and others	\$ 410,690,974
Cash paid for prizes	(275,024,448)
Cash paid for gaming vendors	(20,308,816)
Cash paid for retailer commissions	(23,046,410)
Cash paid for marketing and advertising	(4,319,538)
Cash paid for employee services	(5,725,930)
Cash paid for other expenses	(2,402,273)
Cash received from other non-operating income	461,047
Net cash provided by operating activities	80,324,606

Cash flows from non-capital financing activities:

Non-operating transfers to Arkansas Department of Higher Education	(95,000,000)
Non-operating transfers to Arkansas Department of Human Services	(200,000)
Non-operating transfers from Arkansas Department of Higher Education	2,138,092
Net cash used by non-capital financing activities	(93,061,908)

Cash flows from capital and related financing activities:

Purchases of capital assets	(76,011)
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Cash flows from investing activities:

Interest received	252,614
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Net decrease in cash and cash equivalents

(12,560,699)

Cash and cash equivalents, beginning of year

64,110,816

Cash and cash equivalents, end of year

\$ 51,550,117

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

Operating income	79,166,789
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	188,270
Other non-operating income	461,047
Net changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	33,527
Receivable from other funds of the State	7,020
Prepaid items	(51,876)
Deposits with Multi-State Lottery Association	(20,459)
Increase (decrease) in:	
Accounts payable	871,837
Prizes payable	(53,889)
Accrued and other liabilities	(481,765)
Due to other funds of the State	(123,695)
Compensated absences	5,449
Unearned revenue	19,479
Net other post employment benefits	302,872
Net cash provided by operating activities	\$ 80,324,606

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

Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Arkansas Lottery Commission (ALC) was created by Acts 605 and 606 of 2009 (the Act) for the purpose of establishing, operating, and regulating 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 is governed by a nine member commission (the Commission), which is 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.

The ALC is a self-supporting, revenue-raising agency of the State. The ALC commenced sales of instant scratch-off tickets on September 28, 2009; Powerball® on October 31, 2009; Cash 3 on December 14, 2009; Mega Millions® on January 31, 2010; Cash 4 on July 12, 2010; Fast Play games on October 25, 2010; Decades of Dollars on May 3, 2011, Arkansas 50/50 on October 1, 2011, Natural State Jackpot on August 27, 2012 and AR Million Dollar Raffle was re-introduced on September 1, 2013 and sales were ended on December 31, 2013. Powerball® and Mega Millions® are offered through the Multi-State Lottery Association (MUSL). Decades of Dollars is offered through a consortium of four participating lottery states.

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

b. Basis of Presentation

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

c. Basis of Accounting

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

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

As a proprietary type enterprise fund, the ALC is accounted for using the economic resources measurement focus. All assets and liabilities related to its operations are included on its statement of net position, and all revenues (increases) and expenses (decreases) and the change in net position are included in its statement of revenues, expenses and change in net position. Operating revenues and expenses generally relate to the ALC'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 ALC are from charges to retailers for their sales of

Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2014

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

d. Cash and Cash Equivalents

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

e. Accounts Receivable

Accounts receivable primarily represents amounts due from retailers for activated instant ticket packs and sales of online games less the value of prizes paid by the retailer and retailer commissions. Retailer bank accounts are set up in trust for settlements with the ALC and electronic funds transfers are used to collect receivables weekly from such accounts.

f. Capital Assets

Capital assets are stated at cost less accumulated depreciation. The ALC follows the policy of the Arkansas Department of Finance and Administration and uses a capitalization threshold of five thousand dollars (\$5,000) and useful life extending beyond one year. Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

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

When capital assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the Statement of Revenues, Expenses, and Change in Net Position, in the period of retirement/disposition. The ALC did not dispose of any capital assets during the year ended June 30, 2014.

g. Net Position

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

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

Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2014

h. Revenue Recognition

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

i. Unearned Revenue

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

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

j. Commissions

Retailers receive a commission of five percent on all instant tickets settled and online tickets sold. In addition, (1) retailers receive a cashing commission of one percent of each dollar redeemed up to a cashing limit of \$500 per ticket, as tickets for prizes over \$500 must be redeemed at an ALC claim center, and (2) retailers receive an additional selling commission of one percent of each 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.

k. 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 remains 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 Commission 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 \$1,000,000, is to be deposited into the Trust Account for net proceeds. For financial statement purposes, unclaimed prizes are a reduction to the overall prizes expense recognized.

l. Compensated Absences

Employees earn the right to be compensated during absences for vacation, illness, overtime worked for non-exempt employees, and on legal holidays. Compensated absences for annual leave and legal holidays banked are recorded as a liability when the benefits are earned. Compensated absences for sick leave are calculated based on the vesting method for employees that are eligible for retirement benefits. Within the limits 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

Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2014

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

m. Use of Estimates

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

n. Bad Debt Expense

Bad debt expense is normally recognized when an ALC retailer's uncollected revenue is significantly past due and is in excess of amounts deemed to be collectible. The amount of expense is based on the outstanding aged accounts receivable less the amount of any fidelity bond. The ALC recorded no bad debt expense for the fiscal year ended June 30, 2014. For net proceeds calculations, bad debt expense amounts are recovered from the fidelity fund trust account, which is maintained to offset such potential loss.

2. DEPOSITS

Arkansas Code Annotated (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 ALC entered into a seven-year contract with Bank of the Ozarks to provide primarily all banking services for its operations. The contract has the provision that all banking services be provided to ALC at no cost. Additionally, the contract calls for interest to be paid on all ALC deposits at a rate of 20 basis points over the Federal Funds Target rate with a floor of 55 basis points. During the year ended June 30, 2014, the ALC was paid 55 basis points on all ALC deposits. All cash and equivalents at June 30, 2014 were held primarily in accounts at the Bank of the Ozarks. As agreed to in their contract, the Bank of the Ozarks has agreed to pledge collateral on all accounts of the ALC in an amount to exceed the State requirement of 105 percent of deposits. As of June 30, 2014, total collateral pledged to the ALC had a market value of \$57,327,571 to secure total bank balances of \$51,761,563, which was 110.8% of deposits. The collateral is held in the ALC's name by Arkansas Banker's Bank and the Federal Home Loan Bank of Dallas.

Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2014

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the ALC will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The ALC has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. It is the opinion of management that none of the ALC's bank balances of \$51,792,303 were exposed to custodial credit risk as of June 30, 2014.

3. ACCOUNTS RECEIVABLE

Management believes that an allowance for uncollectable accounts is not necessary at June 30, 2014, 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	\$ 7,901,481
Amount due for partial week sales through June 30, 2014	2,851,357
Past due accounts and other receivables	<u>28,020</u>
Total accounts receivable	<u>\$ 10,780,858</u>

4. TRUST ACCOUNT for NET PROCEEDS

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

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

The Trust Account balance at June 30, 2014 was \$15,243,658 and was reflected as current restricted cash and cash equivalents in the ALC's general ledger accounts. Additionally, the net proceeds for the month of June 2014 of \$6,556,654, less \$6,104 of interest which was already transferred in June 2014, along with the remaining Unclaimed Prizes Reserve in excess of \$1,000,000, of \$5,401,849, were transferred from the operating bank account to the Trust Account subsequent to June 30, 2014. 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 \$27,196,057. Total net proceeds for the year ended June 30, 2014 were \$81,488,844. During fiscal year 2014 a total of \$95,000,000 was transferred to ADHE.

Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2014

Activity in the Trust Account for the year ended June 30, 2014 consisted of the following activities:

Education Trust Fund Account balance at 7/01/13	\$ 38,569,121
Educational Proceeds for year ended 6/30/14	81,488,844
Returns from ADHE during fiscal year ended 6/30/14	<u>2,138,092</u>
Total Available	122,196,057
Transfers to ADHE during fiscal year ended 6/30/14	<u>95,000,000</u>
Education Trust Fund Account balance at 6/30/14	<u>\$ 27,196,057</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 ALC 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 2014, in addition to the \$1,000,000 beginning balance, the unclaimed prizes totaled \$5,401,849. The unclaimed prizes balance remaining at June 30, 2014, less \$1,000,000, resulted in a deposit of \$5,401,849 to the trust account for net proceeds. At June 30, 2014 the balance of the unclaimed prizes reserve was \$1,000,000 and is reflected as restricted net position, while the corresponding monies related to this reserve are shown as current restricted cash and cash equivalents on the statement of net position.

6. SCHOLARSHIP SHORTFALL RESERVE AND FIDELITY FUNDS

The Scholarship Shortfall Reserve account represents monies set aside to fund scholarships, if needed, due to a lack of ALC net proceeds. The balance of the Scholarship Shortfall Reserve at June 30, 2014 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 2014 ADHE requests for funds exceeded the funds available in the Trust Account for Net Proceeds and it was necessary to transfer \$12,000,000 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, ALC retailers are assessed an annual fidelity fund fee which is recorded to a Retailer Fidelity Fund account, which is reflected as restricted net position on the statement of net position. Fidelity funds collected are deposited in a separate demand deposit account which is classified as non-current restricted cash and cash equivalents. The balance of the Retailer Fidelity Fund at June 30, 2014 was \$91,133. These funds may be used to cover losses incurred as a result of any nonfeasance, malfeasance or misfeasance of ALC retailers. The ALC sustained no losses that were charged to the fidelity fund during the year ended June 30, 2014. Per statute, at the end of each fiscal year, fidelity funds exceeding \$500,000 may be treated as net proceeds from the ALC, and subject to deposit into the Trust Account.

7. JOINT VENTURES

GASB Statement No.14, *The Financial Reporting Entity*, as amended, defines a joint venture as a legal entity or other organization that results from a contractual arrangement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to

Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2014

joint control in which the participants retain 1) an ongoing financial interest or 2) an ongoing financial responsibility. The ALC is an active participant in two separate joint venture arrangements; the Multi-State Lottery Association and the Decades of Dollars Consortium as described below:

Multi-State Lottery Association

In July 2009, the ALC joined the Multi-State Lottery Association (MUSL), which is comprised of a group of U.S. lotteries that combine jointly to sell online Powerball® and Mega Millions® lottery tickets. The chief executive officer of each member lottery serves on the MUSL board of directors. MUSL is audited annually by a separate independent audit firm.

As a member of MUSL, the ALC is required to contribute to various prizes reserve funds maintained by MUSL. The prizes reserve funds serve as a contingency reserve to protect MUSL from unforeseen prizes payment liabilities. MUSL periodically reallocates the prizes reserve funds among the member state lotteries based on relative Powerball® and Mega Millions® sales levels. All remaining funds remitted, and the related interest earnings (net of administrative costs), less any portion of unanticipated prize claims that may have been paid from the fund, will be returned to the ALC, upon leaving MUSL. As of June 30, 2014 the ALC had reserve fund deposits with MUSL of \$1,794,079.

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

ALC's portion of the MUSL's games for the fiscal year ended June 30, 2014 is summarized below:

	<u>Powerball®</u>	<u>Mega Millions®</u>
Revenues	\$ 35,042,460	\$ 19,847,674
Prizes	16,602,838	9,247,319

Decades of Dollars Consortium

On May 3, 2011, the ALC joined the Decades of Dollars Consortium comprised of the Georgia Lottery Corporation, Kentucky Lottery Corporation and Virginia Lottery to create and operate a multi-state lottery game entitled "Decades of Dollars". The chief officials of each member lottery shall serve as the Executive Committee. For Decades of Dollars, each lottery in the consortium shall annually subject transactions, accounts and processes to a test of agreed upon procedures by an independent auditor in its state. During fiscal year 2014 the ALC 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 ALC's portion of revenues for "Decades of Dollars" game for the fiscal year ended June 30, 2014 was \$2,345,532 and the portion of prizes was \$1,319,055.

Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2014

8. CAPITAL ASSETS

The activity for capital assets for the year ended June 30, 2014, was as follows:

Capital Assets	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Equipment	\$ 526,665	\$ 76,011	\$ 0	\$ 602,676
Leasehold improvements	498,417	0	0	498,417
Total capital assets	<u>1,025,082</u>	<u>76,011</u>	<u>0</u>	<u>1,101,093</u>
Less accumulated depreciation:				
Equipment	(358,341)	(105,013)	0	(463,354)
Leasehold improvements	(308,369)	(83,257)	0	(391,626)
Total accumulated depreciation	<u>(666,710)</u>	<u>(188,270)</u>	<u>0</u>	<u>(854,980)</u>
Capital assets, net	<u>\$ 358,372</u>	<u>\$ (112,259)</u>	<u>\$ 0</u>	<u>\$ 246,116</u>

9. LIABILITIES

a. Prizes Payable

Prizes payable at June 30, 2014 consisted of instant and online game prizes as well as any related state and federal withholdings. Instant ticket prizes are estimated based on the end of production prize structure provided by Scientific Games Inc. Prizes payable by category are as follows:

Instant tickets	\$ 16,408,011
Decades of Dollars	909,717
Powerball®	471,137
Natural State Jackpot	400,420
Mega Millions®	295,841
Fast Play	118,060
Cash 3	36,820
Cash 4	33,000
AR Million Dollar Raffle	22,500
Arkansas 50/50	1,315
Income tax and other withholdings	47,715
Total	<u>\$ 18,744,536</u>

b. Payable to Other Funds of the State

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

The Division of Legislative Audit (DLA) performs an annual audit of the ALC's financial position. ALC reimburses DLA at an hourly rate set by the Legislative Joint Auditing Committee for work performed. DLA also provides validation services for certain ALC daily online draw games. The amount due to DLA at June 30, 2014 is listed in the table below.

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

**Arkansas Lottery Commission
Notes to Financial Statements
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ADHE	\$ 751,556
Department of Information Systems	56,055
Department of Finance and Administration	18,080
Division of Legislative Audit	10,080
University of Arkansas	3,109
Workers Compensation Commission	879
Total	<u>\$ 839,759</u>

c. Accounts Payable, Accrued Liabilities and Compensated Absences

Accounts payable consist of amounts due to vendors for operating costs of the lottery. Accrued liabilities consist of amounts due to gaming vendors for gaming costs of the lottery, accrued payroll earned and related health insurance withholdings as of June 30, 2014.

As a proprietary type enterprise fund, for financial reporting purposes the ALC recognizes and accrues liabilities for compensated absences as services are performed and the benefits accrue to employees. The compensated absences payable to ALC employees for annual, sick, and compensatory leave at June 30, 2014 totaled \$336,271. The ALC has adopted the State of Arkansas methodology for the computation of the current vs. long-term portion of this liability. This computation is based upon the State average of current vs. long-term portion of this liability for all state employees. For the year ended June 30, 2014 the current portion of the compensated absences liability decreased by \$2,397 to a balance of \$46,002 and the long-term portion increased by \$7,846 to a balance of \$290,268.

Long Term Compensated Absences	Beginning Balances	Increases	Decreases	Ending Balances
Annual	\$ 282,375	\$ 413,641	\$(405,803)	\$ 290,213
Sick	0	0	0	0
Compensatory	47	47	(39)	55
Total	<u>\$ 282,422</u>	<u>\$ 413,688</u>	<u>\$(405,842)</u>	<u>\$ 290,268</u>

d. Unearned Revenue

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

Unearned revenue from online game tickets at June 30, 2014 are summarized as follows:

Powerball®	\$ 139,672
Mega Millions®	88,820
Natural State Jackpot	24,907
Decades of Dollars	10,312
Arkansas 50/50	5,075
Cash 3	3,503
Cash 4	2,652
Total	<u>\$ 274,941</u>

**Arkansas Lottery Commission
Notes to Financial Statements
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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, 2014 the amount of unearned revenue which related to retailer licensing and renewal fees was \$46,146.

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 year ended June 30, 2014 consisted of the following:

Powerball®	\$ 35,042,460
Mega Millions®	19,847,674
Fast Play	10,146,272
Natural State Jackpot	8,843,316
Cash 3	6,255,741
Cash 4	3,606,990
Decades of Dollars	2,345,532
AR Million Dollar Raffle	1,426,490
Arkansas 50/50	143,375
Total	<u>\$ 87,657,850</u>

11. OPERATING LEASES

The ALC has entered into operating leases for the rental of office space for its headquarters, as well as its three district claim centers. These leases are renewable at the option of the ALC at the end of their initial terms. The ALC headquarters offices are currently under a six-year lease, expiring August 31, 2015. The claim center leases are five-year terms, ending on various dates in 2014. Annual rent expense for the year ended June 30, 2014 was \$468,553.

Also, during the year ended June 30, 2014, the ALC entered into two new three year operating leases, one expiring August 31, 2015, and one expiring June 30, 2016, for printing equipment. There was \$17,495 of rent expense for the equipment operating leases for the year ended June 30, 2014.

Future minimum rental payments on operating leases as of June 30, 2014, are scheduled as follows:

2015	\$455,047
2016	82,829
2017	0
2018	0
2019	0

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 commission to be net proceeds shall equal an amount determined by the commission to maximize net proceeds." 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

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revenue derived from the sale of tickets or shares and all moneys derived from or in connection with the operation of a lottery, including without limitation fees, offsets, reimbursements, insurance proceeds, damages and liquidated damages collected or imposed by the Arkansas Lottery Commission under this chapter. Also ACA 23-115-801 Section (b) (1) requires "On or before the fifteenth day of each month, the commission shall deposit the net proceeds from the lottery into one (1) or more trust accounts at one (1) or more financial institutions."

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

However, the calculation method utilized results in modified cash basis net proceeds each month which vary from the GAAP net proceeds. Since the net proceeds for each month are transferred to a trust account by the 15th day of the next month, such transfer creates a timing difference for the recognition of certain instant game prize expenses, which results in a debit balance (deficit) in Unrestricted Net Position. At June 30, 2014 the cumulative variance due to the modified cash basis method was a debit balance (deficit) in Unrestricted Net Position of \$(8,002,180).

In addition, the ALC's net OPEB liability at June 30, 2014 (see note 16) of \$1,326,508 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, 2014 of \$(1,326,508). The total debit balance (deficit) in Unrestricted Net Position at June 30, 2014 was \$(9,328,688).

13. TRANSFERS

Transfers of net proceeds to the Educational Trust Account were \$81,488,844 for the year ended June 30, 2014.

For the year ended June 30, 2014 the ALC also made a transfer to the Arkansas Department of Human Services (DHS) in the amount of \$200,000 as stated in note 14.

14. COMPULSIVE GAMBLING CONTRIBUTION

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

15. RETIREMENT PLANS

a. Plan Description

The ALC contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Board of Trustees of the APERS. The State is considered the employer and the ALC is an agency of the State. APERS provides retirement, disability and death benefits, and annual cost-

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of-living adjustments to plan members and beneficiaries. The Constitution of Arkansas, Article 5, vests with the General Assembly certain legislative power. This power includes the enactment and amendment of benefit provisions of APERS as published in Chapters 2, 3 and 4 of Title 24 of the Arkansas Code Annotated. Since all State agencies are considered collectively to be a single employer, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the ALC's employees cannot be determined. Similarly, the net assets available for benefits of ALC employees cannot be 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

Contributory plan members are required to contribute 5% of their annual covered salary. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the ALC are established and may be amended by the Board of Trustees of APERS. ALC is required to contribute to this plan for all covered State employees. For the years ended June 30, 2014, 2013 and 2012 the ALC's required contribution rates were 14.88%, 14.24% and 13.47% of annual covered payroll respectively.

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

	<u>June 30, 2014</u>		<u>June 30, 2013</u>		<u>June 30, 2012</u>	
	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>
Contributions:						
Employee	5.0 %	\$197,053	5.0 %	\$200,568	5.0 %	\$212,340
ALC	14.88%	<u>631,562</u>	14.24%	<u>613,944</u>	13.47%	<u>606,017</u>
Required Contribution		<u>\$828,615</u>		<u>\$814,512</u>		<u>\$818,357</u>
% Contributed		100%		100%		100%

At June 30, 2014 no pension liability exists for APERS as the State's contribution to each plan was equal to or exceeded its annual required contributions.

16. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which became effective with the fiscal year ending June 30, 2008. The Statement establishes standards for the measurement, recognition and display of other Postemployment Benefits (OPEB) under government accounting standards.

a. Plan Description

The ALC is an agency of the State. Post-retirement medical and prescription drugs benefits are provided to ALC employees through the Arkansas State Employee Health Insurance Plan (AEP), a single-employer defined benefit healthcare plan, sponsored by the State and administered by Department of Finance and Administration Employee Benefits Division. A copy of the plan and most recent report can be obtained by writing to Employee Benefits Division, 501 Woodlane, Suite 500, Little Rock, AR 72201. For purposes of the plan the State is considered the employer and the ALC is an agency of

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June 30, 2014**

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 ALC are not determined. The ALC's net OPEB liability is based on the ALC's number of employees participating in insurance coverage as a pro rata share of the total budgeted positions for the State.

Projections of benefits are based on actuarial calculations which reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions used in the calculation of the OPEB liability were as follows: Actuarial valuation date: July 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 year ended June 30, 2014, there was no required contribution rate and no contributions were made, as the plan is funded on a pay-as-you-go basis and the ALC only had one eligible retiree for whom no contributions were yet due. The ALC's annual OPEB cost for the years ended June 30, 2014, 2013 and 2012 were \$302,872, \$296,356 and \$269,290 respectively. The liability for the current year and each of the two preceding years were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
June 30, 2014	\$1,023,636	\$ 302,872	\$ 0	\$ 1,326,508
June 30, 2013	727,280	296,356	0	1,023,636
June 30, 2012	457,990	269,290	0	727,280

17. CONTRACTUAL ARRANGEMENTS AND OTHER COMMITMENTS

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

INTRALOT operates the gaming network that consists of approximately 1,890 instant and online retailer ticket terminals and associated software. In accordance with its contract, INTRALOT receives the negotiated fee on the selling price of online tickets sold and on instant ticket settlements. ALC has a seven-year contract with INTRALOT ending in 2016, which includes an

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option for up to three additional renewals in one-year increments, or a portion thereof. During the year ended June 30, 2014, INTRALOT was compensated at the rate of 2.45% for all online and instant ticket game sales. INTRALOT's compensation for online and instant game services for the fiscal year ended June 30, 2014 was \$10,049,436.

SGI prints, warehouses, and distributes the instant game tickets to retailers. In accordance with its contract, SGI receives the negotiated fee on the selling price of all instant ticket settlements. ALC has a seven-year contract with SGI ending in 2016. During the year ended June 30, 2014, SGI was compensated \$5,095,473 which represents a rate of 1.58% of sales for these services. Additionally SGI is paid a fee for the Points for Prizes program of 1.50% of the prize fund. During the year ended June 30, 2014 this fee totaled \$3,555,036. This program provides merchandise prizes awarded to players based upon tickets registered by the players. In addition, SGI provides other products and services for which ALC pays various contracted fees. Total fees paid to SGI for all services for the fiscal year ended June 30, 2014 was \$10,302,994.

18. CONTINGENCIES

There is one pending lawsuit to which the ALC is a party as a Defendant primarily as a result of a matter which arose in the ordinary course of business. That lawsuit is the result of a defalcation. The final outcome of the pending lawsuit is not presently determinable. ALC management does not anticipate the resolution of this matter will have a material adverse effect on the financial condition of the ALC.

19. RISK MANAGEMENT

The ALC is exposed to various types of risk related to its operations. These risks can result in losses incurred from property damage or destruction, business interruption such as inability to operate gaming activities and worker compensation claims. The ALC manages these risks by participating in the various self-insurance programs established by the State for property and casualty losses and employee health insurance. Coverages include property, general liability, automobile liability, workers' compensation, state unemployment, court-awarded attorney fees, and Federal civil rights actions. Property is self-insured for actual cash value to an aggregate of \$1.7 million per loss event for all perils. Losses from earthquake and flood are also subject to an annual aggregate loss for the State of \$1 million. Workers' compensation is provided in compliance with the applicable law. The employee health and dental insurance program provides for payment of medical claims of employees and covered dependents. Claims and settlements incurred for fiscal years ended June 30, 2014, 2013 and 2012 did not exceed the ALC's insurance coverage.

20. SUBSEQUENT EVENTS

In accordance with GASB 56, ALC's Management has evaluated subsequent events that occurred after June 30, 2014, but prior to November 18, 2014, the date the financial statements were available to be issued.

Such evaluation identified the following transactions related to the Education Trust Fund Account for ADHE (Trust Account) and the corresponding Education Trust Account liability account. On July 18, 2014, ADHE returned \$2,319,468 to the ALC for excess funds from fiscal year 2014, which were deposited to the Trust Account and reflected in the Education Trust Account liability account. Also, at the requests of ADHE, on September 11, 2014 a payment of \$40,000,000 was made from the Trust Account to ADHE and on October 15, 2014 an additional \$5,000,000 payment was made from the Trust Account to ADHE.

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Also, in accordance with its notice of withdrawal from the Decades of Dollars Consortium (see Note 7) the ALC participated in its last Decades of Dollars drawing on October 16, 2014.

Also, in the August 20, 2014 meeting of the ALC, the Commission approved the closure of the agency's claim centers in Springdale, Jonesboro and Camden, Arkansas at or near the dates of expiration of their current building lease agreements. The Springdale, Arkansas claim center lease expired September 30, 2014 and that claim center was closed. The Jonesboro and Camden, Arkansas claim center leases expire on November 30, 2014 and both of those claim centers are closed. Management does not anticipate the ALC will incur significant costs related to closing the claim centers.

STATISTICAL Section



“Paying for a college education would have been tough for my family, but thanks to the Arkansas Lottery Scholarship, I have been able to pursue my dreams without the stress and worry of how my family would pay for my education.”

Bailey Simpson | Senior
University of Arkansas at Monticello
Thornton





“To me the Arkansas Scholarship Lottery is helping bring my dream to life. Education is one of the most important things. Having the lottery-funded scholarship means that I am able to follow my dream and it’s the reason I’m here.”

Cecil Dowdle | Junior
University of Central Arkansas
Conway

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

The Arkansas Lottery Commission Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements and note disclosures information says about the Commission's overall financial health.

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Financial Trends	29
These schedules contain trend information to help the reader understand how the Commission's financial performance and well-being have changed over time.	
Demographics and Operation Information	33
These schedules offer demographic and operation indicators to help the reader understand the environment within which the Commission's financial activities take place.	
Other Information	37
These schedules provide the reader with an understanding of lottery sales across the United States by state and other player demographics.	

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues:					
Instant ticket sales:					
Instant games sales	\$ 322,415,276	\$ 355,061,785	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156
Online ticket sales:					
Fast Play	10,126,554	3,391,691	2,721,436	2,636,383	-
Cash 3	6,255,740	6,161,706	6,178,537	5,805,414	5,277,255
Cash 4	3,606,991	3,324,150	3,325,490	3,091,218	-
AR Million Dollar Raffle	1,426,490	-	-	5,000,000	-
Arkansas 50/50	143,375	385,105	857,760	-	-
Powerball®	35,042,460	47,409,700	37,903,399	34,961,543	34,998,429
Mega Millions®	19,847,674	13,891,465	25,571,602	24,113,365	7,935,615
Decades of Dollars	2,345,532	2,927,572	5,237,158	932,820	-
Natural State Jackpot	8,863,034	6,994,820	-	-	-
Retailer application, fidelity & service fees	554,292	556,792	538,584	1,055,538	867,023
Other revenue	10,550	4,490	15,038	5,450	5,650
Total operating revenues	<u>410,637,968</u>	<u>440,109,276</u>	<u>473,639,229</u>	<u>465,080,339</u>	<u>384,571,128</u>
Non-operating revenue:					
Interest income	252,614	322,722	352,431	464,252	181,807
Other non-operating income	461,047	-	2,000,000	-	-
Total non-operating revenue	<u>713,661</u>	<u>322,722</u>	<u>2,352,431</u>	<u>464,252</u>	<u>181,807</u>
Total revenues	<u>\$ 411,351,629</u>	<u>\$ 440,431,998</u>	<u>\$ 475,991,660</u>	<u>\$ 465,544,591</u>	<u>\$ 384,752,935</u>

Note: The ALC was established in fiscal year 2009 but began operations in fiscal year 2010.
Source: ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011
and ALC Annual Financial Report for fiscal year 2010

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:						
Instant ticket sales	\$ 322,415,276	\$ 355,061,785	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156	\$ -
Online ticket sales	87,657,850	84,486,209	81,795,382	76,540,743	48,211,299	-
Retailer application, fidelity and service fees	554,292	556,792	538,584	1,055,538	867,023	-
Other revenue	10,550	4,490	15,038	5,450	5,650	-
	<u>410,637,968</u>	<u>440,109,276</u>	<u>473,639,229</u>	<u>465,080,339</u>	<u>384,571,128</u>	<u>-</u>
Operating expenses:						
Instant game prizes	229,462,196	250,246,337	274,203,122	269,898,596	224,341,940	-
Online game prizes	45,487,903	41,877,845	41,115,706	37,556,109	23,381,100	-
Retailer commissions	23,046,410	24,986,551	26,526,329	26,217,851	21,578,603	-
Gaming contract costs	20,511,439	22,116,163	24,308,153	24,111,720	20,448,694	-
Compensation and benefits	5,990,541	6,049,048	5,954,138	6,226,266	6,118,300	-
Marketing, advertising and promotions	4,472,456	4,414,655	4,466,054	4,631,388	4,352,303	-
General and administrative expenses	1,414,871	1,231,212	1,270,047	1,434,229	1,841,340	11,683
Services provided by other agencies:						
Arkansas Department of Higher Education	751,556	794,016	846,109	1,170,710	216,849	-
Arkansas Division of Legislative Audit	139,080	142,720	159,440	280,728	153,180	-
Legal and professional services	6,457	22,507	107,651	8,484	24,182	4,786
Depreciation	188,270	182,158	182,159	179,750	122,643	-
	<u>331,471,179</u>	<u>352,063,212</u>	<u>379,138,908</u>	<u>371,715,831</u>	<u>302,579,134</u>	<u>16,469</u>
Operating income (loss)	79,166,789	88,046,064	94,500,321	93,364,508	81,991,994	(16,469)
Non-operating revenue:						
Interest income	252,614	322,722	352,431	464,252	181,807	-
Other non-operating income	461,047	-	2,000,000	-	-	-
Total non-operating revenue	<u>713,661</u>	<u>322,722</u>	<u>2,352,431</u>	<u>464,252</u>	<u>181,807</u>	<u>-</u>
Income (loss) before transfers	79,880,450	88,368,786	96,852,752	93,828,760	82,173,801	(16,469)
Transfers to:						
Education Trust Account	(81,488,844)	(90,257,161)	(97,510,280)	(74,229,349)	(82,799,809)	-
Arkansas Department of Human Services	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
Change in net position	<u>\$ (1,808,394)</u>	<u>\$ (2,088,375)</u>	<u>\$ (857,528)</u>	<u>\$ 19,399,411</u>	<u>\$ (826,008)</u>	<u>\$ (16,469)</u>

Note: The ALC was established in fiscal year 2009 but began operations in fiscal year 2010.
Source: ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012 and 2011,
and ALC Annual Financial Report for fiscal year 2010 and ALC General Ledger for fiscal year 2009

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net position:						
Invested in capital assets	\$ 246,113	\$ 358,372	\$ 540,530	\$ 722,689	\$ 867,607	\$ -
Restricted for:						
Scholarship Shortfall Reserve Trust Fund	20,000,000	20,000,000	20,000,000	20,000,000	-	-
Retailer fidelity fund	91,133	70,586	49,232	42,205	18,831	-
Deposits with Multi-State Lottery Association	1,794,079	1,773,620	1,683,806	1,138,133	457,268	-
Unclaimed prizes reserve	1,000,000	1,000,000	1,000,000	1,000,000	-	-
Unrestricted (deficit)	<u>(9,328,688)</u>	<u>(7,591,547)</u>	<u>(5,574,162)</u>	<u>(4,346,093)</u>	<u>(2,186,183)</u>	<u>(16,469)</u>
 Total net position (deficit)	 <u>\$ 13,802,637</u>	 <u>\$ 15,611,031</u>	 <u>\$ 17,699,406</u>	 <u>\$ 18,556,934</u>	 <u>\$ (842,477)</u>	 <u>\$ (16,469)</u>

Note: The ALC was established in fiscal year 2009 but began operations in fiscal year 2010.
Source: 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 Lottery Commission
Changes in Cash and Cash Equivalents (Unaudited)
Last Six Fiscal Years

	2014	2013	2012	2011	2010	2009
Cash flows from operating activities:						
Cash received from retailers and others	\$410,690,974	\$440,234,069	\$473,876,584	\$468,220,833	\$370,120,513	\$ -
Cash paid for prizes	(275,024,448)	(289,313,701)	(315,948,269)	(306,303,849)	(231,877,356)	-
Cash paid for gaming vendors	(20,308,816)	(22,410,639)	(24,588,775)	(24,016,144)	(22,766,421)	-
Cash paid for retailer commissions	(23,046,410)	(24,986,551)	(26,526,329)	(26,217,851)	(20,594,364)	-
Cash paid for marketing and advertising	(4,319,538)	(4,863,664)	(4,280,198)	(4,009,445)	(3,515,419)	-
Cash paid for employee services	(5,725,930)	(5,691,914)	(5,848,550)	(6,157,322)	(5,114,532)	-
Cash paid for other expenses	(2,402,273)	(2,228,385)	(2,726,247)	(1,897,589)	(1,914,665)	(11,657)
Cash received from other non-operating income	461,047	-	2,000,000	-	-	-
Net cash provided (used) by operating activities	<u>80,324,606</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>
Cash flows from non-capital financing activities:						
Interagency advances	-	-	-	-	(6,000,000)	6,000,000
Non-operating transfers to Arkansas Department of Higher Education	(95,000,000)	(115,000,000)	(115,000,000)	(115,000,000)	-	-
Non-operating transfers from Arkansas Department of Higher Education	2,138,092	6,342,312	12,430,211	20,000,000	-	-
Non-operating transfers to Arkansas Department of Human Services	(200,000)	(200,000)	(200,000)	(200,000)	-	-
Net cash provided (used) by non-capital financing activities	<u>(93,061,908)</u>	<u>(108,857,688)</u>	<u>(102,769,789)</u>	<u>(95,200,000)</u>	<u>(6,000,000)</u>	<u>6,000,000</u>
Cash flows from capital and related financing activities:						
Purchases of capital assets	(76,011)	-	-	(34,832)	(990,250)	-
Cash flows from investing activities:						
Interest received	252,614	322,722	352,431	464,252	181,807	-
Net increase in cash and cash equivalents	<u>(12,560,699)</u>	<u>(17,795,751)</u>	<u>(6,459,142)</u>	<u>4,848,053</u>	<u>77,529,313</u>	<u>5,988,343</u>
Cash and cash equivalents, beginning of year	<u>64,110,816</u>	<u>81,906,567</u>	<u>88,365,709</u>	<u>83,517,656</u>	<u>5,988,343</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 51,550,117</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>
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 79,166,789	\$ 88,046,064	\$ 94,500,321	\$ 93,364,508	\$ 81,991,994	\$ (16,468)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	188,270	182,158	182,159	179,750	122,643	-
Other non-operating income	461,047	-	2,000,000	-	-	-
Net changes in assets and liabilities:						
(Increase) decrease in:						
Accounts receivable	33,527	157,254	258,522	3,059,565	(14,289,726)	-
Receivable from other Funds of the State	7,020	(7,020)	-	-	-	-
Prepaid items	(51,876)	414	45,174	(72,138)	(5,119)	-
Deposits with Mult-State Lottery Association	(20,459)	(89,814)	(545,673)	(680,865)	(457,268)	-
Increase (decrease) in:						
Accounts payable	871,837	(273,839)	(766,472)	521,541	746,237	-
Prizes payable	(53,889)	2,900,295	(83,767)	1,831,721	14,150,175	-
Accrued and other liabilities	(481,765)	(494,883)	501,610	338,875	924,716	-
Due to other funds of the State	(123,695)	16,659	(382,971)	958,107	396,869	4,811
Compensated absences	5,449	38,032	1,191	(191,329)	482,927	-
Unearned revenue	19,479	(32,461)	(21,168)	80,930	274,307	-
Net other post employment benefits	302,872	296,356	269,290	227,968	-	-
Net cash provided (used) by operating activities	<u>\$ 80,324,606</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>

Note: The ALC was established in fiscal year 2009 but began operations in fiscal year 2010.

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

ALC Annual Financial Report for fiscal year 2010 and ALC general ledger for fiscal year 2009

Arkansas Lottery Commission
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
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%
2005	2,787	77,476	27,800	5.1%

* Estimated Amounts

Note: The ALC was established in fiscal year 2009 but began operations in fiscal year 2010.

Source: IHS Global Insight Inc. (October 2013), derived from data compiled by the U.S. Bureau of Economic Analysis and Census Bureau

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

2014	Employer	Total Employees	% of Total Arkansas Employment
1	Arkansas State Government	56,944	4.8%
2	Wal-Mart Stores, Inc.	48,901	4.1%
3	Tyson Foods, Inc.	23,000	1.9%
4	U.S. Government	20,200	1.7%
5	Baptist Health	7,723	0.6%
6	Sisters of Mercy Health System	6,225	0.5%
7	Community Health Systems, Inc.	5,399	0.5%
8	St. Vincent Health System	4,500	0.4%
9	Arkansas Children's Hospital	4,400	0.4%
10	Kroger Co.	3,987	0.3%
		<u>181,279</u>	<u>15.2%</u>

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%
		<u>180,265</u>	<u>15.4%</u>

Note: The ALC was established in fiscal year 2009 but began operations in fiscal year 2010.
Source: Arkansas Business Publishing Group and Arkansas Dept. of Economic Development

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

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

Note: The ALC was established in fiscal year 2009 but began operations in fiscal year 2010.

Source: ALC Payroll Department

**Arkansas Lottery Commission
Capital Assets by Department (Unaudited)
Year Ended June 30, 2014**

Function	2014
Executive:	
Furniture and Fixtures	\$ 38,035
Computer Equipment	7,427
Vehicles	6,622
Buildings/Building Improvements	43,072
Total executive assets	<u>95,156</u>
Sales and Marketing:	
Furniture and Fixtures	163,006
Computer Equipment	31,829
Vehicles	28,378
Buildings/Building Improvements	184,599
Total sales and marketing assets	<u>407,812</u>
Gaming and Security:	
Furniture and Fixtures	114,104
Computer Equipment	22,281
Vehicles	19,865
Buildings/Building Improvements	129,219
Total gaming and security assets	<u>285,469</u>
Finance:	
Furniture and Fixtures	124,971
Computer Equipment	24,403
Vehicles	21,756
Buildings/Building Improvements	141,526
Total finance assets	<u>312,656</u>
 Total assets	 <u>\$ 1,101,093</u>

Source: ALC Finance Division

Arkansas Lottery Commission
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.

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

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

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

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

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

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

**Arkansas Lottery Commission
Demographic Summary (Unaudited)
Fiscal Year Ended June 30, 2014**

	<u>Census1</u>	<u>All Respondents</u>	<u>Lottery Players</u>				<u>Non-Players</u>		
			<u>Players Total</u>	<u>Core</u>	<u>Light</u>	<u>Lapsed</u>	<u>Non-Player Total</u>	<u>Trier/Rejecter</u>	<u>Non-Player</u>
Number of respondents =	2.8 Million	1,198	856	296	460	100	342	54	288
Male	48%	48%	49%	50%	49%	45%	48%	50%	47%
Female	52%	52%	51%	50%	51%	55%	52%	50%	53%
18-24	13%	13%	11%	8%	13%	7%	14%	6%	15%
25-34	18%	18%	24%	20%	26%	14%	14%	16%	14%
35-44	17%	17%	23%	28%	21%	16%	14%	19%	14%
45-54	18%	18%	19%	19%	19%	25%	18%	23%	18%
55-64	15%	15%	14%	16%	12%	20%	16%	22%	15%
65 or older	19%	19%	9%	9%	9%	18%	24%	14%	24%
Some high school		6%	7%	6%	7%	5%	6%	4%	6%
Completed high school		25%	23%	28%	20%	18%	25%	33%	23%
Technical or vocational school above high school level		11%	10%	8%	11%	7%	12%	15%	12%
Some college or university		29%	33%	35%	33%	29%	26%	20%	27%
College or university degree or diploma (Bachelor's Degree)		19%	19%	17%	20%	21%	19%	17%	20%
Post-graduate degree (Masters, Doctorate, or equivalent)		10%	8%	6%	9%	20%	12%	11%	12%
Hispanic, Latino or Spanish origin	5%	5%	6%	3%	7%	8%	5%	10%	5%
Not of Hispanic, Latino or Spanish origin	95%	95%	94%	97%	93%	92%	95%	90%	95%
Caucasian	78%	79%	73%	73%	73%	79%	81%	80%	83%
African American	16%	15%	22%	25%	21%	16%	12%	14%	11%
Native American or Alaska Native	1%	2%	2%	0%	3%	1%	2%	0%	2%
Asian	1%	1%	0%	1%	0%	1%	2%	3%	1%
Other (includes Multi – racial, hence may sum to greater than 100%)	4%	3%	3%	1%	3%	3%	3%	3%	3%
Less than \$25,000		29%	26%	19%	29%	28%	31%	41%	30%
\$25,000 to just under \$50,000		35%	37%	45%	35%	29%	32%	20%	34%
\$50,000 to just under \$75,000		19%	22%	21%	22%	23%	18%	24%	17%
\$75,000 to just under \$100,000		10%	11%	11%	10%	16%	10%	7%	10%
\$100,000 or more		7%	4%	4%	4%	4%	9%	8%	9%

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

SUPPLEMENTARY Information



“As a recipient of the Lottery Scholarship, it has given me the opportunity to take advantage of every aspect that Arkansas State has to offer without being financially burdened.”

Bianca Garcia | Senior
Arkansas State University
Monette





“The Arkansas Scholarship lottery has really brought my dreams to life here at the University of Central Arkansas. It’s very exciting. There is huge benefit that Arkansas is actually on the map with great education.”

Kristin Pollard | Senior
University of Central Arkansas
Conway

**Arkansas Lottery Commission
Unclaimed Lottery Prizes (Unaudited)
Fiscal Year Ended June 30, 2014**

<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	\$ 747,115	\$ -	\$ 747,115	\$ -
August	87,431	-	87,431	-
September	618,179	-	618,179	-
October	94,334	-	94,334	-
November	257,183	-	257,183	-
December	672,633	-	672,633	-
January	1,175,002	-	1,175,002	-
February	122,302	-	122,302	-
March	642,144	-	642,144	-
April	85,297	-	85,297	-
May	648,008	-	648,008	-
June	252,221	-	(5,149,628)	5,401,849
Total	<u>\$ 5,401,849</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,401,849</u>

Source - ALC general ledger

**Arkansas Lottery Commission
Scholarship Shortfall Reserve Trust Fund (Unaudited)
Fiscal Year Ended June 30, 2014**

	<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	\$ 8,000,000	\$ 13,923,925	\$ 20,000,000	\$ 20,000,000
Shortfall Deposits	-	-	5,923,925	6,076,075	-	-
Transfers	-	(12,000,000)	-	-	-	-
Ending Balance	<u>\$ 20,000,000</u>	<u>\$ 8,000,000</u>	<u>\$ 13,923,925</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>

Source - ALC general ledger and corresponding bank statements

**Arkansas Lottery Commission
 Minority-owned and Female-owned Business Participation (Unaudited)
 Fiscal Year Ended June 30, 2014**

Arkansas Lottery Commission Minority and Female Owned Diversity Compliance Report

<u>VENDORS</u>	<u>Amount Paid</u>	<u>Good or Service</u>	<u>Classification</u>
BSW Advertising	\$ 8,130	Advertising/Public Relations	Female-Owned
Byrd Enterprises, Inc.	380	Lighting & Service Co.	Minority-Owned
Goddess Products	6,821	Office Furniture/Supplies	Minority-Owned
Government Supply Services, Inc.	5,585	Office Products	Minority-Owned
Northeast Arkansas Cleaning Svcs	6,518	Janitorial Svcs	Female-Owned
Party Prints, Inc.	16,183	Advertising/Public Relations	Minority/Female-Owned
Ride N Shine Detail	77	Auto Detail and Cosmetic Repair	Minority-Owned
SHI International Corporation	17,606	Computer Software	Female-Owned
Sign Express dba Archway Graphics	6,540	Advertising/Public Relations	Female-Owned
Trivia Marketing	512	Advertising/Public Relations	Female-Owned
Total	\$ 68,352		

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	\$ 1,837	Office Furniture/Supplies	Minority-Owned
J Kelly Referrals and Information Svcs, Inc	136,565	Call Center/Information Svcs	Minority-Owned
Total	\$ 138,402		

Scientific Games Minority and Female Owned Diversity Compliance Report

<u>VENDORS</u>	<u>Amount Paid</u>	<u>Good or Service</u>	<u>Classification</u>
Janitorial Svcs	\$ 3,606	Janitorial Svcs	Minority-Owned
Premier Staffing	5,930	Staffing Svcs	Female-Owned
Laser Express, Inc.	713	Computer Printer Supply	Minority-Owned
Central Copiers	896	Office Supplies/Equipment	Female-Owned
Expedited Transportation Svcs	127,691	Transportation Svcs	Female-Owned
Total	\$ 138,836		

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

Arkansas Lottery Commission
Retail Sales by County (Unaudited)
Fiscal Year Ended June 30, 2014

COUNTY	Instant*	Cash 3*	Cash 4*	Million Dollar Raffle*	Arkansas 50/50*	Powerball @ *	Mega Millions @ *	Decades of Dollars*	Natural State Jackpot*	Fast Play*	Total
Arkansas	5,357,077	85,412	93,968	20,210	1,345	318,819	189,433	25,244	125,551	221,928	6,438,987
Ashley	1,304,744	98,676	110,319	4,190	475	208,767	95,665	12,894	26,627	119,646	1,982,003
Baxter	3,655,205	33,236	21,201	11,450	1,940	508,870	265,217	46,236	153,322	172,190	4,868,867
Benton	8,566,252	44,478	24,927	54,750	5,725	1,905,113	1,074,034	107,142	225,994	236,761	12,245,176
Boone	4,149,808	25,061	22,635	15,290	1,860	399,568	201,849	17,030	64,549	109,038	5,006,688
Bradley	1,576,386	13,722	11,991	5,460	470	89,183	51,179	6,762	29,471	34,555	1,819,179
Calhoun	456,997	17,199	6,759	1,430	45	29,143	18,461	4,380	10,549	7,154	552,117
Carroll	2,424,236	13,344	14,804	5,240	1,190	254,979	137,231	19,746	44,640	98,858	3,014,268
Chicot	1,643,616	79,268	53,973	9,110	1,370	650,906	340,370	28,940	74,719	18,091	2,900,363
Clark	3,185,705	31,070	16,191	12,570	1,150	269,131	146,382	16,130	56,917	93,198	3,828,444
Clay	992,387	3,435	1,019	2,430	390	74,522	37,577	6,796	12,179	21,378	1,152,113
Cleburne	2,921,760	13,241	7,862	18,190	1,320	369,016	207,714	30,952	134,737	89,856	3,794,648
Cleveland	486,835	4,219	4,781	2,700	215	57,195	30,590	2,512	10,546	23,442	623,035
Columbia	2,534,346	126,829	95,787	4,200	490	179,865	93,491	16,158	46,683	354,768	3,452,617
Conway	4,698,833	61,456	35,563	20,430	1,225	365,456	196,832	23,692	132,878	111,565	5,647,930
Craighead	12,247,113	106,922	60,832	29,760	5,845	1,084,323	632,190	54,094	219,376	371,566	14,812,021
Crawford	3,154,064	24,987	10,446	20,520	2,105	619,653	336,959	32,352	141,705	44,266	4,387,057
Crittenden	5,355,816	182,817	166,936	14,490	2,890	975,135	506,257	48,694	132,797	132,555	7,518,387
Cross	2,134,513	21,752	20,349	3,890	650	170,294	95,335	8,380	50,621	117,493	2,623,277
Dallas	1,440,950	23,192	8,557	5,060	315	98,978	60,235	6,344	29,085	74,260	1,746,976
Desha	1,657,375	23,875	9,323	7,870	760	178,323	93,328	8,390	56,293	32,889	2,068,426
Drew	2,001,544	12,419	7,476	10,490	680	208,874	108,963	16,318	55,182	45,614	2,467,560
Faulkner	11,702,320	102,459	61,076	73,810	6,865	1,302,710	731,941	91,396	340,279	196,974	14,609,830
Franklin	1,464,854	8,544	1,722	7,090	850	212,587	118,964	12,710	42,840	107,991	1,978,152
Fulton	592,159	3,606	1,570	2,070	325	66,334	36,745	4,046	12,271	7,792	726,918
Garland	9,056,578	77,025	78,705	76,440	7,025	1,516,498	863,160	126,148	512,585	427,731	12,741,895
Grant	1,392,339	3,713	2,368	8,660	645	177,641	95,966	10,650	51,636	35,318	1,778,936
Greene	5,697,836	13,713	7,931	17,580	2,775	452,449	258,869	22,284	88,244	104,675	6,666,356
Hempstead	3,315,319	280,651	111,010	5,160	730	201,547	126,337	10,664	45,772	43,055	4,140,245
Hot Springs	3,274,640	29,880	12,454	17,260	1,150	325,837	183,242	24,192	111,524	85,377	4,065,556
Howard	1,679,365	210,726	73,029	3,710	750	129,314	86,651	8,122	32,886	55,824	2,280,377
Independence	6,712,442	46,075	14,309	41,710	2,275	438,889	253,039	31,350	147,983	279,142	7,967,214
Izard	782,549	3,077	2,728	3,950	890	98,068	57,755	7,146	24,639	65,693	1,046,495
Jackson	3,175,358	97,418	52,741	7,850	535	243,218	141,327	22,294	97,758	63,464	3,901,963
Jefferson	14,843,593	405,527	298,455	56,250	4,200	1,102,914	638,287	93,838	450,985	641,665	18,535,714
Johnson	2,215,438	7,119	6,015	9,190	1,400	246,121	148,810	13,946	54,425	61,297	2,763,761
Lafayette	706,852	33,732	17,410	1,090	160	51,838	25,871	4,844	12,648	20,970	875,415
Lawrence	2,483,945	11,973	3,365	5,870	645	128,109	74,704	9,338	25,883	43,494	2,787,326
Lee	842,578	28,359	26,102	990	225	61,034	35,756	2,694	8,763	21,983	1,028,484
Lincoln	933,506	6,078	2,043	4,330	605	89,148	48,981	4,940	41,452	17,766	1,148,849
Little River	998,491	39,473	30,286	1,820	250	82,720	56,773	8,526	18,297	22,870	1,259,506
Logan	2,158,887	7,602	2,127	9,730	1,080	228,514	121,239	15,232	51,633	59,087	2,655,131
Lonoke	10,126,339	106,870	73,016	47,500	3,850	1,024,608	558,806	70,508	278,389	305,191	12,595,077
Madison	570,847	1,174	281	2,690	210	102,438	52,022	4,190	13,056	37,464	784,372
Marion	1,447,245	19,126	4,045	5,240	560	181,866	82,911	19,712	48,920	48,476	1,858,101
Miller	4,415,850	289,283	97,563	11,240	1,365	327,696	218,142	19,540	58,655	85,910	5,525,244
Mississippi	5,027,953	468,861	195,478	6,370	2,060	413,753	247,341	18,758	59,219	71,115	6,510,908
Monroe	1,408,639	32,324	13,779	6,240	390	159,961	85,200	6,940	35,773	35,960	1,785,206
Montgomery	280,529	226	132	2,240	75	56,781	27,624	2,926	11,949	40,489	422,971
Nevada	2,190,910	40,552	9,392	4,400	595	113,031	68,204	12,370	27,324	91,975	2,558,753
Newton	698,529	1,056	361	1,540	245	40,940	25,576	2,588	13,093	45,923	829,851
Ouachita	5,098,257	129,135	81,926	13,860	1,095	284,518	163,307	18,526	94,312	205,903	6,090,839
Perry	939,274	6,751	3,637	6,130	210	106,188	64,754	5,958	28,873	17,151	1,178,926
Phillips	2,038,220	77,438	48,582	4,350	1,265	378,370	208,143	14,156	34,403	33,997	2,838,924
Pike	843,307	2,892	970	4,090	520	108,768	61,921	6,610	36,001	68,243	1,133,322
Poinsett	4,198,386	61,628	18,750	5,530	1,015	285,628	161,992	10,680	88,851	111,344	4,943,804
Polk	1,355,176	4,901	1,216	6,940	585	195,736	108,246	11,212	35,407	23,159	1,742,578
Pope	8,297,870	60,143	27,222	38,090	3,235	788,705	440,429	54,182	207,862	165,582	10,083,320
Prairie	2,096,143	32,247	13,959	4,840	385	122,614	62,493	7,344	26,528	40,594	2,407,147
Pulaski	59,250,539	1,206,409	830,218	304,140	23,575	6,230,865	3,716,810	492,332	1,984,787	1,951,929	75,991,604
Randolph	1,483,046	746	949	5,820	515	129,411	74,255	13,748	28,766	26,474	1,763,730
Saint Francis	2,600,832	108,646	69,292	3,630	620	281,914	153,243	11,246	47,349	39,584	3,316,356

(continued)

**Arkansas Lottery Commission
Retail Sales by County (Unaudited)
Fiscal Year Ended June 30, 2014**

COUNTY	Instant*	Cash 3*	Cash 4*	Million Dollar Raffle*	Arkansas 50/50*	Powerball @ *	Mega Millions @ *	Decades of Dollars*	Natural State Jackpot*	Fast Play*	Total
Saline	11,147,338	94,113	44,666	75,330	5,460	1,362,843	757,180	100,676	397,281	353,963	14,338,850
Scott	966,017	2,423	607	3,230	315	102,983	52,687	4,198	19,926	17,818	1,170,204
Searcy	945,676	27,185	8,125	4,000	280	75,913	39,575	6,344	20,295	24,649	1,152,042
Sebastian	7,763,232	196,665	68,368	59,840	6,835	1,560,730	880,394	90,930	351,144	181,317	11,159,455
Sevier	1,137,970	32,442	8,337	3,860	265	135,962	81,509	6,014	23,383	17,662	1,447,404
Sharp	2,102,517	8,006	3,344	9,450	1,320	189,443	103,746	11,514	46,715	186,400	2,662,455
Stone	944,049	13,008	4,523	3,740	525	100,354	56,816	9,890	30,927	42,611	1,206,443
Union	7,417,779	485,824	264,545	10,470	2,265	524,050	283,653	29,764	89,976	151,109	9,259,435
Van Buren	1,496,469	15,106	3,774	9,230	670	187,730	102,264	11,590	45,059	29,931	1,901,823
Washington	13,572,739	171,414	64,013	70,620	7,960	2,208,944	1,273,607	128,818	372,145	431,315	18,301,575
White	12,147,511	59,111	28,749	43,420	3,000	817,895	453,849	52,276	249,661	270,966	14,126,438
Woodruff	1,093,773	30,372	5,266	4,110	320	93,396	50,543	4,144	23,003	19,198	1,324,125
Yell	1,830,034	7,009	1,048	10,020	595	189,587	108,374	12,012	52,291	59,913	2,270,883
Grand Total	\$ 322,907,606	\$ 6,256,438	\$ 3,607,258	\$ 1,426,490	\$ 138,015	\$ 35,055,224	\$19,849,325	\$ 2,335,242	\$ 8,888,247	\$ 10,126,554	\$ 410,590,399

*Estimates - Cash Sales, not on accrual basis

Arkansas Lottery Commission
Demographic Report from the Arkansas Department of Higher Education (Unaudited)
Fiscal Year Ended June 30, 2014

<u>Institution</u>	<u>Awards</u>	<u>Scholarships</u>
Arkansas Baptist College	53	\$ 155,688
Arkansas Northeastern College	142	244,157
Arkansas State University Beebe	853	1,489,071
Arkansas State University Jonesboro	4,030	14,128,339
Arkansas State University Mountain Home	231	397,189
Arkansas State University Newport	260	445,315
Arkansas Tech University	3,142	10,798,147
Arkansas Tech University Ozark Campus	157	254,754
Baptist Health Schools - Little Rock	92	151,845
Black River Technical College	256	426,599
Central Baptist College	229	754,495
College of the Ouachitas	111	185,652
Cossatot Community College UA	219	352,409
Crowley's Ridge College	58	213,000
East Arkansas Community College	137	238,219
Ecclesia College	38	94,500
Harding University	715	2,504,190
Henderson State University	1,441	4,971,845
Hendrix College	343	1,204,000
Jefferson School of Nursing	*	10,094
John Brown University	373	1,317,879
Lyon College	314	1,069,250
Mid South Community College	120	169,375
National Park Community College	306	504,761
North Arkansas College	340	585,661
Northwest Arkansas Community College	947	1,529,944
Ouachita Baptist University	689	2,562,130
Ozarka College	162	275,564
Philander Smith College	58	192,125
Phillips Community College UA	144	255,719
Pulaski Technical College	701	1,194,128
Rich Mountain Community College	98	176,875
Shorter College	*	3,500
South Arkansas Community College	119	190,691
Southeast Arkansas College	127	184,005
Southern Arkansas University	1,036	3,469,782
Southern Arkansas University Tech	139	256,284
University of Arkansas at Monticello College of Technology - Crossett	24	43,844
University of Arkansas at Monticello College of Technology - McGehee	11	18,001
University of Arkansas Community College Batesville	240	423,720
University of Arkansas Community College Hope	184	321,251
University of Arkansas Community College Morrilton	392	692,534
University of Arkansas Fayetteville	6,211	22,436,476
University of Arkansas for Medical Sciences	179	750,817
University of Arkansas Fort Smith	2,291	7,620,653
University of Arkansas Little Rock	2,009	6,828,717
University of Arkansas Monticello	764	2,446,790
University of Arkansas Pine Bluff	408	1,277,927
University of Central Arkansas	4,517	15,147,757
University of the Ozarks	225	761,500
Williams Baptist College	271	916,125
Total	<u>35,906</u>	<u>\$ 112,643,293</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.

Source: Arkansas Department of Higher Education

Arkansas Lottery Commission
Projected Obligations from Scholarship and Grant Funding Sources
from Arkansas Department of Higher Education (Unaudited)
Fiscal Year Ended June 30, 2014

Title	FY 15 Budget	FY 16 Budget
Academic Challenge Scholarships	\$ 20,000,000	\$ 20,000,000
AR Geographical Critical Needs	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
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 Scholarships	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	\$ 55,951,670	\$ 55,951,670

Source: Arkansas Department of Higher Education

**Arkansas Department of Higher Education
Academic Challenge Scholarship Program
County Report
Fiscal Year Ended June 30, 2014**

<u>County</u>	<u>2013 Population Estimate</u>	<u>% State Population</u>	<u>Awards</u>	<u>Amount</u>
Arkansas	18,777	0.63%	275	\$ 853,282
Ashley	21,283	0.72%	213	703,657
Baxter	40,957	1.38%	393	1,152,033
Benton	237,297	8.02%	2,429	7,591,145
Boone	37,396	1.26%	454	1,335,317
Bradley	11,249	0.38%	114	356,282
Calhoun	5,241	0.18%	60	197,875
Carroll	27,808	0.94%	175	510,846
Chicot	11,335	0.38%	98	331,237
Clark	22,743	0.77%	315	1,038,126
Clay	15,402	0.52%	143	460,469
Cleburne	25,686	0.87%	313	959,627
Cleveland	8,593	0.29%	113	348,875
Columbia	24,164	0.82%	277	905,127
Conway	21,245	0.72%	287	926,438
Craighead	101,488	3.43%	1,360	4,567,434
Crawford	61,640	2.08%	915	3,028,287
Crittenden	49,746	1.68%	562	1,660,893
Cross	17,548	0.59%	240	714,250
Dallas	7,933	0.27%	74	237,250
Desha	12,505	0.42%	129	431,114
Drew	18,785	0.63%	234	808,847
Faulkner	119,580	4.04%	1,845	6,044,161
Franklin	18,034	0.61%	294	964,296
Fulton	12,304	0.42%	139	380,231
Garland	97,173	3.28%	1,097	3,413,580
Grant	18,019	0.61%	221	716,932
Greene	43,097	1.46%	573	1,872,902
Hempstead	22,474	0.76%	229	685,804
Hot Spring	33,500	1.13%	413	1,278,883
Howard	13,581	0.46%	189	611,625
Independence	36,997	1.25%	439	1,306,345
Izard	13,368	0.45%	153	456,534
Jackson	17,615	0.60%	153	454,657
Jefferson	73,191	2.47%	818	2,608,631
Johnson	25,846	0.87%	347	1,125,068
Lafayette	7,252	0.25%	77	223,875
Lawrence	17,011	0.57%	239	728,489
Lee	10,015	0.34%	68	182,017
Lincoln	14,031	0.47%	122	403,100
Little River	12,730	0.43%	147	434,125
Logan	22,082	0.75%	351	1,131,715
Lonoke	70,753	2.39%	1,082	3,417,799
Madison	15,701	0.53%	157	473,095

(continued)

**Arkansas Department of Higher Education
Academic Challenge Scholarship Program
County Report
Fiscal Year Ended June 30, 2014**

<u>County</u>	<u>2013 Population Estimate</u>	<u>% State Population</u>	<u>Awards</u>	<u>Amount</u>
Marion	16,430	0.56%	134	402,305
Miller	43,402	1.47%	269	784,482
Mississippi	44,765	1.51%	417	1,240,844
Monroe	7,682	0.26%	77	245,467
Montgomery	9,226	0.31%	92	274,563
Nevada	8,799	0.30%	96	281,282
Newton	8,064	0.27%	100	287,376
Ouachita	25,002	0.84%	347	1,092,305
Perry	10,345	0.35%	148	443,530
Phillips	20,399	0.69%	235	688,258
Pike	11,177	0.38%	169	486,466
Poinsett	24,145	0.82%	279	819,597
Polk	20,406	0.69%	241	713,760
Pope	62,547	2.11%	860	2,906,827
Prairie	8,374	0.28%	100	295,502
Pulaski	391,284	13.22%	4,396	14,382,118
Randolph	17,692	0.60%	203	614,967
St. Francis	27,260	0.92%	191	562,407
Saline	114,404	3.87%	1,697	5,599,275
Scott	10,950	0.37%	154	489,684
Searcy	8,023	0.27%	89	237,627
Sebastian	127,342	4.30%	1,732	5,995,105
Sevier	17,366	0.59%	227	616,908
Sharp	17,049	0.58%	202	612,000
Stone	12,581	0.43%	146	424,750
Union	40,694	1.38%	548	1,752,986
Van Buren	16,932	0.57%	135	412,344
Washington	216,410	7.31%	2,333	7,747,005
White	78,483	2.65%	979	3,004,472
Woodruff	7,072	0.24%	70	224,438
Yell	21,893	0.74%	265	870,180
Not Reported			32	102,188
Total	<u><u>2,959,373</u></u>	<u><u>100%</u></u>	<u><u>35,289</u></u>	<u><u>\$ 112,643,293</u></u>

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

**Arkansas Lottery Commission
Debt Set-off Collections (Unaudited)
Fiscal Year Ended June 30, 2014**

Department of Finance and Administration:	
Taxes due to the State	\$ 226,680
Delinquent Child Support	<u>76,806</u>
 Total	 <u><u>\$ 303,486</u></u> *

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

**Arkansas Lottery Commission
Fund Balance and Other Information
from Arkansas Department of Higher Education (Unaudited)
Fiscal Year Ended June 30, 2014**

Fund Balances

Higher Education Grants Fund	\$	13,209,376
Lottery Net Proceeds Trust Account*	\$	2,319,468

State Lottery Net Proceeds Trust Account

Deposits	\$	115,095,169
Disbursements		112,775,701
June 30, 2014 Balance	\$	<u>2,319,468</u>

Evaluation of Net Proceeds

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

ADHE recommendations by the Arkansas Department of Higher Education for changes to the program:

None

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

Source: Arkansas Department of Higher Education

**Arkansas Lottery Commission
Term Contracts for Goods and Services
Fiscal Year Ended June 30, 2014**

1. On June 27, 2013, a parking lease agreement was entered into between the Arkansas Building Authority and the Arkansas Lottery Commission. The length of the agreement is for a period of one year, commencing on July 1, 2013, and continuing through June 30, 2014. The agreement is for the use of ten parking spaces located on 416 Main Street, on a "first come, first served" basis. The parking fee is \$500.00 per month.

2. On July 11, 2013, a Non-Exclusive Licensing Agreement was executed between Scientific Games International ("SGI"), Alchemy 3 LLC through SGI ("Alchemy") and the Arkansas Lottery Commission ("ALC"). The non-exclusive licensing agreement allows the ALC to reproduce, use, and make copies of Instant Game AR-200 Bass Pro Shops® licensed property. A copy of the agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee on August 5, 2013.

3. On August 8, 2013, a Non-Exclusive Licensing Agreement was executed between Scientific Games International ("SGI") and the Arkansas Lottery Commission ("ALC"). The Non-Exclusive Licensing Agreement allows the ALC to reproduce, use and make copies of Instant Game No. 205 "BETTY BOOP™ LIMITED" licensing property. A copy of the agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee on September 17, 2013.

4. On September 30, 2013, a Non-Exclusive Licensing Agreement was executed between Scientific Games International ("SGI") and the Arkansas Lottery Commission ("ALC"). The Non-Exclusive Licensing Agreement allows the ALC to reproduce, use and make copies of Instant Game No. 218 "St. Louis Cardinals™" licensed property. A copy of the agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee on November 27, 2013.

5. On October 3, 2013, a Non-Exclusive Licensing Agreement was executed between Scientific Games International ("SGI") and the Arkansas Lottery Commission ("ALC"). The Non-Exclusive Licensing Agreement allows the ALC to reproduce, use and make copies of Instant Game No. 209 "Loteria™" licensed property. A copy of the agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee on October 21, 2013.

6. On November 5, 2013, a Non-Exclusive Licensing Agreement was executed between Scientific Games International ("SGI") and the Arkansas Lottery Commission ("ALC"). The Non-Exclusive Licensing Agreement allows the ALC to reproduce, use and make copies of Instant Game No. 210 "Popeye®" licensed property. A copy of the agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee on November 27, 2013.

7. On March 1, 2014, the Arkansas Lottery Commission ("ALC") executed a Telecom Administration and Expense Management agreement with INSIGHT. This agreement covers the period March 1, 2014, through March 1, 2015 for an annual cost of \$1,350.00. Through this agreement INSIGHT reduces ALC's annual telecommunication expenses and reduces the time ALC staff must work with telecommunication service providers.

8. On March 11, 2014, a Non-Exclusive Licensing Agreement was executed between Scientific Games International ("SGI") and the Arkansas Lottery Commission ("ALC"). The Non-Exclusive Licensing Agreement allows the ALC to reproduce, use, and make copies of Instant Game No. 234 "Duck Dynasty®" licensed property. A copy of the agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee on April 14, 2014.

OTHER Reports



“The Arkansas Scholarship Lottery has given me the opportunity to attend a state university without having to get caught up in student loan debt. So many students in our society are caught up in student loans and are in debt, but thanks to this scholarship, I’m not having to have those issues! At this college, I’ve had to opportunities to become the Chief Justice of the Student Government Association, and the President of the Chancellor’s Leadership Corps, and this is thanks to the Arkansas Scholarship Lottery.”

Micah Parker | Sophomore
University of Arkansas at Little Rock
Sheridan





“I was so excited to get the non-traditional Arkansas Academic Challenge Scholarship this year. I studied harder to get my 4.0 GPA in hopes for a scholarship like the Challenge. Although I have other aid to help me go to school, the fact that the Challenge is refundable and I can use it to help me with other school expenses is awesome.”

Boyd Adams | Sophomore
Southern Arkansas University Tech
Camden

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

Arkansas Lottery Commission
and Members of the Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the major fund of the Arkansas Lottery Commission (the "Agency"), a commission of Arkansas state government, as of and for the year ended June 30, 2014, 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 18, 2014.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described below in the Schedule of Findings and Responses as items 2014-1 and 2014-2.

SCHEDULE OF FINDINGS AND RESPONSES

2014-1 During review of payroll and other related items, we noted seven employees working schedules that fall outside the Agency's normal business hours. Six employees had either an offer letter or some other form in their personnel file documenting their scheduled working hours; however, there was no documented working schedule for the Agency Director. We also noted that the Agency does not have a Commission-approved policy for alternate work schedules, and none of the alternate working schedules appear to have been approved by the Governor. Governor's Policy Directive #5 states, "All State offices shall be open for business between 8:00 a.m. and 4:30 p.m. However, department directors shall have flexibility to establish other working hours for their department personnel so long as all employees work an eight-hour day. Deviations from the five day, 40-hour work week shall be approved by the Governor."

We recommend the Agency seek an Attorney General's opinion as to whether the Agency is exempt from Governor's Policy Directive #5. We further recommend the Agency adopt a written policy regarding alternate working schedules and obtain approval from the Commission and/or the Governor.

Management personnel responded: The ALC will review the finding and determine whether to change policy to conform with the finding or to seek an Attorney General's opinion.

2014-2 Travel regulation R1-19-4-903 states that when privately-owned motor vehicles are used for official business travel, the traveler may claim reimbursement at the rate per mile established by the Chief Fiscal Officer (CFO) of the State in effect during the time the travel occurred. On January 15, 2014, the Commission authorized an increase in the mileage reimbursement rate for Agency employees from \$0.42 per mile to \$0.56 per mile. During review of travel reimbursements, we selected five marketing sales representatives for testing. For those five employees, the increased rate in mileage reimbursement for the period of January 15 - June 27, 2014, resulted in a total additional cost to the Agency of \$6,535.

We recommend the Agency seek an Attorney General's opinion as to whether the Agency is exempt from the reimbursement rate per mile established by the CFO of the State. If the Attorney General opines that travel regulation R1-19-4-903 applies to the Agency, we recommend the Agency reduce the mileage reimbursement rate to \$0.42 per mile, as established by the CFO of the State. We further recommend the Agency seek reimbursement from all affected employees for all amounts reimbursed above the authorized rate.

Management personnel responded: The ALC will review the finding and determine whether to change policy to conform with the finding or to seek an Attorney General's opinion.

Agency's Response to Findings

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

Purpose of this Report

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

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
November 18, 2014



“Through the Arkansas Scholarship Lottery education really lays the foundation for our future. Having this opportunity is such a great experience.”

Jade Collins | Sophomore
Arkansas State University
Hector

