

ARKANSAS DEPARTMENT OF  
FINANCE AND ADMINISTRATION  
OFFICE OF THE ARKANSAS LOTTERY  
AN ENTERPRISE FUND OF THE STATE  
OF ARKANSAS



COMPREHENSIVE ANNUAL FINANCIAL  
REPORT FOR THE FISCAL YEAR ENDED

**JUNE 30, 2016**



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

**Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016**



**Asa Hutchinson  
Governor, State of Arkansas**

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

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

**Prepared by  
Finance Division**



**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
An Enterprise Fund of the State of Arkansas  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016**

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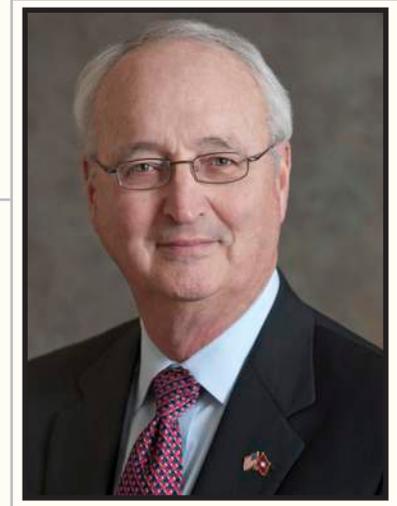
# INTRODUCTORY SECTION



Jeffrey Sims and Angela Bailey of lottery retailer Circle N Market in Forrest City, Arkansas Scholarship Lottery Retailer since day one.



December 5, 2016



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To the citizens of the State of Arkansas,

The attached report contains a comprehensive overview of the operations of the Office of the Arkansas Lottery (OAL) for the fiscal year ended June 30, 2016. The report details the lottery's performance, finances and products. It also provides information on the students who benefit from lottery proceeds and on the 1,910 independent and chain retail partners who sell our products.

During FY 2016, the OAL distributed \$85.3 million in funds for scholarships, allowing 35,207 students to attend college in the state. This was an improvement of almost \$13 million dollars versus the previous fiscal year. Since its inception, the lottery has generated \$603 million in proceeds and 202,840 students have received scholarships to attend 51 Arkansas colleges and universities.

The OAL paid out over \$25 million to state lottery retailers during FY 2016, creating tangible economic impact at the local level by providing business owners with added revenue. OAL has paid nearly \$175 million to lottery retailers since September 2009.

In FY 2016, sales of lottery tickets exceeded \$455 million. \$308 million of that amount was returned to the people of Arkansas by way of prizes awarded.

The promise of the lottery is that of a higher education for all citizens of our state. That goal can only be met through open, honest, and ethical operations and through meeting the high expectations of the General Assembly and the people of Arkansas.

This Comprehensive Annual Financial Report represents the efforts of this agency during the past fiscal year to meet those expectations and to help the OAL fulfill its promise.

Sincerely,

A handwritten signature in black ink that reads "Larry W. Walther". The signature is written in a cursive style with a large, sweeping underline.

Larry W. Walther  
Director



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

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Little Rock, Arkansas 72203-3238  
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December 5, 2016

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

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Department of Finance and Administration Office of the Arkansas Lottery (OAL) for the fiscal year ended June 30, 2016. The CAFR is prepared in accordance with the requirements set forth in Arkansas Code Annotated (A.C.A.) § 23-115-206 (a)(8)(C).

This report has been prepared by the OAL in conformance with accounting principles generally accepted in the United States of America (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB). Management is responsible for the accuracy of the financial data as well as the completeness and fairness of the information and disclosures within this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations and cash flows of the OAL. We have included all disclosures necessary to enable the reader to gain an understanding of the OAL's financial activities.

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

costs and benefits require estimates and judgments by management.

A.C.A. § 23-115-206(b)(1)(A) requires Arkansas Legislative Audit, to conduct an annual audit of the OAL and they may conduct other special reports as may be deemed necessary. The annual audit includes a review of internal controls as they relate to the expression of an opinion on the financial statements. Auditing standards generally accepted in the United States of America were used by the auditors in conducting the engagement. The auditor's unmodified opinion on the fair presentation of the OAL's basic financial statements is included in their report on page 1 in the financial section of this report.

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

## **BACKGROUND**

A constitutional amendment, approved by the voters of Arkansas on November 4, 2008, allowed the General Assembly to establish a State of Arkansas lottery with proceeds used to fund college scholarships. With the passage of Act 605 and 606 of 2009, the General Assembly created the Arkansas Lottery Commission. Subsequently, during the 2015 legislative session, the General Assembly approved a statute which eliminated the Arkansas Lottery Commission and established the lottery as the Office of the Arkansas Lottery within the Arkansas Department of Finance and Administration. Sales of tickets initially began on September 28, 2009, with the introduction of four instant ticket games. The OAL also added the sales of terminal generated (online) game tickets in 2009. All OAL net 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 over 1,900 OAL-licensed retailers across the state.



**INSTANT TICKET GAMES** are played by removing a scratch-off coating from the play area of the ticket. There are various ways to win, including matching certain symbols, adding up to a specified total or otherwise satisfying the requirements listed on the ticket. If the specified condition occurs, the ticket is an instant winner. These play styles are combined with a variety of game themes and ticket prices. Instant games were the first type of games offered by the OAL. For fiscal year ended June 30, 2016, the OAL released 56 instant ticket games with price points of \$1, \$2, \$3, \$5, \$10, and \$20.

**TERMINAL-GENERATED GAMES** allow players to select the numbers for their wager, or players may utilize computer-generated plays. Players receive a ticket with the numbers selected or automatically generated and await the results of a drawing to determine if they have matched the numbers and won. In fiscal year ended June 30, 2016, the OAL sold 8 different types of terminal-generated games: Powerball®, Mega Millions®, Natural State Jackpot, Cash 3, Cash 4, Fast Play, AR Progressive Jackpot Fastplay and Lucky for Life®.



**POWERBALL®** is a multi-state draw game jointly operated by the 36 member lotteries of the Multi-State Lottery Association and sold in 44 states, Washington D.C., Puerto Rico, and the U.S. Virgin Islands. Players select one set of five numbers from a pool of one to 69 and one additional number designated as the "Powerball" from a second pool of one to 26. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$40 million, which increases for each subsequent draw when the jackpot is not won. Each Powerball® play costs \$2. For an additional \$1, the Power Play® feature allows players to multiply their non-jackpot winnings by 2,3,4,5 or 10 times (the match 5 prize tier is set at \$2,000,000). A jackpot winner may select either an annuitized prize paid in 30 annual installments or a lump sum payment. Drawings are held every Wednesday and Saturday night.



**MEGA MILLIONS®** is a second multi-state draw game sold in accordance with a cross-selling agreement between the 12 Mega Millions® member states and the Multi-State Lottery Association. Mega Millions® is sold in 44 states, Washington D.C. and U.S. Virgin Islands. Players select one set of five numbers from a pool of one to 75 and one additional number from a second pool of one to 15. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$15 million, which increases for each subsequent draw when the jackpot is not won. Each Mega Millions® play costs \$1. For an additional \$1, the Megaplier® feature allows players to multiply non-jackpot winnings up to five times. A jackpot winner may select either an annuitized prize paid in one immediate payment followed by 29 annual installments or a lump sum payment. Drawings are held every Tuesday and Friday night.



**LUCKY FOR LIFE®** is a multi-state draw game with drawings every Monday and Thursday. Each play is \$2. Five numbered balls are drawn from 1 to 48 and one Lucky Ball number is drawn from 1 to 18. If a player's numbers match those that are chosen, they win the top prize -- \$7,000 a week for life. The second-level Lucky for Life® prize is \$25,000 a year for life.



**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).

## PLAYERS CLUB SERVICES

The OAL offers a players club at myarkansaslottery.com called The Club. By registering for a free account, players gain access to lottery news, winning number emails, the Play It Again™ and Points for Prizes® programs and special second-chance drawings. There were a total of 27,933 new player registrations and 25,111,727 tickets entered into the program in fiscal year ended June 30, 2016, bringing the membership total to 121,914.



The Play It Again™ program allows players to submit eligible, non-winning instant tickets for entry into cash prize drawings. After the last day to redeem tickets for any eligible instant game(s), one entry is drawn to win a monetary prize. The same entry mechanism gives players both their Play It Again™ entry(s) and Points for Prizes® rewards points. There were 34 Play It Again™ drawings held during fiscal year ended June 30, 2016.



The Points for Prizes® program gives players loyalty rewards points for eligible instant and terminal-generated tickets entered into their accounts. A player's points accumulate and may be redeemed for merchandise in the Points for Prizes® online store. Merchandise ranges from music downloads to electronics. There were a total of 231,649,532 points redeemed in the Points for Prizes® program during the fiscal year ended June 30, 2016. Points may also be used for special drawing prizes; there were a total of 20 Points for Drawings™ during fiscal year ended June 30, 2016.

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

Points for Drawings™	Entry Period	Draw Date	# of winners	# of entries
Michael Kors Watches	06/01/2015-07/08/2015	07/09/15	3	31,382
I Love New York	05/04/2015-08/03/2015	08/04/15	1	40,517
Nikon DSLR Camera	07/06/2015-08/03/2015	08/04/15	3	33,765
Outdoor Furniture with Firepit	06/29/2015-08/31/2015	09/01/15	2	32,214
Camping Package for 2	08/04/2015-09/08/2015	09/09/15	4	12,539
Dell Laptop	09/09/2015-10/14/2015	10/15/15	3	53,755
Dreamy Bedroom Package	08/04/2015-11/02/2015	11/03/15	1	35,175
Apple Package	09/01/2015-11/02/2015	11/03/15	2	44,437
Pink KitchenAid Mixer	10/15/2015-11/16/2015	11/17/15	3	27,617
Xbox One Bundle	11/17/2015-12/17/2015	12/18/15	4	73,718
StairMaster FreeClimber	11/03/2015-01/04/2016	01/05/16	2	15,470
Fitbit Flex Bundles	12/18/2015-01/18/2016	01/19/16	4	26,010
Relaxing Living Room Package	11/03/2015-02/08/2016	02/09/16	1	38,222
Pandora Set	01/19/2016-02/22/2016	02/23/16	3	20,384
Samsung Washer & Dryer Set	01/05/2016-03/07/2016	03/08/16	2	96,862
Kate Spade Handbag	02/23/2016-03/23/2016	03/23/16	4	11,619
DeWalt Combo Kit	03/24/2016-04/25/2016	04/26/16	3	32,241
Grill Bundle	03/08/2016-05/09/2016	05/10/16	2	46,592
Storm Shelter Package	02/09/2016-05/09/2016	05/10/16	1	24,808
His and Hers Bike Set	04/26/2016-05/31/2016	06/01/16	3	31,834

## **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 2015 and the first half of 2016, 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 has been expanding each quarter since the third quarter of calendar year 2009 when the OAL first started selling lottery tickets. The GDP growth averaged 1.3% during the last half of calendar year 2015 and the first half of calendar year 2016. The unemployment rate for the State of Arkansas finished the June 30, 2016 fiscal year at 3.9%.

### **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 \$117.2 billion at the end of the June 30, 2016 fiscal year, while non-farm personal income reached a total of \$115.7 billion. This represented an increase in personal income of \$3.6 billion, or 3.2% from fiscal year ended June 30, 2015. For the fiscal year ending June 30, 2017 personal income is forecast at \$121.4 billion (current dollars) an increase of \$4.2 billion, or 3.6%, over the fiscal year ended June 30, 2016, while non-farm personal income is forecast at \$120.5 billion.

### **ARKANSAS WAGE AND SALARY DISBURSEMENTS**

Measured in current dollars, wage and salary disbursements were \$54.5 billion for the June 30, 2016 fiscal year, an increase of \$2.4 billion, or 4.6%, from the June 30, 2015 fiscal year, while non-farm wage and salary disbursements rose to \$53.3 billion. Wage and salary disbursements for the fiscal year ending June 30, 2017 are forecast at \$57.0 billion (current dollars), an increase of \$2.5 billion, or 4.6%, from the June 30, 2016 fiscal year, while non-farm wage and salary disbursements are forecast at \$120.5 billion.

### **EMPLOYMENT**

During the June 30, 2016 fiscal year wage and salary employment in Arkansas increased to 1.227 million jobs which represents an increase of 23,200 jobs, or 1.9%, compared to the June 30, 2015 fiscal year. For the fiscal year ending June 30, 2017, wage and salary employment is expected to increase to 1.240 million jobs. This represents a projected increase of 13,800 jobs, or 1.1%, from the June 30, 2016 fiscal year.

## **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 2016 included:**

- **Surpassing \$ 3 billion in ticket sales since the lottery's inception.**
- **Surpassing \$ 1.9 billion in prizes paid to players since the lottery's inception.**
- **Transferring over \$600 million to the ADHE for the purpose of funding scholarships since the lottery's inception, including transfers of \$85 million for June 30, 2016 fiscal year.**
- **The ADHE awarding nearly \$100 million in scholarships during the fall 2015 and spring 2016 semesters.**

## **RELEVANT FINANCIAL POLICIES**

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

**Transfers to ADHE:** In accordance with the Arkansas Scholarship Lottery Act, on or before the fifteenth day of each month, the OAL shall deposit the monthly net proceeds from the lottery's operations into the Education Trust Fund Account (the Trust Account). Upon request from the director of the Arkansas Department of Higher Education, the OAL shall transfer the funds requested from the Trust Account to ADHE.

**Shortfall Reserve:** In accordance with the Arkansas Scholarship Lottery Act, legislation was enacted which required the OAL to establish a Scholarship Shortfall Reserve Trust Account. As of June 30, 2016, the Scholarship Shortfall Reserve Trust Account was fully funded in the amount of \$20 million.

## **INTERNAL CONTROL ENVIRONMENT**

Management of the lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misappropriation. The internal control system is also designed to ensure that the accounting system provides accurate and timely financial information and that the lottery is in compliance with applicable laws and regulations. The structure does not provide a guarantee, but rather reasonable assurances that these objectives are met. To enhance controls over accounting procedures, the lottery has segregated appropriate functions where feasible, and added additional administrative reviews of areas not clearly segregated to ensure compliance with established control policies. A.C.A. § 23-115-206(b)(1)(A) requires Arkansas Legislative Audit, to conduct an annual audit of the OAL and may conduct other special reports as may be deemed necessary. The annual audit includes a review of internal controls as they relate to the expression of an opinion on the financial statements.

## **GOVERNMENT FINANCE OFFICERS ASSOCIATION CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the OAL for its comprehensive annual financial report for the fiscal year ended June 30, 2015. This was the fifth consecutive year that the OAL has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A certificate of achievement is valid for a period of one year only. Management believes that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and as required by the requirements of the Arkansas Scholarship Lottery Act, we are submitting it to the GFOA to determine its eligibility for another certificate.

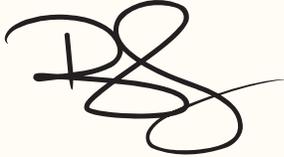
## **OTHER INFORMATION**

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

## **ACKNOWLEDGEMENTS**

The preparation of this CAFR reflects our commitment to maintain the highest standards of public accountability. We reaffirm our commitment to continually improve our financial management and maintain the public's trust by exhibiting the highest ethical standards and uncompromising integrity. Publication of this report could not have been accomplished without the dedicated efforts of our employees. Management would also like to recognize Department of Finance and Administration Director Larry Walther for his support, guidance and dedication in operating the OAL in a responsible and progressive manner.

Respectfully submitted,

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

Bishop Woosley  
Director

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

Jerry Fetzer  
Chief Fiscal Officer

## MISSION

The Office of the Arkansas Lottery (OAL) is a self-supporting and revenue-producing agency of the State of Arkansas. The Arkansas Constitution states that the OAL's net proceeds, through administration of the Department of Higher Education, will provide scholarships and grants to citizens of the State of Arkansas enrolled in public and private nonprofit two-year and four-year colleges and universities located within the state, and supplement, not supplant, non-lottery educational resources.

## VISION

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

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

We control our expenses in an attempt to give the legislature as much money as possible to allocate toward education in Arkansas. These dollars should go to the support of a broad range of educational benefits across the entire age spectrum.

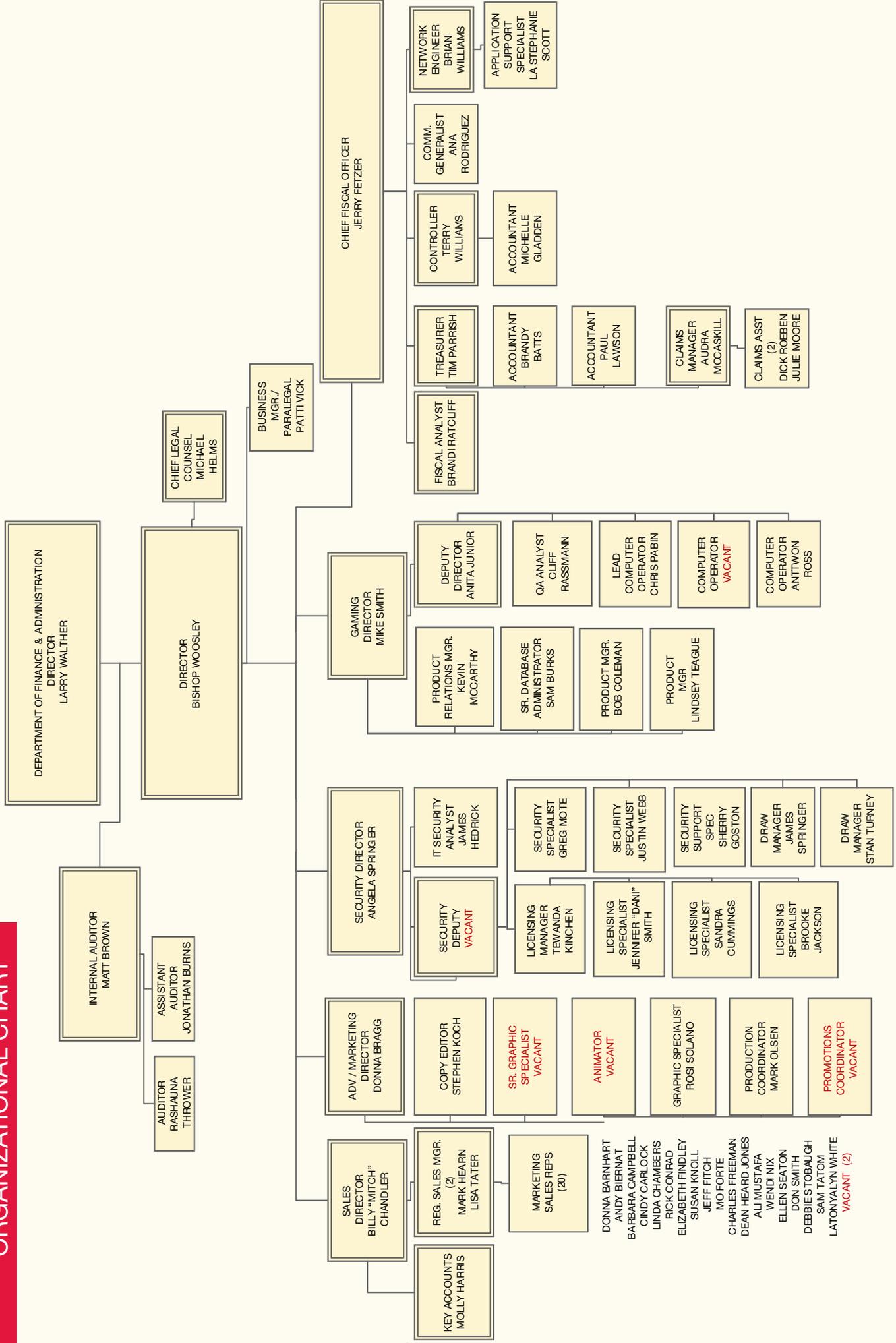
## VALUES

OAL's values include:

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



# ORGANIZATIONAL CHART







Government Finance Officers Association

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

Presented to

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

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

# FINANCIAL SECTION



▶ Debra Brewer (left) and Carnesha Robertson of Moose's Country Store in Floyd, Arkansas Scholarship Lottery Retailer since day one.





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

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

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

**LEGISLATIVE JOINT AUDITING COMMITTEE  
ARKANSAS LEGISLATIVE AUDIT**

**INDEPENDENT AUDITOR'S REPORT**

Department of Finance and Administration – Office of the Arkansas Lottery  
and Members of the Legislative Joint Auditing Committee

***Report on the Financial Statements***

We have audited the accompanying financial statements of the major fund of the Department of Finance and Administration - Office of the Arkansas Lottery, an office of Arkansas state government, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department of Finance and Administration - Office of the Arkansas Lottery's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund of the Department of Finance and Administration - Office of the Arkansas Lottery as of June 30, 2016, 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.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department of Finance and Administration - Office of the Arkansas Lottery's basic financial statements. The introductory section, statistical section, and supplementary information, listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

### **Emphasis of Matter**

As indicated above, the financial statements of the Department of Finance and Administration - Office of the Arkansas Lottery are intended to present the financial position, changes in financial position, and cash flows of the major fund of the State that is attributable to the transactions of the Department of Finance and Administration - Office of the Arkansas Lottery. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2016, changes in its financial position, or its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016, on our consideration of the Department of Finance and Administration - Office of the Arkansas Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Finance and Administration - Office of the Arkansas Lottery's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
December 5, 2016  
SALC08516

# MANAGEMENT'S DISCUSSION & ANALYSIS



▶ Chat N' Scat owner/operator Edward Gray in Johnson County, Arkansas Scholarship Lottery Retailer since day one.



**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2016**  
**(Unaudited)**

As management of the Arkansas Department of Finance and Administration (DFA) Office of the Arkansas Lottery (OAL), we offer readers of the OAL's financial statements this narrative overview and analysis of the financial activities of the OAL for the fiscal year ended June 30, 2016. Please read it in conjunction with the OAL's financial statements, which follow this section.

**FINANCIAL AND OPERATING HIGHLIGHTS**

- Operating revenues for the OAL increased by \$47.1 million in fiscal year 2016 as compared to fiscal year 2015, an increase of 11.5%. Instant ticket sales for fiscal year 2016 increased \$25.0 million or 7.5% over fiscal year 2015. And for the fiscal year 2016 online ticket sales, Powerball® sales increased by \$21.0 million or 77.4% over fiscal year 2015, primarily due to the sales from the \$ 1.6 billion jackpot run from December 2015 through January 2016. Also for fiscal year 2016 online sales, Mega Millions® sales decreased \$0.5 million or -3.5% from fiscal year 2015 while Natural State Jackpot sales for fiscal year 2016 increased by \$0.5 million or 7.5% versus fiscal year 2015. The other online games, Fast Play, Cash 3, Cash 4 and Lucky for Life® had a total sales increase for fiscal year 2016 of \$2.0 million or 8.5% as compared to fiscal year 2015.
- The OAL's operating expenses increased in fiscal year 2016 as compared to the previous fiscal year by \$31.2 million or 9.3%. This increase was primarily related to a \$16.7 million increase in instant game prizes expense and an \$11.8 million in online game prizes. These changes were consistent with the changes in instant and online ticket sales.
- For fiscal year 2016 transfers to the Education Trust Account of net proceeds were \$85.3 million, which was an increase of \$12.7 million or 17.4% from the prior fiscal year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the OAL's basic financial statements. The OAL is accounted for as a proprietary enterprise fund of the State of Arkansas, reporting on all of the activity's assets, liabilities and net position using the accrual basis of accounting, much like a private business entity. The OAL's basic financial statements are comprised of four components: 1) the statement of net position, 2) the statement of revenues, expenses and changes in net position, 3) the statement of cash flows, and 4) notes to the financial statements. This comprehensive annual financial report also contains other supplementary information in addition to the basic financial statements.

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

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2016  
(Unaudited)**

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

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The OAL is a self-supporting office within the Arkansas Department of Finance and Administration (DFA). For financial reporting purposes, the OAL is a major proprietary enterprise fund within the Arkansas Department of Finance and Administration and is reported as such in the Comprehensive Annual Financial Report (CAFR) of the State of Arkansas (State).

**FINANCIAL ANALYSIS**  
**Net Position**

The OAL's total net position at June 30, 2016 and 2015 were as follows:

<u>Condensed Summary of Assets, Liabilities and Net Position</u>		
	June 30, 2016	June 30, 2015
Current assets	\$ 48,690,238	\$ 37,770,708
Non-current assets	21,984,511	21,875,968
Capital assets	376,417	223,178
Total assets	<u>71,051,166</u>	<u>59,869,854</u>
Deferred outflows of resources	1,130,745	992,965
Total assets and deferred outflows	<u>\$ 72,181,911</u>	<u>\$ 60,862,819</u>
Current liabilities	\$ 52,323,016	\$ 44,745,237
Long term liabilities	6,393,195	5,161,646
Total liabilities	<u>58,716,211</u>	<u>49,906,883</u>
Deferred inflows of resources	693,464	1,383,462
Total liabilities and deferred inflows	<u>59,409,675</u>	<u>51,290,345</u>
Net position:		
Invested in capital assets	376,417	223,178
Restricted	23,148,383	22,875,968
Unrestricted (Deficit)	<u>(10,752,564)</u>	<u>(13,526,672)</u>
Total net position	<u>12,772,236</u>	<u>9,572,474</u>
Total liabilities, deferred inflows and net position	<u>\$ 72,181,911</u>	<u>\$ 60,862,819</u>

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2016**  
**(Unaudited)**

Assets consisted primarily of cash and cash equivalents which were \$57.7 million and \$45.6 million at June 30, 2016 and 2015 respectively. Accounts receivable were \$11.1 million and \$12.3 million at June 30, 2016 and 2015 respectively. Capital assets, net of depreciation, were \$0.4 and \$0.2 million at June 30, 2016 and June 30, 2015 respectively.

At June 30, 2016 the OAL's liabilities consist primarily of amounts due to the Arkansas Department of Higher Education (ADHE), accrued prizes expense, accrued operating expenses, the pension obligation and other post retirement obligations. Total liabilities were \$58.7 million which was an increase of \$8.8 million or 17.6% from fiscal year 2015.

At June 30, 2016 the OAL's total assets and deferred outflows of resources exceed its total liabilities and deferred inflows of resources resulting in total net position of approximately \$12.8 million. This is an increase in total net position of \$3.2 million or 33.4% from fiscal year 2015 total net position. The restricted net position was approximately \$0.3 million more than at the prior year end. Unrestricted net position (deficit) was \$(10.7) million which was a decrease in the deficit of \$2.8 million from the fiscal year 2015 unrestricted net position (deficit). This deficit relates primarily to timing differences related to the adjusted cash basis accounting method used to calculate net proceeds for transfer to the Arkansas Department of Higher Education, due to the change in liability of the OAL's unfunded portion of the OPEB liability and due to the accrual of the OAL's pension liability. In the unlikely event that the OAL ever ceases operations, the Arkansas State Legislature may be required to resolve this deficit in unrestricted net position.

**Statement of Revenues, Expenses and Changes in Net Position**

During fiscal year 2016, the OAL's activities resulted in net proceeds transfers to the Education Trust Account of \$85.3 million, which was an increase of \$12.7 million or 17.4% from the prior fiscal year. Also, as previously discussed, the total net position of the OAL increased by \$3.2 million from the prior fiscal year. This increase was primarily due to timing differences related to the accounting method used to calculate net proceeds. The key elements of the revenues, expenses and changes in net position for the fiscal year ended June 30, 2016, with comparative information for fiscal year 2015 are shown in the table on the following page.

**Arkansas Department of Finance and Administration**  
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**Fiscal Year Ended June 30, 2016**  
**(Unaudited)**

<u>Summary of Revenues, Expenses and Changes in Net Position</u>		
	<u>2016</u>	<u>2015</u>
Operating revenues		
Instant ticket sales	\$ 360,007,743	\$ 335,000,613
Online ticket sales	95,591,659	73,662,767
Retailer fees	717,150	550,952
Other operating revenue	9,259	20,346
Total operating revenues	<u>456,325,811</u>	<u>409,234,678</u>
Operating expenses		
Instant game prizes	258,461,952	241,758,220
Online game prizes	50,485,363	38,708,574
Commissions and contract costs	45,088,364	43,875,903
General and administrative expenses	13,414,175	11,701,392
Services provided by other agencies	540,355	668,447
Depreciation	95,063	158,363
Total operating expenses	<u>368,085,272</u>	<u>336,870,899</u>
Operating income	88,240,539	72,363,779
Non-operating revenue		
Interest Income	232,275	224,546
Other non-operating revenue	1,875	0
Total non-operating income	<u>234,150</u>	<u>224,546</u>
Income before transfers	88,474,689	72,588,325
Transfers to		
Education Trust Account	(85,274,927)	(72,619,369)
Department of Human Services	-	(200,000)
Increase (Decrease) in net position	3,199,762	(231,044)
Beginning net position	<u>9,572,474</u>	<u>9,803,518</u>
Ending net position	<u>\$ 12,772,236</u>	<u>\$ 9,572,474</u>

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2016**  
**(Unaudited)**

**OPERATING REVENUES**

**Games Sales**

The OAL's games revenues are made up of a variety of instant and online lottery products. The OAL is an active member of a joint venture arrangement with the Multi-State Lottery Association (MUSL). Powerball®, Mega Millions® and Lucky for Life® are online games operated under MUSL, which also operated the MONOPOLY™ Millionaires' Club game during fiscal year 2015, from October 19, 2014 until December 26, 2014 when it was ended. Also during part of fiscal year 2015, the OAL was a member of the Decades of Dollars Consortium, which was comprised of four state lotteries and operated by the State of Virginia Lottery. The OAL withdrew from the Decades of Dollars Consortium after the drawing of October 16, 2014. The OAL also operates Fast Play, Cash 3, Cash 4, and Natural State Jackpot which are all online games. Also, during part of fiscal year 2015 the OAL operated Arkansas 50/50 Raffle, for which sales ended in February 2015. The table below shows instant ticket sales and sales for online lottery games for the years ended June 30, 2016 and 2015.

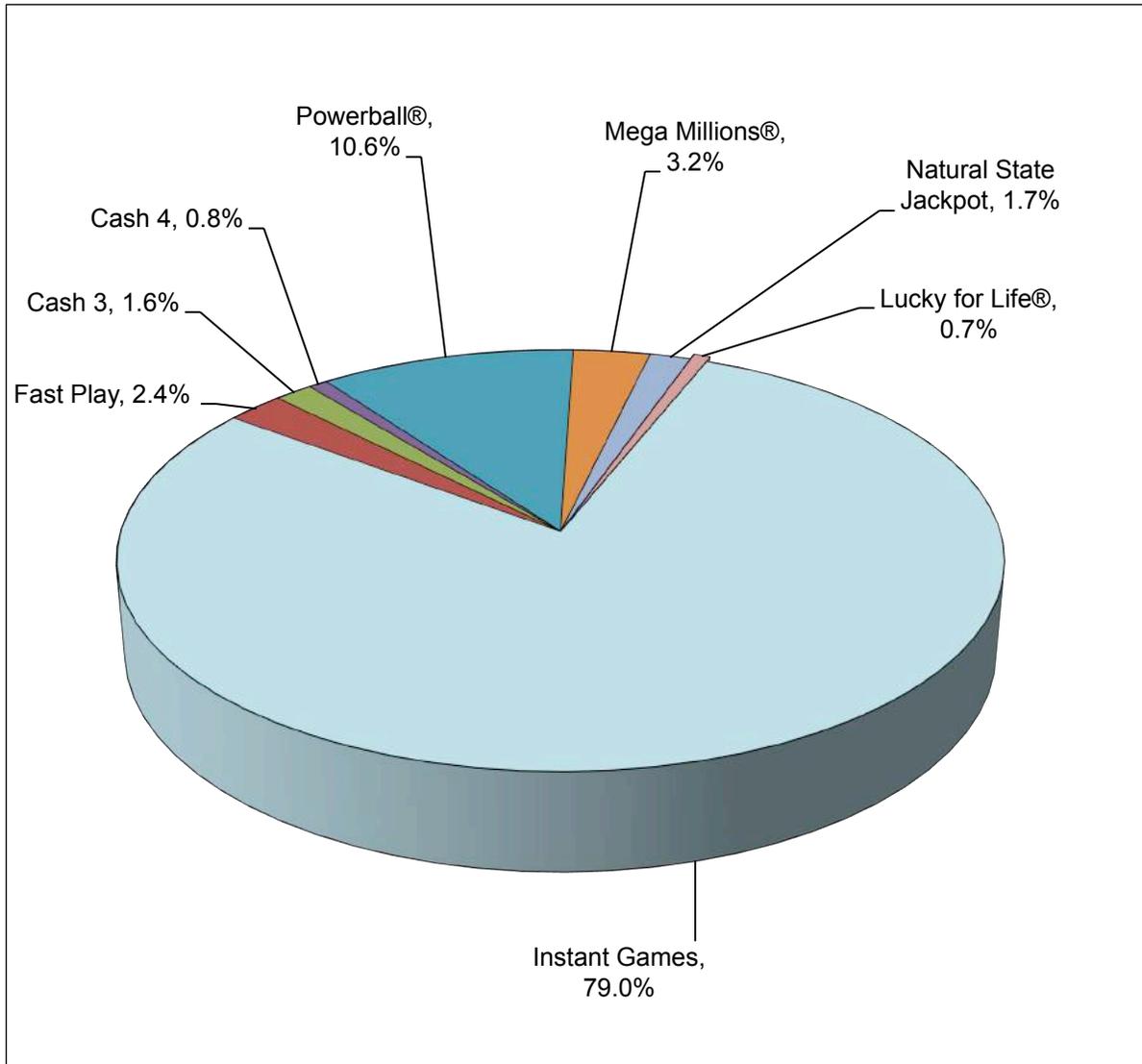
<u>Lottery Games Sales for Years Ended June 30, 2016 and 2015</u>				
Game	2016	2015	Change	% Change
Instant ticket sales	\$ 360,007,743	\$ 335,000,613	\$ 25,007,130	7.5%
Powerball®	48,073,339	27,099,705	20,973,634	77.4%
Mega Millions®	14,632,244	15,158,385	(526,141)	-3.5%
Fast Play	10,993,360	10,770,484	222,876	2.1%
Natural State Jackpot	7,567,005	7,035,843	531,162	7.5%
Cash 3	7,184,616	6,712,769	471,847	7.0%
Cash 4	3,823,987	3,832,385	(8,398)	-0.2%
Lucky for Life®	3,317,108	2,013,064	1,304,044	64.8%
Decades of Dollars	0	612,932	(612,932)	-100.0%
Arkansas 50/50 Raffle	0	38,210	(38,210)	-100.0%
MONOPOLY™ Millionaires' Club	0	388,990	(388,990)	-100.0%
Total games sales	<u>\$ 455,599,402</u>	<u>\$ 408,663,380</u>	<u>\$ 46,936,022</u>	11.5%

The OAL experienced an increase of \$46.9 million or 11.5% in total lottery ticket sales for fiscal year 2016 as compared to fiscal year 2015. For fiscal year 2016 instant ticket sales increased by \$25.0 million or 7.5% while online games sales increased by \$21.9 million or 29.8%. Instant ticket sales continued to be the OAL's most popular product contributing 79.0% and 82.0% to total fiscal year sales for 2016 and 2015 respectively. For online games sales for fiscal year 2016, Fast Play had a \$0.2 million or 2.1% increase in sales, Cash 3 had a \$0.5 million or 7.0% increase in sales, and Cash 4 sales were basically flat. Powerball® had a significant increase in sales of \$21.0 million or 77.4%, which was primarily attributable to the record \$1.6 billion Powerball® jackpot in January 2016. Mega Millions® had a slight decrease in sales of \$0.5 million or -3.5% for fiscal year 2016 as compared to 2015. Natural State Jackpot experienced an increase in sales for fiscal year 2016 of \$0.5 million or 7.5%. The Lucky for Life® game, for which sales started on January 27, 2015, experienced its first full year of sales which resulted in annual sales of \$3.3 million. The Decades of Dollars, Arkansas 50/50 Raffle and MONOPOLY™ Millionaires' Club games were ended during fiscal year 2015.

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2016  
(Unaudited)**

The graph below summarizes the fiscal year 2016 sales as a percent of total ticket revenues:

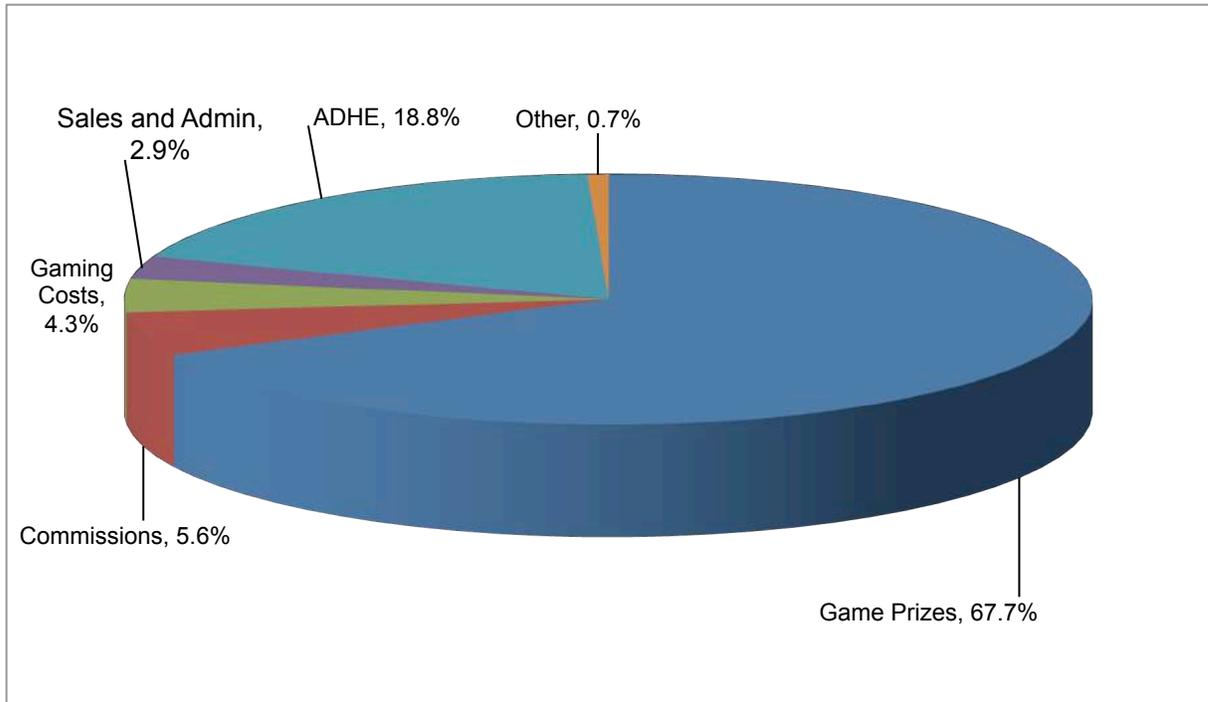
**2016 Lottery Game Revenues as a Percent of Sales**



**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2016  
(Unaudited)**

Distribution of the fiscal year 2016 revenues were as follows:

**Fiscal Year 2016 Revenue Distribution**



**OPERATING EXPENSES**

**Prizes**

Prizes are the largest operating expense the OAL incurs. Fiscal year 2016 prizes expense of \$308.9 million reflects a \$28.4 million or 10.2% increase from fiscal year 2015 prizes expense of \$280.5 million. This increase primarily corresponds to the increase in instant ticket sales experienced in fiscal year 2016.

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2016**  
**(Unaudited)**

The following table shows prizes expense by lottery game for the years ended June 30, 2016 and 2015 respectively.

Game Prizes Expense	Game Prizes Expense		Change	% Change
	2016	2015		
Instant Game prizes	\$ 258,461,952	\$ 241,758,220	\$ 16,703,732	6.9%
Powerball®	23,402,887	13,017,136	10,385,751	79.8%
Mega Millions®	7,050,852	7,343,615	(292,763)	-4.0%
Natural State Jackpot	3,763,834	3,516,677	247,157	7.0%
Lucky for Life®	2,215,645	1,290,851	924,794	71.6%
Fast Play	8,707,655	8,536,575	171,080	2.0%
Cash 3	3,361,410	3,382,610	(21,200)	-0.6%
Cash 4	1,983,300	1,693,800	289,500	17.1%
Decades of Dollars	0	(394,249)	394,249	100.0%
Arkansas Million Dollar Raffle	0	(22,500)	22,500	100.0%
Arkansas 50/50 Raffle	(220)	17,525	(17,745)	-101.3%
Monopoly™ Millionaires' Club	0	326,534	(326,534)	-100.0%
Total game prizes expense	<u>\$ 308,947,315</u>	<u>\$ 280,466,794</u>	<u>\$ 28,480,521</u>	10.2%

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

The following table shows sales profit margin for instant and online games by for the years ended June 30, 2016 and 2015.

	Lottery Game Profit Margins			
	Instant Tickets		Online Games	
	2016	2015	2016	2015
Game revenues	\$ 360,007,743	\$ 335,000,613	\$ 95,591,659	\$ 73,662,767
Prize expense	258,461,952	241,758,220	50,485,363	38,708,574
Gross profit after prizes	<u>\$ 101,545,791</u>	<u>\$ 93,242,393</u>	<u>\$ 45,106,296</u>	<u>\$ 34,954,193</u>
Profit margin after prizes	28.2%	27.8%	47.2%	47.5%

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2016  
(Unaudited)**

**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 \$59.1 million and \$56.4 million for fiscal years 2016 and 2015 respectively.

The table below shows the expense profit margin, which is the OAL's total operating revenues less its total operating expenses, for the years ended June 30, 2016 and 2015 respectively.

<u>Operating Expenses Profit Margin</u>				
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Percent Change</u>
Operating revenues	\$ 456,325,811	\$ 409,234,678	\$47,091,133	11.5%
Operating expenses	368,085,272	336,870,899	31,214,373	9.3%
Operating Income	<u>\$ 88,240,539</u>	<u>\$ 72,363,779</u>	<u>\$15,876,760</u>	21.9%
Profit margin	19.3%	17.7%		

**NON-OPERATING REVENUES AND TRANSFERS**

Non-operating revenues were primarily related to interest income of \$232,275 and \$224,546 for the years ended June 30, 2016 and 2015 respectively. For fiscal year 2016, non-operating revenues of \$1,875 were recognized from additional recoveries made related to a prior year defalcation.

In fiscal years 2016 and 2015, net transfers of \$85.3 million and \$72.6 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 \$77.0 million for fiscal year 2016 as compared to \$80.0 million for fiscal year 2015.

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2016  
(Unaudited)**

**CAPITAL ASSETS**

At June 30, 2016 the OAL had \$1.4 million in capital assets as compared to \$1.1 million at the prior fiscal year end. 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>2016</u>	<u>2015</u>	<u>Total % Change</u>
Assets under construction	\$ 68,452	\$ 0	100.0%
Equipment	801,039	621,189	29.0%
Leasehold improvements	492,796	492,796	0.0%
Total capital assets	<u>1,362,287</u>	<u>1,113,985</u>	22.3%
Total accumulated depreciation	(985,870)	(890,807)	10.7%
Net capital assets	<u>\$ 376,417</u>	<u>\$ 223,178</u>	68.7%

**CONTACT INFORMATION**

This financial report is designed to provide a general overview of the OAL's finances and to demonstrate the OAL's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the OAL's Finance Division at P.O. Box 3238, Little Rock, Arkansas 72203-3238 or call (501) 683-2000.

# BASIC FINANCIAL STATEMENTS



▶ Tamika Granberry, manager at Jordan's Kwik Stop #5 in Jackson County for seven years.

Arkansas Scholarship Lottery Retailer since day one.



**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Statement of Net Position**  
**June 30, 2016**

**ASSETS**

<b>Current assets:</b>	
Cash and cash equivalents	\$ 5,849,594
Restricted assets:	
Cash and cash equivalents	31,695,999
Accounts receivable	11,107,980
Receivable from other funds of the State	3,579
Prepaid items	33,086
Total current assets	<u>48,690,238</u>
<b>Non-current assets:</b>	
Restricted assets:	
Cash and cash equivalents	20,136,900
Deposits with Multi-State Lottery Association	1,847,611
Capital assets:	
Assets under construction	68,452
Equipment	801,039
Leasehold improvements	492,796
Less accumulated depreciation	(985,870)
Total non-current assets	<u>22,360,928</u>
Total assets	71,051,166
<b>Deferred outflows of resources:</b>	
Related to pension	<u>1,130,745</u>
Total assets and deferred outflows of resources	<u>\$ 72,181,911</u>

**LIABILITIES**

<b>Current liabilities:</b>	
Accounts payable	\$ 8,020
Prizes payable	17,695,772
Accrued and other liabilities	2,914,656
Due to other funds of the State	524,475
Payable to Arkansas Department of Higher Education	30,695,999
Compensated absences	46,598
Unearned revenue	437,496
Total current liabilities	<u>52,323,016</u>
<b>Long-Term liabilities:</b>	
Net other post employment benefits	1,981,207
Compensated absences	267,406
Net pension liability	4,144,582
Total long-term liabilities	<u>6,393,195</u>
Total liabilities	58,716,211
<b>Deferred inflows of resources:</b>	
Related to pension	<u>693,464</u>
Total liabilities and deferred inflows of resources	<u>59,409,675</u>

**NET POSITION**

<b>Net position:</b>	
Invested in capital assets	376,417
Restricted for:	
Scholarship shortfall reserve	20,000,000
Retailer fidelity reserve	136,900
Retailer bond reserve	163,872
Deposits with Multi-State Lottery Association	1,847,611
Unclaimed prizes reserve	1,000,000
Unrestricted (deficit)	<u>(10,752,564)</u>
Total net position	<u>12,772,236</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 72,181,911</u>

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Statement of Revenues, Expenses and Change in Net Position  
For Year Ended June 30, 2016**

**Operating revenues:**

Instant ticket sales	\$ 360,007,743
Online ticket sales	95,591,659
Retailer application, fidelity, bond and service fees	717,150
Other revenue	<u>9,259</u>
 Total operating revenues	 <u>456,325,811</u>

**Operating expenses:**

Instant game prizes	258,461,952
Online game prizes	50,485,363
Retailer commissions	25,704,177
Gaming contract costs	19,384,187
Compensation and benefits	5,232,605
Marketing, advertising and promotions	4,798,502
General and administrative expenses	3,380,275
Services provided by Arkansas Department of Higher Education	396,995
Services provided by Arkansas Legislative Audit	143,360
Legal and professional services	2,793
Depreciation	<u>95,063</u>
 Total operating expenses	 <u>368,085,272</u>

Operating income	88,240,539
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**Non-operating revenue:**

Interest income	232,275
Other non-operating income	<u>1,875</u>
Total non-operating revenue	<u>234,150</u>

Income before transfers	88,474,689
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**Transfers to:**

Education Trust Account	<u>(85,274,927)</u>
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Change in net position	3,199,762
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Total net position - beginning	<u>9,572,474</u>
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Total net position - ending	<u><u>\$ 12,772,236</u></u>
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The notes to the financial statements are an integral part of this statement.

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Statement of Cash Flows  
For the Year Ended June 30, 2016**

**Cash flows from operating activities:**

Cash received from retailers and others	\$ 457,634,809
Cash paid for prizes	(310,865,471)
Cash paid for gaming vendors	(19,540,446)
Cash paid for retailer commissions	(25,742,753)
Cash paid for marketing and advertising	(5,413,835)
Cash paid for employee services	(4,834,544)
Cash paid for other expenses	(2,412,905)
Cash received from other non-operating income	1,875
Net cash provided by operating activities	88,826,730

**Cash flows from non-capital financing activities:**

Non-operating transfers to Arkansas Department of Higher Education	(77,000,000)
Non-operating transfers from Arkansas Department of Higher Education	286,177
Net cash used by non-capital financing activities	(76,713,823)

**Cash flows from capital and related financing activities:**

Purchases of capital assets	(248,302)
Net cash flows from capital and related financing activities	(248,302)

**Cash flows from investing activities:**

Interest received	232,275
Net increase in cash and cash equivalents	12,096,880

Cash and cash equivalents, beginning	45,585,613
Cash and cash equivalents, ending	\$ 57,682,493

**Reconciliation of operating income to net cash provided**

**by operating activities:**

Operating income	\$ 88,240,539
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	95,063
Pension earnings	(90,790)
Other non-operating income	1,875
Net changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	1,166,802
Receivable from other funds of the State	(3,576)
Prepaid items	(9,191)
Deposits with Multi-State Lottery Association	(85,225)
Increase (decrease) in:	
Accounts payable	(481,522)
Prizes payable	(1,832,930)
Accrued and other liabilities	1,261,440
Due to other funds of the State	(66,992)
Compensated absences	16,613
Unearned revenue	142,196
Net post employment benefits	472,428
Net cash provided by operating activities	\$ 88,826,730

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Reporting Entity**

The Arkansas Department of Finance and Administration Office of the Arkansas Lottery (OAL) was initially created as the Arkansas Lottery Commission (ALC) by Acts 605 and 606 of 2009 (the Act) for the purpose of establishing, operating, and regulating lotteries for the State of Arkansas (State) as authorized by the Arkansas Constitution. The primary purpose of the Act is to supplement higher education scholarships with net proceeds from State lottery operations. The ALC was governed by a nine member commission (the Commission), which was charged with overseeing the lottery operations of the State, with three members appointed by each of the following: the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. During the 2015 Legislative session, the Arkansas Legislature enacted Act 218 of 2015, which eliminated the Arkansas Lottery Commission and established the lottery as the Office of the Arkansas Lottery within the Arkansas Department of Finance and Administration (DFA), as part of the Management Services Division.

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

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

**b. Basis of Presentation**

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

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**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 OAL must also follow the standards issued by the Governmental Accounting Standards Board (GASB). New GASB Statements and Interpretations are adopted in the years they become effective.

As a proprietary type enterprise fund, the OAL is accounted for using the economic resources measurement focus. All assets and liabilities related to its operations are included on its statement of net position, and all revenues (increases) and expenses (decreases) and the change in net position are included in its Statement of Revenues, Expenses and Change in Net Position. Operating revenues and expenses generally relate to the OAL's primary ongoing operations of selling lottery tickets and redeeming prizes. Any revenues or expenses not meeting this definition are reported as non-operating. The principal operating revenues of the OAL are from charges to retailers for their sales of lottery products. The significant operating expenses include the cost of prizes, retailer commissions, gaming contract costs, other vendor charges, personnel, marketing/advertising, other administrative expenses, inter-agency services and depreciation.

**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 OAL 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 OAL follows the policy of the Arkansas Department of Finance and Administration and uses a capitalization threshold of five thousand dollars (\$5,000) and useful life extending beyond one year. Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

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

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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.

**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, Retailer Fidelity Reserve, Retailer Bond Reserve, Multi-State Lottery Association (MUSL) deposits and for the Unclaimed Prizes Reserve. The net investment in capital assets category represents the purchases of capital assets recorded at cost, less accumulated depreciation. The restricted net position for the Scholarship Shortfall Reserve represents monies set aside to fund scholarship payment requests to the Arkansas Department of Higher Education (ADHE), if needed, due to a shortage of funds in the Education Trust Account (the Trust Account). The Retailer Fidelity Reserve may be used to cover losses due to any retailer nonfeasance, malfeasance or misfeasance. The Retailer Bond Reserve is another reserve created for the recovery of potential losses from retailers, which replaces retailers having to purchasing their own surety bond coverage. The MUSL deposits represent funds set aside to fund Powerball® and Mega Millions® prizes in the event of multiple grand prize winners. The amounts restricted for the Unclaimed Prizes Reserve are, by statute, only to be used to supplement future prizes, to maintain online game reserves at adequate levels or for special prize promotions. At June 30 of each fiscal year, the amount of the Unclaimed Prizes Reserve, less \$1 million, are transferred to the Education Trust Account.

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

**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 for game drawings which will occur after the end of the monthly accounting period are recorded as unearned revenue and are subsequently recognized as revenue in the period in which the related drawing for which they were purchased occurs.

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

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***j. Retailer Commissions***

Retailers receive a commission of five percent on all instant tickets settled and online tickets sold. In addition, (1) retailers receive a cashing commission of one percent of each dollar redeemed up to a cashing limit of \$500 per ticket, as tickets for prizes over \$500 must be redeemed at the OAL claim center, and (2) retailers receive an additional selling commission of one percent of each prize amount of \$10,000 or more for any such prizes validated and paid which were purchased from their retail store. The maximum selling commission for any prize of \$10,000 or more is \$50,000.

***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 remain unclaimed 90 days after an instant game ending date are considered unclaimed.

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

Act 1180, enacted April 6, 2011, provided that unclaimed prizes are to be accumulated during the fiscal year, with the OAL being allowed to spend up to \$2,500,000 for future lottery prizes, to maintain online reserves or for prizes promotion. At the end of each fiscal year the amount of unclaimed prizes money, less \$1 million, is to be deposited into the Education Trust Account as 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 and are also recorded as a liability. Within the limits established by law or rule, unused leave benefits are paid to employees upon separation from State service for vacation, banked holidays and eligible sick leave. The compensated absences amounts are based on current year-end salary rates and include employer Social Security contributions at the then current rates.

***m. Retirement Plan***

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

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**n. 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, deferred outflows of resources, deferred inflows of resources, restricted net position, revenues, expenses and disclosures of contingent assets or liabilities. Actual results could differ from those estimates.

**o. Bad Debt Expense**

Bad debt expense is normally recognized when an OAL retailer's uncollected revenue is significantly past due and is in excess of amounts deemed to be collectible. The amount of expense is based on the retailer's outstanding aged accounts receivable balance. The OAL recorded no bad debt expense for the fiscal year ended June 30, 2016. For net proceeds calculations, bad debt expense amounts are recovered from the Retailer Fidelity Reserve or the Retailer Bond Reserve, which are maintained to offset such potential losses.

**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. State financial policy also states that funds may be maintained in demand deposit accounts for the purposes of meeting day-to-day operating expenditures. It is suggested that service charges associated with this type of account can generally be avoided by maintaining required minimum balances or compensating balances in other accounts. Funds in excess of immediate expenditure requirements (excluding minimum balances) should not remain in non-interest bearing accounts.

In 2009, the OAL entered into a seven-year contract with Bank of the Ozarks to provide primarily all banking services for its operations. The contract has the provision that all banking services be provided to OAL at no cost. Additionally, the contract calls for interest to be paid on all OAL deposits at a rate of 20 basis points over the Federal Funds Target rate with a floor of 55 basis points. During the fiscal year ended June 30, 2016, the OAL was paid 55 basis points on all OAL deposits. All of the OAL's cash and equivalents at June 30, 2016 were held in accounts at the Bank of the Ozarks. As agreed to in their contract, the Bank of the Ozarks has agreed to pledge collateral on all accounts of the OAL in an amount to exceed the State requirement of 105 percent of deposits. As of June 30, 2016, the total collateral pledged to the OAL, was in the form of an irrevocable standby letter of credit issued in the OAL's name by the Federal Home Loan Bank of Dallas, for any sum or sums not to exceed \$70,000,000. At June 30, 2016 the OAL's total bank balances were \$58,963,170, so the irrevocable standby letter of credit maximum was 118.7% of the OAL's deposits.

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***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the OAL will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The OAL has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. It is the opinion of management that none of the OAL's bank balances of \$58,963,170 were exposed to custodial credit risk as of June 30, 2016.

**3. ACCOUNTS RECEIVABLE**

Management believes that an allowance for uncollectable accounts is not necessary at June 30, 2016, as subsequent collections and the Retailer fidelity Reserve and Retailer Bond Reserve amounts are sufficient to cover any past due accounts. Amounts due from retailers and others at June 30, 2016 are summarized as follows:

Amount due for activated instant scratch-off tickets, not settled	\$ 9,210,755
Amount due for partial weeks sales through June 30, 2016	1,880,938
Past due accounts and other receivables	<u>16,287</u>
Total accounts receivable	<u>\$ 11,107,980</u>

**4. TRUST ACCOUNT for NET PROCEEDS**

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

To meet the deposit requirement, an Education Trust 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 (Payable to ADHE) 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.

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 at June 30, 2016 was \$30,695,999. Total net proceeds for the fiscal year ended June 30, 2016 were \$85,274,927. During fiscal year 2016 a total of \$77,000,000 were transferred to ADHE for scholarships.

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Activity in the Trust Account for the fiscal year ended June 30, 2016 consisted of the following activities:

Education Trust Account balance at 7/01/15	\$ 22,134,895
Net Proceeds for fiscal year ended 6/30/16	85,274,927
Returns from ADHE during fiscal year ended 6/30/16	<u>286,177</u>
Total Available	107,695,999
Payments to ADHE during fiscal year ended 6/30/16	<u>77,000,000</u>
Education Trust Account balance at 6/30/16	<u><u>\$ 30,695,999</u></u>

**5. UNCLAIMED PRIZES RESERVE**

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

During fiscal year 2016, in addition to the \$1,000,000 beginning balance the unclaimed prizes totaled \$5,435,029 with none of the unclaimed prizes money being used for the three specified purposes allowed by Act 1180. So, the unclaimed prizes balance remaining at June 30, 2016, less \$1,000,000, resulted in a deposit of \$5,435,029 to the Trust Account for net proceeds. At June 30, 2016 the balance of the unclaimed prizes reserve was \$1,000,000 and is reflected in the Statement of Net Position as restricted net position, while the corresponding monies related to this reserve are shown as current restricted cash and cash equivalents.

Activity in the Unclaimed Prizes Reserve for the fiscal year ended June 30, 2016 consisted of the following activities:

Unclaimed Prizes Reserve at 7/01/15	\$ 1,000,000
Unclaimed prizes for fiscal year ended 6/30/16	5,435,029
Expended for future prizes, promotions or reserves	0
Transferred to the Trust Account at 6/30/16	<u>(5,435,029)</u>
Unclaimed Prizes Reserve at 6/30/16	<u><u>\$ 1,000,000</u></u>

**6. SCHOLARSHIP SHORTFALL RESERVE**

The Scholarship Shortfall Reserve account represents monies set aside to fund scholarship payment requests to ADHE, if needed, in case of a shortage of funds in the Trust Account. The balance of the Scholarship Shortfall Reserve at June 30, 2016 was \$20,000,000 and is reflected as restricted net position on the statement of net position, while the corresponding monies related to the reserve are reflected as non-current restricted cash and cash equivalents. During fiscal year ended June 30, 2016, some requests by ADHE for scholarship funds exceeded the funds then available in the Trust Account. In order to fulfill these requests it was necessary to transfer a total of \$13,676,287 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.

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**7. RETAILER FIDELITY RESERVE**

In accordance with the Act, OAL retailers are assessed an annual fidelity reserve fee which is recorded to a Retailer Fidelity Reserve account, which is reflected as restricted net position on the statement of net position. The retailer fidelity reserve fees collected are deposited in a separate demand deposit account and are classified as non-current restricted cash and cash equivalents. The balance of the Retailer Fidelity Reserve at June 30, 2016 was \$136,900. Per the Act, these reserves may be used to cover losses incurred as a result of any nonfeasance, malfeasance or misfeasance of OAL retailers. The OAL sustained no losses that were charged to the Retailer Fidelity Reserve during the fiscal year ended June 30, 2016. Also, per the Act, at the end of each fiscal year, if the Retailer Fidelity Reserve is in excess of \$500,000, the excess amount may be treated as net proceeds from the OAL, and subject to transfer into the Trust Account.

**8. RETAILER BOND RESERVE**

Act 1076 of the 2015 Arkansas General Assembly changed Arkansas Code Annotated § 23-115-603 (c) (1) to allow the OAL to amend the previous requirement that retailers post a bond obtained through a commercial insurance company. Per Act 1076, “the office shall require retailers to post an appropriate bond, as determined by the office.” Effective with the amendment of the OAL’s Retailer Rules (Rules), a “self-bond” or self-insurance program for retailers was established, whereby all retail locations must remit \$100 annually to the OAL to cover any potential losses and fulfill the bonding requirement required by law. Further, the Rules establish that any retailer failure to remit amounts owed to the OAL in the ordinary course of business are considered a default and the amounts owed be deducted from the pool of self-bond fees in order to ensure funds ordinarily available for deposit to the Trust Account are made whole. Finally, the amended Rules establish that at the discretion of the OAL Director, funds from the pool of self-bond fees may be released and considered revenues at the end of each fiscal year.

The retailer self-bond fees collected are recorded as a Retailer Bond Reserve, which is reflected as restricted net position on the statement of net position. At June 30, 2016 the balance of the Retailer bond Reserve was \$163,872. The retailer self-bond fees collected are deposited in the OAL operating account and are classified as current restricted cash and cash equivalents. The OAL sustained no losses that were charged to the Retailer Bond Reserve during the fiscal year ended June 30, 2016.

**9. JOINT VENTURES**

GASB Statement No.14, *The Financial Reporting Entity*, as amended, defines a joint venture as a legal entity or other organization that results from a contractual arrangement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain 1) an ongoing financial interest or 2) an ongoing financial responsibility. During the fiscal year ended June 30, 2016 the OAL was an active participant in several joint venture arrangements with the Multi-State Lottery Association (MUSL).

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**Multi-State Lottery Association**

In July 2009, the OAL joined the Multi-State Lottery Association (MUSL), which is comprised of a group of U.S. lotteries that combine jointly to sell online Powerball® and Mega Millions® lottery tickets. On January 27, 2015 MUSL added the Lucky for Life® online game to be available to the member lotteries for the joint sales of that game, in which the OAL elected to participate. Each lottery participating in Lucky for Life® ticket sales must annually subject the transactions, accounts and processes related to Lucky for Life® to a test of agreed upon procedures by an independent auditor in its state. The chief executive officer of each member lottery serves on the MUSL board of directors. MUSL is audited annually by a separate independent audit firm.

As a member of MUSL, the OAL is required to contribute to various prizes reserve funds for Powerball® and Mega Millions® which are maintained by MUSL. The MUSL prizes reserve funds serve as a contingency reserve to protect MUSL and its member state lotteries from unforeseen prizes payment liabilities. MUSL periodically reallocates the prizes reserve funds among the member state lotteries based on relative Powerball® 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, would be returned to the OAL if it were to ever leave MUSL. As of June 30, 2016 the OAL had reserve fund deposits with MUSL of \$1,847,611. MUSL does not maintain prizes reserve funds for Lucky for Life®. Instead, each participating lottery is responsible for maintaining their own prizes reserve funds for potential Lucky for Life® prizes payments.

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

The OAL's portion of the MUSL's games for the fiscal year ended June 30, 2016 is summarized in the table below:

	Operating Revenues	Prizes
Powerball®	\$48,073,339	\$23,402,887
Mega Millions®	\$14,632,244	\$ 7,050,852
Lucky for Life®	\$ 3,317,108	\$ 2,215,645

**10. CAPITAL ASSETS**

The activity for capital assets for the fiscal year ended June 30, 2016, was as follows:

	<b>Balance July 1, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2016</b>
<b>Capital Assets</b>				
Assets under construction	\$ 0	\$ 68,452	\$ 0	\$ 68,452
Equipment	621,189	179,850	0	801,039
Leasehold improvements	492,796	0	0	492,796
Total capital assets	1,113,985	248,302	0	1,362,287
Less accum. depreciation				
Equipment	(423,804)	(69,751)	0	(493,555)
Leasehold improvements	(467,003)	(25,312)	0	(492,315)
Total accum. depreciation	(890,807)	( 95,063)	0	(985,870)
Capital assets, net	\$ 223,178	\$ 153,239	\$ 0	\$ 376,417

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**11. LIABILITIES**

**a. Prizes Payable**

Prizes payable at June 30, 2016 consisted of instant and online game prizes payable and estimated game reserves as well as any related state and federal withholdings. Instant ticket prizes payable are estimated based on the end of production prize structure provided by Scientific Games Inc. Estimated prizes payable by category are as follows:

Instant tickets	\$ 14,570,913
Powerball®	1,328,112
Mega Millions®	559,166
Natural State Jackpot	142,793
Lucky for Life®	771,998
Fast Play	71,804
Cash 3	49,880
Cash 4	31,100
Income tax and other withholding	<u>170,006</u>
<b>Total</b>	<b><u>\$ 17,695,772</u></b>

**b. Payable to Other Funds of the State**

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

Arkansas Legislative Audit (ALA) performs an annual audit of the OAL's financial position. The OAL reimburses ALA at an hourly rate set by the Legislative Joint Auditing Committee for work performed. At June 30, 2016 the OAL had no payable owed to ALA.

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

ADHE	\$ 436,996
Department of Information Systems	12,667
Department of Finance and Administration	73,876
Workers Compensation Commission	822
University of Arkansas	<u>114</u>
<b>Total</b>	<b><u>\$ 524,475</u></b>

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**c. Accounts Payable, Accrued Liabilities and Compensated Absences**

Accounts payable consists 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, 2016.

As a proprietary type enterprise fund, for financial reporting purposes the OAL recognizes and accrues liabilities for compensated absences as services are performed and the benefits accrue to employees. The compensated absences payable to OAL employees for annual, sick, and compensatory leave at June 30, 2016 totaled \$ 314,004. The OAL has adopted the State of Arkansas methodology for the computation of the current vs. long-term portion of this liability. This computation is based upon the State average of current vs. long-term portion of this liability for all state employees. For the fiscal year ended June 30, 2016 the current portion of the compensated absences liability decreased by \$5,520 to a balance of \$46,598 and the long-term portion increased by \$22,132 to a balance of \$267,406.

<b>Long Term Compensated Absences</b>	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
Annual	\$ 245,274	\$ 363,286	\$(363,877)	\$ 244,683
Sick	0	22,723	0	22,723
Compensatory	0	0	0	0
<b>Total</b>	<b><u>\$ 245,274</u></b>	<b><u>\$ 386,009</u></b>	<b><u>\$(363,877)</u></b>	<b><u>\$ 267,406</u></b>

**d. Unearned Revenue**

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

Unearned revenue from online game tickets at June 30, 2016 is summarized as follows:

Powerball®	\$ 147,949
Mega Millions®	213,532
Natural State Jackpot	14,636
Lucky for Life®	10,366
Cash 3	3,214
Cash 4	<u>2,465</u>
<b>Total</b>	<b><u>\$ 392,162</u></b>

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, 2016 the amount of unearned revenue which related to retailer licensing and renewal fees was \$45,334.

**Arkansas Department of Finance and Administration  
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**12. UNRESTRICTED NET POSITION (DEFICIT)**

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

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

However, the calculation method utilized results in modified cash basis net proceeds each month which vary from 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, 2016 the cumulative variance due to the modified cash basis method was a debit balance (deficit) in Unrestricted Net Position of \$(8,771,357).

In addition, the OAL’s net OPEB liability at June 30, 2016 (see note 16) of \$1,981,207 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, 2016 of \$(1,981,207). The total debit balance (deficit) in Unrestricted Net Position at June 30, 2016 was \$(10,752,564).

**13. ONLINE GAME REVENUES**

Online game tickets are produced through terminals at lottery retailer locations based on player instructions for number selection. Drawings are conducted to determine winning number combinations. Online game sales for the fiscal year ended June 30, 2016 consisted of the following:

Powerball®	\$ 48,073,339
Mega Millions®	14,632,244
Fast Play	10,993,360
Natural State Jackpot	7,567,005
Cash 3	7,184,616
Cash 4	3,823,987
Lucky for Life®	<u>3,317,108</u>
Total	<u>\$ 95,591,659</u>

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
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**14. OPERATING LEASES**

At its start up in 2009 the OAL entered into an operating lease for the rental of office space for its headquarters. The headquarters lease was renewable at the option of the OAL at the end of the initial lease term. During the fiscal year ended June 30, 2015 the lease of the OAL headquarters offices was extended for an additional six year term expiring on August 31, 2021. The annual rent office expense for the fiscal year ended June 30, 2016 was \$417,487.

The OAL also has equipment leases for printers, copiers, postage meters and other office equipment that are generally for two to three year lease periods. The annual office equipment lease expense for the fiscal year ended June 30, 2016 was \$20,041.

Future minimum rental payments on operating leases as of June 30, 2016, are scheduled as follows:

2017	\$443,154
2018	454,599
2019	454,211
2020	461,425
2021	463,627
2022-2026	77,271

**15. RETIREMENT PLAN**

**a. Plan Description**

The OAL provides pension benefits for its employees through the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan. The APERS provides pension benefits to all state employees not covered by another authorized plan, all county employees, municipal employees whose municipalities have elected coverage under this system, college and university employees, and certain non-teaching school employees. Benefits are also provided for governors, General Assembly members, state and county constitutional officers and quasi-judicial members. The APERS is administered by the Arkansas Public Employees Retirement System board of trustees.

Benefit provisions are established and amended by Arkansas Code Title 24.

The APERS issues a financial report, which may be obtained as follows:

Arkansas Public Employees Retirement System  
124 W. Capitol, Suite 400  
Little Rock, AR 72201-3704  
(501) 682-7800  
<http://www.apers.org/annualreports/index.php>

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**b. Benefits Provided**

Members are eligible for full retirement benefits (1) at any age with 28 years of credited service; (2) at age 65 with five years of actual service, except for members of the General Assembly who must have 10 years of actual service if the member only has service as a member of the General Assembly; or (3) at age 55 with 35 years of credited service as an elected official or public safety member. Members are eligible for reduced benefits (1) at any age with at least 25 years but less than 28 years of actual service; or (2) at age 55 with five years of actual service. Members who are defined as a public safety member are eligible for a reduced benefit with five years of actual service if the member is within 10 years of normal retirement age. The normal retirement benefit, paid on a monthly basis, is determined based on (1) the member's final average compensation (an average of the highest 36 months' earnings) and (2) the number of years of credited service.

**c. Contributions**

Arkansas Code Title 24 establishes the contribution requirements of active members and participating employers. Contribution provisions applicable to the participating employers are established by the APERS' Board of Trustees and should be based on an independent actuary's determination of the rate required to fund the plan. The General Assembly and certain agencies employing individuals in public safety positions must also remit additional amounts. For the fiscal year ended June 30, 2016, the employer contribution rates, as a percentage of active member payroll, ranged from 4.00% to 26.88%. Contributory plan members are required to contribute 5% of their annual covered salary. The OAL is required to contribute for all covered state employees at a rate of 14.50% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the OAL are established and may be amended by the APERS Board of Trustees. The OAL's contributions to APERS for the years ended June 30, 2016, 2015, and 2014, were \$529,187, \$589,324, and \$631,562, respectively, which were equal to the required contributions for each year.

During a member's participation in the APERS deferred retirement option plan (DROP), the employer continues to make contributions and the employee ceases to make contributions.

**d. Net Pension Liability**

At June 30, 2016, the OAL reported a net pension liability of \$4.1 million. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The OAL's proportion of the net pension liability was based on actual contributions in the 2015 fiscal year of all participating employers. At June 30, 2015, the OAL's proportion was 0.225%.

Actuarial assumptions

The total pension liability in the actuarial valuation (as of the date noted below) was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date:	June 30, 2015
Inflation rate:	3.25% wages, 2.50% prices
Salary increases (Includes assumed inflation):	3.25% to 9.85%
Investment rate of return (Includes assumed inflation):	7.50%
Mortality rates:	RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females
Actuarial experience study dates:	2007-2012

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2015 to 2024 were based upon capital market assumptions provided by the plan's investment consultants. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2015, these best estimates are summarized in the following table:

<b>Asset Class</b>	<b>Current Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Broad Domestic Equity	42%	6.82%
International Equity	25%	6.88%
Real Assets	12%	3.07%
Absolute Return	5%	3.35%
Domestic Fixed	16%	0.83%
Total	100%	

Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the OAL's proportionate share of the net pension liability for the pension plan calculated using the discount rate stated, as well as what the OAL's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% lower than current discount rate	Current discount rate	1% higher than current discount rate
Rate	6.50%	7.50%	8.50%
Net pension liability	\$6,827,196	\$4,144,582	\$1,913,591

**e. Pension Plan Fiduciary Net Position**

Detailed information about the fiduciary net position of the pension plan (APERS) is available in its separately issued financial report.

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**f. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2016, the OAL recognized pension expense of \$501,805. For the year ended June 30, 2016, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Changes of assumptions	\$611,652	
Differences between expected and actual experience		\$271,712
Net difference between projected and actual investment earnings on pension plan investments		\$205,633
Changes in proportion and differences between employer contributions and share of contributions		\$216,119
Contributions subsequent to the measurement date		\$519,093

The deferred outflows of resources related to pensions resulting from OAL contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	<u>Total</u>
2017	\$(69,380)
2018	(69,380)
2019	(107,190)
2020	164,138

**16. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

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

**a. Plan Description**

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

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**b. Funding Policy and Funded Status**

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

Projections of benefits are based on actuarial calculations which reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions used in the calculation of the OPEB liability were as follows: Actuarial valuation date: July 1, 2014; Actuarial cost method: Projected Unit Credit; Amortization method: Level Dollar Open; Remaining amortization period: 30 years; Asset valuation method: Market value; Actuarial Assumptions: Investment rate of return, 4.00%; Rate of salary increases, not applicable; Ultimate rate of medical inflation, 4.00%; Inflation, 3.00%.

For the fiscal year ended June 30, 2016, there was no required contribution rate and no contributions were made, as the plan is funded on a pay-as-you-go basis and the OAL had no eligible retirees for whom contributions were yet due. The OAL's annual OPEB cost for the fiscal years ended June 30, 2016, 2015 and 2014 were \$472,428, \$182,271 and \$302,872 respectively. The liability for the current year and each of the two preceding fiscal years were as follows:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
June 30, 2016	\$1,508,779	\$ 472,428	\$ 0	\$1,981,207
June 30, 2015	1,326,508	182,271	0	1,508,779
June 30, 2014	1,023,636	302,872	0	1,326,508

**17. CONTRACTUAL ARRANGEMENTS AND OTHER COMMITMENTS**

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

INTRALOT operates the gaming network that consists of approximately 1,900 instant and online retailer ticket terminals and associated software. In accordance with its contract, INTRALOT receives the negotiated fee on the selling price of online tickets sold and on instant ticket settlements. The OAL had an initial seven-year contract with INTRALOT ending in 2016, which included an option for up to three additional renewals in one-year increments, or a portion thereof. During the fiscal year ended June 30, 2015 the OAL exercised the option to extend the INTRALOT contract for a period of three years. The current contract extension will expire on August 14, 2019. During the fiscal year ended June 30, 2016, INTRALOT was compensated at the rate of 2.165% of all online and instant ticket game sales. Total fees paid to INTRALOT and others for all gaming network and related services for the fiscal year ended June 30, 2016 were \$9,838,661 which was 2.16% of sales.

**Arkansas Department of Finance and Administration**  
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SGI prints, warehouses, and distributes the instant game tickets to retailers. In accordance with its contract with the OAL, SGI receives the negotiated fee on the selling price of all instant ticket settlements. During the fiscal year ended June 30, 2016 the OAL and SGI executed a third amendment to the contract for an additional seven-year period ending with an expiration date of August 18, 2026. The amended contract sets the SGI fees at 1.31% of instant ticket net sales up to \$360 million during a contract year. However, for the first year of the amended contract, the bonus calculation is based on the pro-rated portion of the contract year from the effective date of November 14, 2015 through August 18, 2016, the contract year end. Should the total net sales of instant tickets exceed \$360 million in a contract year, SGI will receive a one-time bonus payment in an amount equivalent to 4.5% of all such incremental sales exceeding \$360 million. During the fiscal year ended June 30, 2016, SGI was compensated \$5,001,455, which represents a rate of 1.39% of instant ticket sales for these services. Instant ticket sales during the fiscal year ended June 30, 2016 did not exceed \$360 million during the contract year, so no bonus was paid during fiscal year 2016. SGI also maintains the OAL's Points for Prizes program. This program provides merchandise prizes and other awards to participating players based upon tickets registered by the players. In addition, SGI provides other products and services for which the OAL pays various contracted fees. During the fiscal year ended June 30, 2016 these other SGI fees totaled \$4,480,412 or 1.24 % of instant ticket sales. Total fees paid to SGI for all services for the fiscal year ended June 30, 2016 were \$9,481,867.

During the fiscal year ended June 30, 2016 the OAL executed a contract with Camelot Global Services (CGS) to provide a Business Plan (BP) and other consultancy services. The contract was effective November 30, 2015 and expires on June 30, 2020 with two optional extension periods of twelve months each, which automatically renew unless either party informs the other party, in writing, of their intent not to renew at least 90 days prior to the expiration date. As specified by the contract, CGS delivered a BP which the OAL accepted. CGS also delivered a price sheet with the prices of services CGS included in the BP. The OAL will negotiate the parameters and pricing of any CGS consultancy services it accepts. On or before January 31, 2017, and by that date each year through the life of the contract, the OAL and CGS will meet to discuss implementation of the BP for the next fiscal year and will agree to the amendments, if any, to the BP; the portions of the BP to be implemented in the next fiscal year; the CGS personnel who will assist with the implementation; and the pricing of the consultancy services CGS will provide.

The contract specifies that CGS be paid a base compensation amount of \$650,000 per year, with \$500,000 of such base compensation for the fiscal year ended June 30, 2016 being paid within 15 days after the delivery of the completed BP and the remainder paid monthly. For subsequent fiscal years the base compensation is to be paid in equal monthly payments of \$54,167. In addition to the base compensation CGS will be reimbursed for travel expenses such as airfare, lodging, meals and other allowed travel costs not to exceed \$100,000 per year. For the fiscal year ended June 30, 2016 the OAL paid CGS \$650,000 for base compensation and \$25,181 for expenses.

The contract also specifies a tiered incentive compensation structure as follows:

- a. CGS will receive incentive payments of 12.5% of the portion of Adjusted Operating Income (AOI) in any fiscal year that exceeds \$72,287,393 but is less than or equal to \$80,000,000.
- b. CGS will receive incentive payments of 13.75% of the portion of AOI in any fiscal year that exceeds \$80,000,000 but is less than or equal to \$90,000,000.
- c. CGS will receive incentive payments of 15% of the portion of AOI in any fiscal year that exceeds \$90,000,000.

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**Office of the Arkansas Lottery**  
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**June 30, 2016**

For purposes of the incentive compensation, calculation AOI is defined as Operating Income before any expenses related to (1) services provided by ADHE, (2) services provided by Legislative Audit, (3) legal and professional fees, (4) depreciation, and (5) any incentive compensation payable to CGS. CGS will invoice the OAL after the end of each fiscal year quarter for the amount of incentive compensation owed. The final quarterly incentive payment for each fiscal year is subject to final adjustment upon the completion and release of the OAL's audited financial statements. For the fiscal year ended June 30, 2016 the OAL paid or accrued total incentive compensation to CGS of \$1,561,450.

**18. CONTINGENCIES**

At June 30, 2016 there were no pending lawsuits or claims to which the OAL is a party.

**19. RISK MANAGEMENT**

The OAL is exposed to various types of risk related to its operations. These risks can result in losses incurred from property damage or destruction, business interruption such as inability to operate gaming activities and worker compensation claims. The OAL manages these risks by participating in the various self-insurance programs established by the State for property and casualty losses and employee health insurance. Coverages include property, general liability, automobile liability, workers' compensation, state unemployment, court-awarded attorney fees, and Federal civil rights actions. Property is self-insured for actual cash value to an aggregate of \$1.6 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, 2016, 2015 and 2014 did not exceed the OAL's insurance coverage.

**20. SUBSEQUENT EVENTS**

In accordance with GASB 56, the OAL's Management has evaluated subsequent events that occurred after June 30, 2016, but prior to December 5, 2016, the date the financial statements were available to be issued.

Such evaluation subsequently identified the following transactions related to the Trust Account, the corresponding Payable to ADHE liability account. At the request of ADHE, on September 9, 2016 a payment of \$36,000,000 was made from the Trust Account to ADHE. Also, on September 12, 2016, ADHE returned \$542,198 to the OAL for excess funds from fiscal year 2016. These returned funds were deposited to the Trust Account and were reflected in the Payable to ADHE liability account.

Such evaluation also identified that per the amended contract with SGI, upon the completion of the contract year on August 17, 2016, instant games sales totaled \$280,369,332 for the period from November 14, 2015 through the end of the contract year. The amount of sales exceeded the pro-rated bonus calculation base amount of \$273,442,623 by \$6,926,709 resulting in a bonus amount of \$311,702 payable to SGI.

# REQUIRED SUPPLEMENTARY INFORMATION



▶ Alice Hodge, Mark Hodge and Lori White (from left) of Hagarville Grocery and Station in Hagarville. Arkansas Scholarship Lottery Retailer since day one.



**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Arkansas Public Employees Retirement System  
Schedule of Employer's Proportionate Share of the Net Pension Liability  
Last Ten Fiscal Years (1)**

	<u>2016</u>	<u>2015</u>	<u>2014 to 2007</u>
OAL proportion of the net pension liability (asset)	0.23%	0.24%	N/A
OAL proportionate share of the net pension liability (asset)	\$ 4,415,000	\$ 3,408,000	
OAL covered-employee payroll	\$ 3,649,566	3,992,710	
OAL proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	120.97%	85.36%	
Plan fiduciary net position as a percentage of the total pension liability	80.39%	84.15%	

Note: (1) The amounts presented for each fiscal year were determined as of the prior fiscal year-end.

N/A The OAL implemented GASB Statement 68 in fiscal year 2015.

Information for this schedule was not available prior to fiscal year 2015.

Source: State of Arkansas CAFR and OAL Finance Division

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Arkansas Public Employees Retirement System  
Schedule of Employer Contributions  
Last Ten Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013 to 2007</u>
Statutorily determined contribution	\$ 529,187	\$ 589,324	\$ 631,562	N/A
Contributions in relation to the statutorily determined contribution	<u>529,187</u>	<u>589,324</u>	<u>631,562</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered-employee payroll	\$ 3,649,566	\$ 3,992,710	\$ 4,244,368	
Contributions as a percentage of covered-employee payroll	14.50%	14.76%	14.88%	

Note: N/A The OAL implemented GASB Statement 68 in fiscal year 2015.  
Information for this schedule was not available prior to fiscal year 2014.  
Source: State of Arkansas CAFR and OAL Finance Division

# STATISTICAL SECTION



Store clerk Alex Mahmudov of Valero T-Ricks.  
Arkansas Scholarship Lottery Retailer since day one.



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

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

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<b>Financial Trends</b>	38
<p>These schedules contain trend information to help the reader understand how the OAL's financial performance and well-being have changed over time.</p>	
<b>Demographics and Operation Information</b>	46
<p>These schedules offer demographic and operation indicators to help the reader understand the environment within which the OAL's financial activities take place.</p>	
<b>Other Information</b>	50
<p>These schedules provide the reader with an understanding of lottery sales across the United States by state and other player demographics.</p>	

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Operating revenues:</b>			
Instant ticket sales:			
Instant games sales	\$ 360,007,743	\$ 335,000,613	\$ 322,415,276
Online ticket sales:			
Powerball®	48,073,339	27,099,705	35,042,460
Mega Millions®	14,632,244	15,158,385	19,847,674
Fast Play	10,993,360	10,770,484	10,126,554
Natural State Jackpot	7,567,005	7,035,843	8,863,034
Cash 3	7,184,616	6,712,769	6,255,740
Cash 4	3,823,987	3,832,385	3,606,991
Decades of Dollars	-	612,932	2,345,532
AR Million Dollar Raffle	-	-	1,426,490
Arkansas 50/50 Raffle	-	38,210	143,375
Lucky for Life®	3,317,108	2,013,064	-
Monopoly™ Millionaires' Club	-	388,990	-
Total online ticket sales	<u>95,591,659</u>	<u>73,662,767</u>	<u>87,657,850</u>
Retailer application, fidelity, bond & service fees	717,150	550,952	554,292
Other revenue	<u>9,259</u>	<u>20,346</u>	<u>10,550</u>
Total operating revenues	<u>456,325,811</u>	<u>409,234,678</u>	<u>410,637,968</u>
<b>Non-operating revenue:</b>			
Interest income	232,275	224,546	252,614
Other non-operating income	<u>1,875</u>	<u>-</u>	<u>461,047</u>
Total non-operating revenue	<u>234,150</u>	<u>224,546</u>	<u>713,661</u>
Total revenues	<u>\$ 456,559,961</u>	<u>\$ 409,459,224</u>	<u>\$ 411,351,629</u>

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

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

Source: OAL Comprehensive Annual Financial Report for fiscal years 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011 and ALC Annual Financial Report for fiscal year 2010

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

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 355,061,785	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156
47,409,700	37,903,399	34,961,543	34,998,429
13,891,465	25,571,602	24,113,365	7,935,615
3,391,691	2,721,436	2,636,383	-
6,994,820	-	-	-
6,161,706	6,178,537	5,805,414	5,277,255
3,324,150	3,325,490	3,091,218	-
2,927,572	5,237,158	932,820	-
-	-	5,000,000	-
385,105	857,760	-	-
-	-	-	-
-	-	-	-
<u>84,486,209</u>	<u>81,795,382</u>	<u>76,540,743</u>	<u>48,211,299</u>
556,792	538,584	1,055,538	867,023
4,490	15,038	5,450	5,650
<u>440,109,276</u>	<u>473,639,229</u>	<u>465,080,339</u>	<u>384,571,128</u>
322,722	352,431	464,252	181,807
-	2,000,000	-	-
<u>322,722</u>	<u>2,352,431</u>	<u>464,252</u>	<u>181,807</u>
<u>\$ 440,431,998</u>	<u>\$ 475,991,660</u>	<u>\$ 465,544,591</u>	<u>\$ 384,752,935</u>

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Revenues, Expenses and Change in Net Position (Unaudited)**  
**Last Eight Fiscal Years**

	<u>2016</u>	<u>2015</u>
<b>Operating revenues:</b>		
Instant ticket sales	\$ 360,007,743	\$ 335,000,613
Online ticket sales	95,591,659	73,662,767
Retailer application, fidelity, bond and service fees	717,150	550,952
Other revenue	<u>9,259</u>	<u>20,346</u>
 Total operating revenues	 <u>456,325,811</u>	 <u>409,234,678</u>
<b>Operating expenses:</b>		
Instant game prizes	258,461,952	241,758,220
Online game prizes	50,485,363	38,708,574
Retailer commissions	25,704,177	23,253,196
Gaming contract costs	19,384,187	20,622,707
Compensation and benefits	5,232,605	5,382,544
Marketing, advertising and promotions	4,798,502	5,032,317
General and administrative expenses	3,380,275	1,274,003
Services provided by other agencies:		
Arkansas Department of Higher Education	396,995	538,487
Arkansas Legislative Audit	143,360	129,960
Legal and professional services	2,793	12,528
Depreciation	<u>95,063</u>	<u>158,363</u>
 Total operating expenses	 <u>368,085,272</u>	 <u>336,870,899</u>
 Operating income (loss)	 88,240,539	 72,363,779
<b>Non-operating revenue:</b>		
Interest income	232,275	224,546
Other non-operating income	1,875	-
Total non-operating revenue	<u>234,150</u>	<u>224,546</u>
 Income (loss) before transfers	 88,474,689	 72,588,325
<b>Transfers to:</b>		
Education Trust Account	(85,274,927)	(72,619,369)
Arkansas Department of Human Services	<u>-</u>	<u>(200,000)</u>
 Change in net position	 <u>\$ 3,199,762</u>	 <u>\$ (231,044)</u>

Note: 1) The OAL (ALC) was established in fiscal year 2009 but began operations in fiscal year 2010.  
2) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source: OAL Comprehensive Annual Financial Report for fiscal years 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011, ALC Annual Financial Report for fiscal year 2010 and ALC general ledger for fiscal year 2009

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Revenues, Expenses and Change in Net Position (Unaudited)**  
**Last Eight Fiscal Years**

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 322,415,276	\$ 355,061,785	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156	\$ -
87,657,850	84,486,209	81,795,382	76,540,743	48,211,299	-
554,292	556,792	538,584	1,055,538	867,023	-
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>
229,462,196	250,246,337	274,203,122	269,898,596	224,341,940	-
45,487,903	41,877,845	41,115,706	37,556,109	23,381,100	-
23,046,410	24,986,551	26,526,329	26,217,851	21,578,603	-
20,511,439	22,116,163	24,308,153	24,111,720	20,448,694	-
5,990,541	6,049,048	5,954,138	6,226,266	6,118,300	-
4,472,456	4,414,655	4,466,054	4,631,388	4,352,303	-
1,414,871	1,231,212	1,270,047	1,434,229	1,841,340	11,683
751,556	794,016	846,109	1,170,710	216,849	-
139,080	142,720	159,440	280,728	153,180	-
6,457	22,507	107,651	8,484	24,182	4,786
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>
79,166,789	88,046,064	94,500,321	93,364,508	81,991,994	(16,469)
252,614	322,722	352,431	464,252	181,807	-
461,047	-	2,000,000	-	-	-
<u>713,661</u>	<u>322,722</u>	<u>2,352,431</u>	<u>464,252</u>	<u>181,807</u>	<u>-</u>
79,880,450	88,368,786	96,852,752	93,828,760	82,173,801	(16,469)
(81,488,844)	(90,257,161)	(97,510,280)	(74,229,349)	(82,799,809)	-
<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
<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>

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

	<b>2016</b>	<b>2015</b>	<b>2014 (3)</b>
<b>Net position:</b>			
Invested in capital assets	\$ 376,417	\$ 223,178	\$ 246,113
Restricted for:			
Scholarship shortfall reserve	20,000,000	20,000,000	20,000,000
Retailer fidelity reserve	136,900	113,582	91,133
Retailer bond reserve	163,872		
Deposits with Multi-State Lottery Association	1,847,611	1,762,386	1,794,079
Unclaimed prizes reserve	1,000,000	1,000,000	1,000,000
Unrestricted (deficit)	(10,752,564)	(13,526,672)	(13,327,807)
 Total net position (deficit)	 \$ 12,772,236	 \$ 9,572,474	 \$ 9,803,518

Note: 1) The OAL (ALC) was established in fiscal year 2009 but began operations in fiscal year 2010.  
2) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration  
3) For fiscal year 2014, Unrestricted(deficit) was restated for pension per GASB Statement 68.  
Source: OAL Comprehensive Annual Financial Report for fiscal years 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011, ALC Annual Financial Report for fiscal year 2010 and ALC general ledger for fiscal year 2009

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

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

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

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Cash received from retailers and others	\$ 457,634,809	\$ 407,714,967
Cash paid for prizes	(310,865,471)	(279,650,934)
Cash paid for gaming vendors	(19,540,446)	(20,638,704)
Cash paid for retailer commissions	(25,742,753)	(23,253,196)
Cash paid for marketing and advertising	(5,413,835)	(4,772,451)
Cash paid for employee services	(4,834,544)	(5,432,980)
Cash paid for other expenses	(2,412,905)	(2,139,793)
Cash received from other non-operating income	1,875	-
Net cash provided (used) by operating activities	88,826,730	71,826,909
<b>Cash flows from non-capital financing activities:</b>		
Interagency advances	-	-
Non-operating transfers to Arkansas Department of Higher Education	(77,000,000)	(80,000,000)
Non-operating transfers from Arkansas Department of Higher Education	286,177	2,319,469
Non-operating transfers to Arkansas Department of Human Services	-	(200,000)
Net cash provided (used) by non-capital financing activities	(76,713,823)	(77,880,531)
<b>Cash flows from capital and related financing activities:</b>		
Purchases of capital assets	(248,302)	(138,605)
Loss on disposal of fixed assets	-	3,177
Net cash flows from capital and related financing activities	(248,302)	(135,428)
<b>Cash flows from investing activities:</b>		
Interest received	232,275	224,546
<b>Net increase in cash and cash equivalents</b>	12,096,880	(5,964,504)
<b>Cash and cash equivalents, beginning</b>	45,585,613	51,550,117
<b>Cash and cash equivalents, ending</b>	\$ 57,682,493	\$ 45,585,613
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ 88,240,539	\$ 72,363,779
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	95,063	158,363
Pension Earnings	(90,790)	(201,028)
Other non-operating income	1,875	-
Net changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,166,802	(1,493,924)
Receivable from other Funds of the State	(3,576)	-
Prepaid items	(9,191)	59,650
Deposits with Mult-State Lottery Association	(85,225)	31,693
Increase (decrease) in:		
Accounts payable	(481,522)	(609,762)
Prizes payable	(1,832,930)	784,166
Accrued and other liabilities	1,261,440	864,662
Due to other funds of the State	(66,992)	(248,295)
Compensated absences	16,613	(38,879)
Unearned revenue	142,196	(25,787)
Net other post employment benefits	472,428	182,271
Net cash provided (used) by operating activities	\$ 88,826,730	\$ 71,826,909

Note: 1) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.  
Source: OAL Comprehensive Annual Financial Report for fiscal year 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011, ALC Annual Financial Report for fiscal year 2010 and ALC general ledger for fiscal year 2009

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

2014	2013	2012	2011	2010	2009
\$ 410,690,974	\$ 440,234,069	\$ 473,876,584	\$ 468,220,833	\$ 370,120,513	\$ -
(275,024,448)	(289,313,701)	(315,948,269)	(306,303,849)	(231,877,356)	-
(20,308,816)	(22,410,639)	(24,588,775)	(24,016,144)	(22,766,421)	-
(23,046,410)	(24,986,551)	(26,526,329)	(26,217,851)	(20,594,364)	-
(4,319,538)	(4,863,664)	(4,280,198)	(4,009,445)	(3,515,419)	-
(5,725,930)	(5,691,914)	(5,848,550)	(6,157,322)	(5,114,532)	-
(2,402,273)	(2,228,385)	(2,726,247)	(1,897,589)	(1,914,665)	(11,657)
461,047	-	2,000,000	-	-	-
<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>
-	-	-	-	(6,000,000)	6,000,000
(95,000,000)	(115,000,000)	(115,000,000)	(115,000,000)	-	-
2,138,092	6,342,312	12,430,211	20,000,000	-	-
(200,000)	(200,000)	(200,000)	(200,000)	-	-
<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>
(76,011)	-	-	(34,832)	(990,250)	-
<u>(76,011)</u>	<u>-</u>	<u>-</u>	<u>(34,832)</u>	<u>(990,250)</u>	<u>-</u>
252,614	322,722	352,431	464,252	181,807	-
(12,560,699)	(17,795,751)	(6,459,142)	4,848,053	77,529,313	5,988,343
<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>
<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>
\$ 79,166,789	\$ 88,046,064	\$ 94,500,321	\$ 93,364,508	\$ 81,991,994	\$ (16,468)
188,270	182,158	182,159	179,750	122,643	-
-	-	-	-	-	-
461,047	-	2,000,000	-	-	-
33,527	157,254	258,522	3,059,565	(14,289,726)	-
7,020	(7,020)	-	-	-	-
(51,876)	414	45,174	(72,138)	(5,119)	-
(20,459)	(89,814)	(545,673)	(680,865)	(457,268)	-
871,837	(273,839)	(766,472)	521,541	746,237	-
(53,889)	2,900,295	(83,767)	1,831,721	14,150,175	-
(481,765)	(494,883)	501,610	338,875	924,716	-
(123,695)	16,659	(382,971)	958,107	396,869	4,811
5,449	38,032	1,191	(191,329)	482,927	-
19,479	(32,461)	(21,168)	80,930	274,307	-
302,872	296,356	269,290	227,968	-	-
<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>

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

<u>Calendar year</u>	<u>Total population (in thousands)</u>	<u>Total personal income (in millions)</u>	<u>Per capita personal income</u>	<u>Unemployment rate</u>
2016	2,984 *	\$ 115,717	\$ 38,779	3.9%
2015	2,978 *	116,068	38,975	5.7%
2014	2,975 *	107,450	36,118	6.3%
2013	2,969 *	104,070	35,052	7.3%
2012	2,960 *	101,820	34,399	7.3%
2011	2,940	99,127	33,713	8.0%
2010	2,923	94,581	32,355	7.9%
2009	2,900	91,794	31,651	7.5%
2008	2,877	94,461	32,832	5.4%
2007	2,852	89,313	31,316	5.3%

\* Estimated Amounts

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

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

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

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

<b>2016</b>	<b>Employer</b>	<b>Total Employees</b>	<b>% of Total Arkansas Employment</b>
1	Arkansas State Government	60,816	4.9%
2	Wal-Mart Stores, Inc.	51,680	4.2%
3	Tyson Foods, Inc.	23,000	1.9%
4	U.S. Government	20,300	1.7%
5	Baptist Health	8,249	0.7%
6	Community Health Systems, Inc.	5,700	0.5%
7	CHI St. Vincent Health System	4,662	0.4%
8	Sisters of Mercy Health System	4,653	0.4%
9	Kroger Co.	4,309	0.4%
10	Arkansas Children's Hospital	4,110	0.3%
		<b>187,479</b>	<b>15.4%</b>

<b>2009</b>	<b>Employer</b>	<b>Total Employees</b>	<b>% of Total Arkansas Employment</b>
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%
		<b>180,265</b>	<b>15.4%</b>

Note: 1) The OAL (ALC) was established in fiscal year 2009 but began operations in fiscal year 2010.  
 2) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration  
 Source: Arkansas Business Publishing Group and Arkansas Dept. of Economic Development

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

<b>Function</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Executive	1	1	1	1	1	2	2	1
Public Affairs	0	0	0	0	1	1	1	1
Human Resources	0	0	2	2	2	1	3	-
Legal Counsel	1	2	2	2	1	2	2	-
Internal Audit	3	3	2	2	1	2	2	-
Sales	23	22	23	23	23	23	22	-
Marketing	4	4	7	7	7	7	7	-
Security	6	6	6	5	6	4	4	-
Draw Managers	2	2	2	2	2	1	2	-
Licensing	4	3	3	3	3	4	3	-
Gaming	1	1	1	1	1	1	1	-
IT-Gaming	6	6	6	6	6	7	6	-
Product Development	3	3	3	3	3	2	2	-
Finance								
Chief Fiscal Officer	1	1	1	1	1	1	1	-
Treasurer	3	3	3	3	3	4	4	-
Claims Center	3	3	9	9	9	9	9	-
Controller	2	2	5	5	5	4	3	-
Procurement	1	1	2	2	3	6	6	-
IT-Admin	1	2	3	3	3	3	4	-
<b>Total Employees</b>	<b>65</b>	<b>65</b>	<b>81</b>	<b>80</b>	<b>81</b>	<b>84</b>	<b>84</b>	<b>2</b>
<b>Gender:</b>								
Female	30	28	40	39	41	41	41	1
Male	35	37	41	41	40	43	43	1
<b>Race:</b>								
Black/Non-Hispanic	16	15	19	19	23	23	24	-
Caucasian	43	43	53	54	51	57	57	2
Hispanic	2	2	3	3	2	2	1	-
Other	4	5	6	4	5	2	2	-
<b>Age:</b>								
Under 40	20	21	29	31	34	35	36	-
40+	45	44	52	49	47	49	48	2

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

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

Source: OAL Finance Division

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Capital Assets by Department (Unaudited)**  
**Year Ended June 30, 2016**

<b>Function</b>	<b>2016</b>
<b>Executive:</b>	
Furniture and fixtures	\$ 24,617
Computer equipment	36,373
Vehicles	5,894
Buildings/building improvements	37,907
Total executive assets	<u>104,791</u>
<b>Sales and Marketing:</b>	
Furniture and fixtures	132,933
Computer equipment	196,413
Vehicles	31,827
Buildings/building improvements	204,700
Total sales and marketing assets	<u>565,873</u>
<b>Gaming and Security:</b>	
Furniture and fixtures	108,316
Computer equipment	160,040
Vehicles	25,933
Buildings/building improvements	166,793
Total gaming and security assets	<u>461,082</u>
<b>Finance:</b>	
Furniture and fixtures	54,158
Computer equipment	80,020
Vehicles	12,967
Buildings/building improvements	83,396
Total finance assets	<u>230,541</u>
Total assets	<u>\$ 1,362,287</u>

Source: OAL Finance Division

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**U.S. Lotteries' Sales (Unaudited)**  
**Fiscal year 2016**

<b>Lottery Jurisdiction</b>	<b>Population (in millions)</b>	<b>Sales (in millions)</b>	<b>Sales Per Capita</b>	<b>Instant Sales (in millions)</b>	<b>Instant Sales Per Capita</b>
Arizona	6.8	\$ 870.9	\$ 128	\$ 590.7	\$ 87
<b>Arkansas</b>	<b>3.0</b>	<b>455.6</b>	<b>153</b>	<b>360.0</b>	<b>120</b>
California	39.1	6,275.6	160	4,351.8	111
Colorado	5.5	594.4	109	395.2	72
Connecticut	3.6	1,230.8	343	742.3	206
D.C.	0.9	228.5	242	50.8	56
Delaware	0.7	214.6	319	65.7	94
Florida	20.3	6,062.4	299	3,954.7	195
Georgia	10.2	4,555.9	446	3,100.7	304
Idaho	1.7	236.1	143	129.0	76
Illinois	12.9	2,858.2	222	1,811.8	140
Indiana	6.6	1,207.6	182	870.0	132
Iowa	3.1	366.9	117	233.7	75
Kansas	2.9	287.4	99	168.1	58
Kentucky	4.4	989.6	224	593.2	135
Louisiana	4.7	507.0	109	212.2	45
Maine	1.3	272.8	205	210.5	162
Maryland	6.0	1,905.5	317	611.3	102
Massachusetts	6.8	5,196.3	765	3,597.9	529
Michigan EST (1)	9.9	3,047.1	307	1,097.3	111
Minnesota	5.5	592.9	108	394.7	72
Missouri	6.1	1,241.1	204	831.7	136
Montana	1.0	60.0	58	17.9	18
Nebraska	1.9	179.6	95	97.4	51
N. Hampshire	1.3	301.9	227	218.1	168
New Jersey	9.0	3,290.0	367	1,842.4	205
New Mexico	2.1	154.3	74	83.1	40
New York (1)	19.8	7,703.1	389	3,912.3	198
N. Carolina	10.0	2,383.6	237	1,617.5	162
N. Dakota (2)	0.8	35.7	47	-	-
Ohio	11.6	3,056.7	263	1,560.4	135
Oklahoma	3.9	189.6	48	78.6	20
Oregon	4.0	353.0	88	131.6	33
Pennsylvania	12.8	4,135.2	323	2,792.7	218
Rhode Island	1.1	260.9	247	96.3	88
S. Carolina	4.9	1,600.4	327	1,137.8	232
South Dakota	0.9	55.5	65	26.3	29
Tennessee (2)	6.6	1,626.0	246	-	-
Texas EST (1)	27.5	5,067.5	184	3,699.8	135
Vermont	0.6	124.3	199	93.3	156
Virginia	8.4	2,006.9	239	1,100.6	131
Washington	7.2	696.0	97	454.0	63
West Virginia	1.8	188.2	102	102.5	57
Wisconsin	5.8	629.8	109	381.4	66
Wyoming	0.6	33.4	57	-	-
<b>Total</b>	<b>305.6</b>	<b>\$ 73,328.8</b>	<b>\$ 240</b>	<b>\$ 43,817.3</b>	<b>\$ 143</b>

(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. Wyoming does not have instant ticket sales.

Source: *La Fleur's Magazine* - September/October 2016

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

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

(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. Wyoming does not have instant ticket sales.

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Demographic Summary (Unaudited)  
Fiscal Year Ended June 30, 2016**

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

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

# SUPPLEMENTARY INFORMATION



Terri Revelle of Ryan's Country Store in Cross County.  
Arkansas Scholarship Lottery Retailer since day one.



**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Unclaimed Lottery Prizes (Unaudited)  
Fiscal Year Ended June 30, 2016**

<u>Month</u>	<u>Unclaimed lottery prizes</u>	<u>Expenditures from unclaimed lottery prizes</u>	<u>Increase (decrease) in unclaimed prize reserve</u>	<u>Deposits to net lottery proceeds from unclaimed lottery prizes</u>
July	\$ 121,937	\$ -	\$ 121,937	\$ -
August	694,112	-	694,112	-
September	740,302	-	740,302	-
October	75,505	-	75,505	-
November	776,716	-	776,716	-
December	87,708	-	87,708	-
January	506,731	-	506,731	-
February	561,499	-	561,499	-
March	524,038	-	524,038	-
April	79,121	-	79,121	-
May	787,502	-	787,502	-
June	479,859	-	(4,955,170)	5,435,029
Total	<u>\$ 5,435,029</u>	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ 5,435,029</u>

Source - OAL general ledger

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Scholarship Shortfall Reserve Trust Account (Unaudited)  
Fiscal Year Ended June 30, 2016**

	<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	\$ 11,000,000	\$ 18,034,639	\$ 20,000,000
Deposits	-	-	-	7,034,639	1,965,361	-
Transfers	-	-	(9,000,000)	-	-	-
Ending Balance	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 11,000,000</u>	<u>\$ 18,034,639</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
Beginning Balance	\$ 20,000,000	\$ 20,000,000	\$ 15,323,713	\$ 19,798,069	\$ 20,000,000	\$ 20,000,000
Deposits	-	-	4,474,356	201,931	-	-
Transfers	-	(4,676,287)	-	-	-	-
Ending Balance	<u>\$ 20,000,000</u>	<u>\$ 15,323,713</u>	<u>\$ 19,798,069</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>

Source - OAL general ledger and corresponding bank statements

**Arkansas Department Finance and Administration  
Office of the Arkansas Lottery  
Minority-owned and Female-owned Business Participation (Unaudited)  
Fiscal Year Ended June 30, 2016**

**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	\$ 1,853	Advertising/Public Relations	Female-Owned
Goddess Products	20,569	Office Furniture/Supplies	Minority-Owned
Government Supply Services	1,973	Office Products	Minority-Owned
Party Prints	14,928	Advertising/Public Relations	Minority/Female-Owned
Premier Staffing	8,627	Temporary Staffing Services	Female-Owned
Trivia Marketing	21,936	Advertising/Public Relations	Female-Owned
Total	\$ 69,886		

**Intralot Minority and Female Owned Diversity Compliance Report**

<u>VENDORS</u>	<u>Amount Paid</u>	<u>Good or Service</u>	<u>Classification</u>
J Kelly Referrals and Information Svcs, Inc	119,534	Call Center/Information Svcs	Minority-Owned
Total	\$ 119,534		

**Scientific Games Minority and Female Owned Diversity Compliance Report**

<u>VENDORS</u>	<u>Amount Paid</u>	<u>Good or Service</u>	<u>Classification</u>
Mr. Klean Carpet and Janitorial Svcs	\$ 4,291	Janitorial Svcs	Minority-Owned
Central Copiers	1,269	Office Products/Supplies	Female-Owned
Premier Staffing	3,126	Staffing Svcs	Female-Owned
Expedited Transportation Svcs	24,202	Transportation Svcs	Female-Owned
Total	\$ 32,888		

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Retail Sales by County (Unaudited)  
Fiscal Year Ended June 30, 2016**

COUNTY	Instant*	Powerball ® *	Mega Millions ® *	Fast Play*	Natural State		Cash 3*	Cash 4*	Lucky for Life ® *	Total
					Jackpot*					
Arkansas	\$ 4,693,300	\$ 421,098	\$ 123,865	\$ 142,950	\$ 65,475	\$ 96,828	\$ 74,932	\$ 28,294	\$ 5,646,742	
Ashley	1,350,890	235,848	67,645	72,834	23,693	112,056	111,149	17,014	1,991,129	
Baxter	4,366,549	649,051	185,112	120,387	130,047	51,318	22,742	71,198	5,596,404	
Benton	10,990,500	3,154,486	842,575	286,364	255,509	61,158	26,387	150,602	15,767,580	
Boone	4,961,682	551,644	163,610	131,450	53,799	33,106	37,441	28,310	5,961,042	
Bradley	1,582,780	129,649	34,464	26,751	22,853	20,779	28,076	16,004	1,861,356	
Calhoun	593,233	50,676	17,414	12,680	8,375	32,614	13,228	5,382	733,602	
Carroll	2,985,046	349,673	109,224	86,082	37,489	15,470	15,733	22,742	3,621,459	
Chicot	1,517,039	1,028,092	252,236	25,835	76,324	106,999	61,020	48,668	3,116,212	
Clark	3,469,176	374,332	114,142	175,781	56,170	40,895	19,560	24,560	4,274,615	
Clay	947,567	104,944	25,707	10,812	16,470	2,981	826	7,076	1,116,383	
Cleburne	3,125,091	456,857	158,004	123,872	127,140	14,149	8,445	43,230	4,056,788	
Cleveland	528,661	53,235	14,620	8,944	5,924	3,767	6,320	2,314	623,784	
Columbia	3,093,754	287,813	85,737	242,390	33,063	171,275	112,872	30,452	4,057,356	
Conway	5,602,675	462,122	148,269	160,792	93,057	60,046	20,368	27,304	6,574,633	
Craighead	14,314,274	1,566,358	427,836	295,191	185,891	94,520	58,687	79,590	17,022,346	
Crawford	3,618,559	877,312	274,166	85,736	124,162	24,170	12,132	45,346	5,061,583	
Crittenden	5,877,519	1,208,410	371,551	94,595	126,712	186,544	124,869	73,906	8,064,106	
Cross	2,447,449	237,809	68,067	106,422	31,117	32,320	21,983	10,414	2,955,581	
Dallas	1,684,946	130,913	43,300	42,394	22,732	25,258	7,171	8,558	1,965,271	
Desha	1,860,153	276,105	87,887	104,247	46,386	26,768	14,618	13,912	2,430,075	
Drew	2,330,913	302,985	85,623	78,759	41,943	22,873	16,009	25,636	2,904,741	
Faulkner	11,941,533	1,829,271	540,433	438,918	317,748	112,767	62,497	119,874	15,363,040	
Franklin	1,779,503	286,919	93,740	92,487	34,836	4,998	2,778	15,324	2,310,585	
Fulton	733,015	82,545	23,816	18,890	11,896	5,178	2,398	6,414	884,152	
Garland	10,456,825	1,965,907	636,841	425,772	442,654	86,546	54,606	161,210	14,230,361	
Grant	1,489,262	212,223	62,724	38,611	36,115	3,957	2,624	20,784	1,866,300	
Greene	6,352,923	637,204	186,677	82,635	77,816	10,351	8,346	39,338	7,395,289	
Hempstead	3,990,104	279,555	91,114	127,212	39,261	359,951	116,363	18,650	5,022,209	
Hot Springs	3,652,503	403,323	136,033	101,206	78,819	22,074	9,930	34,202	4,438,089	
Howard	2,261,942	183,280	61,965	64,351	30,671	239,160	92,455	18,642	2,952,466	
Independence	6,274,990	582,479	185,643	439,376	108,116	42,886	9,326	39,010	7,681,825	
Izard	831,365	132,730	41,853	49,894	25,183	2,046	1,390	8,106	1,092,567	
Jackson	3,157,338	293,297	93,109	124,394	69,105	121,767	54,287	27,900	3,941,197	
Jefferson	16,141,337	1,327,150	450,269	491,473	308,277	476,505	326,358	121,616	19,642,985	
Johnson	2,796,819	323,509	118,640	62,084	52,000	8,575	4,605	18,268	3,384,500	
Lafayette	736,387	68,203	20,080	29,026	9,253	50,984	19,312	7,464	940,709	
Lawrence	2,847,082	205,056	60,388	84,534	25,913	13,830	2,946	12,220	3,251,968	
Lee	757,491	85,881	25,085	13,988	6,965	23,142	26,968	5,160	944,679	
Lincoln	1,009,722	116,267	36,303	37,442	32,682	4,234	2,401	7,540	1,246,591	
Little River	1,110,042	134,645	46,425	16,841	14,129	53,061	37,457	8,368	1,420,968	
Logan	2,352,067	306,796	95,001	65,803	46,052	14,085	3,609	18,784	2,902,197	
Lonoke	10,358,557	1,321,921	421,617	282,664	238,853	109,282	59,866	95,148	12,887,908	
Madison	800,434	149,066	45,285	15,346	13,944	1,554	490	10,190	1,036,309	
Marion	1,905,071	214,566	68,759	46,858	50,082	26,480	5,429	27,386	2,344,630	
Miller	5,294,008	549,325	164,099	73,035	60,817	264,476	127,958	32,574	6,566,291	
Mississippi	6,195,954	599,262	166,809	75,546	59,450	584,887	256,905	29,148	7,967,961	
Monroe	1,605,530	205,853	60,809	17,834	25,429	33,970	12,471	10,274	1,972,170	
Montgomery	295,551	74,956	24,136	31,781	12,960	398	65	6,248	446,095	
Nevada	2,299,118	138,335	45,727	54,653	17,896	24,078	13,000	13,216	2,606,023	
Newton	570,935	45,150	18,448	22,443	10,131	702	298	3,964	672,071	
Ouachita	6,137,343	393,712	118,272	118,478	68,742	128,974	61,632	35,118	7,062,271	

(continued)

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Retail Sales by County (Unaudited)  
Fiscal Year Ended June 30, 2016**

COUNTY	Instant*	Powerball ® *	Mega Millions ® *	Fast Play*	Natural State Jackpot*	Cash 3*	Cash 4*	Lucky for Life ® *	Total
Perry	925,504	126,490	45,036	18,431	19,676	8,777	6,024	6,932	1,156,869
Phillips	2,189,188	590,618	173,113	20,454	36,933	123,049	50,040	31,938	3,215,333
Pike	1,024,878	160,471	47,624	135,769	29,987	9,125	1,035	10,582	1,419,471
Poinsett	4,580,462	389,938	112,462	136,232	65,179	75,633	19,040	19,924	5,398,870
Polk	1,420,477	249,021	78,078	56,942	33,861	9,335	577	19,996	1,868,287
Pope	8,586,637	1,062,275	331,568	174,374	170,882	50,084	20,630	63,318	10,459,767
Prairie	1,954,165	151,930	41,367	81,188	16,171	23,768	11,020	7,080	2,286,689
Pulaski	67,312,363	8,158,514	2,760,215	2,110,075	1,700,160	1,351,092	909,898	684,514	84,986,830
Randolph	2,164,114	193,844	53,281	49,811	24,218	1,337	5,151	17,026	2,508,782
Saint Francis	2,869,272	375,170	114,000	37,143	36,051	115,096	80,658	23,166	3,650,555
Saline	12,041,803	1,814,262	550,072	585,538	350,787	111,456	55,696	128,460	15,638,074
Scott	1,054,102	142,052	45,875	27,173	17,625	1,577	790	9,838	1,299,032
Searcy	1,145,476	90,813	28,586	21,901	16,029	2,827	4,330	6,962	1,316,924
Sebastian	7,889,719	2,223,098	674,887	155,683	272,765	220,824	71,742	138,828	11,647,546
Sevier	1,379,119	195,085	61,651	25,943	16,848	29,553	7,211	10,006	1,725,416
Sharp	2,481,914	275,772	80,675	228,784	51,371	10,135	3,074	17,594	3,149,318
Stone	1,119,015	135,886	42,741	51,048	30,995	18,051	4,157	15,036	1,416,929
Union	9,677,199	746,104	223,579	151,553	96,091	602,125	249,999	62,036	11,808,685
Van Buren	1,786,434	240,217	75,357	77,821	44,860	14,232	5,995	15,586	2,260,502
Washington	14,667,164	3,155,501	942,391	341,041	345,911	225,743	66,623	171,004	19,915,378
White	11,865,680	1,139,385	349,135	452,569	205,394	68,555	44,354	76,928	14,202,000
Woodruff	1,034,158	111,115	32,664	8,741	19,077	37,295	10,422	6,348	1,259,819
Yell	2,766,780	272,771	86,269	66,303	47,577	8,177	2,557	14,816	3,265,249
Grand Total	\$ 360,012,130	\$ 48,058,130	\$ 14,791,780	\$ 10,993,360	\$ 7,558,574	\$ 7,184,618	\$ 3,824,340	\$ 3,310,570	\$ 455,733,501

\*Estimates - Cash Sales, not on accrual basis  
Source - OAL Gaming Division

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Demographic Report from the Arkansas Department of Higher Education (Unaudited)**  
**Fiscal Year Ended June 30, 2016**

<u>Institution</u>	<u>Awards</u>	<u>Scholarships</u>
Arkansas Baptist College	36	\$ 81,000
Arkansas Northeastern College	162	263,000
Arkansas State University Beebe	753	1,270,125
Arkansas State University Jonesboro	4,016	12,296,253
Arkansas State University Mid South	86	129,250
Arkansas State University Mountain Home	198	328,000
Arkansas State University Newport	283	464,250
Arkansas Tech University	3,348	9,655,564
Arkansas Tech University Ozark Campus	164	260,750
Baptist Health Schools - Little Rock	54	75,875
Black River Technical College	202	341,630
Central Baptist College	226	657,750
College of the Ouachitas	108	158,500
Cossatot Community College UA	203	324,938
Crowley's Ridge College	55	156,875
East Arkansas Community College	125	201,250
Ecclesia College	30	75,500
Harding University	715	2,213,439
Henderson State University	1,355	4,009,633
Hendrix College	374	1,118,000
Jefferson School of Nursing	*	6,750
John Brown University	377	1,148,563
Lyon College	337	999,750
National Park College	289	458,124
North Arkansas College	288	483,250
Northwest Arkansas Community College	850	1,280,694
Ouachita Baptist University	678	2,146,250
Ozarka College	151	255,125
Philander Smith College	54	154,938
Phillips Community College UA	123	209,000
Pulaski Technical College	650	1,033,939
Rich Mountain Community College	99	161,250
South Arkansas Community College	120	191,750
Southeast Arkansas College	107	161,500
Southern Arkansas University	1,110	3,204,431
Southern Arkansas University Tech	104	185,750
University of Arkansas at Monticello College of Technology - Crossett	15	24,000
University of Arkansas at Monticello College of Technology - McGehee	*	11,500
University of Arkansas Community College Batesville	227	383,500
University of Arkansas Community College Hope	194	319,750
University of Arkansas Community College Morrilton	428	709,250
University of Arkansas Fayetteville	6,113	18,581,647
University of Arkansas for Medical Sciences	143	495,502
University of Arkansas Fort Smith	2,166	6,235,912
University of Arkansas Little Rock	1,994	5,729,136
University of Arkansas Monticello	736	2,074,750
University of Arkansas Pine Bluff	486	1,308,657
University of Central Arkansas	4,418	13,141,561
University of the Ozarks	212	621,750
Williams Baptist College	229	684,250
Total	<u>35,207</u>	<u>\$ 96,483,811</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 Department of Finance and Administration  
Office of the Arkansas Lottery  
Projected Obligations from Scholarship and Grant Funding Sources  
from Arkansas Department of Higher Education (Unaudited)  
Fiscal Year Ended June 30, 2016**

<u>Title</u>	<u>FY 17 Budget</u>	<u>FY 18 Budget</u>
Academic Challenge Scholarships	\$ 25,000,000	\$ 25,000,000
AR Geographical Critical Needs Program	150,000	150,000
Chiropractic Scholarships	260,000	260,000
Dental Scholarships	2,133,900	2,133,900
Dental Loans	987,370	987,370
Dependents of Law Enforcement Officers	400,000	400,000
Governor's Scholars	15,200,000	15,200,000
Higher Ed Opportunities Grants	6,000,000	6,000,000
POW/MIA Dependent Scholarships	450,000	450,000
Scholarship Administration	882,096	882,096
National Guard Tuition Assistance	1,400,000	1,400,000
Optometry Scholarships	410,000	410,000
Optometry Loans	140,000	140,000
Osteopathy Scholarships	230,000	230,000
Podiatry Sholarships	130,400	130,400
Single Parent Scholarship	175,000	175,000
SREB Minority Doctoral Scholars	150,000	150,000
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	100,000	100,000
Web Based Application	1,000,000	1,000,000
Workforce Improvement Grants	3,000,000	3,000,000
DHE Program Coordinator	90,000	90,000
Total All Financial Aid Programs	<u>\$ 62,038,766</u>	<u>\$ 62,038,766</u>

Source: Arkansas Department of Higher Education

**Arkansas Department of Higher Education  
Academic Challenge Scholarship Program  
County Report  
Fiscal Year Ended June 30, 2016**

<b>County</b>	<b>2015 Population Estimate</b>	<b>% State Population</b>	<b>Awards</b>	<b>Amount</b>
Arkansas	18,433	0.62%	259	\$ 719,359
Ashley	20,838	0.70%	252	746,375
Baxter	41,053	1.38%	352	988,250
Benton	249,672	8.38%	2,471	6,800,298
Boone	37,222	1.25%	421	1,117,875
Bradley	11,094	0.37%	125	289,255
Calhoun	5,229	0.18%	43	120,981
Carroll	27,704	0.93%	215	589,107
Chicot	11,027	0.37%	70	174,103
Clark	22,633	0.76%	248	743,265
Clay	15,109	0.51%	138	392,250
Cleburne	25,467	0.86%	320	846,375
Cleveland	8,311	0.28%	134	362,000
Columbia	24,114	0.81%	269	734,372
Conway	21,019	0.71%	278	767,634
Craighead	104,354	3.50%	1,318	3,793,032
Crawford	61,703	2.07%	935	2,642,563
Crittenden	48,963	1.64%	463	1,242,584
Cross	17,284	0.58%	222	571,984
Dallas	7,604	0.26%	70	182,500
Desha	11,965	0.40%	142	389,750
Drew	18,778	0.63%	251	725,966
Faulkner	121,552	4.08%	1,760	4,896,083
Franklin	17,702	0.59%	328	898,750
Fulton	12,204	0.41%	142	358,125
Garland	97,177	3.26%	1,235	3,538,997
Grant	18,102	0.61%	357	1,046,128
Greene	44,196	1.48%	535	1,545,261
Hempstead	22,084	0.74%	228	591,000
Hot Spring	33,426	1.12%	449	1,177,918
Howard	13,300	0.45%	211	547,542
Independence	37,052	1.24%	454	1,203,232
Izard	13,445	0.45%	141	392,500
Jackson	17,338	0.58%	132	347,125
Jefferson	71,565	2.40%	762	2,146,148
Johnson	26,141	0.88%	349	996,376
Lafayette	6,996	0.23%	41	107,250
Lawrence	16,779	0.56%	240	646,375
Lee	9,650	0.32%	55	150,294
Lincoln	13,820	0.46%	98	279,943
Little River	12,472	0.42%	150	399,182
Logan	21,714	0.73%	305	885,625
Lonoke	71,645	2.41%	1,005	2,920,679
Madison	15,767	0.53%	129	368,165
Marion	16,185	0.54%	120	338,178
Miller	43,908	1.47%	314	855,250
Mississippi	43,738	1.47%	436	1,097,831
Monroe	7,399	0.25%	72	173,289
Montgomery	8,970	0.30%	67	171,212

(continued)

**Arkansas Department of Higher Education  
Academic Challenge Scholarship Program  
County Report  
Fiscal Year Ended June 30, 2016**

<b>County</b>	<b><u>2015 Population</u> Estimate</b>	<b><u>% State</u> Population</b>	<b><u>Awards</u></b>	<b><u>Amount</u></b>
Nevada	8,558	0.29%	86	216,000
Newton	7,913	0.27%	98	250,000
Ouachita	24,358	0.82%	320	916,250
Perry	10,189	0.34%	141	367,491
Phillips	19,513	0.66%	206	532,251
Pike	10,824	0.36%	182	478,893
Poinsett	24,040	0.81%	259	697,938
Polk	20,216	0.68%	269	727,375
Pope	63,390	2.13%	814	2,383,956
Prairie	8,291	0.28%	106	277,251
Pulaski	392,664	13.18%	4,209	11,947,061
Randolph	17,469	0.59%	184	499,000
St. Francis	26,589	0.89%	191	493,094
Saline	117,460	3.94%	1,595	4,492,952
Scott	10,513	0.35%	110	292,250
Searcy	7,869	0.26%	133	338,250
Sebastian	127,780	4.29%	1,631	4,738,971
Sevier	17,290	0.58%	226	575,633
Sharp	16,912	0.57%	232	587,500
Stone	12,456	0.42%	151	394,625
Union	40,144	1.35%	516	1,444,767
Van Buren	16,771	0.56%	181	498,063
Washington	225,477	7.57%	2,299	6,518,769
White	79,161	2.66%	1,031	2,797,750
Woodruff	6,741	0.23%	66	179,313
Yell	21,713	0.73%	262	717,447
Not Reported			598	102,625
<b>Total</b>	<b><u>2,978,204</u></b>	<b><u>100%</u></b>	<b><u>35,207</u></b>	<b><u>\$ 96,483,811</u></b>

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

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Debt Set-off Collections (Unaudited)**  
**Fiscal Year Ended June 30, 2016**

Department of Finance and Administration:	
Taxes due to the State	\$ 103,423
Delinquent Child Support	<u>74,064</u>
 Total	 <u><u>\$ 177,487</u></u> (1)

Note: 1) In accordance with regulation 23-115-403 of the Arkansas Scholarship Lottery Act, the OAL must set-off against any prize the sum of any debt in excess of \$100 owed to the State of Arkansas or to persons on whose behalf the State and its claiming agencies act.

Source: OAL Finance Division

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Fund Balance and Other Information  
from Arkansas Department of Higher Education (Unaudited)  
Fiscal Year Ended June 30, 2016**

**Fund Balances**

Higher Education Grants Fund	\$	15,513,770
Lottery Net Proceeds Trust Account (1)	\$	542,198

**Arkansas Challenge Scholarship Trust Account**

Deposits	\$	97,031,121
Disbursements		96,488,923
June 30, 2016 Balance	\$	<u>542,198</u>

**Evaluation of Net Proceeds**

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

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

None

Note: 1) Trust accounts maintained by the director of the Department of Higher Education to hold transfers of net proceeds from the OAL.

Source: Arkansas Department of Higher Education

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Term Contracts for Goods and Services**  
**Fiscal Year Ended June 30, 2016**

1. On July 8, 2015, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Scientific Games International (SGI) entered into a non-exclusive licensing agreement. The licensing agreement granted to OAL the non-exclusive right in the state of Arkansas to reproduce, use, and make copies of the Property in association with the sale, marketing, advertising, and promotion of a scratch-off instant win lottery game to be conducted by OAL and identified as AR-302 Pink Panther™. OAL reported execution of the licensing agreement to the Arkansas Legislative Council Lottery Oversight Subcommittee on July 31, 2015.

2. On August 13, 2015, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Advent Systems, Inc. (Advent), entered into a *First Amendment to the Security System Equipment and Maintenance Agreement*. The purpose of the amendment was to ensure the continuity of security system equipment maintenance and service, pursuant to the agreement entered into between the parties (the Contract) on June 4, 2013. The term of the agreement was for one (1) year, effective as of September 1, 2015, with an option for renewal at a mutually agreed upon price up to five (5) times in one (1) year increments or a portion thereof.

3. On October 2, 2015, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Scientific Games International (SGI) entered into a Non-Exclusive Licensing Agreement. The Non-Exclusive Licensing Agreement granted to OAL the non-exclusive right in the state of Arkansas to reproduce, use, and make copies of the Property in association with the sale, marketing, advertising, and promotion of a scratch-off instant win lottery game to be conducted by the OAL and identified as AR-317 Yahtzee™. OAL reported execution of the licensing agreement to the Arkansas Legislative Council Lottery Oversight Subcommittee on November 10, 2015.

4. On November 14, 2015, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Scientific Games International (SGI) entered into a *Third Amendment to the Agreement for Contractual Services for Instant Ticket Lottery Game Services*. Under the terms of this Agreement, OAL exercises the remaining extensions under the original Agreement, with an expiration date of August 18, 2019. The term will expire seven (7) years following the completion of the current Term, as extended, with said expiration date of August 18, 2026. SGI agreed to: (1) reduce the aggregate percentage of sales, effective upon execution of the Third Amendment Agreement, from 1.81% to 1.30% of net sales; (2) continue, at no additional cost to OAL, an annual SOC 2 Type 2 Audit of the Player's Club during the extension term; (3) provide OAL with an Arkansas-specific Player Segmentation Study at no additional cost to OAL. Both parties agreed that, should total Net Sales of Lottery instant tickets exceed \$360,000,000 in a contract year, SGI shall receive a one-time bonus payment in the amount equivalent to 4.5% of all such incremental sales exceeding \$360,000,000. All information related to the Amendment was reviewed by the Arkansas Legislative Council Lottery Oversight Subcommittee on October 15, 2015.

5. On November 5, 2015, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and the Multi-State Lottery Association (MUSL) entered into a *Second Amendment to the Website Hosting/Caching Service Level Agreement*. Two (2) internet domains, *myarkansaslottery.lotto* and *arkansaslottery.lotto*, were added to the domain registration and maintenance costs. All other Terms of the initial Agreement dated June 30, 2014, are unchanged.

6. On November 30, 2015, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Camelot Global Services (North America), Inc. (Camelot) entered into an *Agreement for Contractual Services for Business Plan and Consultancy Services*. The effective date of the Agreement commenced on November 30, 2015, and will terminate on November 30, 2020 (Initial Term), with two additional optional extension periods of 12 months each (Extension Period). The Agreement will automatically renew for each optional Extension Period upon the same terms and conditions hereof unless either Party informs the other Party, in writing, of its intent not to renew at least 90 days prior to the

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Term Contracts for Goods and Services**  
**Fiscal Year Ended June 30, 2016**

expiration of the then current Term. The proposed Agreement was reviewed by the Arkansas Legislative Council Lottery Oversight Subcommittee on October 15, 2015.

7. On November 30, 2015, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Camelot Global Services (North America), Inc. (Camelot) entered into a *First Amendment to the Agreement for Contractual Services for Business Plan and Consultancy Services*. The First Amendment to the Agreement adds that OAL shall provide written notice of its acceptance or rejection of the Camelot's Business Plan. All other terms of the original Agreement are unchanged.

8. On December 17, 2016, the Department of Finance and Administration Office of the Arkansas Lottery and Union Plaza, L.L.C., entered into a *First Amendment to the Lease Agreement* dated May 18, 2015. Language in paragraphs (f) and (q) of the Special Provisions section of the Agreement was amended and modified to clarify responsibilities for maintenance, repairs, and/or fuel expenses of the uninterrupted power supply (UPS) and the power system/generator that OAL shares with Union Plaza. Ownership of the generator and UPS (Lessor) and ownership of the batteries installed in the UPS (Lessee) was also clarified. Paragraph (r) of the Special Provisions section of the Agreement was added to include procedures for reimbursement of repairs and maintenance of the Liebert unit that was in the server room of the 3<sup>rd</sup> floor of Union Plaza prior to the establishment of the lease with OAL in August 2009. No changes were made to the value of the agreement.

9. On May 24, 2016, the Department of Finance and Administration Office of the Arkansas Lottery and Union Plaza, L.L.C., entered into a *Second Amendment to the Lease Agreement* dated May 18, 2015.

The purpose of the Second Amendment was to add 846 square feet of storage space (Suite 105) for use by auditors or temporary work space for special projects, etc. The base rental amount was amended and modified to include the storage space for an additional cost of \$10 per square foot, or \$8,460 per annum, commencing on June 1, 2016, and continuing through August 31, 2021. All other terms and conditions of the Agreement and First Amendment to the Agreement remain in force.

10. On June 27, 2016, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Smartplay International, Inc., (Smartplay) entered into an agreement to purchase four (4) Random Number Generators (RNGs), including a five-year service maintenance agreement and an Origin™ license agreement for the RNGs. This major procurement contract was reviewed by the Arkansas Legislative Council Lottery Oversight Subcommittee on June 16, 2016.



**Arkansas**  
**Scholarship Lottery**

# OTHER REPORTS



▶ Candice Bennett, Shalinda Starks and Melinda Bell of lottery retailer Tobacco Store #54 in Lake Village. Arkansas Scholarship Lottery Retailer since day one.





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



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

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

**LEGISLATIVE JOINT AUDITING COMMITTEE**  
**ARKANSAS LEGISLATIVE AUDIT**

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

**INDEPENDENT AUDITOR'S REPORT**

Department of Finance and Administration – Office of the Arkansas Lottery  
and Members of the Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the major fund of the Department of Finance and Administration – Office of the Arkansas Lottery (the "Agency"), an office of Arkansas state government, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department of Finance and Administration – Office of the Arkansas Lottery's basic financial statements, and have issued our report thereon dated December 5, 2016.

***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 2016-1 and 2016-2.

## SCHEDULE OF FINDINGS AND RESPONSES

2016-1

On November 30, 2015, the Department of Finance and Administration (DFA) Office of the Arkansas Lottery (OAL) entered into an agreement with Camelot Global Services (North America), Inc. (Camelot), through the State's request for qualifications (RFQ) process. The Agreement is for a period of five years, ending on June 30, 2020, with an option for two one-year extensions. Compensation to Camelot, outlined in the agreement, includes annual base compensation and tiered performance incentive compensation. The agreement maximizes Camelot's consulting services to \$650,000 in any one fiscal year. The performance incentive compensation is based on three tiers set forth in the contract, ranging from 12.5% of adjusted operating income exceeding \$72.3 million to 15.0% of adjusted operating income exceeding \$90.0 million in a fiscal year.

We have two issues with this agreement: (1) According to Ark. Code Ann. § 23-115-502(a)(1), "At the time of execution of a major procurement contract between the Office of the Arkansas Lottery and a vendor, the vendor shall post a performance bond or letter of credit from a bank or credit provider acceptable to the office in an amount deemed necessary by the office to assure the performance of the major procurement contract." Camelot failed to provide a performance bond or other acceptable alternate to OAL, as described in the RFQ. Section 3.12 of the RFQ provides that, "if a vendor fails to deliver the required performance security, the proposal shall be rejected." As of October 10, 2016, over 10 months since the execution of the agreement, Camelot has yet to provide OAL with a bond or other acceptable alternative. Therefore, if Camelot were to breach the agreement and fail to remedy OAL's damages, OAL would have no means for collection against a performance security since one was never delivered to OAL.

(2) Given OAL's mandate under Ark. Code Ann. § 23-115-801(B)(i) to "maximize net proceeds for scholarships," ALA concludes that the terms of the Camelot agreement are not as advantageous to the State as they are for Camelot based on the following:

- Camelot may receive up to \$650,000 in annual base compensation for income-enhancing consulting services, totaling a maximum \$3.25 million over the initial five-year term, regardless of whether OAL's operating income or net proceeds improve.
- The tiered performance incentive compensation arrangement for Camelot is 12.5% of adjusted operating income exceeding \$72.3 million, an amount lower than OAL has ever reported for adjusted operating income since it began selling lottery products in fiscal year 2010. It is not to the benefit of OAL to set a vendor performance threshold amount lower than OAL's operating income based on its worst year of performance for determining incentive compensation.

With the baseline for tiered performance compensation set so low, Camelot is almost guaranteed an annual performance bonus with or without improved lottery sales. While the current terms of the Camelot agreement cannot be amended without financial loss to the State, we recommend OAL negotiate more favorable terms for the State before awarding future contracts to vendors.

Management personnel responded: On November 16, 2016, Camelot notified the OAL that three (3) Certificates of Deposit (CDs) had been placed at Arkansas banks in the amount of \$650,000, which was the agreed upon amount to assure performance of the major procurement contract. These CD's are being held for the benefit of the Office of the Arkansas Lottery and cannot be withdrawn without prior consent of this agency. The actions of Camelot resolve the issue set forth in the preceding finding.

At the OAL, we are ever mindful of the statutory directive to operate the lottery in a manner that maximizes proceeds. With that goal in mind, in the summer of 2015, the agency solicited a consultant to provide the agency with a business plan and services that would aid us in growing the lottery over the next five years. The terms of the contract were fiercely negotiated over a period of 3 months. In negotiating the contract, the parties considered past trends and the state of the lottery in the summer and fall of 2015. Despite our hopes of improvement, the reality of the situation was that the lottery had returned \$72.6 million dollars just months prior to negotiating and signing the consultant contract. At that time, the historical trends and the fiscal year to date numbers did not suggest an improvement upon that return in fiscal year 2016. In fact, the compound annual growth rate suggested that proceeds would likely continue to drop each year. Based on that background, the baseline of \$72.3 million was calculated as a benchmark for calculating incentive pay for improvement in proceeds. The OAL will continue to make every effort to operate in a manner that will maximize proceeds.

2016-2

Ark. Code Ann. § 23-115-305 set the salary of the Director of the Office of the Arkansas Lottery at \$141,603 with multipliers of up to 1.5 times, resulting in a maximum salary of \$212,405. Ark. Code Ann. § 23-115-304 (b) states, "(1) An office employee's compensation for retirement purposes includes only the base salary of the employee under § 23-115-305. (2) An office employee's compensation for retirement purposes does not include a multiplier or other special salary allowance used to increase the employee's salary as authorized by the General Assembly, including without limitation the special salary allowances authorized under § 23-115-306." During the fiscal year 2010 audit of the Arkansas Lottery Commission, this issue was brought before the Legislative Joint Auditing Committee, and an Attorney General's opinion was sought. In Op. Att'y Gen. no. 2010-150, the Attorney General opined that the specific language in the Arkansas Lottery Act, Ark. Code Ann. § 23-115-304, holds precedent over the general statutes contained in Ark. Code Ann. §§ 24-4-101, -601. As such, retirement contributions should be based on the Director's salary without multipliers; however, OAL paid retirement contributions based on the Director's salary including multipliers, which resulted in a \$4,795 overpayment by the employer. OAL requested and received a refund of \$3,579, which resulted in a remaining overpayment of \$1,216 for fiscal year 2016. During our follow-up from the prior fiscal year's overpayment, we found that OAL was still due a refund of \$547, resulting in a total of \$1,763 due OAL. These overpayments still due to OAL are the result of DFA-Payroll's claim that matching funds, based on the base salary of the Director, are required to be paid to the Arkansas Public Employees Retirement System (APERS) for any merit pay, COLA, or career service recognition paid to the Director.

Since the Attorney General's opinion and Arkansas law do not specifically mention whether merit pay, COLAs, career service recognition, or any portion thereof is included or excluded for retirement purposes, we recommend OAL seek an Attorney General's opinion as to whether merit pay, COLAs, career service recognition, or any portion thereof paid to the OAL Director is subject to APERS retirement match. In addition, if the Attorney General determines that any or all of the payments listed are not subject to APERS retirement match, we recommend OAL seek reimbursement from APERS for any overpayments that have been made.

Management personnel responded: The OAL will work with DFA-Payroll and APERS to determine the correct matching equation for these contributions and seek a refund for any amounts owed due to past overpayment. In the event the OAL cannot reach an agreement with DFA-Payroll or APERS regarding this matter it will seek an Attorney General's opinion on the same.

#### ***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 auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record, and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
December 5, 2016



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