



Arkansas
Scholarship Lottery

This is

WINNING!

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2018

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

An Enterprise Fund of the State of Arkansas



Ruthie Lenards
Scholarship to Ouachita Baptist
University



COMPREHENSIVE ANNUAL FINANCIAL REPORT For The Fiscal Year Ended June 30, 2018

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

An Enterprise Fund of the State of Arkansas

ASA HUTCHINSON

Governor, State of Arkansas

BISHOP WOOSLEY

Director, Office of the Arkansas Lottery

LARRY W. WALTHER

*Director, Arkansas Department
of Finance and Administration*

PREPARED BY

Finance Division



Terry Sizemore
\$80,000 Natural State Jackpot Winner

OFFICE OF THE ARKANSAS LOTTERY

An Enterprise Fund of the State of Arkansas

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018

INTRODUCTORY SECTION

Letter from the Arkansas Department of Finance and Administrator’s Director I
Letter of Transmittal..... II
Mission, Vision, ValuesX
Organizational Chart XI
Department Overview XII
Certificate of Achievement for Excellence in Financial Reporting XIII

FINANCIAL SECTION

Independent Auditor’s Report1
Management’s Discussion and Analysis.....3

BASIC FINANCIAL STATEMENTS

Statement of Net Position13
Statement of Revenues, Expenses and Changes in Net Position14
Statement of Cash Flows.....15
Notes to Financial Statements.....16

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer’s Proportionate Share of the Net Pension Liability.....39
Schedule of Employer Contributions.....40
Schedule of Changes in Total OPEB Liability41

STATISTICAL SECTION

Statistical Section Table of Contents42

FINANCIAL TRENDS

Principal Revenue Sources43
Revenues, Expenses and Change in Net Position.....45



Allison Warner
Scholarship to Arkansas State University

Net Position by Component	47
Changes in Cash and Cash Equivalents	49
DEMOGRAPHICS AND OPERATION INFORMATION	
Total Personal and Per Capita Income and Unemployment Rate	51
State of Arkansas Principal Employers.....	52
Employees by Department and by Function	53
Capital Assets by Department.....	54
OTHER INFORMATION	
U.S. Lotteries' Sales	55
Demographic Summary	57

SUPPLEMENTARY INFORMATION

Unclaimed Lottery Prizes.....	58
Scholarship Shortfall Reserve Trust Fund.....	59
Minority-owned and Female-owned Business Participation	60
Retail Sales by County.....	61
Demographic Report from the Arkansas Department of Higher Education.....	63
Projected Obligations from Scholarship and Grant Funding Sources from Arkansas Department of Higher Education	64
Academic Challenge Scholarship Program County Report.....	65
Debt Set-off Collections	67
Fund Balance and Other Information from Arkansas Department of Higher Education	68
Term Contracts for Goods and Services	69

OTHER REPORTS

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.....	71
--	----



Cari Williford
\$10,000 Scratch-Off Winner



INTRODUCTORY
Section



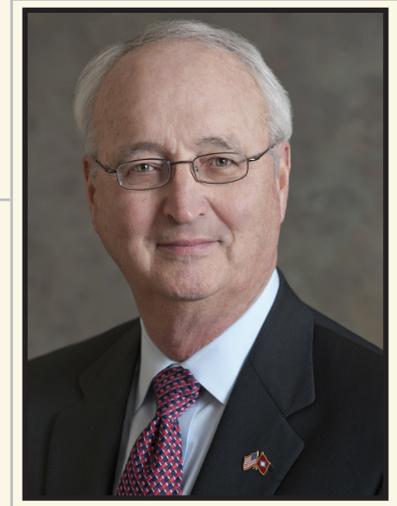
Rao

\$21,000 Fast Play Winner
\$50,000 Scratch-Off Winner

Victoria

Scholarship to University of Arkansas-
Little Rock

November 28, 2018



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, 2018. 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 1,926 independent and chain retail partners who sell our products.

During FY 2018, the OAL distributed \$91.9 million in funds for scholarships, allowing 33,025 students to attend college in the state. Since its inception, the lottery has generated \$781 million in proceeds.

The OAL paid more than \$28 million in commissions to state lottery retailers during FY 2018, creating tangible economic impact at the local level by providing business owners with added revenue. OAL has paid nearly \$225 million to lottery retailers since September 2009.

In FY 2018, lottery ticket sales reached nearly \$500 million, a record for the organization. \$341 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

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

November 28, 2018

**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, 2018. 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.

Lottery management 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 (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 initially utilized to fund college scholarships under the Arkansas Academic Challenge Scholarship program administered by the Arkansas Department of Higher Education (ADHE).

During the 2017 legislative session, the Arkansas General Assembly passed Act 613 of 2017 to create the Arkansas Workforce Challenge Scholarship Program. Act 613 of 2017 provides for the use of excess lottery proceeds to fund scholarships for students enrolled in higher education programs that will lead to the students being qualified to work in high-needs occupations.

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, 2018, the OAL released 50 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, 2018, 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 Fast Play and Lucky for Life®.

ARKANSAS



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 five 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 70 and one additional number from a second pool of one to 25. 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 Mega Millions® play costs \$2. 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. In October 2017, the game underwent changes that increased starting jackpots from \$15 million to \$40 million and created a minimum jackpot roll of \$5 million. The play cost increased from \$1 to \$2 per play while Megaplier® remained an additional \$1.



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 one to 48 and one Lucky Ball number is drawn from one 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 terminal-generated draw game similar to Powerball®, with drawings Monday through Saturday. Five numbers are drawn from one to 39; if all numbers match those that are chosen, the jackpot is won. If other players also match all five numbers, the jackpot is shared. The NSJ jackpot starts at \$50,000, and increases by \$5,000 every draw up to \$150,000 -- after that, NSJ jackpots increase by \$10,000 every draw until it's won. Each play is \$1.



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 daily 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 or combo. Cash 4 can be played starting at 50 cents. Drawings are conducted daily except Sunday, which has one drawing.



FAST PLAY is an instant play-style game that prints from the 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** incorporates a 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 10 times, \$500 (or 40% of the jackpot) on a single \$2 ticket; and up to 15 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 Lottery 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 34,451 new player registrations (and 28,349,324 tickets) entered into the program in fiscal 2018, bringing the membership total to 186,752.



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 two Play It Again® drawings held during fiscal year 2018.

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 jewelry and housewares to electronics. There were a total of 281,807,499 points redeemed in the Points for Prizes® program during fiscal year 2018. Points may also be used for special drawing prizes; there were 22 Points for Drawings® held during fiscal year 2018.

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



The **WILLY WONKA GOLDEN TICKET™ BILLION DOLLAR CHALLENGE™** Second-Chance Promotion awarded trips for two to Las Vegas and a chance at winning up to \$1 billion to three players who entered non-winning WILLY WONKA GOLDEN TICKET™ instant tickets into their accounts. One drawing occurred during fiscal year ended June 30, 2018.

Points for Drawings®	Entry Period	Drawing Date	# of winners	# of entries
Yeti Soft-Side Cooler	6/16/17-7/17/17	7/18/2017	3	36,949
Lawn Bundle	5/16/17-7/17/17	7/18/2017	2	47,941
Samsung Galaxy Tablet	7/18/17-8/14/17	8/15/2017	3	44,850
Game Room Package	5/16/17-8/14/17	8/15/2017	1	32,321
iPad Air 2	8/15/17-9/11/17	9/12/2017	3	53,761
Michele Watch	7/18/17-9/11/17	9/12/2017	2	14,062
Holiday Decoration Package	9/12/17-10/10/17	10/11/2017	3	11,898
Samsonite Luggage Set	10/11/17-11/13/17	11/14/2017	3	11,724
Kitchen Appliance Package	9/12/17-11/13/17	11/14/2017	2	33,141
Entertainment Package	8/15/17-11/13/17	11/14/2017	1	39,507
Vitamix Blender	11/14/17-12/13/17	12/14/2017	3	7,217
Samsung 4K Smart TV	12/14/17-1/15/18	1/19/2018	3	68,197
Briggs and Stratton Portable Generator	11/14/17-1/15/18	1/19/2018	2	67,347
Beats Headphones	1/16/18-2/12/18	2/13/2018	3	33,099
Samsung Home Appliance Package	11/14/17-2/12/18	2/13/2018	1	77,246
Amazon Bundle	2/13/18-3/12/18	3/13/2018	3	41,693
Brookstone Massage Chair	1/16/18-3/12/18	3/13/2018	2	35,807
Peter Thomas Roth Skincare Bundle	3/13/18-4/16/18	4/17/2018	3	6,673
Pressure Cooker	4/17/18-5/14/18	5/15/2018	3	18,929
HP Notebook Dual Monitor Bundle	3/13/18-5/14/18	5/15/2018	2	47,892
Outdoor Entertainment Package	2/13/18-5/14/18	5/15/2018	1	55,876
Nikon DSLR Camera	5/15/18-6/11/18	6/12/2018	3	31,353

Second-Chance Promotion	Entry Period	Drawing Date	# of winners	# of entries
AR-402 WILLY WONKA GOLDEN TICKET™ BILLION DOLLAR CHALLENGE™	6/27/2017 - 2/14/2018	2/16/2018	3	1,437,649

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 2017 and the first half of 2018, with inflationary adjusted Gross Domestic Product (GDP) and industrial production 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 2.9% during the last half of calendar year 2017 and the first half of calendar year 2018. The unemployment rate for the State of Arkansas finished the June 30, 2018 fiscal year end at 3.8%.

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 \$125.7 billion at the end of the June 30, 2018 fiscal year. This represented an increase in personal income of \$4.6 billion, or 3.8% from fiscal year ended June 30, 2017. For the fiscal year ending June 30, 2019, personal income is forecast at \$130.2 billion (current dollars) an increase of \$4.5 billion or 3.6% over the fiscal year ended June 30, 2018.

ARKANSAS WAGE AND SALARY DISBURSEMENTS

Measured in current dollars, wage and salary disbursements were \$56.9 billion for the June 30, 2018 fiscal year, an increase of \$1.9 billion or 3.4% from the June 30, 2017 fiscal year. Wage and salary disbursements for the fiscal year ending June 30, 2019 are forecast at \$59.3 billion (current dollars), an increase of \$2.4 billion or 4.3% from the June 30, 2018 fiscal year.

EMPLOYMENT

During the June 30, 2018 fiscal year, wage and salary employment in Arkansas increased to 1.242 million jobs which represents an increase of 7,717 jobs or 0.6% compared to the June 30, 2017 fiscal year. For the fiscal year ending June 30, 2019, wage and salary employment is expected to increase to 1.255 million jobs. This represents a projected increase of 12,950 jobs or 1.0% from the June 30, 2018 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 2018 included:

- **Surpassing \$3.9 billion in ticket sales since the lottery's inception.**
- **Surpassing \$2.6 billion in prizes paid to players since the lottery's inception.**
- **Transferring over \$781 million to the ADHE for the purpose of funding scholarships since the lottery's inception including transfers of \$91.8 million for June 30, 2018 fiscal year.**
- **The ADHE awarded nearly \$93 million in scholarships during the fall 2017 and spring 2018 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, 2018, 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 related 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, 2017. This was the sixth 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. Information on gambling disorder treatment and education programs can be found by calling the National Council on Problem Gambling Helpline at 1-800-522-4700 or by visiting ncpgambling.org, or by contacting Gamblers Anonymous at gamblersanonymous.org. If you have questions or would like to speak with a representative of the OAL, call (501) 683-2000.

ACKNOWLEDGEMENTS

The preparation of this CAFR reflects our commitment to maintain the highest standards of public accountability. We affirm 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 reasonable and progressive manner.

Respectfully submitted,

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

Bishop Woosley
Director

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

Jerold Fetzer
Chief Financial 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.

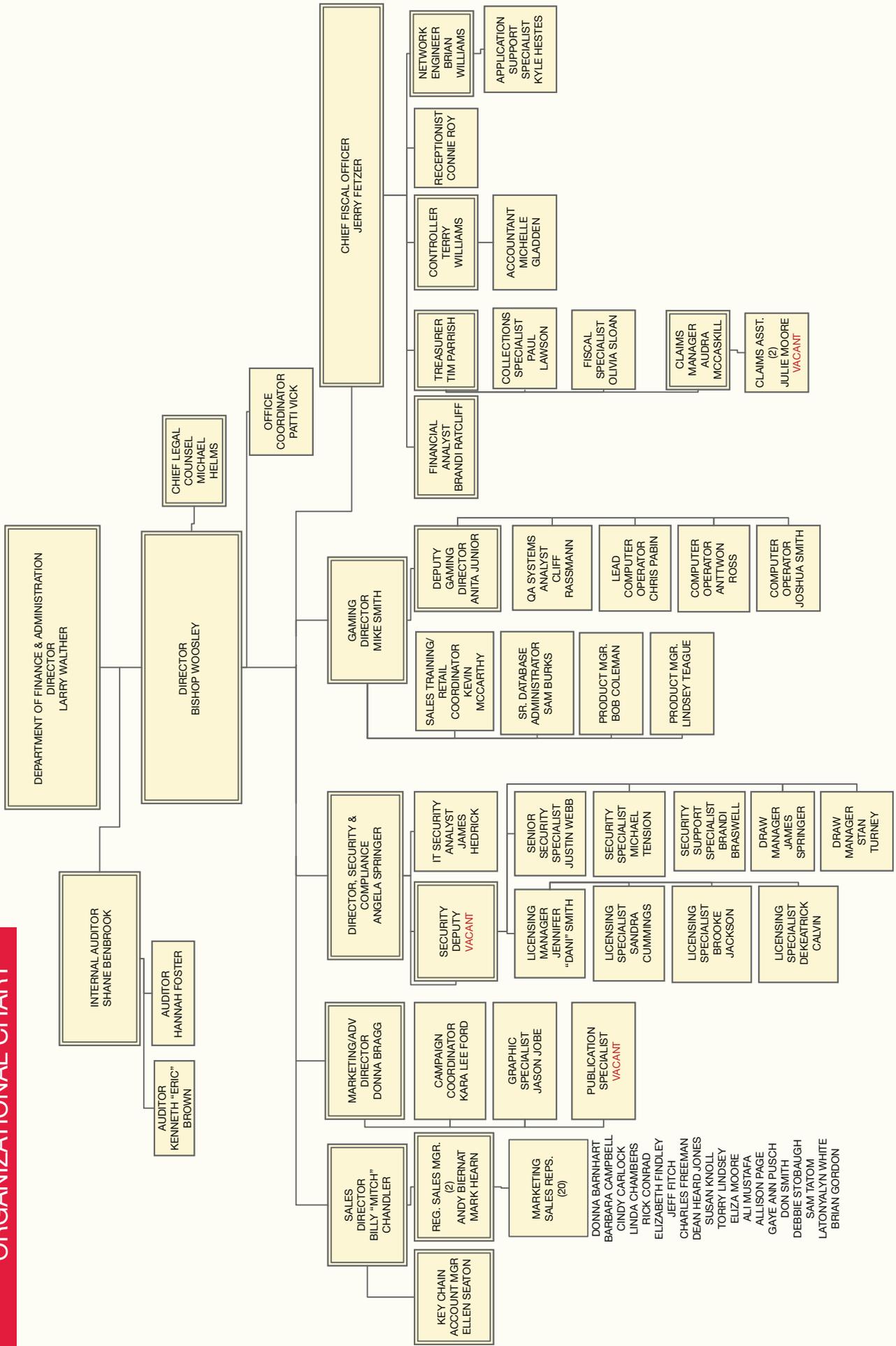
We control our expenses in an attempt to give the legislature as much money as possible to allocate toward education in Arkansas. These dollars should go to the support of a broad range of educational benefits across the entire age spectrum.

VALUES

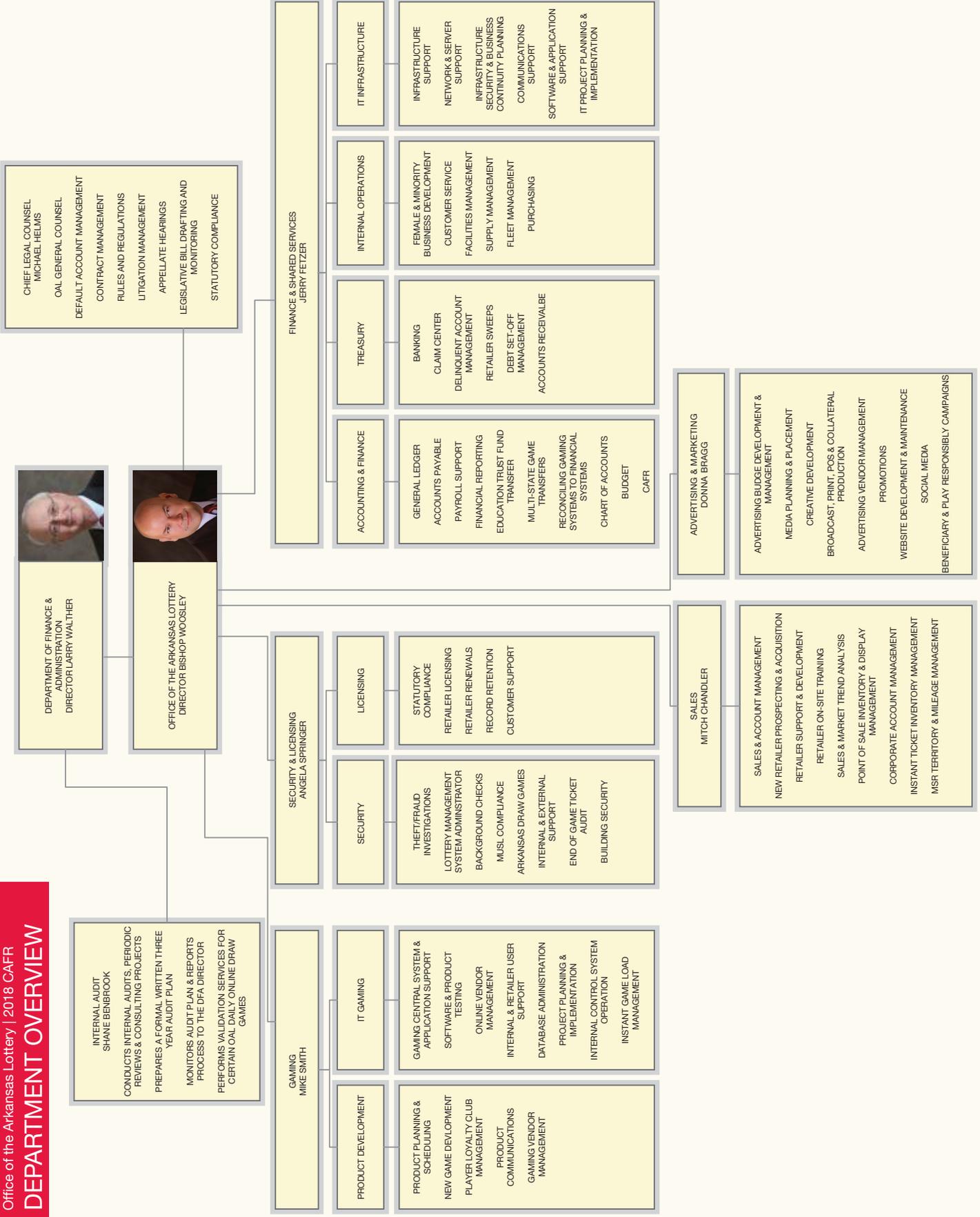
OAL's values include:

- 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.

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery | 2018 CAFR
ORGANIZATIONAL CHART



Arkansas Department of Finance and Administration
Office of the Arkansas Lottery | 2018 CAFR
DEPARTMENT OVERVIEW





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, 2017

Christopher P. Morrill

Executive Director/CEO





FINANCIAL
Section



John & Brenda
Retailer, Tobacco Superstore

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. Mary Bentley
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, 2018, 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 from 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, 2018, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As indicated above, the financial statements of the Department of Finance and Administration - Office of the Arkansas Lottery are intended to present the financial position, 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, 2018, 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 Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Finance and Administration - Office of the Arkansas Lottery's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
November 28, 2018
SA1661318



Management's
**DISCUSSION &
ANALYSIS**



Cole Butler
Scholarship to University of Arkansas
Fayetteville

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2018 (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, 2018. 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 \$50.6 million in fiscal year 2018 as compared to fiscal year 2017, an increase of 11.2%. Instant ticket sales for fiscal year 2018 increased \$39.2 million, or 10.6%, from fiscal year 2017. Online ticket sales for fiscal year 2018 increased by \$11.4 million, or 14.2% from fiscal year 2017. For fiscal year 2018, Powerball® sales increased by \$4.0 million or 12.2% from fiscal year 2017, while sales for MegaMillions® increased by \$5.3 million or 36.9%. The other online games, Fast Play, Cash 3, Cash 4, Natural State Jackpot and Lucky for Life, had a total sales increase for fiscal year 2018 of \$2.1 million or 6.4%, as compared to fiscal year 2017.
- The OAL's operating expenses increased in fiscal year 2018 as compared to the previous fiscal year by \$43.1 million or 11.8%. This increase was primarily related to a \$29.3 million or 11.1% increase in instant game prizes, a \$6.2 million or 14.3% increase in online game prizes expense, a \$2.9 million or 11.4% increase in retailer commissions and a \$2.9 million or 15.1% increase in gaming contract costs, which were consistent with the increases in instant and online sales.
- For fiscal year 2018 transfers of net proceeds to the Trust Accounts were \$91.8 million, which was \$6.7 million, or 7.9% higher than 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 which 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.

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.

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2018 (Unaudited)

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, 2018 and 2017 were as follows:

<u>Condensed Summary of Assets, Liabilities and Net Position</u>		
	June 30, 2018	June 30, 2017
Current assets	\$ 87,433,421	\$ 62,967,954
Non-current assets	22,831,252	22,106,426
Capital assets	345,095	384,288
Total assets	<u>110,609,768</u>	<u>85,458,668</u>
Deferred outflow s of resources	1,671,767	1,717,009
Total assets and deferred outflow s	<u>\$ 112,281,535</u>	<u>\$ 87,175,677</u>
Current liabilities	\$ 91,765,495	\$ 67,438,980
Long term liabilities	8,815,697	8,579,073
Total liabilities	<u>100,581,192</u>	<u>76,018,053</u>
Deferred inflow s of resources	613,568	703,066
Total liabilities and deferred inflow s	<u>101,194,760</u>	<u>76,721,119</u>
Net position:		
Invested in capital assets	345,095	384,288
Restricted	23,931,252	23,479,738
Unrestricted (Deficit)	(13,189,572)	(13,409,468)
Total net position	<u>11,086,775</u>	<u>10,454,558</u>
Total liabilities, deferred inflow s and net position	<u>\$ 112,281,535</u>	<u>\$ 87,175,677</u>

Assets consisted primarily of cash and cash equivalents which were \$83.8 million and \$70.9 million at June 30, 2018 and 2017 respectively. Accounts receivable were \$12.3 million and \$12.0 million at June 30, 2018 and 2017 respectively. Capital assets, net of depreciation, were \$0.3 million and \$0.4 million at June 30, 2018 and June 30, 2017 respectively.

OFFICE OF THE ARKANSAS LOTTERY

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2018 (Unaudited)

At June 30, 2018 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. June 30, 2017 Statement of Net Position has been restated for GASB 75 (other post-employment benefits). Total liabilities were \$100.6 million which was an increase of \$24.6 million or 32.3% from fiscal year 2017.

At June 30, 2018 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 \$11.1 million. This is a decrease in total net position of \$0.6 million or -6.0% from fiscal year 2017 total net position. For fiscal year 2018 the restricted net position was approximately \$0.5 million, or 1.9% more than at the prior year end. Unrestricted net position (deficit) for fiscal year 2018 was \$-13.2 million which was an decrease in the deficit of \$0.2 million, or -1.6%, from the prior fiscal year. 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 2018, the OAL's activities resulted in net proceeds transfers to the Trust Accounts of \$91.8 million, which was \$6.7 million, or 7.9%, higher than the prior fiscal year. Also, as previously discussed, the total net position of the OAL decreased by \$0.6 million from the prior fiscal year. This decrease was primarily due to timing differences related to the accounting method used to calculate net proceeds. The key elements of the revenues, expenses and changes in net position for the fiscal year ended June 30, 2018, with comparative information for fiscal year 2017 are shown on the following page.

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2018 (Unaudited)

<u>Summary of Revenues, Expenses and Changes in Net Position</u>		
	<u>2018</u>	<u>2017</u>
Operating revenues		
Instant ticket sales	\$ 407,604,791	\$ 368,454,561
Online ticket sales	92,103,185	80,686,467
Retailer fees	776,503	769,959
Other operating revenue	5,849	5,749
Total operating revenues	<u>500,490,328</u>	<u>449,916,736</u>
Operating expenses		
Instant game prizes	292,489,286	263,190,873
Online game prizes	49,406,134	43,238,515
Commissions and contract costs	50,164,810	44,405,247
General and administrative expenses	16,519,092	14,687,783
Services provided by other agencies	598,932	581,077
Depreciation	104,011	96,917
Total operating expenses	<u>409,282,265</u>	<u>366,200,412</u>
Operating income	91,208,063	83,716,324
Non-operating revenue		
Interest Income	<u>1,269,083</u>	<u>489,046</u>
Income before transfers	92,477,146	84,205,370
Transfers to		
Trust Accounts	<u>(91,844,929)</u>	<u>(85,157,060)</u>
Increase (Decrease) in net position	632,217	(951,690)
Beginning net position (as restated)	<u>10,454,558</u>	<u>11,406,248</u>
Ending net position	<u>\$ 11,086,775</u>	<u>\$ 10,454,558</u>

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2018 (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. The OAL also operates Fast Play, Cash 3, Cash 4, and Natural State Jackpot which are all online games. The table below shows instant ticket sales and sales for online lottery games for the fiscal years ended June 30, 2018 and 2017.

<u>Lottery Games Sales for Years Ended June 30, 2018 and 2017</u>				
<u>Game</u>	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
Instant ticket sales	\$ 407,604,791	\$ 368,454,561	\$ 39,150,230	10.6%
Powerball®	36,745,344	32,755,119	3,990,225	12.2%
Mega Millions®	19,598,073	14,313,090	5,284,983	36.9%
Fast Play	12,731,621	12,313,567	418,054	3.4%
Natural State Jackpot	7,918,644	7,047,543	871,101	12.4%
Cash 3	7,736,793	7,128,685	608,108	8.5%
Cash 4	4,516,508	4,238,553	277,955	6.6%
Lucky for Life®	2,856,202	2,889,910	(33,708)	-1.2%
Total games sales	<u>\$ 499,707,976</u>	<u>\$ 449,141,028</u>	<u>\$ 50,566,948</u>	11.3%

The OAL experienced an increase of \$50.6 million or 11.3% in total lottery ticket sales for fiscal year 2018 as compared to fiscal year 2017. For fiscal year 2018 instant ticket sales increased by \$39.2 million or 10.6% while online games sales increased by \$11.4 million or 14.1%. Instant ticket sales continued to be the OAL's most popular product contributing 81.6% and 82.0% to total fiscal year sales for 2018 and 2017 respectively. For fiscal year 2018 Mega Millions® had a \$5.3 million, or 36.9% increase in sales over the prior fiscal year while Powerball® had a \$4.0 million, or 12.2% increase over the prior fiscal year. Also for fiscal year 2018 Natural State Jackpot had an increase in sales for fiscal year 2018 of \$0.9 million, or 12.4%, Cash 3 sales also increased by \$0.6 million, or 8.5%, Fast Play only had a \$0.4 million or 3.4% increase in sales, Cash 4 sales increased by \$0.3 million or 6.6% in fiscal year 2018 and the Lucky for Life® game sales decreased slightly by 1.2% during fiscal year 2018.

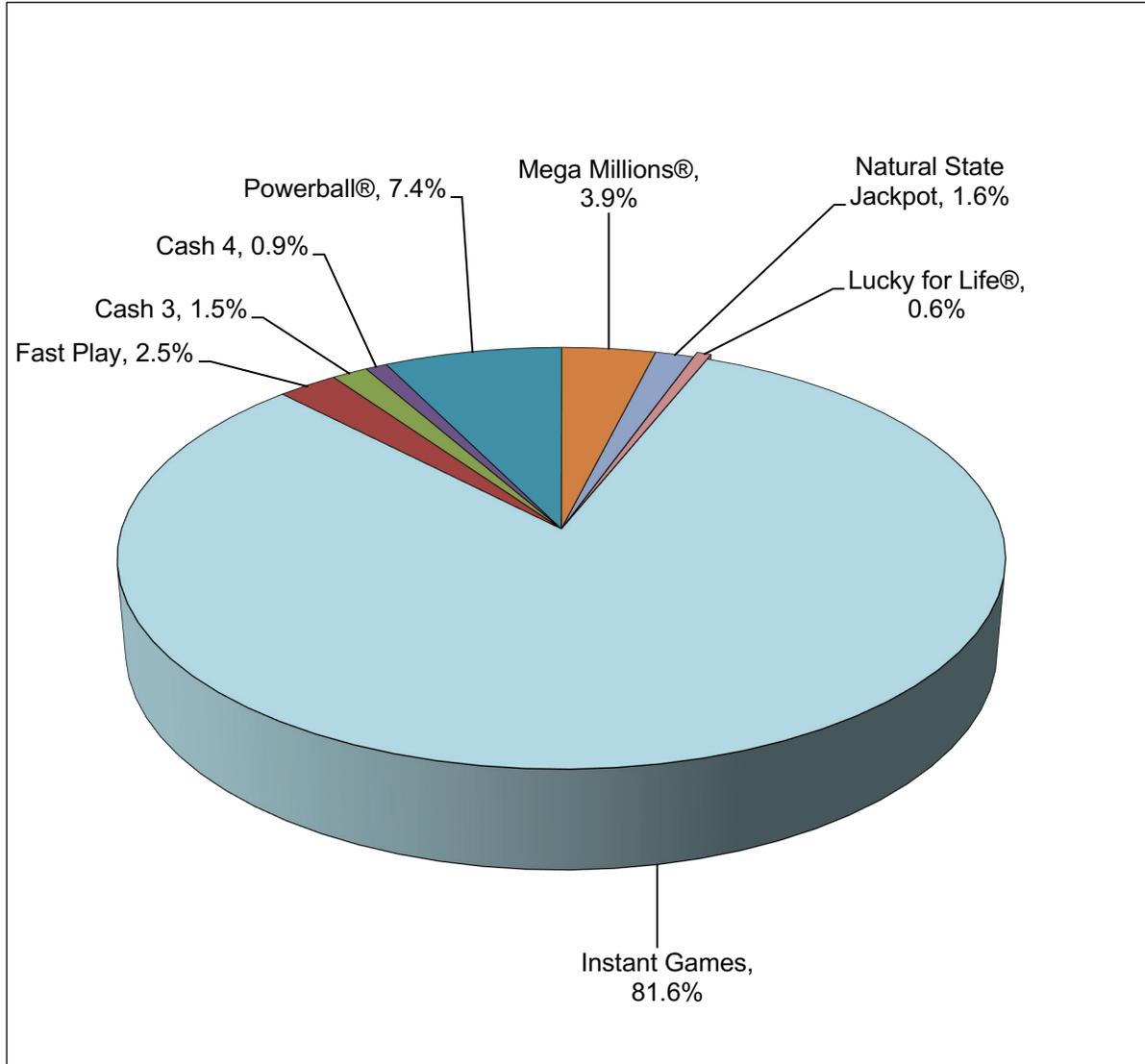
OFFICE OF THE ARKANSAS LOTTERY

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2018 (Unaudited)

The graph below summarizes the fiscal year 2018 sales as a percent of total ticket revenues:

2018 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, 2018 (Unaudited)

OPERATING EXPENSES

Prizes

Prizes are the largest operating expense the OAL incurs. Fiscal year 2018 prizes expense of \$341.9 million reflects a \$35.5 million or 11.6% increase from fiscal year 2017 prizes expense of \$306.4 million. This overall increase in prizes expense relates primarily to the significant increase in instant and online ticket sales experienced in fiscal year 2018.

The following table shows prizes expense by lottery game for the years ended June 30, 2018 and 2017 respectively.

Game Prizes Expense	Game Prizes Expense		Change	% Change
	2018	2017		
Instant Game prizes	\$ 292,489,286	\$ 263,190,873	\$ 29,298,413	11.1%
Powerball®	17,403,853	15,031,736	2,372,117	15.8%
Mega Millions®	9,503,264	6,882,014	2,621,250	38.1%
Natural State Jackpot	4,639,928	3,836,787	803,141	20.9%
Lucky for Life®	1,683,896	1,936,456	(252,560)	-13.0%
Fast Play	10,007,343	9,713,832	293,511	3.0%
Cash 3	4,107,950	3,385,590	722,360	21.3%
Cash 4	2,059,900	2,452,100	(392,200)	-16.0%
Total game prizes expense	<u>\$ 341,895,420</u>	<u>\$ 306,429,388</u>	<u>\$ 35,466,032</u>	11.6%

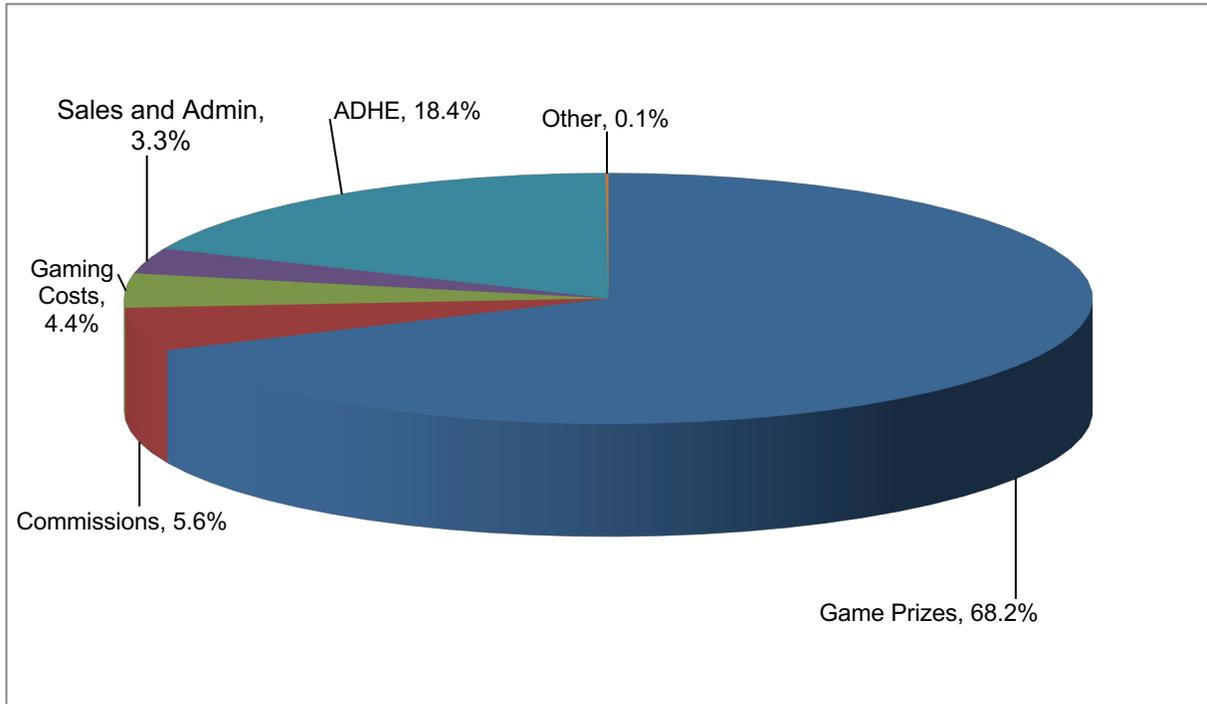
OFFICE OF THE ARKANSAS LOTTERY

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2018 (Unaudited)

Distribution of the fiscal year 2018 revenues were as follows:

Fiscal Year 2018 Revenue Distribution



The following table shows sales profit margin for instant and online games by for the years ended June 30, 2018 and 2017.

	<u>Game Profit Margins</u>			
	<u>Instant Tickets</u>		<u>Online Games</u>	
	2018	2017	2018	2017
Game revenues	\$ 407,604,791	\$ 368,454,561	\$ 92,103,185	\$ 80,686,467
Prize expense	292,489,286	263,190,873	49,406,134	43,238,515
Gross profit after prizes	<u>\$ 115,115,505</u>	<u>\$ 105,263,688</u>	<u>\$ 42,697,051</u>	<u>\$ 37,447,952</u>
Profit margin after prizes	28.2%	28.6%	46.4%	46.4%

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2018 (Unaudited)

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

Other Operating Expenses

In addition to prizes expense, other expenses include retailer commissions, gaming contract costs, marketing & advertising costs, general administrative costs and depreciation. These other expenses totaled \$66.8 million and \$59.2 million for fiscal years 2018 and 2017 respectively.

The table below shows the operating profit margin, which is the OAL's total operating revenues less its total operating expenses, for the years ended June 30, 2018 and 2017 respectively.

<u>Operating Profit Margin</u>				
	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>Percent Change</u>
Operating revenues	\$ 500,490,328	\$ 449,916,736	\$50,573,592	11.2%
Operating expenses	409,282,265	366,200,412	43,081,853	11.8%
Operating Income	<u>\$ 91,208,063</u>	<u>\$ 83,716,324</u>	<u>\$ 7,491,739</u>	8.9%
Profit margin	18.2%	18.6%		

NON-OPERATING REVENUES AND TRANSFERS

Non-operating revenues were primarily related to interest income of \$1,269,083 and \$489,046 for the years ended June 30, 2018 and 2017 respectively. For fiscal years 2018 and 2017 there were no other non-operating revenues recognized.

In fiscal years 2018 and 2017, net transfers of \$91.8 million and \$85.2 million respectively were made to the Education Trust Fund and Workforce Trust Fund accounts. In addition, the net transfers for scholarships from the Education Trust Fund bank account to ADHE were \$83.5 million for fiscal year 2018 as compared to \$71.0 million for fiscal year 2017.

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2018 (Unaudited)

CAPITAL ASSETS

At June 30, 2018 the OAL had \$1.4 million in capital assets which was the same amount of capital assets 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 10 years. A summary of the changes in the major capital asset groups is provided in the table below and more detailed information on capital assets may be found in Note 11 of the notes to the financial statements.

	<u>Capital Assets</u>		Total % Change
	<u>2018</u>	<u>2017</u>	
Assets under construction	\$ 28,521	\$ -	100.0%
Equipment	945,857	949,289	-0.4%
Leasehold improvements	492,796	492,796	0.0%
Total Capital Assets	<u>1,467,174</u>	<u>1,442,085</u>	1.7%
Less: Accumulated depreciation	<u>(1,122,079)</u>	<u>(1,057,797)</u>	6.1%
Net Capital Assets	<u>\$ 345,095</u>	<u>\$ 384,288</u>	-10.2%

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**



Mike Bock
\$95,000 Natural State Jackpot Winner

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Statement of Net Position

June 30, 2018

ASSETS

Current assets:	
Cash and cash equivalents	\$ 3,451,172
Restricted assets:	
Cash and cash equivalents	59,727,424
Accounts receivable	12,317,596
Receivable from other funds of the State	11,710,556
Prepaid items	226,673
Total current assets	<u>87,433,421</u>
Non-current assets:	
Restricted assets:	
Cash and cash equivalents	20,665,680
Deposits with Multi-State Lottery Association	2,165,572
Capital assets-net	345,095
Total non-current assets	<u>23,176,347</u>
Total assets	110,609,768
Deferred outflows of resources:	
Related to pension	<u>1,671,767</u>
Total assets and deferred outflows of resources	<u>\$ 112,281,535</u>

LIABILITIES

Current liabilities:	
Accounts payable	\$ 70,769
Prizes payable	18,475,523
Accrued and other liabilities	1,942,988
Due to other funds of the State	540,428
Due to Education Trust Account	31,238,197
Due to Workforce Challenge Trust Account	39,099,666
Compensated absences	53,834
Net other post employment benefits	105,120
Unearned revenue	238,970
Total current liabilities	<u>91,765,495</u>
Long-Term liabilities:	
Net other post employment benefits	3,408,546
Compensated Absences	296,876
Net pension liability	5,110,275
Total long-term liabilities	<u>8,815,697</u>
Total liabilities	100,581,192
Deferred inflows of resources:	
Related to pension	466,356
Related to other post employment benefits	147,212
Total deferred inflows of resources	<u>613,568</u>
Total liabilities and deferred inflows of resources	<u>101,194,760</u>

NET POSITION

Net position:	
Invested in capital assets	345,095
Restricted for:	
Scholarship shortfall reserve	20,000,000
Retailer fidelity reserve	182,514
Retailer bond reserve	583,166
Deposits with Multi-State Lottery Association	2,165,572
Unclaimed prizes reserve	1,000,000
Unrestricted (deficit)	<u>(13,189,572)</u>
Total net position	<u>11,086,775</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 112,281,535</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 the Year Ended June 30, 2018

Operating revenues:	
Instant ticket sales	\$ 407,604,791
Online ticket sales	92,103,185
Retailer application, fidelity, bond and service fees	776,503
Other revenue	<u>5,849</u>
 Total operating revenues	 <u>500,490,328</u>
 Operating expenses:	
Instant game prizes	292,489,286
Online game prizes	49,406,134
Retailer commissions	28,196,969
Gaming contract costs	21,967,841
Compensation and benefits	5,092,375
Marketing, advertising and promotions	6,477,277
General and administrative expenses	4,947,334
Services provided by Arkansas Department of Higher Education	454,932
Services provided by Arkansas Legislative Audit	144,000
Legal and professional services	2,106
Depreciation	<u>104,011</u>
 Total operating expenses	 <u>409,282,265</u>
 Operating income	 91,208,063
 Non-operating revenue:	
Interest income	<u>1,269,083</u>
 Income before transfers	 92,477,146
 Transfers to:	
Education Trust Account	(83,500,000)
Workforce Challenge Trust Account	<u>(8,344,929)</u>
 Total Transfers	 <u>(91,844,929)</u>
 Change in net position	 632,217
 Total net position - beginning (as restated)	 <u>10,454,558</u>
Total net position - ending	<u><u>\$ 11,086,775</u></u>

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

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Statement of Cash Flows

For the Year Ended June 30, 2018

Cash flows from operating activities:

Cash received from retailers and others	\$ 500,126,133
Cash paid for prizes	(342,721,524)
Cash paid for gaming vendors	(21,710,991)
Cash paid for retailer commissions	(28,196,969)
Cash paid for marketing and advertising	(6,861,300)
Cash paid for employee services	(4,783,897)
Cash paid for other expenses	<u>(5,526,375)</u>
Net cash provided by operating activities	<u>90,325,077</u>

Cash flows from non-capital financing activities:

Non-operating transfers to Arkansas Department of Higher Education	(83,500,000)
Non-operating transfers from Arkansas Department of Higher Education	<u>4,887,237</u>
Net cash used by non-capital financing activities	<u>(78,612,763)</u>

Cash flows from capital and related financing activities:

Purchases of capital assets	<u>(36,296)</u>
Net cash flows from capital and related financing activities	<u>(36,296)</u>

Cash flows from investing activities:

Interest received	<u>1,269,083</u>
Net increase in cash and cash equivalents	12,945,101

Cash and cash equivalents, beginning	<u>70,899,175</u>
Cash and cash equivalents, ending	<u>\$ 83,844,276</u>

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

Operating income	\$ 91,208,063
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	104,011
Pension expense	186,455
Other post employment benefits expense	112,052
Net changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(280,305)
Receivable from other funds of the State	(117)
Prepaid items	(36,830)
Deposits with Multi-State Lottery Association	(217,501)
Increase (decrease) in:	
Accounts payable	(84,155)
Prizes payable	(608,602)
Accrued and other liabilities	2,212
Due to other funds of the State	20,579
Compensated absences	2,990
Unearned revenue	<u>(83,775)</u>
Net cash provided by operating activities	<u>\$ 90,325,077</u>

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

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. Accounting Restatement

The OAL implemented GASB Statement 75, Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions (OPEB), in the fiscal year ended June 30, 2017. Statement 75 was required to be implemented retroactively with the beginning net position restated for the cumulative effects of implementation. Implementation required reporting a beginning balance for the OPEB liability. The net cumulative effects of implementing Statement 75 on beginning Net Position as previously reported on June 30, 2017 is summarized on the next page.

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

Beginning Net Position	\$ 11,820,546
Net OPEB Liability	<u>(1,365,988)</u>
Adjusted Beginning Net Position	<u>\$ 10,454,558</u>

c. Basis of Presentation

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

d. Basis of Accounting

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

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

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

e. Cash and Cash Equivalents

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

f. Accounts Receivable

Accounts receivable 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. Accounts receivable also represents amounts due from other agencies to the OAL.

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

g. Capital Assets

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

Equipment:	5 - 7 years
Random Number Generator:	10 years
Leasehold improvements:	over the remaining initial term of the lease

When capital assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the Statement of Revenues, Expenses, and Change in Net Position, in the period of retirement/disposition.

h. Net Position

Net position includes categories for net investments in capital assets and for restricted net position for several items including the Scholarship Shortfall Reserve, Retailer Fidelity Reserve, 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 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 purchase 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 13 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.

i. Revenue Recognition

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

j. Unearned Revenue

Funds collected from retailers for online game tickets sold in advance and are for game drawings which will occur after the end of the monthly accounting period, are recorded as

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

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).

k. *Retailer Commissions*

Retailers receive a commission of five percent on all instant tickets settled and online tickets sold. In addition, 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. Retailers also receive an additional selling commission of one percent of each prize amount of \$10,000 or more for any such prizes validated and paid which were purchased from their retail store. The maximum selling commission for any prize of \$10,000 or more is \$50,000.

l. *Prizes and Unclaimed Prizes*

For instant ticket (scratch-off) games, prizes expense is accrued based on the end of production prize structure percentage provided by the gaming vendor for each game and recorded based on value of packs activated for sale by retailers. Prize expense is also recognized for Play it Again (PIA) amounts from instant games that have ended and where the PIA drawing will occur in the future. 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.

m. *Compensated Absences*

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

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

n. Retirement Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension fund and the additions to and deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension system. See note 16 for additional information regarding the retirement plan.

o. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, 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.

p. Bad Debt Expense

Bad debt expense is normally recognized when an OAL retailer's uncollected revenue is significantly past due and is in excess of amounts deemed to be collectible. The amount of expense is based on the retailer's outstanding aged accounts receivable balance. The OAL recorded debt expense in the amount of \$2,047 for the fiscal year ended June 30, 2018. 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. On June 28, 2017, The OAL executed a second amendment to the contract for a period of twelve months, with an effective date of September 2, 2017. The

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

contract amendment has the provision that all banking services be provided to OAL at no cost. Additionally, the contract amendment 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. All of the OAL's cash and equivalents at June 30, 2018 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, 2018, the total collateral pledged to the OAL, was in the form of one irrevocable standby letter of credit and six securities. The letter of credit was issued in the OAL's name by the Federal Home Loan Bank of Dallas, for any sum or sums not to exceed \$65,000,000. In addition to the letter of credit, the pledged securities to OAL had a market value of \$25,947,562 on June 30, 2018. The total value of collateral pledged at June 30, 2018 was \$90,947,562. At June 30, 2018 the OAL's total bank balances were \$84,500,784, so the pledged collateral maximum was 107.6% of the OAL's deposits.

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 \$84,500,784 were exposed to custodial credit risk as of June 30, 2018.

3. ACCOUNTS RECEIVABLE

Management believes that an allowance for uncollectable accounts is not necessary at June 30, 2018, as subsequent collections, 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, 2018 are summarized as follows:

Amount due for activated instant scratch-off tickets, not settled	\$ 9,581,675
Amount due for partial weeks sales through June 30, 2018	2,675,130
Past due accounts and other receivables	60,791
Total accounts receivable	<u>\$ 12,317,596</u>

Receivable from Other Funds of the State

The amount listed below as a receivable from the Department of Higher Education is a refund of excess Net Proceeds over scholarships issued. The amount from the Department of Finance and Administration is for purchasing and travel card rebates for the OAL.

Department of Higher Education	\$ 11,710,439
Department of Finance and Administration	117
Total	<u>\$ 11,710,556</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

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

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 was established with Bank of the Ozarks, and as required by GAAP under accrual based accounting principles, the Due to Education Trust Account reflects the corresponding liability on the statement of net position. The Education 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 Education Trust Account as current restricted cash and cash equivalents on the statement of net position at June 30, 2018 was \$31,238,197. Total net proceeds for the fiscal year ended June 30, 2018 were \$91,844,929. During fiscal year 2018 a total of \$83,500,000 were transferred to ADHE for scholarships, which resulted in excess net proceeds of \$8,344,929 which is recognized as a transfer to the Workforce Challenge Trust Account (see note 5).

Activity in the Education Trust Account for the fiscal year ended June 30, 2018 consisted of the following activities:

Education Trust Account balance at 7/01/17	\$ 31,238,197
Net Proceeds	91,844,929
Payments to ADHE for scholarships	(83,500,000)
Excess Net Proceeds transferred to Workforce Challenge Trust Account	<u>(8,344,929)</u>
Education Trust Account balance at 6/30/18	<u>\$ 31,238,197</u>

5. ARKANSAS WORKFORCE CHALLENGE SCHOLARSHIP PROGRAM

During the 2017 legislative session, the Arkansas General Assembly passed Act 613 of 2017 to create the Arkansas Workforce Challenge Scholarship Program (the Program). Act 613 of 2017 provides for the use of excess lottery proceeds to fund scholarships for students enrolled in higher education programs that will lead to the students being qualified to work in high-needs occupations.

Under the provisions of the Program, the OAL was to establish the Workforce Challenge Trust Account for the deposit of any funds received under the Program. The funding for an academic year were to be received from (A) excess funding returned to the OAL by ADHE from the previous academic year, and (B) net proceeds remaining from the previous academic year after the OAL (1) transfers the funds requested by ADHE to fund scholarships, and (2) deposits the amount necessary to maintain the Scholarship Shortfall Reserve Trust Account at twenty million dollars. As of June 30, 2018 the balance in the Workforce Challenge Trust Account is \$39,099,666.

Activity in the Workforce Challenge Trust Account for the fiscal year ended June 30, 2018 consisted of the following activities:

Workforce Challenge Trust Account balance at 7/01/17	\$ 14,157,060
Returns from ADHE for overfunding of scholarships	16,597,677
Excess Net Proceeds transferred from Education Trust Account	<u>8,344,929</u>
Workforce Challenge Trust Account balance at 6/30/18	<u>\$ 39,099,666</u>

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

6. 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 Education Trust Account for net lottery proceeds.

During fiscal year 2018, in addition to the \$1,000,000 beginning balance the unclaimed prizes totaled \$7,046,875 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, 2018, less \$1,000,000, resulted in a deposit of \$7,046,875 to the Education Trust Account for net proceeds. At June 30, 2018, 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, 2018 consisted of the following activities:

Unclaimed Prizes Reserve at 7/01/17	\$ 1,000,000
Unclaimed prizes for fiscal year ended 6/30/18	7,046,875
Expended for future prizes, promotions or reserves	0
Transferred to the Education Trust Account at 6/30/18	<u>(7,046,875)</u>
Unclaimed Prizes Reserve at 6/30/18	<u>\$ 1,000,000</u>

7. 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 Education Trust Account. The balance of the Scholarship Shortfall Reserve at June 30, 2018 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.

8. 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, 2018 was \$182,514. 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, 2018. 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 Education Trust Account.

9. 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

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

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 Education 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, 2018 the balance of the Retailer bond Reserve was \$583,166. The retailer self-bond fees collected are deposited in the OAL operating account and are classified in the current and non-current restricted cash and cash equivalents. The OAL sustained one loss that was charged to the Retailer Bond Reserve during the fiscal year ended June 30, 2018 in the amount of \$2,047.

10. **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, 2018 the OAL was an active participant in several joint venture arrangements with the Multi-State Lottery Association (MUSL).

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 prize reserve funds for Powerball® and Mega Millions® which are maintained by MUSL. The MUSL prize reserve funds serve as a contingency reserve to protect MUSL and its member state lotteries from unforeseen prize payment liabilities. MUSL periodically reallocates the prize reserve funds among the member state lotteries based on relative Powerball® and Mega Millions® sales levels. All remaining funds remitted, and the related interest earnings (net of administrative costs), less any portion of unanticipated prize claims that may have been paid from the fund, would be returned to the OAL if it were to ever leave MUSL. As of June 30, 2018 the OAL had reserve fund deposits with MUSL of \$2,165,572. MUSL does not maintain prize reserve funds for Lucky for Life®. Instead, each participating lottery is responsible for maintaining their own prize reserve funds for potential Lucky for Life® prize payments.

A copy of the MUSL financial statements may be obtained by submitting a written request to MUSL, Attn: Bret Toyne, Executive Director or Gene Schaller, Director of Finance, 4400 N.W. Urbandale Drive, Urbandale, Iowa 50322.

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

The OAL's portion of the MUSL's games for the fiscal year ended June 30, 2018 is summarized in the table below:

	<u>Operating Revenues</u>	<u>Prizes</u>
Powerball®	\$36,745,344	\$17,403,854
Mega Millions®	\$19,598,073	\$ 9,503,264
Lucky for Life®	\$ 2,856,202	\$ 1,683,896

11. CAPITAL ASSETS

The activity for capital assets for the fiscal year ended June 30, 2018, was as follows:

Capital Assets	<u>Balance</u>			<u>Balance</u>		
	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>		
Assets under construction	\$ -	\$28,521	\$ -	\$ 28,521		
Equipment	949,289	36,297	(39,729)	945,857		
Leasehold improvements	492,796	-	-	492,796		
Total capital assets	<u>1,442,085</u>	<u>64,818</u>	<u>(39,729)</u>	<u>1,467,174</u>		
Less accum. depreciation						
Equipment	(565,001)	(104,011)	39,729	(629,283)		
Leasehold improvements	(492,796)	-	-	(492,796)		
Total accum. depreciation	<u>(1,057,797)</u>	<u>(104,011)</u>	<u>39,729</u>	<u>(1,122,079)</u>		
Capital assets, net	<u>\$ 384,288</u>	<u>\$ (39,193)</u>	<u>\$ 0</u>	<u>\$ 345,095</u>		

12. LIABILITIES

a. Prizes Payable

Prizes payable at June 30, 2018 consisted of instant and online game prizes payable, estimated Lucky For Life® game reserve for prizes of future draws and 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	\$ 15,722,846
Powerball®	748,563
Mega Millions®	562,884
Natural State Jackpot	182,793
Lucky for Life®	959,222
Fast Play	83,122
Cash 3	55,300
Cash 4	86,100
Income tax and other withholding	74,693
Total	<u>\$ 18,475,523</u>

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

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 on the following page.

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, 2018 the OAL had \$4,800 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 Workers Compensation Commission are for withholdings owed or for services performed for the OAL by these Agencies within the normal course of business.

Department of Higher Education	\$ 454,932
Department of Information Systems	13,335
Department of Finance and Administration	66,658
Workers Compensation Commission	703
Legislative Audit	4,800
Total	<u>\$ 540,428</u>

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, 2018.

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, 2018 totaled \$350,710. 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, 2018 the current portion of the compensated absences liability increased by \$4,010 to a balance of \$53,834 and the long-term portion decreased by \$1,020 to a balance of \$296,876.

Long Term Compensated Absences	Beginning Balances	Increases	Decreases	Ending Balances
Annual	\$ 267,355	\$ 377,204	\$(380,787)	\$ 263,772
Sick	30,541	6,317	(3,754)	33,104
Compensatory	0	0	0	0
Total	<u>\$ 297,896</u>	<u>\$ 383,521</u>	<u>\$(384,541)</u>	<u>\$ 296,876</u>

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

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 year end are recorded as unearned revenue and subsequently recognized as revenue once the related drawing occurs.

Unearned revenue from online game tickets at June 30, 2018 is summarized as follows:

Powerball®	\$	72,487
Mega Millions®		78,253
Natural State Jackpot		14,279
Lucky for Life®		19,216
Cash 3		3,381
Cash 4		5,183
Total	\$	<u>192,799</u>

Additionally, retailer licensing renewal fee collected, cover a two year period. The portion of these fees which pertain to periods beyond the current fiscal year end, are also recognized as unearned revenue. At June 30, 2018 the amount of unearned revenue which related to retailer licensing and renewal fees was \$46,171.

13. 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, 2018 the cumulative variance due to the modified cash basis method was a debit balance (deficit) in Unrestricted Net Position of \$(9,675,906).

In addition, the OAL’s net OPEB liability at June 30, 2018 (see note 17) of \$3,513,666 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, 2018 of \$(3,513,666). The total debit balance (deficit) in Unrestricted Net Position at June 30, 2018 was \$(13,189,572).

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

14. 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, 2018 consisted of the following:

Powerball®	\$	36,745,344
Mega Millions®		19,598,073
Fast Play		12,731,621
Natural State Jackpot		7,918,644
Cash 3		7,736,793
Cash 4		4,516,508
Lucky for Life®		<u>2,856,202</u>
Total	\$	<u>92,103,185</u>

15. 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, 2018 was \$448,255.

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, 2018 was \$30,286.

Future minimum rental payments on operating leases as of June 30, 2018, are scheduled as follows:

2019	\$478,605
2020	478,493
2021	465,360
2022	77,271
Thereafter	0

16. 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.

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

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/publications>

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, 2018, the employer contribution rates, as a percentage of active member payroll, ranged from 4.00% to 26.8%. 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 14.75% 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, 2018, 2017, and 2016 were \$538,589, \$516,803, and \$529,187, 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, 2018, the OAL reported a net pension liability of \$5.1 million. The net pension liability was measured as of June 30, 2017, 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 2017 fiscal year of all participating employers. At June 30, 2017, the OAL's proportion was 0.198%.

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

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, 2017
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

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 2017 to 2026 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, 2017, these best estimates are summarized in the table below:

Asset Class	Current Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	5.97%
International Equity	24%	6.54%
Real Assets	16%	4.59%
Absolute Return	5%	3.15%
Domestic Fixed	18%	0.83%
Total	100%	

Discount Rate

A single discount rate of 7.15% 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 7.15%. 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:

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

	1% lower than current discount rate	Current discount rate	1% higher than current discount rate
Rate	6.15%	7.15%	8.15%
Net pension liability	\$7,782,290	\$5,110,275	\$2,891,579

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.

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

For the year ended June 30, 2018, the OAL recognized pension expense of \$715,927. For the year ended June 30, 2018, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	Deferred outflows <u>of resources</u>	Deferred inflows <u>of resources</u>
Changes of assumptions	\$822,235	
Differences between expected and actual experience	\$99,065	\$100,508
Net difference between projected and actual investment earnings on pension plan investments	\$214,136	
Changes in proportion and differences Between employer contributions and share of contributions		\$365,848
Contributions subsequent to the measurement date	\$538,726	

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, 2019. 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:	Total
2018	\$103,616
2019	344,984
2020	264,691
2021	(44,211)

17. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which became effective for fiscal years beginning after June 15, 2017. The Statement establishes standards for the measurement, recognition and display of other Postemployment Benefits (OPEB) under government accounting standards.

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

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

b. General Information

The State contributes to the following single-employer defined benefit healthcare plan for eligible state employees:

- Arkansas State Employee Health Plan (ASE) (administered by Department of Finance and Administration – Employee Benefits Division)

State law grants the authority to establish and amend benefit terms and financing requirements for the plan as follows:

- Arkansas State Employee Health Plan (ASE)
 - State and Public School Life and Health Insurance Board
 - Arkansas Code § 21-5-401 to § 21-5-414

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided

The plan provides medical and prescription drug benefits to plan members and beneficiaries.

ASE

ASE covers state employees that are members of the Arkansas Public Employees Retirement System and are eligible to be in ASE on their last day of employment and their dependents. Retirees and their spouse are eligible to continue participation in ASE until the death of each covered individual. Retirees must contribute the required annual premium as determined by pay-as-you-go financing requirements. Retirees that are Medicare eligible will have their benefits coordinated with Medicare Part A and B with ASE being the secondary payer.

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

Employees Covered by Benefit Terms

At June 30, 2018, the following state employees were covered by the plan:

Inactive employees or beneficiaries currently receiving benefits	15,707
Inactive employees entitled to but not yet receiving benefits	9,284
Active employees	<u>31,239</u>
Total	<u>56,230</u>

Specific information for OAL employees was not utilized in the actuarial study.

c. Total OPEB Liability

At June 30, 2018, the state reported the following liabilities for ASE as determined as of the date listed.

	<u>Measurement Date</u>	<u>Total OPEB Liability</u>
ASE	June 30, 2018	\$ 2,019,187,000
OAL	June 30, 2018	\$ 3,513,666

Actuarial Assumptions and Other Inputs

The total OPEB liabilities listed were determined based on an actuarial valuation dated on or before the measurement date. If the actuarial valuation is dated before the measurement date, update procedures were used to roll forward the actuarial valuation to the measurement date. The actuarial valuations used the following assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2018
Inflation rate	N/A
Salary increases	3% per year
Discount rate (1)	3.87%
Healthcare cost trend rates	Medical 5% increase for 2019 to 2021 then decreasing by 0.10% per year Pharmacy 8% increase for 2019 to 2021 then decreasing by 0.35% per year
Retirees' share of benefit-related costs	Varies by age and Medicare versus non-Medicare retirees
Actuarial experience study dates (if applicable)	July 1, 2017 to June 30, 2018

(1) The discount rate was based on the Bond Buyer 20-Bond GO Index.

Mortality rates were based on the RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females.

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

d. Changes in the Total OPEB Liability

The following table provides the changes in the total OPEB liability for each plan:

	ASE	OAL
Balance, June 30, 2017 (1)	\$2,039,392,000	\$3,548,826
Changes for the year:		
Service cost	70,128,000	122,032
Interest	73,229,000	127,429
Changes of benefit terms	0	0
Differences between expected and actual experience	(13,322,000)	(23,182)
Changes in assumptions or other inputs	(92,425,000)	(160,832)
Benefit payments	(57,815,000)	(100,606)
Net changes	(20,205,000)	(35,160)
Balance, June 30, 2018	<u>\$2,019,187,000</u>	<u>\$3,513,666</u>

(1) Beginning balance restated for the implementation of GASB 75.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following table presents the total OPEB liability of the State, as well as what the State's total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate for each plan:

	1% Decrease		Current Discount Rate		1% Increase	
	Rate	Total OPEB Liability	Rate	Total OPEB Liability	Rate	Total OPEB Liability
ASE	2.87%	\$2,364,738,000	3.87%	\$2,019,187,000	4.87%	\$1,741,541,000
OAL	2.87%	\$ 4,114,973	3.87%	\$ 3,513,666	4.87%	\$ 3,030,523

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the total OPEB liability of the State, as well as what the State's total OPEB liability would be if it were calculated using healthcare costs trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates for each plan:

	1% Decrease		Current Discount Rate		1% Increase	
	Rate	Total OPEB Liability	Rate	Total OPEB Liability	Rate	Total OPEB Liability
ASE	N/A	\$1,713,263,000	N/A	\$2,019,187,000	N/A	\$2,409,752,000
OAL	N/A	\$ 2,981,316	N/A	\$ 3,513,666	N/A	\$ 4,193,303

e. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the State recognized OPEB expense for each plan and in total as follows on the next page.

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

	<u>Total OPEB Expense</u>
ASE	\$122,207,600
OAL	\$ 212,658

At June 30, 2018, the State reported deferred outflows of resources and deferred inflows of resources related to OPEB for each plan from the following sources:

	ASE	OAL
Change in net OPEB liability	\$ (20,205,000)	\$ (35,160)
Change in deferred outflows	0	0
Change in deferred inflows	84,597,600	147,212
Employer contributions	57,815,000	100,606
OPEB expense	<u>\$ 122,207,600</u>	<u>\$ 212,658</u>
OPEB expense as % of payroll	N/A	N/A
Operating expenses		
Service cost	\$ 70,128,000	\$ 122,032
Employee contributions	0	0
Administrative expenses	0	0
Total	<u>\$ 70,128,000</u>	<u>\$ 122,032</u>
Financing expenses		
Interest costs	\$ 73,229,000	\$ 127,429
Expected return on assets	0	0
Total	<u>\$ 73,229,000</u>	<u>\$ 127,429</u>
Changes		
Benefit changes	\$ 0	\$ 0
Recognition of assumption changes	(18,485,000)	(32,166)
Recognition of liability gains and losses	(2,664,400)	(4,637)
Total	<u>\$ (21,149,400)</u>	<u>\$ (36,803)</u>
OPEB expense	<u>\$ 122,207,600</u>	<u>\$ 212,658</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	ASE		OAL	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 10,657,600	\$ 0	\$ 18,546
Changes in assumptions	0	73,940,000	0	128,666
Total	<u>\$ 0</u>	<u>\$ 84,597,600</u>	<u>\$ 0</u>	<u>\$ 147,212</u>

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30:	ASE	OAL
2019	\$ (21,149,400)	\$ (36,803)
2020	(21,149,400)	(36,803)
2021	(21,149,400)	(36,803)
2022	(21,149,400)	(36,803)
2023	0	0
Thereafter	0	0

OFFICE OF THE ARKANSAS LOTTERY*Notes to Financial Statements*

June 30, 2018

18. 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. During the fiscal year ended June 30, 2017 the OAL amended its contract with INTRALOT. The amendment had an effective date of August 23, 2017 and granted a seven (7) year extension to the contract commencing on the expiration of the current contract date of August 14, 2019. The current contract extension will expire on August 14, 2026.. During the fiscal year ended June 30, 2018, INTRALOT was compensated at the rate of 2.165% of all online and instant ticket game sales on sales through December 31, 2017. INTRALOT modified its compensation to reduce the rate from 2.165% to 2.11% on all instant and online sales commencing January 1, 2018. Total fees paid to INTRALOT and others for all gaming network and related services for the fiscal year ended June 30, 2018 were \$10,669,391.

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 1.30% of instant ticket net sales up to \$360 million during a contract year. The contract year is from August 18, 2016 through August 17, 2017. 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. Instant ticket sales during the fiscal year ended June 30, did exceed \$360 million during the contract year. During the fiscal year ended June 30, 2018, SGI was compensated \$5,905,391, which represents a rate of 1.45% of instant ticket sales for these services. 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, 2018 these other SGI fees totaled \$5,382,821 or 1.32 % of instant ticket sales. Total fees paid to SGI for all services for the fiscal year ended June 30, 2018 were \$11,288,212.

The OAL also has 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, 2018, 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.

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

For FY 2018 the OAL and CGS agreed upon the pricing that CGS was paid as base compensation of \$535,488, paid monthly. The base compensation was paid in twelve monthly payments of \$44,624. In addition to the base compensation CGS was 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, 2018 the OAL paid CGS \$27,267 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.

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, 2018 the OAL paid or accrued total incentive compensation to CGS of \$3,089,462.

19. CONTINGENCIES

At June 30, 2018 there were no pending lawsuits or claims to which the OAL is a party.

20. 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, 2018, 2017, 2016 and 2015 did not exceed the OAL's insurance coverage.

21. SUBSEQUENT EVENTS

In accordance with GASB 56, the OAL's Management has evaluated subsequent events that occurred after June 30, 2018, but prior to November 28, 2018, the date the financial statements were available to be issued.

OFFICE OF THE ARKANSAS LOTTERY

Notes to Financial Statements

June 30, 2018

Such evaluation subsequently identified the following transaction related to the Arkansas Department of Higher Education (ADHE). On September 6, 2018, ADHE refunded \$11,710,439 to the OAL for the fiscal year ended June 30, 2018.

Also, at the request of ADHE, on October 10, 2018 a payment of \$35,000,000 was made from the Education Trust Account to ADHE.

Also, at the request of ADHE, on November 7, 2018 a payment of \$1,000,000 was made from the Workforce Challenge Trust Account to ADHE in order to fund the first disbursement of scholarships awarded for the 2018 Academic Year.

Such evaluation also identified that per the amended contract with SGI, upon the completion of the contract year on August 17, 2018, instant games sales totaled \$409,112,790 for the period from August 18, 2017 through the end of the contract year. The amount of sales exceeded the pro-rated bonus calculation base by \$49,112,790 resulting in a bonus amount of \$2,210,076 which was paid to SGI on August 24, 2018.

Such evaluation also identified that on July 19, 2018, The OAL executed a third amendment to the contract with Bank of the Ozarks for a period of twelve months, with an effective date of September 2, 2018.



Required
**SUPPLEMENTARY
INFORMATION**



Jada Turner
Scholarship to University of Arkansas
Pine Bluff

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Arkansas Public Employess Retirement System

Schedule of Employer's Proportionate Share of the Net Pension Liability

Last Nine Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014 to 2009</u>
OAL proportion of the net pension liability (asset)	0.20%	0.20%	0.23%	0.24%	N/A
OAL proportionate share of the net pension liability (asset)	\$ 5,110,275	\$ 4,732,352	\$ 4,415,000	\$ 3,408,000	
OAL covered-employee payroll	\$ 3,651,448	\$ 3,564,158	\$ 3,649,566	3,992,710	
OAL proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	139.95%	132.78%	120.97%	85.36%	
Plan fiduciary net position as a percentage of the total pension liability	76.65%	75.50%	80.39%	84.15%	

Note: (1) The OAL (ALC) was established in fiscal year 2009.
 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 Nine Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013 to 2009</u>
Statutorily determined contribution	\$ 538,589	\$ 516,803	\$ 529,187	\$ 589,324	\$ 631,562	N/A
Contributions in relation to the statutorily determined contribution	538,589	516,803	529,187	589,324	631,562	
Contribution deficiency (excess)	<u>\$ -</u>					
Covered payroll	\$ 3,651,448	\$ 3,564,158	\$ 3,649,566	\$ 3,992,710	\$ 4,244,368	
Contributions as a percentage of covered payroll	14.75%	14.50%	14.50%	14.76%	14.88%	

Note: The OAL (ALC) was established in fiscal year 2009.
 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

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Other Post Employment Benefits
Schedule of Changes in Total OPEB Liability
Last Nine Fiscal Years

	<u>2018</u>	<u>2017-2009</u>
Service cost	\$ 122,032	N/A
Interest cost	127,429	
Change of benefit terms	-	
Difference between expected and actual experience	(23,182)	
Change in assumptions	(160,833)	
Benefit payments	(100,606)	
Net Change in Total OPEB Liability	<u>\$ (35,160)</u>	
Total OPEB liability beginning	\$ 3,548,826	
Total OPEB liability ending	\$ 3,513,666	
Covered payroll	N/A	
Total as a percentage of covered payroll	N/A	

Note: The OAL (ALC) was established in fiscal year 2009.
The State implemented GASB Statement 75 in fiscal year 2018.
Information for the schedule was not available prior to this fiscal year.





STATISTICAL
Section



Phyllis Thomas
\$50,000 Powerball® Winner

OFFICE OF THE ARKANSAS LOTTERY

Statistical Section Table of Contents

(Unaudited)

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

<u>Contents</u>	<u>Page</u>
Financial Trends	43
These schedules contain trend information to help the reader understand how the OAL's financial performance and well-being have changed over time.	
Demographics and Operation Information	51
These schedules offer demographic and operation indicators to help the reader understand the environment within which the OAL's financial activities take place.	
Other Information	55
These schedules provide the reader with an understanding of lottery sales across the United States by state and other player demographics.	

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Principal Revenue Sources (Unaudited)

Last Nine Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues:				
Instant ticket sales:				
Instant games sales	\$ 407,604,791	\$ 368,454,561	\$ 360,007,743	\$ 335,000,613
Online ticket sales:				
Powerball®	36,745,344	32,755,119	48,073,339	27,099,705
Mega Millions®	19,598,073	14,313,090	14,632,244	15,158,385
Fast Play	12,731,621	12,313,567	10,993,360	10,770,484
Natural State Jackpot	7,918,644	7,047,543	7,567,005	7,035,843
Cash 3	7,736,793	7,128,685	7,184,616	6,712,769
Cash 4	4,516,508	4,238,553	3,823,987	3,832,385
Decades of Dollars	-	-	-	612,932
AR Million Dollar Raffle	-	-	-	-
Arkansas 50/50 Raffle	-	-	-	38,210
Lucky for Life	2,856,202	2,889,910	3,317,108	2,013,064
Monopoly™ Millionaires' Club	-	-	-	388,990
Total online ticket sales	<u>92,103,185</u>	<u>80,686,467</u>	<u>95,591,659</u>	<u>73,662,767</u>
Retailer application, fidelity, bond & service fees	776,503	769,959	717,150	550,952
Other revenue	<u>5,849</u>	<u>5,749</u>	<u>9,259</u>	<u>20,346</u>
Total operating revenues	<u>500,490,328</u>	<u>449,916,736</u>	<u>456,325,811</u>	<u>409,234,678</u>
Non-operating revenue:				
Interest income	1,269,083	489,046	232,275	224,546
Other non-operating income	-	-	1,875	-
Total non-operating revenue	<u>1,269,083</u>	<u>489,046</u>	<u>234,150</u>	<u>224,546</u>
Total revenues	<u>\$ 501,759,411</u>	<u>\$ 450,405,782</u>	<u>\$ 456,559,961</u>	<u>\$ 409,459,224</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 2018, 2017, 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 Nine Fiscal Years

2014	2013	2012	2011	2010
<u>\$ 322,415,276</u>	<u>\$ 355,061,785</u>	<u>\$ 391,290,225</u>	<u>\$ 387,478,608</u>	<u>\$ 335,487,156</u>
35,042,460	47,409,700	37,903,399	34,961,543	34,998,429
19,847,674	13,891,465	25,571,602	24,113,365	7,935,615
10,126,554	3,391,691	2,721,436	2,636,383	-
8,863,034	6,994,820	-	-	-
6,255,740	6,161,706	6,178,537	5,805,414	5,277,255
3,606,991	3,324,150	3,325,490	3,091,218	-
2,345,532	2,927,572	5,237,158	932,820	-
1,426,490	-	-	5,000,000	-
143,375	385,105	857,760	-	-
-	-	-	-	-
-	-	-	-	-
<u>87,657,850</u>	<u>84,486,209</u>	<u>81,795,382</u>	<u>76,540,743</u>	<u>48,211,299</u>
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>
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>\$ 411,351,629</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 Ten Fiscal Years

	2018	2017	2016	2015
Operating revenues:				
Instant ticket sales	\$ 407,604,791	\$ 368,454,561	\$ 360,007,743	\$ 335,000,613
Online ticket sales	92,103,185	80,686,467	95,591,659	73,662,767
Retailer application, fidelity, bond & service fees	776,503	769,959	717,150	550,952
Other revenue	5,849	5,749	9,259	20,346
Total operating revenues	500,490,328	449,916,736	456,325,811	409,234,678
Operating expenses:				
Instant game prizes	292,489,286	263,190,873	258,461,952	241,758,220
Online game prizes	49,406,134	43,238,515	50,485,363	38,708,574
Retailer commissions	28,196,969	25,315,020	25,704,177	23,253,196
Gaming contract costs	21,967,841	19,090,227	19,384,187	20,622,707
Compensation and benefits	5,092,375	5,024,854	5,232,605	5,382,544
Marketing, advertising and promotions	6,477,277	5,861,130	4,798,502	5,032,317
General and administrative expenses	4,947,334	3,799,935	3,380,275	1,274,003
Services provided by other agencies:				
Arkansas Department of Higher Education	454,932	441,317	396,995	538,487
Arkansas Legislative Audit	144,000	139,760	143,360	129,960
Legal and professional services	2,106	1,864	2,793	12,528
Depreciation	104,011	96,917	95,063	158,363
Total operating expenses	409,282,265	366,200,412	368,085,272	336,870,899
Operating income (loss)	91,208,063	83,716,324	88,240,539	72,363,779
Non-operating revenue:				
Interest income	1,269,083	489,046	232,275	224,546
Other non-operating income	-	-	1,875	-
Total non-operating revenue	1,269,083	489,046	234,150	224,546
Income (loss) before transfers	92,477,146	84,205,370	88,474,689	72,588,325
Transfers to:				
Education Trust Account	(83,500,000)	(71,000,000)	(85,274,927)	(72,619,369)
Workforce Challenge Trust Account	(8,344,929)	(14,157,060)	-	-
Arkansas Department of Human Services	-	-	-	(200,000)
Total transfers	(91,844,929)	(85,157,060)	(85,274,927)	(72,819,369)
Change in net position	\$ 632,217	\$ (951,690)	\$ 3,199,762	\$ (231,044)

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) During the 91th General Assembly, Act 613 of 2017 was enacted which created the Arkansas Workforce Challenge Scholarship which provide for the use excess Lottery Proceeds to fund students enrolled in Higher Education Programs that will lead to the Students being qualified to work in High-Needs Occupations.

Source: OAL Comprehensive Annual Financial Report for fiscal years 2018, 2017, 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011, ALC Annual Financial Report for fiscal year 2010 and

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Revenues, Expenses and Change in Net Position (Unaudited)

Last Ten Fiscal Years

2014	2013	2012	2011	2010	2009
\$ 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	-
410,637,968	440,109,276	473,639,229	465,080,339	384,571,128	-
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	-
331,471,179	352,063,212	379,138,908	371,715,831	302,579,134	16,469
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	-	-	-
713,661	322,722	2,352,431	464,252	181,807	-
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)	-
-	-	-	-	-	-
(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	-
(81,688,844)	(90,457,161)	(97,710,280)	(74,429,349)	(82,999,809)	-
\$ (1,808,394)	\$ (2,088,375)	\$ (857,528)	\$ 19,399,411	\$ (826,008)	\$ (16,469)

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Net Position by Component (Unaudited)

Last Ten Fiscal Years

	<u>2018</u>	<u>2017 (4)</u>	<u>2016</u>	<u>2015</u>
Net position:				
Invested in capital assets	\$ 345,095	\$ 384,288	\$ 376,417	\$ 223,178
Restricted for:				
Scholarship shortfall reserve	20,000,000	20,000,000	20,000,000	20,000,000
Retailer fidelity reserve	182,514	158,355	136,900	113,582
Retailer bond reserve	583,166	373,312	163,872	-
Deposits with Multi-State Lottery Association	2,165,572	1,948,071	1,847,611	1,762,386
Unclaimed prizes reserve	1,000,000	1,000,000	1,000,000	1,000,000
Unrestricted (deficit)	<u>(13,189,572)</u>	<u>(13,409,468)</u>	<u>(10,752,564)</u>	<u>(13,526,672)</u>
 Total net position (deficit)	 <u>\$ 11,086,775</u>	 <u>\$ 10,454,558</u>	 <u>\$ 12,772,236</u>	 <u>\$ 9,572,474</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

3) For fiscal year 2014, Unrestricted (deficit) was restated for pension per GASB Statement 68.

4) For fiscal year 2017, Unrestricted (deficit) was restated for OPEB per GASB Statement 75.

Source: OAL Comprehensive Annual Financial Report for fiscal years 2018, 2017, 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 Ten Fiscal Years

2014 (3)	2013	2012	2011	2010	2009
\$ 246,113	\$ 358,372	\$ 540,530	\$ 722,689	\$ 867,607	\$ -
20,000,000	20,000,000	20,000,000	20,000,000	-	-
91,133	70,586	49,232	42,205	18,831	-
-	-	-	-	-	-
1,794,079	1,773,620	1,683,806	1,138,133	457,268	-
1,000,000	1,000,000	1,000,000	1,000,000	-	-
<u>(13,327,807)</u>	<u>(7,591,547)</u>	<u>(5,574,162)</u>	<u>(4,346,093)</u>	<u>(2,186,183)</u>	<u>(16,469)</u>
<u><u>\$ 9,803,518</u></u>	<u><u>\$ 15,611,031</u></u>	<u><u>\$ 17,699,406</u></u>	<u><u>\$ 18,556,934</u></u>	<u><u>\$ (842,477)</u></u>	<u><u>\$ (16,469)</u></u>

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Changes in Cash and Cash Equivalents (Unaudited)

Last Ten Fiscal Years

	2018	2017	2016	2015
Cash flows from operating activities:				
Cash received from retailers and others	\$ 500,126,133	\$ 448,872,673	\$ 457,634,809	\$ 407,714,967
Cash paid for prizes	(342,721,524)	(305,141,493)	(310,865,471)	(279,650,934)
Cash paid for gaming vendors	(21,710,991)	(19,154,160)	(19,540,446)	(20,638,704)
Cash paid for retailer commissions	(28,196,969)	(25,400,020)	(25,742,753)	(23,253,196)
Cash paid for marketing and advertising	(6,861,300)	(5,492,302)	(5,413,835)	(4,772,451)
Cash paid for employee services	(4,783,897)	(4,749,058)	(4,834,544)	(5,432,980)
Cash paid for other expenses	(5,526,375)	(5,645,415)	(2,412,905)	(2,139,793)
Cash received from other non-operating income	-	-	1,875	-
Net cash provided (used) by operating activities	<u>90,325,077</u>	<u>83,290,225</u>	<u>88,826,730</u>	<u>71,826,909</u>
Cash flows from non-capital financing activities:				
Interagency advances		-	-	-
Non-operating transfers to Arkansas Department of Higher Education	(83,500,000)	(71,000,000)	(77,000,000)	(80,000,000)
Non-operating transfers from Arkansas Department of Higher Education	4,887,237	542,198	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	<u>(78,612,763)</u>	<u>(70,457,802)</u>	<u>(76,713,823)</u>	<u>(77,880,531)</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(36,296)	(104,787)	(248,302)	(138,605)
Loss on disposal of fixed assets	-	-	-	3,177
Net cash flows from capital and related financing activities	<u>(36,296)</u>	<u>(104,787)</u>	<u>(248,302)</u>	<u>(135,428)</u>
Cash flows from investing activities:				
Interest received	1,269,083	489,046	232,275	224,546
Net increase in cash and cash equivalents	12,945,101	13,216,682	12,096,880	(5,964,504)
Cash and cash equivalents, beginning	<u>70,899,175</u>	<u>57,682,493</u>	<u>45,585,613</u>	<u>51,550,117</u>
Cash and cash equivalents, ending	<u>\$ 83,844,276</u>	<u>\$ 70,899,175</u>	<u>\$ 57,682,493</u>	<u>\$ 45,585,613</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 91,208,063	\$ 83,716,324	\$ 88,240,539	\$ 72,363,779
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	104,011	96,917	95,063	158,363
Pension Earnings	186,455	11,108	(90,790)	(201,028)
Other post employment benefits expense	112,052	-	-	-
Other non-operating income	-	-	1,875	-
Net changes in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(280,305)	(929,311)	1,166,802	(1,493,924)
Receivable from other Funds of the State	(117)	3,579	(3,576)	-
Prepaid items	(36,830)	(156,757)	(9,191)	59,650
Deposits with Mult-State Lottery Association	(217,501)	(100,460)	(85,225)	31,693
Increase (decrease) in liabilities:				
Accounts payable	(84,155)	118,383	(481,522)	(609,762)
Prizes payable	(608,602)	1,388,353	(1,832,930)	784,166
Accrued and other liabilities	2,212	(973,880)	1,261,440	864,662
Due to other funds of the State	20,579	(4,626)	(66,992)	(248,295)
Compensated absences	2,990	33,716	16,613	(38,879)
Unearned revenue	(83,775)	(114,751)	142,196	(25,787)
Net other post employment benefits	-	201,630	472,428	182,271
Net cash provided (used) by operating activities	<u>\$ 90,325,077</u>	<u>\$ 83,290,225</u>	<u>\$ 88,826,730</u>	<u>\$ 71,826,909</u>

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 2018, 2017, 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 Ten 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)	-
	-	-	-	0	0	-
	<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
	64,110,816	81,906,567	88,365,709	83,517,656	5,988,343	-
\$	<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 Capital Income and Unemployment Rate (Unaudited)

Last Ten Years

Calendar year	Total population (in thousands)	Total personal income (in millions)	Per capita personal income	Unemployment rate
2018	3,013	\$ 125,715	41,724	3.8%
2017	3,004 *	123,313	41,050	3.7%
2016	2,988 *	118,770	39,749	3.9%
2015	2,976 *	116,249	39,062	5.0%
2014	2,965 *	112,619	37,983	6.0%
2013	2,957 *	106,430	35,993	7.2%
2012	2,949 *	106,537	34,399	7.6%
2011	2,939	99,329	33,713	8.3%
2010	2,922	93,103	32,355	8.2%
2009	2,897	90,242	31,651	7.8%

* 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. (September 2018), 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 2018 as Compared to 2009

2018	Employer	Total Employees	% of Total Arkansas Employment
1	Arkansas State Government	61,559	4.9%
2	Wal-Mart Stores, Inc.	53,994	4.3%
3	Tyson Foods, Inc.	24,400	2.0%
4	U.S. Government	19,800	1.6%
5	UAMS	11,320	0.9%
6	Baptist Health	9,393	0.8%
7	Mercy	5,115	0.4%
8	CHI St. Vincent	5,093	0.4%
9	Arkansas Children's Hospital	4,431	0.4%
10	Kroger Co.	4,355	0.3%
		<u>199,460</u>	<u>16.0%</u>

2009	Employer	Total Employees	% of Total Arkansas Employment
1	Arkansas State Government	55,871	4.8%
2	Wal-Mart Stores, Inc.	48,470	4.1%
3	Tyson Foods, Inc.	24,005	2.1%
4	U.S. Government	20,939	1.8%
5	Baptist Health	7,400	0.6%
6	J.B. Hunt Transport Services, Inc.	6,250	0.5%
7	Sisters of Mercy Health System	5,493	0.5%
8	Arkansas Children's Hospital	4,337	0.4%
9	Kroger Co.	3,684	0.3%
10	CHI St. Vincent	3,354	0.3%
		<u>179,803</u>	<u>15.4%</u>

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Employees by Department and by Function (Unaudited)

Last Ten Fiscal Years

Function	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Executive	1	1	1	1	1	1	1	2	2	1
Public Affairs	0	0	0	0	0	0	1	1	1	1
Human Resources	0	0	0	0	2	2	2	1	3	-
Legal Counsel	2	2	1	2	2	2	1	2	2	-
Internal Audit	3	2	3	3	2	2	1	2	2	-
Sales	24	24	23	22	23	23	23	23	22	-
Marketing	3	4	4	4	7	7	7	7	7	-
Security	4	4	6	6	6	5	6	4	4	-
Draw Managers	2	2	2	2	2	2	2	1	2	-
Licensing	4	4	4	3	3	3	3	4	3	-
Gaming	1	1	1	1	1	1	1	1	1	-
IT-Gaming	6	6	6	6	6	6	6	7	6	-
Product Development	3	3	3	3	3	3	3	2	2	-
Finance										
Chief Fiscal Officer	1	1	1	1	1	1	1	1	1	-
Treasurer	3	3	3	3	3	3	3	4	4	-
Claims Center	3	3	3	3	9	9	9	9	9	-
Controller	2	2	2	2	5	5	5	4	3	-
Procurement	1	1	1	1	2	2	3	6	6	-
IT-Admin	2	2	1	2	3	3	3	3	4	-
Financial Analyst	1	1	0	0	0	0	0	0	0	-
Total Employees	66	66	65	65	81	80	81	84	84	2
Gender:										
Female	30	30	30	28	40	39	41	41	41	1
Male	36	36	35	37	41	41	40	43	43	1
Race:										
Black/Non-Hispanic	14	16	16	15	19	19	23	23	24	-
Caucasian	49	45	43	43	53	54	51	57	57	2
Hispanic	0	2	2	2	3	3	2	2	1	-
Other	3	3	4	5	6	4	5	2	2	-
Age:										
Under 40	20	19	20	21	29	31	34	35	36	-
40+	46	47	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 Department

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Capital Assets by Department (Unaudited)

Year Ended June 30, 2018

Function	2018
Executive:	
Furniture and fixtures	\$ 31,610
Computer equipment	48,395
Vehicles	8,575
Buildings/building improvements	<u>44,800</u>
Total executive assets	<u>133,380</u>
 Sales and Marketing:	
Furniture and fixtures	142,244
Computer equipment	217,776
Vehicles	38,589
Buildings/building improvements	<u>201,598</u>
Total sales and marketing assets	<u>600,207</u>
 Gaming and Security:	
Furniture and fixtures	105,366
Computer equipment	161,316
Vehicles	28,584
Buildings/building improvements	<u>149,332</u>
Total gaming and security assets	<u>444,598</u>
 Finance:	
Furniture and fixtures	68,488
Computer equipment	104,855
Vehicles	18,580
Buildings/building improvements	<u>97,066</u>
Total finance assets	<u>288,989</u>
 Total assets	<u><u>\$ 1,467,174</u></u>

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

U.S. Lotteries' Sales (Unaudited)

Fiscal Year 2018

Lottery Jurisdiction	Population (in millions)	Sales (in millions)	Sales Per Capita	Instant Sales (in millions)	Instant Sales Per Capita
Arizona	7.0	\$ 981.4	\$ 140	\$ 710.9	\$ 102
Arkansas	3.0	499.7	166	407.6	136
California	39.5	6,977.2	176	5,088.8	129
Colorado	5.6	612.0	109	407.5	73
Connecticut	3.6	1,267.6	353	730.7	203
D.C.	0.7	212.1	306	49.1	70
Delaware	1.0	231.6	241	70.6	71
Florida	21.0	6,700.8	319	4,652.3	222
Georgia	10.4	4,597.8	441	3,163.4	304
Idaho	1.7	265.1	154	146.9	86
Illinois	12.8	2,928.4	229	1,880.5	147
Indiana	6.7	1,270.1	191	935.0	140
Iowa	3.1	371.0	118	244.3	79
Kansas	2.9	284.3	98	171.6	59
Kentucky	4.5	1,042.5	234	613.1	136
Louisiana	4.7	491.0	105	217.2	46
Maine	1.3	288.9	216	219.1	169
Maryland	6.1	2,033.7	336	750.9	123
Massachusetts	6.9	5,340.4	778	3,651.3	529
Michigan EST (1)	10.0	3,543.7	356	1,465.3	147
Minnesota	5.6	596.5	107	411.2	73
Missouri	6.1	1,314.5	215	907.3	149
Montana	1.1	57.2	54	18.6	17
Nebraska	1.9	183.4	96	100.8	53
N. Hampshire	1.3	330.9	246	239.0	184
New Jersey	9.0	3,299.5	366	1,852.3	206
New Mexico	2.1	134.0	64	72.3	34
New York (1)	19.8	7,938.8	400	4,178.5	211
N. Carolina	10.3	2,605.3	254	1,782.8	173
N. Dakota (2)	0.8	31.3	41	-	-
Ohio	11.7	3,160.1	271	1,600.6	137
Oklahoma	3.9	221.1	56	127.6	33
Oregon	4.1	368.4	89	130.4	32
Pennsylvania	12.8	4,200.6	328	2,824.2	221
Rhode Island	1.1	258.4	244	98.7	90
S. Carolina	5.0	1,750.2	348	1,260.6	252
South Dakota	0.9	58.1	67	30.2	34
Tennessee (2)	6.7	1,730.0	258	-	-
Texas EST (1)	28.3	5,613.3	198	4,406.2	156
Vermont	0.6	132.4	212	102.0	170
Virginia	8.5	2,139.8	253	1,184.6	139
Washington	7.4	733.9	99	507.9	69
West Virginia	1.8	177.0	97	99.2	55
Wisconsin	5.8	667.4	115	419.4	72
Wyoming	0.6	28.8	50	-	-
Total	309.7	\$ 77,670.2	\$ 251	\$ 47,930.5	\$ 155

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

(2) North Dakota and Tennessee instant ticket sales were not reported. Wyoming does not have instant ticket sales.

Source: *La Fleur's Magazine* - September/October 2018

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

U.S. Lotteries' Sales (Unaudited)

Fiscal Year 2017

Lottery Jurisdiction	Population (in millions)	Sales (in millions)	Sales Per Capita	Instant Sales (in millions)	Instant Sales Per Capita
Arizona	6.9	\$ 852.0	\$ 123	\$ 632.8	\$ 92
Arkansas	3.0	449.5	150	368.5	123
California	39.3	6,244.7	159	4,576.0	116
Colorado	5.5	555.3	100	380.2	69
Connecticut	3.6	1,216.3	340	720.6	200
D.C.	0.7	218.6	321	51.1	73
Delaware	1.0	169.8	178	69.3	69
Florida	20.6	6,156.5	299	4,243.6	206
Georgia	10.3	4,528.9	439	3,117.2	303
Idaho	1.7	239.6	142	137.1	81
Illinois	12.8	2,844.0	222	1,871.9	146
Indiana	6.6	1,202.6	181	907.7	138
Iowa	3.1	352.3	112	237.7	77
Kansas	2.9	272.2	94	164.3	57
Kentucky	4.4	1,000.5	225	603.8	137
Louisiana	4.7	455.0	97	206.3	44
Maine	1.3	270.4	203	212.4	163
Maryland	6.0	1,923.2	320	676.8	113
Massachusetts	6.8	5,077.8	745	3,518.6	517
Michigan EST (1)	9.9	3,221.1	324	1,321.6	133
Minnesota	5.5	563.5	102	398.3	72
Missouri	6.1	1,235.9	203	869.5	143
Montana	1.0	52.7	51	17.7	18
Nebraska	1.9	173.5	91	101.3	53
N. Hampshire	1.3	297.5	223	223.6	172
New Jersey	8.9	3,186.7	356	1,839.6	207
New Mexico	2.1	126.0	61	72.4	34
New York (1)	19.7	7,666.8	388	4,001.2	203
N. Carolina	10.1	2,428.1	239	1,695.2	168
N. Dakota (2)	0.8	27.6	36	-	-
Ohio	11.6	2,997.4	258	1,527.1	132
Oklahoma	3.9	151.5	39	68.0	17
Oregon	4.1	332.2	81	126.5	31
Pennsylvania	12.8	4,001.0	313	2,726.6	213
Rhode Island	1.1	249.9	237	94.2	86
S. Carolina	5.0	1,635.7	330	1,189.7	238
South Dakota	0.9	49.2	57	26.1	29
Tennessee (2)					
Texas EST (1)	27.9	5,000.2	179	3,935.2	141
Vermont	0.6	122.4	196	96.3	161
Virginia	8.4	1,989.9	237	1,117.7	133
Washington	7.3	672.2	92	472.3	65
West Virginia	1.8	166.5	91	94.4	52
Wisconsin	5.8	602.8	104	384.8	66
Wyoming	0.6	28.1	48	-	-
Total	300.3	\$ 71,007.6	\$ 236	\$ 45,095.2	\$ 150

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

(2) North Dakota and Tennessee instant ticket sales were not reported. Wyoming does not have instant ticket sales.

Source: *La Fleur's Magazine* - September/October 2017

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Demographic Summary (Unaudited)

Fiscal Year Ended June 30, 2018

	Census1	All Respondents	Players Total	Non-Player Total
Number of respondents =	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



Mary Brady
Scholarship to University of Central
Arkansas

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Unclaimed Lottery Prizes (Unaudited)

Fiscal Year Ended June 30, 2018

Month	Unclaimed lottery prizes	Expenditures from unclaimed lottery prizes	Increase (decrease) in unclaimed prize reserve	Deposits to net lottery proceeds from unclaimed lottery prizes
July	\$ 882,319	\$ -	\$ 882,319	\$ -
August	738,411	-	738,411	-
September	91,577	-	91,577	-
October	563,677	-	563,677	-
November	107,385	-	107,385	-
December	709,544	-	709,544	-
January	1,111,749	-	1,111,749	-
February	547,408	-	547,408	-
March	765,836	-	765,836	-
April	93,450	-	93,450	-
May	301,817	-	301,817	-
June	1,133,702	-	(5,913,173)	7,046,875
Total	\$ 7,046,875	\$ -	\$ 0	\$ 7,046,875

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, 2018

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

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
Beginning Balance	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000
Deposits	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Ending Balance	<u>\$ 20,000,000</u>					

Source - OAL general ledger and corresponding bank statements

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Minority and Female-owned Business Participation (Unaudited)

Fiscal Year Ended June 30, 2018

Office of the Arkansas Lottery Minority and Female Owned Diversity Compliance Report

<u>VENDORS</u>	<u>Amount Paid</u>	<u>Good or Service</u>	<u>Classification</u>
Allegra Print & Imaging	\$ 18,945	Advertising/Public Relations	Female-Owned
Goddess Products	7,847	Office Furniture/Supplies	Certified Minority Owner
Government Supply Services	1,676	Office Products	Minority-Owned
Party Prints	3,749	Advertising/Public Relations	Certified Minority Owner
Trivia Marketing	88,652	Advertising/Public Relations	Female-Owned
Total	<u>\$ 120,869</u>		

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	\$ 101,544	Call Center/Information Svcs	Minority-Owned
Total	<u>\$ 101,544</u>		

Scientific Games Minority and Female Owned Diversity Compliance Report

<u>VENDORS</u>	<u>Amount Paid</u>	<u>Good or Service</u>	<u>Classification</u>
Mr. Klean Carpet and Janitorial Svcs	\$ 3,564	Janitorial Svcs	Minority-Owned
Central Copiers	781	Office Products/Supplies	Female-Owned
Premier Staffing	7,582	Staffing Svcs	Minority-Owned
Ingage, LLC	677,696	Fulfillment Services and Prizes	Female-Owned
Expedited Transportation Svcs	31,954	Transportation Svcs	Female-Owned
Total	<u>\$ 721,577</u>		

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, 2018

COUNTY	Instant*	Powerball ® *	Mega Millions ® *	Fast Play*	Natural State		Cash 3*	Cash 4*	Lucky for Life ® *	Total
					Jackpot*					
Arkansas	5,962,866	347,885	190,022	164,360	69,489		125,694	83,886	19,730	\$ 6,963,931
Ashley	1,705,881	200,228	87,220	71,386	23,164		152,056	151,418	12,720	2,404,072
Baxter	4,718,993	529,979	264,045	118,672	136,186		34,295	26,429	74,840	5,903,439
Benton	13,452,565	2,335,240	1,146,716	297,215	308,173		82,500	37,425	142,682	17,802,515
Boone	5,105,145	398,554	194,911	149,889	56,358		11,600	6,552	27,268	5,950,277
Bradley	1,848,779	115,239	46,490	42,647	19,351		17,154	30,861	9,212	2,129,732
Calhoun	593,695	37,440	21,943	21,966	9,369		53,798	10,700	5,286	724,197
Carroll	2,878,385	263,712	124,747	62,483	39,035		3,548	7,907	18,762	3,398,579
Chicot	2,134,806	786,490	372,583	27,559	81,417		107,246	84,933	47,050	3,642,083
Clark	4,039,978	281,956	152,702	177,621	54,715		33,213	16,956	17,854	4,774,994
Clay	1,278,198	91,001	45,058	19,126	21,116		2,371	524	6,532	1,463,926
Cleburne	3,467,222	360,510	201,830	191,370	112,769		32,402	7,539	29,856	4,403,498
Cleveland	630,998	37,811	20,239	12,920	12,076		3,725	3,975	2,854	724,598
Columbia	3,839,553	208,067	96,707	119,154	35,989		195,299	93,693	24,172	4,612,634
Conway	5,064,899	332,684	176,117	110,541	81,781		62,947	22,743	19,804	5,871,516
Craighead	17,450,452	1,160,001	619,390	447,322	200,254		126,912	66,793	68,096	20,139,220
Crawford	4,302,582	620,130	326,456	106,764	150,245		20,048	9,577	40,922	5,576,723
Crittenden	7,051,023	962,434	465,993	83,316	124,207		252,947	161,531	59,670	9,161,120
Cross	2,946,813	179,632	92,746	77,537	35,401		45,959	24,283	11,404	3,413,775
Dallas	1,745,068	95,439	51,159	33,880	25,414		18,843	10,301	6,712	1,986,815
Desha	2,477,324	205,735	120,992	33,461	46,021		59,723	30,016	14,196	2,987,467
Drew	2,529,957	227,374	117,162	82,678	39,104		22,139	16,931	25,158	3,060,503
Faulkner	14,645,064	1,412,670	762,497	550,362	369,650		129,917	65,175	100,208	18,035,543
Franklin	2,138,732	224,737	110,194	98,615	39,135		6,295	3,743	15,960	2,637,411
Fulton	908,012	66,995	32,780	38,446	13,273		3,527	2,537	5,198	1,070,767
Garland	11,352,566	1,581,596	879,759	381,901	468,695		100,111	64,032	133,952	14,962,611
Grant	1,690,266	171,898	95,382	77,781	44,266		11,177	2,578	13,634	2,106,982
Greene	7,039,124	503,211	265,695	177,563	83,182		9,703	5,414	38,040	8,121,932
Hempstead	4,453,492	206,744	115,477	121,930	41,776		472,199	172,148	18,162	5,601,928
Hot Springs	4,065,912	322,638	185,617	128,505	85,333		14,158	6,810	28,070	4,837,043
Howard	2,617,231	138,292	80,438	162,117	33,902		247,986	107,367	12,238	3,399,571
Independence	6,487,374	419,329	225,299	397,965	92,978		40,245	24,033	24,920	7,712,143
Izard	1,081,737	107,375	59,087	64,653	37,825		3,414	691	7,972	1,362,753
Jackson	3,748,173	219,182	122,592	174,909	61,797		164,601	100,095	20,972	4,612,320
Jefferson	18,060,254	1,047,178	613,515	486,140	295,947		555,079	408,884	96,672	21,563,669
Johnson	2,933,957	243,787	116,120	55,562	54,686		7,957	5,971	14,598	3,432,638
Lafayette	887,466	47,112	26,600	31,472	8,536		90,861	24,204	7,696	1,123,947
Lawrence	2,514,041	160,078	80,951	79,927	29,844		15,427	3,866	10,452	2,894,586
Lee	884,546	64,978	36,117	10,231	6,394		35,266	51,325	3,876	1,092,733
Lincoln	1,295,034	97,365	56,095	59,720	30,520		3,280	5,088	8,438	1,555,540
Little River	1,208,289	102,872	58,920	39,565	14,152		43,751	35,998	6,856	1,510,402
Logan	2,361,666	236,657	123,317	142,940	43,338		13,537	3,100	13,902	2,938,457
Lonoke	10,738,841	977,943	541,233	338,966	222,362		96,787	60,849	74,204	13,051,184
Madison	961,914	126,354	66,492	11,471	19,666		1,926	386	10,586	1,198,795
Marion	2,476,478	195,257	102,355	72,273	57,674		29,047	9,779	27,638	2,970,501
Miller	7,097,157	378,844	216,258	189,634	53,744		239,555	137,209	41,574	8,353,974
Mississippi	6,710,762	422,756	208,145	171,335	56,581		514,050	200,012	26,598	8,310,239
Monroe	1,849,261	157,209	82,934	41,239	30,869		47,282	18,938	7,064	2,234,796
Montgomery	335,078	64,029	33,924	38,648	14,476		834	69	5,068	492,125
Nevada	2,160,161	91,477	53,132	50,250	16,872		26,774	26,497	12,786	2,437,949
Newton	454,686	31,666	16,634	78,772	8,459		946	516	2,720	594,398
Ouachita	6,696,691	296,759	152,361	156,087	66,158		159,117	65,245	22,122	7,614,540
Perry	1,204,845	94,873	55,341	23,274	20,973		7,559	6,056	5,476	1,418,396
Phillips	2,305,991	453,927	226,726	19,891	43,835		123,443	58,055	25,704	3,257,572
Pike	1,297,253	119,212	67,967	131,350	28,261		7,562	824	8,868	1,661,297
Poinsett	5,309,070	289,658	149,206	140,279	52,440		81,199	13,762	15,762	6,051,376
Polk	1,447,333	211,357	111,692	83,866	48,745		8,075	878	14,178	1,926,124

(continued)

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Retail Sales by County (Unaudited)

Fiscal Year Ended June 30, 2018

COUNTY	Instant*	Powerball ® *	Mega Millions ® *	Fast Play*	Natural State		Cash 3*	Cash 4*	Lucky for	Total
					Jackpot*	Life ® *				
Pope	9,406,083	868,256	470,314	187,780	189,093	61,157	26,859	64,582	11,274,124	
Prairie	2,409,401	123,194	63,675	68,593	20,515	30,400	18,471	6,052	2,740,301	
Pulaski	75,788,724	6,181,851	3,570,340	2,374,924	1,653,205	1,357,519	1,123,217	583,816	92,633,596	
Randolph	2,365,574	168,763	92,293	70,347	28,580	4,732	5,946	18,374	2,754,609	
Saint Francis	3,568,792	295,661	149,071	39,118	41,228	155,346	104,239	24,408	4,377,862	
Saline	13,709,645	1,380,225	773,543	733,083	373,545	142,873	86,070	119,416	17,318,400	
Scott	922,394	106,347	52,266	17,355	17,643	1,730	766	8,148	1,126,649	
Searcy	1,117,198	82,312	42,577	12,045	19,273	1,162	4,707	5,912	1,285,186	
Sebastian	9,134,098	1,634,473	849,907	201,905	326,366	182,406	63,365	110,650	12,503,170	
Sevier	1,384,885	125,027	69,850	11,560	16,177	16,948	8,977	11,142	1,644,566	
Sharp	3,408,438	255,889	135,100	153,834	66,883	22,758	6,168	17,574	4,066,643	
Stone	1,135,419	120,190	64,330	95,775	45,513	25,801	8,706	11,430	1,507,164	
Union	9,684,635	533,222	277,685	308,239	94,718	640,035	299,444	47,946	11,885,924	
Van Buren	1,848,118	185,717	99,481	51,590	46,700	9,598	8,858	11,858	2,261,919	
Washington	17,631,434	2,289,061	1,180,943	293,659	381,852	158,970	72,542	162,940	22,171,401	
White	13,383,733	910,638	506,209	591,335	242,576	88,230	58,627	68,346	15,849,694	
Woodruff	1,178,789	86,132	44,239	27,852	19,130	35,496	22,518	5,662	1,419,818	
Yell	3,277,776	217,129	117,591	213,121	52,110	23,883	1,365	15,210	3,918,185	
Grand Total	\$ 407,998,775	\$ 36,627,643	\$ 19,625,494	\$ 12,731,621	\$ 7,913,085	\$ 7,736,090	\$ 4,517,932	\$ 2,860,410	\$ 500,011,050	

*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, 2018

Institution	Awards	Scholarships
Arkansas Baptist College	24	\$ 44,250
Arkansas Northeastern College	84	115,625
Arkansas State University Beebe	658	895,625
Arkansas State University Jonesboro	3,708	11,505,824
Arkansas State University Mid South	50	64,125
Arkansas State University Mountain Home	185	260,250
Arkansas State University Newport	227	309,375
Arkansas Tech University	3,347	10,010,460
Arkansas Tech University Ozark Campus	191	251,125
Baptist Health Schools - Little Rock	72	92,375
Black River Technical College	193	257,875
Central Baptist College	238	722,500
College of the Ouachitas	80	106,976
Cossatot Community College UA	173	195,500
Crowley's Ridge College	66	161,500
East Arkansas Community College	75	119,625
Ecclesia College	12	43,375
Harding University	732	2,225,500
Henderson State University	1,251	3,872,805
Hendrix College	430	1,298,375
Jefferson School of Nursing	*	11,875
John Brown University	371	1,264,083
Lyon College	302	931,875
National Park College	282	354,431
North Arkansas College	313	429,500
Northwest Arkansas Community College	704	855,430
Ouachita Baptist University	707	2,121,746
Ozarka College	137	193,500
Philander Smith College	80	189,000
Phillips Community College UA	75	115,500
Shorter College	*	5,375
South Arkansas Community College	83	112,500
Southeast Arkansas College	122	163,125
Southern Arkansas University	1,237	3,482,625
Southern Arkansas University Tech	120	183,500
University of Arkansas at Monticello College of Technology - Crossett	12	17,125
University of Arkansas at Monticello College of Technology - McGehee	*	10,125
University of Arkansas Community College Batesville	199	259,875
University of Arkansas Community College Hope	160	235,625
University of Arkansas Community College Morrilton	357	508,375
University of Arkansas Community College Rich Mountain	101	166,125
University of Arkansas Fayetteville	6,184	18,720,113
University of Arkansas for Medical Sciences	172	685,813
University of Arkansas Fort Smith	1,904	5,459,610
University of Arkansas Little Rock	1,850	5,381,301
University of Arkansas Monticello	708	1,992,008
University of Arkansas Pine Bluff	493	1,482,461
University of Arkansas Pulaski Technical College	495	707,625
University of Central Arkansas	4,164	12,318,315
University of the Ozarks	186	527,125
Williams Baptist College	175	532,375
Total	33,506	\$ 91,971,126

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.

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

*Expenditures and Projected Obligations from Scholarship and Grant Funding Sources
from Arkansas Department of Higher Education (Unaudited)*

Fiscal Year Ended June 30, 2018

Program	Expenditures	Budget
Academic Challenge Scholarships	\$ 20,000,000	\$ 20,000,000
AR Geographical Critical Needs Program	102,750	150,000
Arkansas Future Grant	452,858	9,000,000
Law Enforcement Dependents	329,608	400,000
Governor's Scholars Program	17,712,745	21,000,000
Go! Opportunities Grants	3,456,097	2,500,000
Military Dependents	1,012,621	1,500,000
National Guard Tuition Assistance	782,299	1,400,000
Single Parent Scholarship	175,000	175,000
SREB Minority Doctoral Scholars	175,000	175,000
State Teacher Education Program	1,342,005	1,650,000
SURF Program	148,935	150,000
Teacher Opportunity Program	1,870,905	1,500,000
Tuition Adjustment	350,000	350,000
Washington Center Scholarships	100,000	100,000
Arkansas Health Education Grants:		
Dental Aid	2,480,950	2,750,000
Dental Loans	904,500	987,370
Optometry Grants	486,200	550,000
Optometry Loans	115,000	140,000
Veterinary Aid	1,345,478	1,500,000
Chiropractic	116,246	260,000
Podiatry	38,100	80,400
Osteopathy	10,000	50,000
Total All Financial Aid Programs	\$ 53,507,297	\$ 66,367,770

Source: Arkansas Department of Higher Education

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Academic Challenge Scholarship Program County Report

Fiscal Year Ended June 30, 2018

<u>County</u>	<u>2017 Population Estimate</u>	<u>% State Population</u>	<u>Awards</u>	<u>Amount</u>
Arkansas	17,967	0.60%	291	\$ 749,125
Ashley	20,283	0.68%	246	684,677
Baxter	41,355	1.38%	358	970,019
Benton	266,300	8.86%	2,581	7,143,078
Boone	37,381	1.24%	409	1,017,125
Bradley	10,864	0.36%	90	257,125
Calhoun	5,247	0.17%	36	104,375
Carroll	27,944	0.93%	212	591,375
Chicot	10,636	0.35%	65	177,038
Clark	22,293	0.74%	307	901,139
Clay	14,920	0.50%	133	383,750
Cleburne	25,048	0.83%	279	737,899
Cleveland	8,202	0.27%	140	385,756
Columbia	23,627	0.79%	249	688,875
Conway	20,916	0.70%	222	608,398
Craighead	107,115	3.57%	1,170	3,395,574
Crawford	62,996	2.10%	835	2,369,485
Crittenden	48,750	1.62%	415	1,110,941
Cross	16,863	0.56%	165	443,039
Dallas	7,393	0.25%	81	217,375
Desha	11,764	0.39%	129	364,625
Drew	18,547	0.62%	242	683,905
Faulkner	123,654	4.12%	1,829	5,209,538
Franklin	17,890	0.60%	277	761,500
Fulton	12,055	0.40%	115	292,125
Garland	98,658	3.28%	976	2,680,980
Grant	18,165	0.60%	225	641,375
Greene	45,053	1.50%	505	1,407,352
Hempstead	21,861	0.73%	174	460,250
Hot Spring	33,574	1.12%	374	1,023,376
Howard	13,478	0.45%	195	506,875
Independence	37,504	1.25%	425	1,148,167
Izard	13,686	0.46%	140	371,750
Jackson	17,135	0.57%	125	336,126
Jefferson	69,115	2.30%	693	1,940,424
Johnson	26,552	0.88%	310	833,625
Lafayette	6,862	0.23%	52	120,250
Lawrence	16,525	0.55%	216	549,250
Lee	9,176	0.31%	53	155,875
Lincoln	13,646	0.45%	128	341,738
Little River	12,359	0.41%	112	301,896
Logan	21,722	0.72%	321	896,483
Lonoke	72,898	2.43%	1,053	2,803,315
Madison	16,339	0.54%	144	387,846
Marion	16,428	0.55%	111	274,556
Miller	43,984	1.46%	344	861,125
Mississippi	42,159	1.40%	364	1,004,877
Monroe	7,085	0.24%	63	172,500
Montgomery	8,919	0.30%	81	213,728

(continued)

ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

Academic Challenge Scholarship Program County Report

Fiscal Year Ended June 30, 2018

<u>County</u>	<u>2017 Population Estimate</u>	<u>% State Population</u>	<u>Awards</u>	<u>Amount</u>
Nevada	8,327	0.28%	68	172,125
Newton	7,828	0.26%	74	203,000
Ouachita	23,868	0.79%	276	785,625
Perry	10,348	0.34%	134	351,688
Phillips	18,572	0.62%	156	427,004
Pike	10,726	0.36%	153	422,688
Poinsett	24,154	0.80%	227	600,875
Polk	20,118	0.67%	222	608,375
Pope	63,835	2.12%	838	2,446,708
Prairie	8,248	0.27%	71	174,750
Pulaski	393,956	13.11%	4,072	11,872,318
Randolph	17,557	0.58%	198	517,750
St. Francis	25,930	0.86%	126	352,625
Saline	119,323	3.97%	1,761	4,976,336
Scott	10,445	0.35%	124	351,375
Searcy	7,938	0.26%	101	232,000
Sebastian	128,107	4.26%	1,572	4,684,328
Sevier	17,115	0.57%	247	621,688
Sharp	17,393	0.58%	175	394,625
Stone	12,537	0.42%	117	278,250
Union	39,449	1.31%	415	1,110,052
Van Buren	16,506	0.55%	173	444,777
Washington	231,996	7.72%	2,288	6,510,579
White	79,016	2.63%	980	2,668,778
Woodruff	6,571	0.22%	69	189,625
Yell	21,523	0.72%	253	714,917
Not Reported			75	1,110,052
Total	3,004,279	100%	33,025	\$ 92,904,513

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

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, 2018

Fund Balances

Higher Education Grants Fund	\$	14,322,110
Lottery Net Proceeds Trust Account (1)	\$	11,710,439

Arkansas Challenge Scholarship Trust Account

Deposits	\$	103,550,381
Disbursements		91,839,942
June 30, 2018 Balance	\$	<u>11,710,439</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

Debt Set-off Collections (Unaudited)

Fiscal Year Ended June 30, 2018

Department of Finance and Administration:

Taxes due to the State

\$ 89,425

Delinquent Child Support

69,593

Total

\$ 159,018 (1)

Note: 1) In accordance with regulation 23-115-403 of the Arkansas Scholarship Lottery Act. the OAL must set-off against any prize greater than \$500. the sum of any debt in

OFFICE OF THE ARKANSAS LOTTERY

Term Contracts for Goods and Services

Fiscal Year Ended June 30, 2018

1. On June 28, 2017, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Bank of the Ozarks entered into a Second Amendment to the Agreement for Contractual Services for Comprehensive Banking Services. The purpose of the Amendment was to extend the Agreement for a period of one (1) year, from September 2, 2017, through September 1, 2018. No changes were made to the value of the Agreement.
2. On July 19, 2017, 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, used, and make copies of the Property in association with the sale, marketing, advertising, and promotion of a scratch-off instant win lottery game conducted by the OAL and identified as AR-412 "POPEYE®" (the "Game"). The base instant game contract price is 1.30% of net sales. There is a price of \$1.89 per 1,000 tickets for FailSafe Barcode Services and a price of 1.35% of the prize fund for Points for Prizes Rewards/Merchandise Prizes and Fulfillment. These costs are standard for OAL instant games. There are no additional costs for the use of POPEYE®. Notice of Execution of the Licensing Agreement was provided to the Arkansas Legislative Council Lottery Oversight Subcommittee on August 9, 2018.
3. On August 10, 2017, OAL and Advent Systems, Inc., entered into a one-year extension of Lottery RFQ-130001, Arkansas Lottery Security System. The purpose of the extension 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 extension was from September 1, 2017, through August 31, 2018. The cost of the Service Agreement was \$18,624.83, in addition to service calls for items not listed on the Equipment List, service calls due to OAL designated representative error or neglect, and service calls performed between 5:30 p.m. and 7:00 a.m., Monday through Friday, and between 8:00 a.m. and 4:30 p.m. on Saturday.
4. On August 23, 2017, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Intralot, Inc. (Intralot), entered into *Amendment No. 3 to Contract Dated August 15, 2009 Between the Office of the Arkansas Lottery (Formerly, Arkansas Lottery Commission) and Intralot, Inc.* The purpose of the amendment was to effectuate the implementation of an Extension to the Contract, pursuant to the agreement entered into between the parties (the Contract) on August 15, 2009. Intralot was granted by the OAL a seven (7) year extension to the Contract, commencing on the expiration of the current Contract (the "Extension Effective Date"), August 14, 2019, thereby extending the Contract through and including August 14, 2026. Value of the Agreement: Intralot will continue to be compensated at the rate of 2.165% of instant and online sales until December 31, 2017. Thereafter, until the extension years expire on August 14, 2026, Intralot will be compensated at the rate of 2.11% of instant and on-line sales. Amendment No. 3 was reviewed by the Arkansas Legislative Council on August 18, 2017.
5. On November 16, 2017, 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 grants 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-431 "SCRABBLE™ Crossword" (the "Game"). The base instant game contract price is 1.30% of net sales. There is a price of \$1.89 per 1,000 tickets for FailSafe Barcode Services and a price of 1.35% of the prize fund for Points for Prizes Rewards/Merchandise Prizes and Fulfillment. These costs are standard for OAL instant games. Additionally, there is a contractual price of \$4.50 per 1,000 tickets for use of SureMark™, which is a necessity for some instant games of the Crossword/Bingo variety. In addition, the usage of SureMark™ necessitates a one-time setup fee of \$2,250.00. There are no additional costs for the use of SCRABBLE™. Notice of Execution of the Licensing Agreement was provided to the Arkansas Legislative Council Lottery Oversight Subcommittee on January 10, 2018.

OFFICE OF THE ARKANSAS LOTTERY

Term Contracts for Goods and Services

Fiscal Year Ended June 30, 2018

6. On March 23, 2018, 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 grants 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-448 "Blazing 777®" (the "Game"). The base instant game contract price is 1.30% of net sales. There is a price of \$1.89 per 1,000 tickets for FailSafe Barcode Services and a price of 1.35% of the prize fund for Points for Prizes Rewards/Merchandise Prizes and Fulfillment. These costs are standard for OAL instant games. There are no additional costs for the use of Blazing 777®. Notice of Execution of the Licensing Agreement was provided to the Arkansas Legislative Council Lottery Oversight Subcommittee on May 8, 2018.

7. On April 20, 2018, 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 grants 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-457 "WILLY WONKA GOLDEN TICKET™" (the "Game"). The base instant game contract price is 1.30% of net sales. There is a price of \$1.89 per 1,000 tickets for FailSafe Barcode Services and a price of 1.35% of the prize fund for Points for Prizes Rewards/Merchandise Prizes and Fulfillment. These costs are standard for OAL instant games. There is a 4-Color Process Display Printing Fee, for use of color imaging on the back of the ticket that amounts, by contract, to \$2.95 per 1,000 tickets, and there is an additional charge for the setup of this color imaging on the back of the ticket that amounts to \$3,800.00. Additionally, SGI will invoice the OAL in the amount of \$180,000 for the Linked Game Fee. For the Linked Prize Fee, SGI will also invoice the OAL monthly at 1.1625% of Net Ticket Sales during the period covered by the invoice. Notice of Execution of the Licensing Agreement was provided to the Arkansas Legislative Council Lottery Oversight Subcommittee on May 8, 2018.





Other
REPORTS



Sam & Nick
Retailer, Bear Creek Grocery

Arkansas

Sen. Jimmy Hickey, Jr.
Senate Chair
Sen. Lance Eads
Senate Vice Chair



Rep. Richard Womack
House Chair
Rep. Mary Bentley
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, 2018, 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 November 28, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
November 28, 2018



Mary Condit
Scholarship to University of Central
Arkansas

This is
WINNING!



Arkansas
Scholarship Lottery