



ANNUAL COMPREHENSIVE
**FINANCIAL
REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2023





ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

ARKANSAS DEPARTMENT OF
FINANCE AND ADMINISTRATION

OFFICE OF THE ARKANSAS LOTTERY

AN ENTERPRISE FUND OF
THE STATE OF ARKANSAS

SARAH HUCKABEE SANDERS
GOVERNOR, STATE OF ARKANSAS

JIM HUDSON
SECRETARY, ARKANSAS DEPARTMENT
OF FINANCE AND ADMINISTRATION

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DIRECTOR, OFFICE OF THE
ARKANSAS LOTTERY

PREPARED BY FINANCE DIVISION

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
An Enterprise Fund of the State of Arkansas
Annual Comprehensive Financial Report
For the Fiscal Year Ended June 30, 2023**

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Arkansas Department of Finance and Administration
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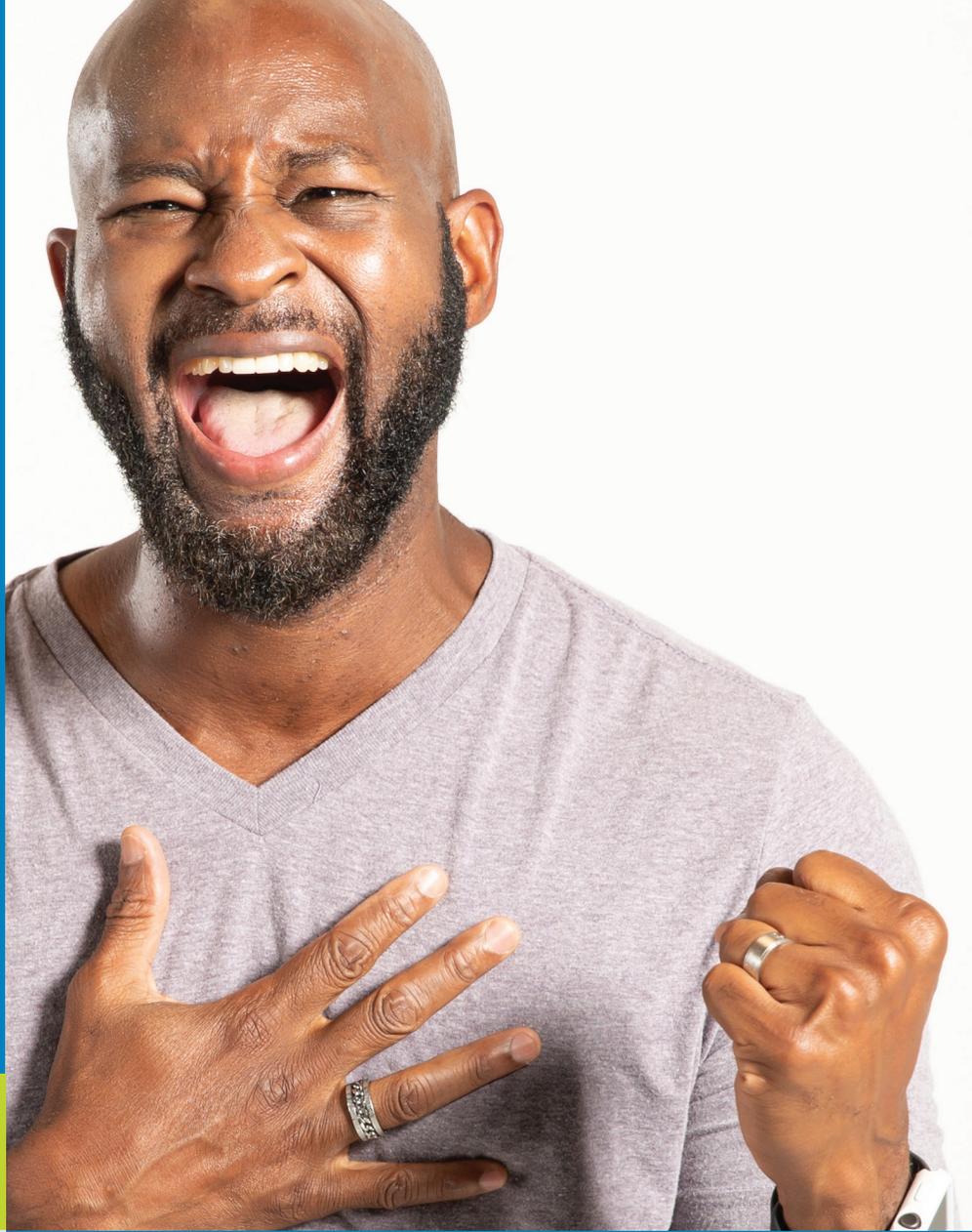
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INTRODUCTORY SECTION





STATE OF ARKANSAS
Department of Finance
and Administration

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December 13, 2023

To the citizens of the State of Arkansas and the Honorable Members of the Arkansas General Assembly,

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, 2023 (FY 2023). The report details the lottery's performance, finances, and products. It also provides information on the students who benefit from lottery proceeds, as well as the 2,015 independent and chain retail partners who sell our products. In our report, we have elected to provide additional detailed information beyond that required by Generally Accepted Accounting Principles.

More than \$1.2 billion has been raised in proceeds for scholarships for Arkansas students since inception. During FY 2023, OAL net proceeds funded more than \$113 million to the Department of Education – Arkansas Division of Higher Education (ADHE) and ADHE distributed \$74.3 million in scholarships to 48,938 deserving students. Three separate scholarships – the Academic Challenge Scholarship, the Workforce Challenge Scholarship, and the Concurrent Challenge Scholarship – helped students attend 52 different Arkansas public and private colleges and universities as well as nursing and technical schools.

The OAL paid more than \$34 million in commissions to state lottery retailers during FY 2023, creating tangible economic impact at the local level by providing business owners with added revenue. OAL has paid more than \$386 million to lottery retailers and provided more than \$167 million in state and federal tax revenue since its inception.

In FY 2023, lottery ticket sales were \$607.6 million. Over \$416 million of that amount was returned to the citizens of Arkansas by way of prizes awarded.

The mission of the OAL is to provide funding for higher education opportunities for all citizens of our state. That goal can only be met through open, honest, and ethical operations consistent with the high expectations of the General Assembly and the citizens of Arkansas.

This Annual Comprehensive 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,

Jim Hudson
Secretary



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

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December 13, 2023

**The Honorable Sarah Huckabee Sanders, Governor
Members of the Arkansas Legislative Council Lottery Oversight Subcommittee
Secretary Jim Hudson, Arkansas Department of Finance and Administration
Citizens of the State of Arkansas**

We are pleased to submit to you this Annual Comprehensive Financial Report (ACFR) of the Arkansas Department of Finance and Administration Office of the Arkansas Lottery (OAL) for the fiscal year ended June 30, 2023. The ACFR 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 4 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 Acts 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 were initially utilized to fund college scholarships under the Arkansas Academic Challenge Scholarship program administered by the Arkansas Department of Education – Arkansas Division 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 lottery proceeds to also fund scholarships for students enrolled in higher education programs that will lead to the students being qualified to work in high-needs occupations.

During the 2019 legislative session, the Arkansas General Assembly passed Act 456 which amended Arkansas Code Title 6, Chapter 85, to add an additional subchapter to create the Arkansas Concurrent Challenge Scholarship Program. Act 456 provides for the use of lottery proceeds to fund scholarships for students enrolled in an endorsed concurrent enrollment course or certificate program, unless other funding opportunities are provided that lower the tuition and mandatory fees below fifty percent.

PRODUCTS

The public has the opportunity to participate in a variety of instant and terminal-generated games from over 2,000 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, 2023, the OAL released 56 instant ticket games with price points of \$1, \$2, \$3, \$5, \$10, and \$20.

TERMINAL-GENERATED GAMES allow players to select the numbers for their wager, or players may utilize computer-generated plays. Players receive a ticket with the numbers selected or automatically generated and await the results of a drawing to determine if they have matched the numbers and won. In fiscal year ended June 30, 2023, the OAL sold 9 different types of terminal-generated games: Powerball®, Mega Millions®, LOTTO, Natural State Jackpot, Cash 3, Cash 4, Fast Play, AR Progressive Jackpot Fast Play and Lucky for Life®.



POWERBALL® is a multi-state draw game jointly operated by the 38 member lotteries of the Multi-State Lottery Association and sold in 45 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 \$20 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 Monday, Wednesday, and Saturday night.



MEGA MILLIONS® is a second multi-state draw game sold in accordance with a cross-selling agreement between the 10 original Mega Millions® member states and the Multi-State Lottery Association. Mega Millions® is sold in 45 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 \$20 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.



LUCKY FOR LIFE® is a multi-state draw game with drawings every night. 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.



LOTTO is an Arkansas-only terminal-generated draw game with drawings Wednesday and Saturday. Seven unique numbers are drawn from one to 40. The player must match the first six numbers drawn in any order to win the jackpot. If other players also match all six numbers, the jackpot is shared. The seventh number drawn is the Bonus Number. The player can match the Bonus Number to any two to five of their six numbers played to win a larger, non-jackpot prize. The LOTTO jackpot starts at \$250,000, and increases for the next drawing based on the sales of the game until the jackpot is won. Each play is \$2.



NATURAL STATE JACKPOT is an Arkansas-only terminal-generated draw game 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 twice 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 twice 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. Games are rotated monthly; two games are added and two are removed each month. The games are available at three different price points (\$1, \$2, and \$3). The \$3 price point is not always in market. Prizes vary by game.



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 was a total of 27,567 new player registrations (and 26,403,865 tickets) entered into the program in fiscal 2023, bringing the membership total to 315,722.



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 eligible instant games, 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 2023.



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 was a total of 280,092,564 points redeemed in the Points for Prizes® program during fiscal year 2023. Points may also be used for special drawing prizes; there were 22 Points for Drawings® held during fiscal year 2023.

In addition to Points for Prizes® and Play It Again®, players may also enter for occasional special drawings. During the fiscal year, one special drawing opportunity was available:



The **Spring for Cash** Second-Chance Promotion awarded 55 cash prizes of \$100 or \$500 to players who entered eligible non-winning \$1 or \$2 instant scratch-off tickets. Five drawings occurred during fiscal year ended June 30, 2023.

Points for Drawings®	Entry Period	Drawing Date	# of Winners	# of Entries
iRobot Mop	6/22/2022 - 7/19/2022	7/20/2022	3	15,851
Apple iMac Computer	5/17/2022 - 7/19/2022	7/20/2022	2	64,761
Ferragamo Wallet	7/20/2022 - 8/22/2022	8/23/2022	3	9,416
Backyard Cookout Package	5/17/2022 - 8/22/2022	8/23/2022	1	55,518
Frozen Drink Maker	8/23/2022 - 9/19/2022	9/20/2022	3	14,392
Samsung 75" TV	7/20/2022 - 9/19/2022	9/20/2022	2	72,845
Dyson Hair Dryer	9/20/2022 - 10/16/2022	10/17/2022	3	16,821
Air Hockey Table	10/17/2022 - 11/15/2022	11/16/2022	3	11,325
Apple iPad Package	9/20/2022 - 11/15/2022	11/16/2022	2	56,959
Breitling Watch Bundle	8/23/2022 - 11/15/2022	11/16/2022	1	14,297
Solo Stove Fire Pit	11/16/2022 - 12/13/2022	12/14/2022	3	28,098
Bose Headphones	12/14/2022 - 1/17/2023	1/18/2023	3	39,679
KitchenAid Bundle	11/16/2022 - 1/17/2023	1/18/2023	2	64,073
Dyson Vacuum	1/18/2023 - 2/14/2023	2/15/2023	3	30,085
Cardio Package	11/16/2022 - 2/14/2023	2/15/2023	1	27,975
Garmin Dog Collar	2/15/2023 - 3/14/2023	3/15/2023	3	10,162
Apple MacBook Pro	1/18/2023 - 3/14/2023	3/15/2023	2	43,021
Sony Digital Camera	3/15/2023 - 4/10/2023	4/11/2023	3	21,740
Ember Smart Mug	4/11/2023 - 5/15/2023	5/16/2023	3	16,022
Canoe Package	3/15/2023 - 5/15/2023	5/16/2023	2	16,490
Spring Entertainment Package	2/15/2023 - 5/15/2023	5/16/2023	1	42,039
Virtual Reality Headset	5/16/2023 - 6/20/2023	6/21/2023	3	36,352

Second-Chance Promotion	Entry Period	Drawing Date	# of Winners	# of Entries
Spring for Cash Drawing #1	4/3/2023 - 4/9/2023	4/11/2023	11	102,834
Spring for Cash Drawing #2	4/10/2023 - 4/16/2023	4/18/2023	11	87,456
Spring for Cash Drawing #3	4/17/2023 - 4/23/2023	4/25/2023	11	73,160
Spring for Cash Drawing #4	4/24/2023 - 4/30/2023	5/2/2023	11	72,334
Spring for Cash Drawing #5	5/1/2023 - 5/7/2023	5/9/2023	11	112,214

ECONOMIC CONDITIONS AND OUTLOOK

For the first ten years of its existence, through the end of calendar year 2019, the OAL experienced a consistent improvement in economic activity, with inflationary adjusted Gross Domestic Product (GDP) and industrial production sharing continued gains. However, due to the global Coronavirus pandemic, the GDP, industrial production, and other economic activity severely declined, and unemployment and business closures significantly increased during the first half of calendar year 2020. For the second half of calendar year 2020 and for calendar year 2021, there was improvement in economic activity as the Coronavirus pandemic lessened. Due to severe inflation during calendar year 2022, economic conditions declined, although consumer spending remained high and unemployment rates remained low. However, during the first half of calendar year 2023, the inflationary conditions significantly improved and economic conditions continued to improve. The outlook for the second half of calendar year 2023 is for slight economic improvement as inflationary pressures continue to ease.

GROSS DOMESTIC PRODUCT

GDP is the broadest measure of economic activity. The economic output of the national economy, as measured by GDP, expanded each quarter since the third quarter of calendar year 2009, when the OAL first started selling lottery tickets, until the first quarter of calendar year 2020. Due to the Coronavirus pandemic, the GDP declined for the first and second quarters of calendar year 2020 but has since expanded. GDP grew by an average of 2.7% during the third and fourth quarters of calendar year 2022 and grew by an average of 2.2% during the first half of calendar year 2023.

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 \$167.108 billion at the end of the June 30, 2023 fiscal year. This represented an increase in personal income of \$9.762 billion, or 6.3% from fiscal year ended June 30, 2022. For the fiscal year ending June 30, 2024, personal income is forecast at \$172.270 billion (current dollars) an increase of \$6.944 billion or 4.2% over the fiscal year ended June 30, 2023.

ARKANSAS WAGE AND SALARY DISBURSEMENTS

Measured in current dollars, wage and salary disbursements rose to \$76.021 billion for the June 30, 2023 fiscal year, an increase of \$6.058 billion or 8.7% from the June 30, 2022 fiscal year. Wage and salary disbursements for the fiscal year ending June 30, 2024 are forecast at \$79.442 billion (current dollars), an increase of \$3.420 billion or 4.5% from the June 30, 2023 fiscal year.

EMPLOYMENT

In fiscal year 2023, revised payroll employment in Arkansas averaged 1,349,608 jobs. This represented an increase of approximately 41,730 jobs or 3.2% compared to fiscal year 2022. In fiscal year 2024, payroll employment is expected to average 1,350,000 jobs. This represents a projected increase of approximately 400 jobs or 0.03% from fiscal year 2023. The unemployment rate for the State of Arkansas finished the June 30, 2023 fiscal year end at 2.6%.

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 2023 included:

- **Surpassing \$6.8 billion in ticket sales since the lottery's inception.**
- **Surpassing \$4.6 billion in prizes paid to players since the lottery's inception.**
- **Transferring over \$1.2 billion to the ADHE for the purpose of funding scholarships since the lottery's inception, including transfers of more than \$113 million for June 30, 2023 fiscal year.**
- **The ADHE awarded more than \$62 million in scholarships during the fall 2022 and spring 2023 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 Lottery Scholarship Trust Account (the Scholarship Trust Account). Upon request from the director of the Arkansas Department of Education – Arkansas Division of Higher Education (ADHE), the OAL shall transfer the funds requested from the Scholarship 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, 2023, 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 annual comprehensive financial report for the fiscal year ended June 30, 2022. This was the twelfth 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 annual comprehensive 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 annual comprehensive 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 ACFR 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 the Arkansas Department of Finance and Administration Secretary for their support, guidance, and dedication in operating the OAL in a reasonable and progressive manner.

Respectfully submitted,

A stylized, handwritten signature in black ink, appearing to read "J. Eric Hagler". The signature is composed of several thick, connected strokes.

J. Eric Hagler
Director

A handwritten signature in black ink, reading "Jerold Fetzer". The signature is written in a cursive, flowing style.

Jerold Fetzer
Chief Fiscal Officer

MISSION

“Maximizing Net Proceeds in a responsible manner”

VISION

Every aspect of our operations will function at a level of excellence, with integrity as the keystone principal to our business strategies and decisions.

CORE VALUES

Central to OAL’s successful completion of its mission and vision are its core values. OAL’s primary core values include:

- ❖ **Integrity** – We maintain public trust by ensuring the security of our lottery games, systems, drawings, and operational facilities.
- ❖ **Security and Oversight** – We value and require ethical behavior by our employees, retailers, customers, and vendors. To ensure this goal is met, we build in standards and processes at every step to ensure the integrity of the games.
- ❖ **Education** – We are dedicated to an unwavering commitment to maximizing net proceeds in a responsible manner.
- ❖ **Responsible Play** – We strongly support the concept of offering lottery games in a responsible manner and believe that playing responsibly is key component of this tenet
- ❖ **Treat all stakeholders fairly** – We are committed to creating an environment of mutual respect where open, honest communications are a cornerstone. All employees, retailers, customers, and vendors shall be treated fairly and in a non-discriminatory manner
- ❖ **Innovative products** – We strive to offer innovative products with a high-level of entertainment value and which are designed to encourage responsible play.
- ❖ **Fiscal responsibility** – We emphasize fiscal accountability by ensuring that all expenditures directly or indirectly generate revenue, enhance security, fulfill regulatory requirements, improve customer service and ensure efficiencies in all processes in order to maximize Net Proceeds.
- ❖ **Non-political** – We will operate free of political influence and will do so with integrity and in a professional manner that is consistent with our mission.

DEPARTMENT OF FINANCE & ADMINISTRATION
SECRETARY
JIM HUDSON

INTERNAL AUDITOR
WILLIAM MILLER

AUDITOR
VACANT

COLOR KEY

- DIRECTOR
- AUDIT/LEGAL/OTHER
- GAMING
- MARKETING & ADVERTISING
- FINANCE & ACCOUNTING
- SECURITY & COMPLIANCE
- SALES
- INFORMATION TECHNOLOGY

**EXECUTIVE DIRECTOR
J. ERIC HAGLER**

CHIEF LEGAL COUNSEL
BRENT STANDRIDGE

EXECUTIVE ADMINISTRATOR
VACANT

RECEPTIONIST
KIARA JONES

IT COORDINATOR
JAMES HEDRICK

APPLICATION SUPPORT SPECIALIST
KYLE HESTES

FINANCIAL ANALYST
CASEY HARGIS

PROCUREMENT COORDINATOR
DANYIEL EVANS

CHIEF FISCAL OFFICER
JERRY FETZER

SALES DIRECTOR
MARK HEARN

KEY ACCOUNTS
SABRINA ALLEN

REGIONAL SALES MANAGERS
ANDY BIERNAT
LINDA CHAMBERS

MARKETING SALES REPRESENTATIVES

DONNA BARNHART

TYLER BAY

CINDY CARLOCK

MOLLY HARRIS

RICK CONRAD

ELIZABETH FINDLEY

TRACY WARD

CHARLES FREEMAN

DIANNE GIBBS

BRIAN GORDON

DEAN HEARD JONES

SUSAN KNOLL

LISA THORNTON

ALI MUSTAFA

TERRI BREWER

GAYE ANN PUSCH

KAREN REDFEARN

CALEB JACKSON

VACANT

LATONYALYN WHITE



ARKANSAS DEPARTMENT OF FINANCE & ADMINISTRATION
OFFICE OF THE ARKANSAS LOTTERY | 2023 ACFR

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MIKE SMITH

SR. DATABASE ADMINISTRATOR
SAM BURKS

DEPUTY DIRECTOR, GAMING
ANITA JUNIOR

PRODUCT MANAGER
BOB COLEMAN

QA SYSTEMS ANALYST
CLIFF RASSMANN

PRODUCT MANAGER
JENNIFER "DANI" SMITH

LEAD COMPUTER OPERATOR
CHRIS PABIN

PRODUCT MANAGER
OLIVIA SLOAN

COMPUTER OPERATOR
BROY HUDSON

COMPUTER OPERATOR
KAYLEN WILKERSON

SECURITY & COMPLIANCE DIRECTOR
JUSTIN WEBB

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BROOKE JACKSON

SENIOR SECURITY SPECIALIST
ANGELA JONES

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BRANDI BRASWELL

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LASHONNA FOSTER

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JIMMY HICKMAN

IT SECURITY ANALYST
ANTTWN ROSS

LICENSING SPECIALIST
DEKEATRICK CALVIN

SECURITY SPECIALIST
MICHAEL TENSION

SECURITY SPECIALIST
DAVID RACIGOT

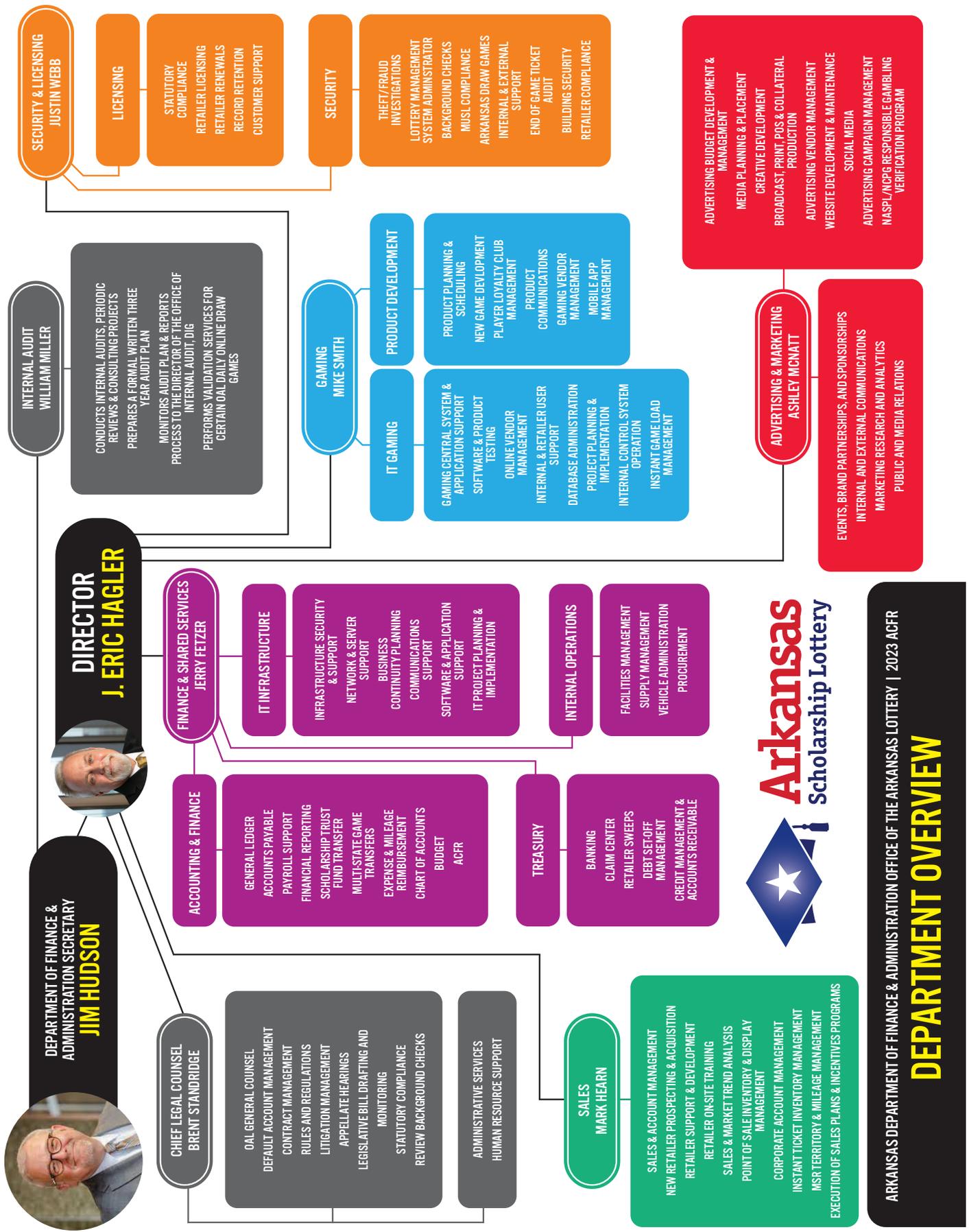
SECURITY SPECIALIST
ERIC WOODS

MARKETING/ADVERTISING DIRECTOR
ASHLEY MCNATT

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Presented to

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

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morill

Executive Director/CEO



Arkansas
Scholarship Lottery



FINANCIAL SECTION







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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 Audit of the Financial Statements

Opinion

We have audited the financial statements of the major fund of the Department of Finance and Administration (DFA) – Office of the Arkansas Lottery, an office of Arkansas state government, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the DFA – Office of the Arkansas Lottery’s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund of the DFA – Office of the Arkansas Lottery as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the office, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As indicated above, the financial statements of the DFA – Office of the Arkansas Lottery are intended to present the financial position, the changes in financial position, and cash flows of the major fund of the State that is attributable to the transactions of the DFA – Office of the Arkansas Lottery. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2023, the 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.

Responsibilities of Management 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 and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the office's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatements of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 office's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the office's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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

Management is responsible for the other information included in the report. The other information comprises the introductory section, statistical section, and supplementary information but does not include the basic financial statements, required supplementary information, supplementary information, and our auditor's reports thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2023, on our consideration of the office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the testing, and not to provide an opinion on the effectiveness of the office's 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 office's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
December 13, 2023
SA1661323



MANAGEMENT'S DISCUSSION AND ANALYSIS





Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2023
(Unaudited)

As the 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, 2023. Please read it in conjunction with the OAL's financial statements, which follow this section.

FINANCIAL AND OPERATING HIGHLIGHTS

- Fiscal year 2023 was a very successful year for the OAL. Only the record sales recorded in fiscal year 2021 were better than those of fiscal year 2023. Operating revenues for fiscal year 2023 were \$608.2 million, which was \$28.0 million, or 4.8%, more than the \$580.2 million recorded in fiscal year 2022. Instant ticket sales for fiscal year 2023 were \$476.6 million, which was a decrease of \$-3.5 million, or -0.7%, from fiscal year 2022. Online ticket sales for fiscal year 2023 were \$131.0 million which was an increase of \$31.5 million, or 31.7%, from fiscal year 2022. Powerball® sales increased by \$8.1 million, or 26.0%, from fiscal year 2022, while sales of Mega Millions® increased by \$16.8 million, or 108.7%. During fiscal year 2023, a new online game, LOTTO was launched in late September 2022 and produced sales of \$8.2 million. The other online games, Fast Play, Cash 3, Cash 4, Natural State Jackpot, Lucky for Life®, had a sales decrease for fiscal year 2023 of \$-1.6 million, or -2.9%, as compared to fiscal year 2022. For fiscal year 2023, instant ticket sales were \$35.9 million, or 8.1%, better than budget, while online ticket sales were \$36.3 million, or 38.4%, better than budget. Resulting operating revenues for fiscal year 2023 of \$608.2 million were \$72.3 million, or 13.5% better than budget.
- The OAL's operating expenses increased slightly in fiscal year 2023, as compared to the previous fiscal year, by \$20.2 million or 4.2%. This increase was primarily related to a \$16.0 million, or 29.3%, increase in online games prizes expense. The increase was primarily attributable to a \$4.3 million, or 30.0%, increase for Powerball® prizes, and an \$8.2 million, or 111.9% increase for Mega Millions® prizes. Gaming contract costs increased from the previous fiscal year by \$2.1 million or 7.1%, while retailer commissions increased by \$1.5 million, or 4.6%. Such expense increases were consistent with the overall increase in ticket sales for fiscal year 2023 over the previous fiscal year.
- For fiscal year 2023, total transfers of net proceeds to the Lottery Scholarship Trust Account (Scholarship Trust Account) were \$113.1 million, which was \$13.7 million, or 13.8% more than the prior fiscal year transfers of \$99.4 million.

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 annual comprehensive financial report also contains other supplementary and statistical information in addition to the basic financial statements.

The statement of net position presents information regarding 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 in net position for fiscal year ended June 30, 2023 does 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 each month, net of unclaimed prizes, to the Scholarship Trust Account, as a fiduciary account to be used only to fund Academic Challenge, Workforce Challenge or Concurrent Challenge college scholarships. Also, on June 30 of each fiscal year, the OAL is required, by

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statute, to transfer the accumulated unclaimed prizes reserve, less \$1 million, which is held back, to the Scholarship Trust Account. Also, any refunds of net proceeds or expenses from ADHE during a fiscal year must be placed in the Scholarship 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, net of unclaimed prizes, to the Scholarship 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 from its operating activities.

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

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

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

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FINANCIAL ANALYSIS
Net Position

The OAL's total net position at June 30, 2023 and 2022 were as follows:

<u>Condensed Summary of Assets, Liabilities and Net Position</u>		
	June 30, 2023	June 30, 2022
Current assets	\$ 274,830,969	\$ 215,501,306
Non-current assets	22,580,890	22,534,648
Capital assets	1,402,961	2,096,536
Total assets	<u>298,814,820</u>	<u>240,132,490</u>
Deferred outflow s of resources	2,520,093	1,249,606
Total assets and deferred outflow s	<u>\$ 301,334,913</u>	<u>\$ 241,382,096</u>
Current liabilities	\$ 284,283,293	\$ 222,500,853
Long-term liabilities	8,318,699	4,877,354
Total liabilities	<u>292,601,992</u>	<u>227,378,207</u>
Deferred inflow s of resources	1,442,918	4,168,399
Total liabilities and deferred inflow s	<u>294,044,910</u>	<u>231,546,606</u>
Net position:		
Net investment in capital assets	789,641	1,212,452
Restricted	23,580,890	23,534,648
Unrestricted (Deficit)	(17,080,528)	(14,911,610)
Total net position	<u>7,290,003</u>	<u>9,835,490</u>
Total liabilities, deferred inflow s and net position	<u>\$ 301,334,913</u>	<u>\$ 241,382,096</u>

Assets consisted primarily of cash and cash equivalents which were \$274.0 million and \$205.6 million as of June 30, 2023 and 2022 respectively. Accounts receivable were \$21.2 million and \$30.3 million as of June 30, 2023 and 2022 respectively. Capital assets, net of depreciation and amortization, were \$1.4 million and \$2.1 million as of June 30, 2023 and 2022 respectively.

As of June 30, 2023 the OAL's liabilities consisted primarily of amounts due to the Arkansas Department of Education Division of Higher Education (ADHE), accrued prizes payable, other accrued operating expenses, total pension obligations and other post-employment benefits obligations (OPEB). Also, as of June 30, 2023 total liabilities and deferred inflows of resources were \$294.0 million, which was an increase of \$62.5 million or 27.0% from June 30, 2022.

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As of June 30, 2023, 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 \$7.3 million. This was a decrease in total net position of \$-2.5 million or -25.9% from June 30, 2022. Also, as of June 30, 2023, restricted net position was approximately \$23.6 million, which was an increase of \$0.1 million, or 0.2% from June 30, 2022. Unrestricted net position (deficit) at the end of fiscal year 2023 was \$ -17.1 million which was an increase in the deficit of \$-2.2 million, or -14.5%, from the prior fiscal year. This deficit relates primarily to timing differences created from the adjusted cash basis accounting method used to calculate net proceeds for transfer to ADHE and due to the change in liability for the OAL's unfunded portion of its OPEB liability. In the unlikely event that the OAL ever ceases operations, the Arkansas State Legislature may be required to act to resolve this deficit in unrestricted net position.

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(Unaudited)

Statement of Revenues, Expenses and Changes in Net Position

During fiscal year 2023, the OAL's activities resulted in transfers of net proceeds to the Scholarship Trust Account of \$113.1 million, which was \$13.7 million or 13.8% more than for the prior fiscal year. Also, as previously discussed, the total net position of the OAL decreased by \$-2.5 million or -25.9% 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, 2023, with comparative information for fiscal year 2022 are shown on the following page.

<u>Summary of Revenues, Expenses and Changes in Net Position</u>		
	<u>2023</u>	<u>2022</u>
Operating revenues		
Instant ticket sales	\$ 476,578,850	\$ 480,101,229
Online ticket sales	130,982,275	99,463,473
Retailer fees	661,871	669,288
Other revenue	6,195	1,788
Total operating revenues	<u>608,229,191</u>	<u>580,235,778</u>
Operating expenses		
Instant game prizes	346,188,839	347,682,702
Online game prizes	70,731,337	54,723,364
Commissions and contract costs	66,167,884	62,546,680
General and administrative expenses	15,059,575	12,432,630
Services provided by other agencies	1,302,240	1,887,845
Depreciation and Amortization	699,663	657,311
Total operating expenses	<u>500,149,538</u>	<u>479,930,532</u>
Operating income	108,079,653	100,305,246
Non-operating revenue		
Interest Income	2,482,459	726,328
Interest expense	<u>(16,207)</u>	<u>(16,691)</u>
Income before transfers	110,545,905	101,014,883
Transfers to Trust Accounts	<u>(113,091,392)</u>	<u>(99,386,657)</u>
Increase (Decrease) in net position	(2,545,487)	1,628,226
Beginning net position	<u>9,835,490</u>	<u>8,207,264</u>
Ending net position	<u>\$ 7,290,003</u>	<u>\$ 9,835,490</u>

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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. In September of 2022 a new online game, LOTTO was launched with total sales during fiscal year 2023 of nearly \$8.2 million. The table below shows the instant ticket sales and sales for online lottery games for the fiscal years ended June 30, 2023 and 2022.

<u>Games Sales for Years Ended June 30, 2023 and 2022</u>				
Game	2023	2022	Change	% Change
Instant ticket sales	\$ 476,578,850	\$ 480,101,229	\$ (3,522,379)	-0.7%
Powerball®	39,097,190	31,021,045	8,076,145	26.0%
Mega Millions®	32,331,680	15,488,984	16,842,696	108.7%
Fast Play	17,874,449	18,681,356	(806,907)	-4.3%
Natural State Jackpot	7,478,765	9,262,233	(1,783,468)	-19.3%
Cash 3	12,330,957	12,294,808	36,149	0.3%
Cash 4	6,655,536	6,474,253	181,283	2.8%
Lucky for Life®	7,052,780	6,240,794	811,986	13.0%
LOTTO	8,160,918	-	8,160,918	100.0%
 Total games sales	 <u>\$ 607,561,125</u>	 <u>\$ 579,564,702</u>	 <u>\$ 27,996,423</u>	 4.8%

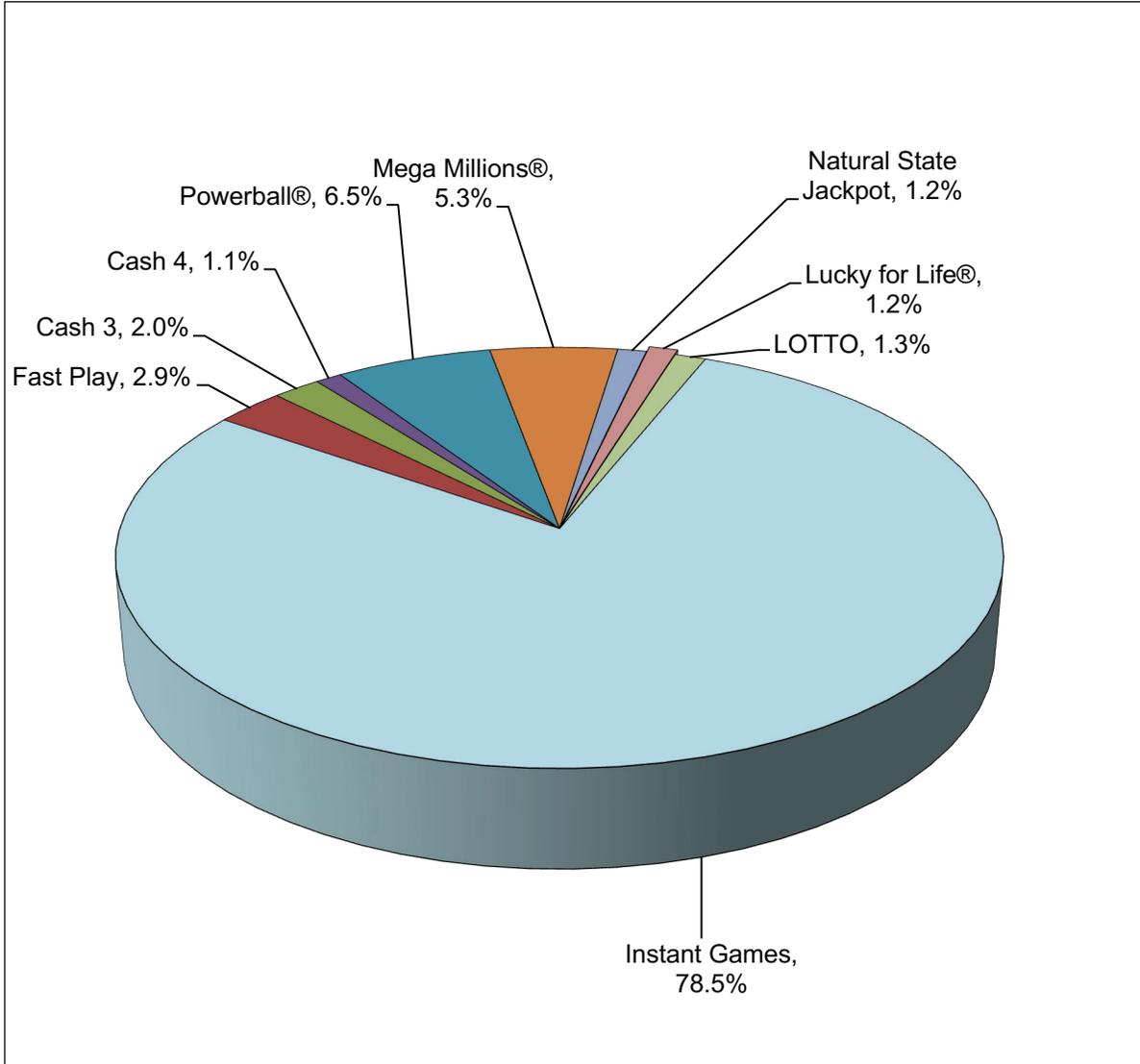
For fiscal year 2023 the OAL had an increase in total game sales of \$28.0 million or 4.8% as compared to fiscal year 2022. The budget for fiscal year 2023 reflected an expected return to pre-Covid pandemic levels of sales of \$535.4 million. However, the actual total game sales of \$607.6 million in fiscal year 2023, was \$72.2 million, or 13.5% better than budget.

Instant ticket sales continued to be the OAL's most popular product contributing 78.4% and 82.8% of total fiscal year sales for 2023 and 2022 respectively. For fiscal year 2023, instant ticket sales decreased slightly by \$-3.5 million, or -0.7%, while online games sales increased by \$31.5 million, or 31.7%, primarily due to three mega jackpots for Powerball® and Mega Millions® that exceeded a billion dollar annuity prize before they were finally won. For fiscal year 2023, Powerball® had an \$8.1 million, or 26.0%, increase in sales from the prior fiscal year, while Mega Millions® had a \$16.8 million, or 108.7%, increase in sales from the prior fiscal year. Also, for fiscal year 2023, Fast Play had a \$-0.8 million, or -4.3%, decrease in sales; Cash 3 sales increased negligibly, Cash 4 sales increased by \$0.2 million, or 2.8%, Natural State Jackpot had a \$-1.8 million, or -19.3%, decrease in sales, and Lucky for Life® sales increased by \$0.8 million, or 13.0%. The launch of the new LOTTO online game generated \$8.2 million in sales in a little over 8 months.

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The graph below summarizes the fiscal year 2023 sales as a percent of total ticket revenues:

Fiscal Year 2023 Lottery Game Revenues as a Percent of Sales



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OPERATING EXPENSES

Prizes Expense

Prizes are the largest operating expense the OAL incurs. Instant games prizes expense for fiscal year 2023 was \$346.2 million, which was a decrease of \$-1.5 million, or -0.4%, while online games prizes expense was \$70.7 million which was an increase of \$16.0 million, or 29.3%. Total prizes expense for fiscal year 2023 was \$416.9 million, which was an increase of \$14.5 million, or 3.6%, from the prior fiscal year total prizes expense of \$402.4 million.

As previously stated, with the expected budget change in sales for fiscal year 2023, the prizes expense budget also reflected an expected return to much lower pre-Covid levels. However, the \$346.2 million in instant game prizes expense for fiscal year 2023 was \$26.8 million, or 8.4%, more than budget, while online game prizes expense for fiscal year 2023 of \$70.7 million were \$19.0 million, or 36.8%, more than budget. So, consistent with sales, total game prizes expense for fiscal year 2023 of \$416.9 million was \$45.9 million, or 12.4%, more than budget.

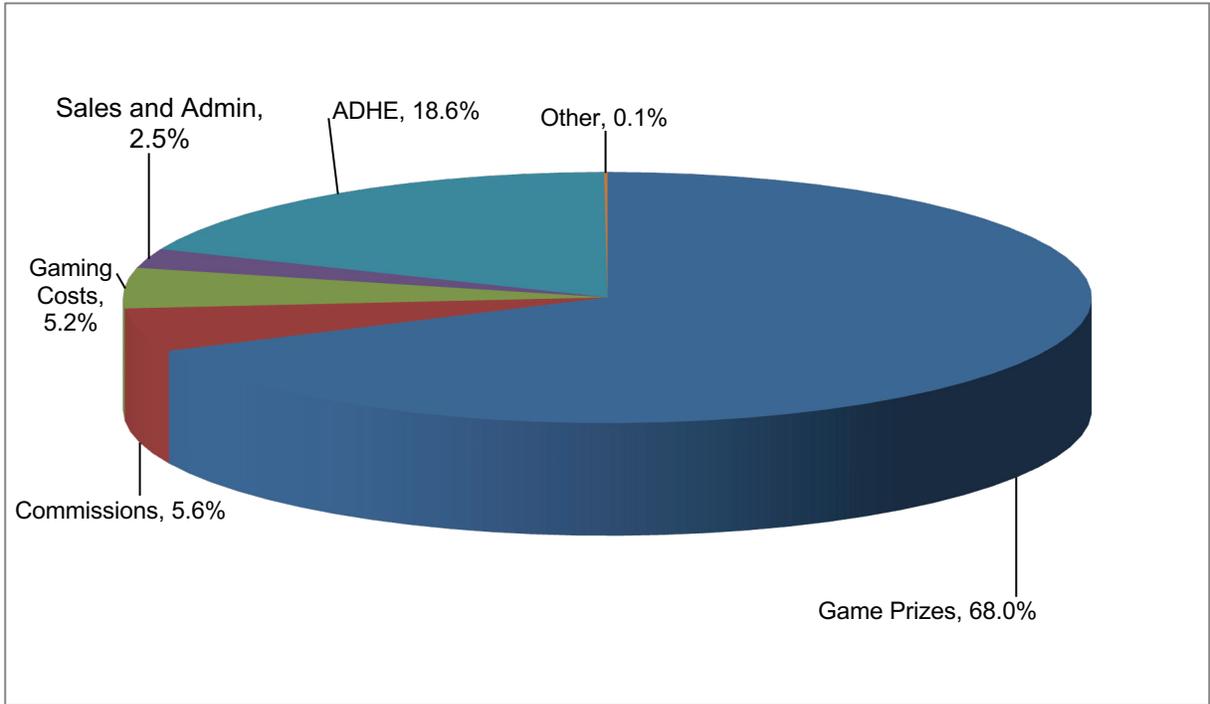
The following table shows prizes expense by lottery game for the years ended June 30, 2023 and 2022 respectively.

Game	Game Prizes Expense		Change	% Change
	2023	2022		
Instant Games	\$ 346,188,839	\$ 347,682,702	\$ (1,493,863)	-0.4%
Powerball®	18,604,593	14,309,397	4,295,196	30.0%
Mega Millions®	15,618,602	7,369,248	8,249,354	111.9%
Natural State Jackpot	4,333,586	5,244,268	(910,682)	-17.4%
Lucky for Life®	4,095,033	4,181,573	(86,540)	-2.1%
Fast Play	14,039,121	14,678,338	(639,217)	-4.4%
Cash 3	5,902,730	6,277,540	(374,810)	-6.0%
Cash 4	3,433,600	2,663,000	770,600	28.9%
LOTTO	4,704,072	0	4,704,072	100.0%
Total game prizes expense	<u>\$ 416,920,176</u>	<u>\$ 402,406,066</u>	<u>\$ 14,514,110</u>	3.6%

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Distribution of the fiscal year 2023 revenues were as follows:

Fiscal Year 2023 Revenue Distribution



The following table shows sales profit margin for instant and online games by for the fiscal years ended June 30, 2023 and 2022.

	Gross Profit Margin			
	Instant Tickets		Online Games	
	2023	2022	2023	2022
Game revenues	\$ 476,578,850	\$ 480,101,229	\$ 130,982,275	\$ 99,463,473
Prizes expense	346,188,839	347,682,702	70,731,337	54,723,364
Gross profit	<u>\$ 130,390,011</u>	<u>\$ 132,418,527</u>	<u>\$ 60,250,938</u>	<u>\$ 44,740,109</u>
Gross profit margin percentage	27.4%	27.6%	46.0%	45.0%

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As the table on the previous page shows, the gross profit margin is considerably less for instant tickets versus for online games. High jackpots normally drive sales for online games, whereas the denominations and types of instant tickets that are being distributed, as well as the amounts of prizes already cashed, are primary drivers for instant ticket sales.

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, 2023 and 2022 respectively.

<u>Operating Profit Margin</u>				
	<u>2023</u>	<u>2022</u>	<u>Change</u>	<u>Percent Change</u>
Operating revenues	\$ 608,229,191	\$ 580,235,778	\$ 27,993,413	4.8%
Operating expenses	500,149,538	479,930,532	20,219,006	4.2%
Operating Income	<u>\$ 108,079,653</u>	<u>\$ 100,305,246</u>	<u>\$ 7,774,407</u>	7.8%
Profit margin	17.8%	17.3%		

Other Operating Expenses

In addition to prizes expense, the other significant operating expenses include retailer commissions and gaming contract costs. Retailer commissions for fiscal year 2023 were \$34.3 million, which was an increase of \$1.5 million, or 4.6%, from fiscal year 2022. Gaming contract costs for fiscal year 2023 were \$31.9 million which was an increase of \$2.1 million, or 7.1%, from fiscal year 2022.

Additional other operating expenses include advertising and marketing costs, compensation costs, general administrative costs and depreciation and amortization. These other operating expenses for fiscal year 2023 totaled \$17.1 million, which was an increase of \$2.1 million, or 13.9% from fiscal year 2022.

NON-OPERATING REVENUES AND TRANSFERS

Non-operating revenues were for interest income on deposited funds of \$2,482,459 and \$726,328 for the years ended June 30, 2023 and 2022 respectively. Also, there was imputed interest expense related to right to use assets, which were capitalized as a result of the implementation of GASB 87 on Leases, in the amount of \$16,207 for fiscal year 2023 and \$16,691 for fiscal year 2022 respectively.

Net proceeds of \$113.1 million were transferred into the Lottery Scholarship Trust Account in fiscal year 2023, compared to transfers of \$99.4 million in fiscal year 2022. Transfers to ADHE for the Academic Challenge scholarships for fiscal year 2023 were \$60.0 million as compared to \$71.0 for fiscal year 2022. There were no transfers to ADHE for the Workforce Challenge scholarships for fiscal year 2023, compared to \$1.25 million in fiscal year 2022. Also, there were \$2.4 million of transfers to ADHE for the Concurrent Challenge scholarships for fiscal year 2023, compared to \$2.5 million in fiscal year 2022.

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2023
(Unaudited)

CAPITAL ASSETS

At June 30, 2023 the OAL had \$1.4 million in net capital assets as compared to \$2.1 million in net capital assets at the end of the prior fiscal year. Capital assets are primarily composed of equipment, leasehold improvements and right to use assets. The equipment and leasehold improvements are depreciated over their estimated useful lives of 5 to 10 years, while the right to use assets are amortized over a period of 5 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 10 of the notes to the financial statements.

	<u>Capital Assets</u>		Total % Change
	<u>2023</u>	<u>2022</u>	
Equipment	\$ 2,849,623	\$ 2,843,570	0.2%
Leasehold improvements	492,796	492,796	0.0%
Right to Use Assets	1,359,159	1,359,159	0.0%
Total Capital Assets	4,701,578	4,695,525	0.1%
Less: Accum. Deprec. & Amort.	(3,298,617)	(2,598,989)	26.9%
Net Capital Assets	<u>\$ 1,402,961</u>	<u>\$ 2,096,536</u>	-33.1%

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) 683-1898.



Arkansas
Scholarship Lottery



BASIC FINANCIAL STATEMENTS





**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Statement of Net Position
June 30, 2023**

ASSETS

Current assets:	
Cash and cash equivalents	\$ 9,082,037
Restricted assets:	
Cash and cash equivalents	244,385,111
Accounts receivable	15,425,882
Inter-Agency Receivables	5,775,854
Prepaid items	162,085
Total current assets	<u>274,830,969</u>
Non-current assets:	
Restricted assets:	
Cash and cash equivalents	20,500,000
Deposits with Multi-State Lottery Association	2,080,890
Capital assets, net	1,402,961
Total non-current assets	<u>23,983,851</u>
Total assets	<u>298,814,820</u>
Deferred outflows of resources:	
Related to pension	1,870,808
Related to other post employment benefits	649,285
Total deferred outflows of resources	<u>2,520,093</u>
Total assets and deferred outflows of resources	<u>\$ 301,334,913</u>

LIABILITIES

Current liabilities:	
Accounts payable	\$ 7,479
Prizes payable	26,798,629
Accrued and other liabilities	6,329,803
Due to other funds of the State	1,216,705
Due to Lottery Scholarship Trust Account	249,160,965
Lease liability	270,765
Compensated absences	56,999
Net other post employment benefits	99,509
Unearned revenue	342,439
Total current liabilities	<u>284,283,293</u>
Long-Term liabilities:	
Net other post employment benefits	2,364,941
Compensated absences	350,427
Net pension liability	4,990,011
Lease liability	613,320
Total long-term liabilities	<u>8,318,699</u>
Total liabilities	<u>292,601,992</u>
Deferred inflows of resources:	
Related to pension	215,173
Related to other post employment benefits	1,227,745
Total deferred inflows of resources	<u>1,442,918</u>
Total liabilities and deferred inflows of resources	<u>294,044,910</u>

NET POSITION

Net position:	
Net investment in capital assets	789,641
Restricted for:	
Scholarship shortfall reserve	20,000,000
Retailer bond reserve	500,000
Deposits with Multi-State Lottery Association	2,080,890
Unclaimed prizes reserve	1,000,000
Unrestricted (deficit)	<u>(17,080,528)</u>
Total net position	<u>7,290,003</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 301,334,913</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, 2023**

Operating revenues:

Instant ticket sales	\$ 476,578,850
Online ticket sales	130,982,275
Retailer application, fidelity, bond and service fees	661,871
Other revenue	<u>6,195</u>
 Total operating revenues	 <u>608,229,191</u>

Operating expenses:

Instant game prizes	346,188,839
Online game prizes	70,731,337
Retailer commissions	34,300,134
Gaming contract costs	31,867,750
Compensation and benefits	5,150,818
Marketing, advertising and promotions	7,146,036
General and administrative expenses	2,762,721
Services provided by Arkansas Department of Education - Division of Higher Education	1,143,690
Services provided by Arkansas Legislative Audit	158,550
Amortization	271,832
Depreciation	<u>427,831</u>
 Total operating expenses	 <u>500,149,538</u>

Operating income	108,079,653
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Non-operating revenue (expense):

Interest income	2,482,459
Interest expense	<u>(16,207)</u>
 Income before transfers	 110,545,905

Transfers to:

Lottery Scholarship Trust Account	<u>(113,091,392)</u>
 Change in net position	 (2,545,487)
 Total net position - beginning	 <u>9,835,490</u>
Total net position - ending	<u><u>\$ 7,290,003</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, 2023

Cash flows from operating activities:	
Cash received from retailers and others	\$ 607,194,823
Cash paid for prizes	(413,150,674)
Cash paid for gaming vendors	(29,643,203)
Cash paid for retailer commissions	(34,300,134)
Cash paid for marketing and advertising	(7,188,838)
Cash paid for employee services	(5,644,455)
Cash paid for other expenses	(4,861,496)
Net cash provided by operating activities	<u>112,406,023</u>
Cash flows from non-capital financing activities:	
Transfers to Arkansas Department of Education - Division of Higher Education	(62,400,000)
Transfers from Arkansas Department of Education - Division of Higher Education	15,927,228
Net cash used by non-capital financing activities	<u>(46,472,772)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(6,053)</u>
Cash flows from investing activities:	
Interest received	<u>2,482,459</u>
Net increase in cash and cash equivalents	68,409,657
Cash and cash equivalents, beginning	205,557,491
Cash and cash equivalents, ending	<u>\$ 273,967,148</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 108,079,653
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	427,831
Amortization	271,832
Pension expense	(191,571)
Other post employment benefits expense	(62,237)
Lease Expense	(276,427)
Net changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(1,068,860)
Receivable from other funds of the State	944
Prepaid items	(3,464)
Deposits with Multi-State Lottery Association	(46,242)
Increase (decrease) in:	
Accounts payable	(12,787)
Prizes payable	3,815,745
Accrued and other liabilities	2,043,724
Due to other funds of the State	(568,985)
Compensated absences	(36,681)
Unearned revenue	33,548
Net cash provided by operating activities	<u>\$ 112,406,023</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
Notes to Financial Statements
June 30, 2023

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. During the 2015 Legislative session, the Arkansas Legislature enacted Act 218 of 2015, which eliminated the ALC 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; Fast Play sales commenced on October 25, 2010; Natural State Jackpot sales commenced on August 27, 2012; Lucky for Life® sales commenced on January 27, 2015; and LOTTO sales commenced on September 18, 2022. Powerball®, Mega Millions®, Lucky for Life® are offered through the Multi-State Lottery Association (MUSL).

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 Annual Comprehensive Financial Report (ACFR) of the State. These financial statements for the OAL are separate and apart from those of the State and do not present the financial position of the State nor changes in the State's financial position and cash flows.

b. Basis of Presentation

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

c. Basis of Accounting

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

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

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2023

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 and expenses 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 and amortization.

d. Cash and Cash Equivalents

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

e. Accounts Receivable

Accounts receivable 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.

f. Capital Assets

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

Equipment	5 - 7 years
Right to Use Assets	5 years
Signage	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.

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2023

g. Net Position

Net position includes categories for net investment in capital assets and for restricted net position for several items including the Scholarship shortfall 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; right to use assets less amortization, less long-term lease liability. The restricted net position for the Scholarship shortfall reserve represents monies set aside to fund scholarship payment requests to the Arkansas Department of Education – Division of Higher Education (ADHE), if needed, due to a shortage of funds in the Lottery scholarship trust account (Scholarship trust account). The Retailer bond reserve may be used to cover losses due to any retailer nonfeasance, malfeasance, or misfeasance or for the recovery of any other potential losses from retailers. This reserve mitigates for retailers having to purchase their own surety bond coverage. The MUSL deposits represent funds set aside to fund Powerball® and Mega Millions® prizes reserves which can be used in the event of multiple grand prize winners in succession. 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 deposited to the Scholarship trust account as net proceeds.

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

h. Leases

The OAL is a lessee for noncancellable leases and recognizes a lease liability and an intangible right-to-use lease asset. The OAL recognizes lease liabilities with an initial individual value of \$5,000 or more. At commencement of a lease, the OAL initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the OAL determines (1) lease discount rate it uses to discount the expected lease payments to present value, (2) lease term and (3) lease payments. The lease term included the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of variable payments.

The OAL monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with capital assets and lease liabilities are reported with short and long-term liabilities on the statement of net position.

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2023

i. Revenue Recognition

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

j. Unearned Revenue

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

Retailer licenses are issued for a two-year period. 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 ticket 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 ticket 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 Scholarship trust account as net proceeds. For financial statement purposes, unclaimed prizes are a reduction to the overall prizes expense recognized.

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2023

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 and Medicare contributions at the then current rates.

n. *Retirement Plan*

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

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 net 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 did record four bad debts in the amount of \$25,885 for the fiscal year ended June 30, 2023. For net proceeds calculations, bad debt expense amounts are recovered from the Retailer bond reserve, which is 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 cash management and investments standards and procedures, effective October 2, 2017, which replaced the prior standards and procedures established on July 14, 2012. Such standards are referenced by the Arkansas Department of Finance and Administration within the Financial Management Guide for use by all State agencies.

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2023**

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.

On May 3, 2021, the OAL and Bank OZK executed an Agreement for Contractual Services for Comprehensive Banking Services. The effective date for this agreement was September 2, 2021. The term of this agreement was two years from the effective date with the option of mutually agreeing to up to three one-year extensions. Interest shall be paid at the Federal Funds Target Rate minus 0.09% (or 9 Basis Points) with a floor of .15% APY (or 15 Basis Points) and a ceiling of 1.00 APY (or 100 Basis Points). Treasury management service fees were waived. All of the OAL's cash and equivalents at June 30, 2023 were held in accounts at Bank OZK. As agreed to in their contract, Bank OZK 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, 2023, the total collateral pledged to the OAL was in the form of one irrevocable standby letter of credit and one security. 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 \$276,000,000. In addition to the letter of credit, the pledged security to OAL had a market value of \$12,939,209. The total value of collateral pledged at June 30, 2023 was \$288,939,209. At June 30, 2023 the OAL's total bank balances were \$274,093,871, so the pledged collateral maximum exceeded 105% 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 \$274,093,871 were exposed to custodial credit risk as of June 30, 2023.

3. ACCOUNTS RECEIVABLE

Management believes that an allowance for uncollectable accounts is not necessary at June 30, 2023 as the Retailer bond reserve amount of \$500,000 is sufficient to cover any past due accounts. Amounts due from retailers and others at June 30, 2023 are summarized as follows:

Amount due for activated instant scratch-off tickets, not settled	\$ 12,556,348
Amount due for partial weeks sales through June 30, 2023	2,856,536
Past due accounts and other receivables	<u>12,998</u>
Total accounts receivable	<u>\$ 15,425,882</u>

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2023

Receivable from Other Funds of the State

The amount listed below as a receivable from the Arkansas Department of Education – Division of Higher Education is a refund of excess Lottery Scholarship Trust funds requested over scholarships issued.

Arkansas Department of Education – Division of Higher Education	\$5,775,854
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4. TRUST ACCOUNTS 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 were to be deposited into a trust account at one or more financial institutions. Based on the calculation requirement, it was determined that the net proceeds calculated each month for transfer to the trust accounts were to be computed using the modified cash basis of accounting for revenues and expenses based on the actual monies received from retailers for instant ticket game sales and for the prize payments made on instant tickets redeemed.

To meet the above deposit requirement, an Education trust account was established with Bank of the Ozarks (now Bank OZK), and as required by GAAP accrual-based accounting principles, the Due to education trust account reflected the corresponding liability on the statement of net position. The Education trust account was restricted for transfers to and from the Arkansas Department of Education – Division of Higher Education (ADHE), and funds were only transferred based on requests from ADHE to meet the scholarship needs of the Arkansas Academic Challenge Scholarship Program.

Act 636 of 2021 required the OAL to “establish the Lottery scholarship trust account to fund the Arkansas Academic Challenge Scholarship Program, the Arkansas Workforce Challenge Scholarship Program (see note 5), the Arkansas Concurrent Challenge Scholarship Program (see note 5), and any other scholarship funded with net proceeds from the lottery, at a financial institution into which the OAL shall transfer funds.” The balances of the Education trust account and the Workforce challenge trust account were transferred into the Scholarship trust account in fiscal year 2022.

For financial statement purposes, the total amount reflected for the Scholarship trust account as current restricted cash and cash equivalents on the statement of net position at June 30, 2023 was \$249,160,965. Total net proceeds for the fiscal year ended June 30, 2023 were \$113,091,393. During fiscal year 2023 a total of \$62,400,000 was transferred to ADHE for scholarships from the Scholarship trust account.

Activity in the Scholarship trust account for the fiscal year ended June 30, 2023 consisted of the following activities:

Scholarship trust account balance at 7/01/22	\$ 192,693,719
Net Proceeds	113,091,392
Returns from ADHE for overfunding of scholarships	5,775,854
Payments to ADHE for scholarships	<u>(62,400,000)</u>
Scholarship trust account balance at 6/30/23	<u>\$ 249,160,965</u>

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2023**

5. ARKANSAS WORKFORCE CHALLENGE SCHOLARSHIP AND ARKANSAS CONCURRENT CHALLENGE SCHOLARSHIP PROGRAMS

During the 2017 legislative session, the Arkansas General Assembly passed Act 613 of 2017 to create the Arkansas Workforce Challenge Scholarship Program (“Workforce Challenge”). Act 613 of 2017 provided for the use of excess lottery proceeds to be deposited to a trust account to fund scholarships for students enrolled in higher education programs that will lead to the students being qualified to work in high-needs occupations. To meet the deposit requirement, a Workforce challenge trust account was established with Bank OZK, and as required by GAAP accrual-based accounting principles, a Due to workforce challenge trust account reflected the corresponding liability on the statement of net position. The Workforce challenge trust account was restricted for transfers to and from ADHE, and funds were only transferred based on requests. During the 2019 Arkansas General Assembly session, Act 456 amended Arkansas Code Title 6, Chapter 85 to add an additional subchapter to create the Arkansas Concurrent Challenge Scholarship Program (“Concurrent Challenge”). Act 456 provides for the use of lottery proceeds, after the allocation of sufficient funding to the “Workforce Challenge”, to fund scholarships for students enrolled in an endorsed concurrent enrollment course or certificate program, unless other opportunities are provided that lower the tuition and mandatory fees below fifty percent.

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 during the fiscal year and on the last day of each fiscal year the amount of the remaining unclaimed lottery prizes reserve, less \$1,000,000, be deposited in the trust account as net proceeds.

During fiscal year 2023, in addition to the \$1,000,000 beginning balance the unclaimed prizes totaled \$10,004,003 with none of the unclaimed prize’s money being used for the three specified purposes allowed by Act 1180. So, the unclaimed prizes balance remaining at June 30, 2023, less \$1,000,000, resulted in a deposit of \$10,004,003 to the Scholarship trust account as net proceeds. At June 30, 2023, 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, 2023 consisted of the following activities:

Unclaimed prizes reserve at 7/01/22	\$ 1,000,000
Unclaimed prizes for fiscal year ended 6/30/23	10,004,003
Transferred to the Scholarship trust account at 6/30/23	<u>(10,004,003)</u>
Unclaimed prizes reserve at 6/30/23	<u>\$ 1,000,000</u>

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7. SCHOLARSHIP SHORTFALL RESERVE

The Scholarship shortfall reserve account represents monies set aside, by the Act, to fund scholarship payment requests to ADHE, if needed, in case of a shortage of funds in the Scholarship trust account. The balance of the Scholarship shortfall reserve at June 30, 2023 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 BOND RESERVE

Act 1076 of the 2015 Arkansas General Assembly changed Arkansas Code Annotated § 23-115-603 (c) (1) to allow the OAL to amend the previous requirement that retailers post a bond obtained through a commercial insurance company. Per Act 1076, “the office shall require retailers to post an appropriate bond, as determined by the office.” Effective with the amendment of the OAL’s Retailer Rules (Rules), a “self-bond” or self-insurance program for retailers was established, whereby all retail locations must remit \$50 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 Scholarship 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, in excess of \$500,000, 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, 2023 the balance of the Retailer bond reserve was \$500,000. The retailer self-bond fees collected are deposited in the OAL operating account. At the end of each month, retailer self-bond fees are transferred to the Bond Account and are classified as non-current restricted cash and cash equivalents. During the fiscal year ended June 30, 2023, the OAL sustained losses that were charged to the Retailer bond reserve in the amount of \$25,885.

9. JOINT VENTURES

GASB Statement No.14, *The Financial Reporting Entity*, as amended, defines a joint venture as a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain 1) an ongoing financial interest or 2) an ongoing financial responsibility. During the fiscal year ended June 30, 2023 the OAL was an active participant in several joint venture arrangements with the Multi-State Lottery Association.

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. 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.

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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, 2023, the OAL had reserve fund deposits with MUSL of \$2,080,890. MUSL does not maintain prize reserve funds for Lucky for Life®.

A copy of the MUSL financial statements may be obtained by submitting a written request to MUSL, Attn: Bret Toyne, Executive Director or Shannon Underwood, Director of Finance, 8101 Birchwood Court, Suite R, Johnston, Iowa 50131.

The OAL's portion of the MUSL's games for the fiscal year ended June 30, 2023 is summarized in the table below:

	Operating Revenues	Prizes
Powerball®	\$39,097,190	\$18,604,593
Mega Millions®	32,331,680	15,618,602
Lucky for Life®	7,052,780	4,095,033

10. CAPITAL ASSETS

The activity for capital assets for the fiscal year ended June 30, 2023, was as follows:

<u>Capital Assets</u>	<u>Balance</u> <u>July 1, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2023</u>
Equipment	\$ 2,843,570	\$ 6,053	\$ -	\$ 2,849,623
Leasehold improvements	492,796	-	-	492,796
Right to use assets	1,359,159	-	-	1,359,159
Total capital assets	4,695,525	6,053	-	4,701,578
Less accum. depreciation and amortization				
Equipment - depreciation	(1,879,666)	(427,831)	35 ^(a)	(2,307,462)
Leasehold improvements - depreciation	(492,796)	-	-	(492,796)
Right to use assets - amortization	(226,527)	(271,832)	-	(498,359)
Total accum. depreciation and amortization	(2,598,989)	(699,663)	35	(3,298,617)
Capital assets, net	\$ 2,096,536	\$ (693,610)	\$ 35	\$ 1,402,961

a) This amount was due to an accounting system error.

11. LIABILITIES

a. Prizes Payable

Prizes payable at June 30, 2023 consisted of instant and online game prizes payable and any related state and federal withholdings. Instant ticket prizes payable are estimated

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based on the production prize structure provided by Scientific Games Inc. Estimated prizes payable by category are listed on the following page.

Instant tickets	\$ 23,151,379
Powerball®	739,717
Mega Millions®	551,116
Natural State Jackpot	302,170
Lucky for Life®	404,010
Fast Play	183,436
Cash 3	60,360
Cash 4	51,500
LOTTO	1,286,125
Income tax and other withholding	<u>68,815</u>
Total	<u>\$ 26,798,628</u>

b. Payable to Other Funds of the State

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

The amounts listed below are for withholdings owed or for services performed for the OAL by these agencies within the normal course of business.

Arkansas Department of Education - Division of Higher Education	\$ 1,143,690
Arkansas Department of Finance and Administration - Statewide Services	62,387
Arkansas Department of Transformation and Shared Services - Division of Information Systems	<u>10,628</u>
Total	<u>\$ 1,216,705</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, 2023.

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, 2023 totaled \$407,426. 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, 2023 the current portion of the compensated absences liability decreased by \$7,929 to a balance of \$56,999 and the long-term portion decreased by \$28,752 to a balance of \$350,427.

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Long Term Compensated Absences	Beginning Balances	Increases	Decreases	Ending Balances
Annual	\$ 330,540	\$ 425,615	\$ (454,231)	\$ 301,924
Sick	48,639	11,981	(12,117)	48,503
Total	<u>\$ 379,179</u>	<u>\$ 437,596</u>	<u>\$ (466,348)</u>	<u>\$ 350,427</u>

d. Unearned Revenue

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

Unearned revenue from online game tickets at June 30, 2023 is summarized as follows:

Powerball®	\$ 188,721
Mega Millions®	39,733
Natural State Jackpot	16,276
Lucky for Life®	11,266
Cash 3	5,447
Cash 4	4,968
LOTTO	40,102
Total	<u>\$ 306,513</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, 2023 the amount of unearned revenue which related to retailer licensing and renewal fees was \$35,927.

12. UNRESTRICTED NET POSITION (DEFICIT)

Act 606 of 2009 (Scholarship Lottery Act) section ACA 23-115-801 (a) (3) requires “The percentage of lottery proceeds determined by the OAL to be net proceeds shall equal an amount determined by the OAL to maximize net proceeds for scholarships.” Section ACA 23-115-103 (19) defines net proceeds to be lottery proceeds less operating expenses; the amount of bond fee 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.

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However, the calculation method utilized results in modified cash basis net proceeds each month which vary from GAAP net income before transfers. 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 prizes expense, which results in a debit balance (deficit) in Unrestricted Net Position. At June 30, 2023 the cumulative variance due to the modified cash basis method was a debit balance (deficit) in Unrestricted Net Position of \$(14,616,078).

In addition, the OAL's total OPEB liability at June 30, 2023 (see note 16) of \$2,464,450, which consists of a current liability of \$99,509 and a long-term liability of \$2,364,941, 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, 2023 of (\$2,464,450). The total debit balance (deficit) in Unrestricted Net Position at June 30, 2023 was (\$17,080,528).

13. ONLINE GAME REVENUES

Online game tickets are produced through terminals at lottery retailer locations based on player instructions for number selection. Drawings are conducted to determine winning number combinations. Online game sales for the fiscal year ended June 30, 2023 consisted of the following:

Powerball®	\$ 39,097,190
Mega Millions®	32,331,680
Fast Play	17,874,449
Natural State Jackpot	7,478,765
Cash 3	12,330,957
Cash 4	6,655,536
Lucky for Life®	7,052,780
LOTTO	<u>8,160,918</u>
Total	<u>\$ 130,982,275</u>

14. OPERATING LEASES

During the fiscal year ended June 30, 2022, OAL renewed its lease of office space and parking spaces for its headquarters. The noncancellable lease was extended for an additional five-year term starting September 1, 2021 continuing through August 31, 2026. With this contract, the OAL recognizes a lease liability and an intangible right-to-use lease asset. The building lease entered into includes both a lease component (such as a right-to-use asset building) and a non-lease component (such as maintenance and utilities). At the commencement of a lease, the OAL used the lease component to measure the lease liability at the present value of payments expected to be made during the lease term using the State incremental borrowing rate of 1.615%. The lease asset was measured as the initial amount of the lease liability. Subsequently, the lease asset is amortized on a straight-line basis over its useful life. The annual rental office expense for the fiscal year ended June 30, 2023 was \$443,436. The remaining lease payments in the contract is as follows:

9/1/23 to 8/31/24	\$456,398.16
9/1/24 to 8/31/25	\$456,398.16
9/1/25 to 8/31/26	\$469,858.80

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The building lease component that was capitalized is listed below.

Lease Description	Role	Lease Type	Gross Asset Balance	Accumulated Amortization	Net Asset Balance
Union Plaza Building- 25,773 square feet 124 West Capitol Ave Little Rock, AR 72201	Lessee	Operating	\$ 1,224,847	\$ 449,110	\$ 775,737
Union Plaza Building- Parking Deck Spaces 124 West Capitol Ave Little Rock, AR 72201	Lessee	Operating	134,312	49,248	85,064
Total			\$ 1,359,159	\$ 498,358	\$ 860,801

At year end June 30, 2023, the balance of the liability was split between short-term liability of \$270,765 and long-term liability of \$613,320. Below is the maturity analysis of the lease liability.

Fiscal Year Ending June 30,	Principal	Interest	Total
2022 (10 months)	\$ 215,204	\$ 16,691	\$ 231,895
2023	259,870	16,207	276,077
2024	270,765	11,924	282,689
2025	276,515	7,492	284,007
2026	288,098	2,935	291,033
2027 (2 months)	48,707	33	48,740
	\$ 1,359,159	\$ 55,282	\$ 1,414,441

15. RETIREMENT PLAN

a. Plan Description

The OAL provides pension benefits for its employees through the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan.

The APERS provides pension benefits to all state employees not covered by another authorized plan, all county employees, municipal employees whose municipalities have elected coverage under this system, college and university employees, and certain non-teaching school employees.

Benefits are also provided for governors, General Assembly members, state and county constitutional officers and quasi-judicial members. The APERS is administered by the Arkansas Public Employees Retirement System board of trustees.

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

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

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

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b. Benefits Provided

Members are eligible for full retirement benefits (1) at any age with 28 years of credited service; (2) at age 65 with five years of actual service, except for members of the General Assembly who must have 10 years of actual service if the member only has service as a member of the General Assembly; or (3) at age 55 with 35 years of credited service as an elected official or public safety member. Members are eligible for reduced benefits (1) at any age with at least 25 years but less than 28 years of actual service; or (2) at age 55 with five years of actual service. Members who are defined as a public safety member are eligible for a reduced benefit with five years of actual service if the member is within 10 years of normal retirement age. The normal retirement benefit, paid monthly, 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, 2023, the employer contribution rates as a percentage of active member payroll ranged from 4.00% to 42.61%. Contributory plan members are required to contribute 5.25% of their annual covered salary. The OAL is required to contribute for all covered state employees at a rate of 15.32% 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, 2023, 2022, and 2021 were \$622,550, \$595,752, and \$568,216, 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. Total Pension Liability

At June 30, 2023, the OAL reported a total pension liability of \$4,990,011. The total pension liability was measured as of June 30, 2022, and the total pension liability was determined by an actuarial valuation as of that date.

The OAL's proportion of the total pension liability was based on actual contributions in the 2023 fiscal year of all participating employers. At June 30, 2023, the OAL's proportion was 0.185%.

Actuarial assumptions

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

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Actuarial valuation date:	June 30, 2022
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):	7.15%
Mortality rates:	RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017.
Actuarial experience study dates:	2012-2017

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 2020 to 2029 were based upon capital market assumptions provided by the system's investment consultants. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2022, these best estimates are summarized in the table below.

Asset Class	Current Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.22%
International Equity	24%	6.69%
Real Assets	16%	4.81%
Absolute Return	5%	3.05%
Domestic Fixed	18%	0.57%
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 total pension liability to changes in the discount rate

The following presents the OAL's proportionate share of the total pension liability for the pension plan calculated using the discount rate stated, as well as what the OAL's total 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:

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	1% lower than current discount rate	Current discount rate	1% higher than current discount rate
Rate	6.15%	7.15%	8.15%
Total pension liability	\$7,933,207	\$4,990,011	\$2,560,140

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, 2023, the OAL recognized pension expense of \$428,789. For the year ended June 30, 2022, the OAL reported deferred outflows of resources and deferred inflows of resources related to pensions as shown below.

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	\$ 0	\$ 0
Differences between expected and actual experience	119,777	(60,247)
Net difference between projected and actual investment earnings on pension plan investments	1,052,650	0
Changes in proportion and differences between employer contributions and share of contributions	80,416	(154,926)
Contributions subsequent to the measurement date	617,965	0
Total	\$1,870,808	\$ (215,173)

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 total pension liability in the year ended June 30, 2024. 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
2023	174,876
2024	151,480
2025	(22,793)
2026	734,107

16. 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.

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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 Arkansas Department of Transformation and Shared Services - Employee Benefits Division. A copy of the plan and most recent report can be obtained by writing to Arkansas Department of Transformation and Shared Services - Employee Benefits Division, 501 Woodlane, Suite 201, 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 Arkansas Department of Transformation and Shared Services – Employee Benefits Division)

State law grants the authority to establish and amend benefit terms and financing requirements for the plan as listed below.

- 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, Arkansas Teachers Retirement System, Arkansas State Highway Employees Retirement System, Arkansas Judicial Retirement System, or alternate retirement plan of a qualifying institution 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.

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Employees Covered by Benefit Terms

At June 30, 2023, the following state employees were covered by the plan:

Inactive employees or beneficiaries currently receiving benefits	16,423
Inactive employees entitled to but not yet receiving benefits	9,423
Active employees	<u>32,192</u>
Total	<u>58,038</u>

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

c. *Total OPEB Liability*

At June 30, 2023, 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, 2023	\$ 1,239,319,650
OAL	June 30, 2023	\$ 2,464,450

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 assumptions below, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2023
Inflation rate	2.30%
Discount rate (1)	3.65%
Salary increases	Based on age, in 5 year groupings, starting at 11.00% at age 20 and decreasing to 3.45% at age 65+.
Healthcare cost trend rates	Pre-Medicare: 6.6% initial, 3.70% ultimate; Post-Medicare: 14.5% initial, 3.70% ultimate

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Mortality rate	For Healthy Pre-Retirement: PubG-2010 Amount-Weighted Below-Median Income General Employee Mortality Tables for males and females. Mortality rates are multiplied by 75% for males and 75% for females and are adjusted for fully generational mortality improvements using Scale MP-2021. For Healthy Post-Retirement: PubG-2010 Amount-Weighted Below-Median Income General Retiree Mortality Tables for males and females. Mortality rates are multiplied by 114% for males and 132% for females and are adjusted for fully generational mortality improvements using Scale MP-2021.
Retirees' share of benefit-related costs	Varies by age and Medicare versus non-Medicare retirees.
Actuarial experience study dates (2)	July 1, 2017 through June 30, 2022

- (1) The discount rate was determined by using the Bond Buyer General Obligation 20-bond municipal index for bonds that mature in 20 years, which is a tax-exempt municipal bond rate based on an index of 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
- (2) The actuarial experience study used was the study performed for the APERS plan.

d. Changes in the Total OPEB Liability

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

	ASE	OAL
Balance as of June 30, 2022	<u>\$1,266,181,345</u>	<u>\$2,235,556</u>
Changes for the year:		
Service cost	53,375,833	106,141
Interest on OPEB liability	45,741,577	90,959
Effect of plan changes	0	0
Effect of economic/demographic (gains) or losses	23,079,338	45,894
Changes in assumptions or inputs	(93,732,836)	(186,393)
Change in proportion	N/A	282,311
Benefit payments	<u>(55,325,587)</u>	<u>(110,018)</u>
Net changes	<u>(26,861,695)</u>	<u>228,894</u>
Balance as of June 30, 2023	<u><u>\$1,239,319,650</u></u>	<u><u>\$2,464,450</u></u>

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2023

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:

	<u>1% Decrease</u>		<u>Current Discount Rate</u>		<u>1% Increase</u>	
	Rate	Total OPEB Liability	Rate	Total OPEB Liability	Rate	Total OPEB Liability
ASE	2.65%	\$1,425,784,616	3.65%	\$1,239,319,650	4.65%	\$1,087,162,280
OAL	2.65%	\$ 2,835,245	3.65%	\$ 2,464,450	4.65%	\$ 2,161,878

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:

	<u>1% Decrease</u>		<u>Current Discount Rate</u>		<u>1% Increase</u>	
	Rate	Total OPEB Liability	Rate	Total OPEB Liability	Rate	Total OPEB Liability
ASE	N/A	\$1,057,195,610	N/A	\$1,239,319,650	N/A	\$1,469,718,928
OAL	N/A	\$ 2,102,287	N/A	\$ 2,464,450	N/A	\$ 2,922,611

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

For the year ended June 30, 2023, the State recognized total OPEB expense as follows.

	<u>Total OPEB Expense</u>
ASE	\$ (69,569,811)
OAL	\$ (62,237)

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

	<u>ASE</u>		<u>OAL</u>	
	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Effect of Liability gains or losses	\$(142,041,843)	\$ 22,183,521	\$(282,457)	\$ 44,113
Effect of assumption changes or inputs	(465,267,237)	125,874,344	(925,208)	250,308
Changes in proportion	N/A	N/A	(20,080)	354,864
Total	\$(607,309,080)	\$ 148,057,865	\$(1,227,745)	\$ 649,285

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2023

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

Year ended June 30:	ASE	OAL
2024	\$(76,774,414)	\$(152,670)
2025	(189,372,692)	(376,577)
2026	(169,552,943)	(337,165)
2027	(11,775,583)	(23,416)
2028	(11,775,583)	(23,416)
Thereafter	0	0

Total OPEB Expense

	ASE	OAL
Service cost	\$ 53,375,813	\$ 106,141
Interest	45,741,577	90,959
Effect of plan changes	0	0
Recognition of deferred inflows/outflows of resources:		
Recognition of economic/demographic gains or losses	(48,275,666)	(95,999)
Recognition of assumption changes or inputs	(65,085,948)	(129,426)
OPEB expense	(14,244,224)	(28,325)
Benefit payments	(55,325,587)	(110,018)
	(69,569,811)	(138,343)
Due to change in proportion	0	76,106
Total OPEB expense	\$ (69,569,811)	\$ (62,237)

17. CONTRACTUAL ARRANGEMENTS AND OTHER COMMITMENTS

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

INTRALOT operates the gaming network that consists of approximately 2,302 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 then current contract date of August 14, 2019. The current contract extension will expire on August 14, 2026. During the fiscal year ended June 30, 2023, INTRALOT was compensated at the rate of 2.11% on all instant and online sales. Total fees paid to INTRALOT and others for all gaming network and related services for the fiscal year ended June 30, 2023 were \$12,820,610.

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2023

SGL prints, warehouses, and distributes the instant game tickets to retailers. In accordance with its contract with the OAL, SGL receives the fee, set per the contract, on the selling price of all instant ticket settlements. During the fiscal year ended June 30, 2016 the OAL and SGL 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 SGL fees at 1.30% of instant ticket net sales up to \$360 million during a contract year. The contract year is from August 18, 2022 through August 17, 2023. Should the total net sales of instant tickets exceed \$360 million in a contract year, SGL will receive a bonus payment in an amount equivalent to 4.5% of all incremental sales exceeding \$360 million. Instant ticket sales during the fiscal year ended June 30, 2023 did exceed \$360 million during the contract year. During the fiscal year ended June 30, 2023, SGL was compensated \$13,536,810, which represents a rate of 2.84% of instant ticket sales for these services. SGL 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, SGL provides other products and services for which the OAL pays various contracted fees. During the fiscal year ended June 30, 2023 these other SGL fees totaled \$5,393,731 or 1.13 % of instant ticket sales. Total fees paid to SGL for all services for the fiscal year ended June 30, 2023 were \$18,930,541.

The OAL also has a contract with Camelot Global Services (CGS) to provide consultancy services for a period of time not to exceed one year. This contract was effective July 1, 2022 and expired on July 30, 2023. The agreement could be terminated, without penalty by either party with thirty (30) days written notice. The OAL and CGS agreed upon the pricing that CGS was paid as base compensation not to exceed \$500,000 per annum, paid monthly. Any reduction in days used will result in a reduced cost at \$1,000 per day up to the allocated 500 days. The base compensation was paid in monthly payments of \$41,666. The CGS contract also specifies an incentive compensation structure for services performed up to \$1,000,000 for the period of July 1, 2022 to June 30, 2023 as follows:

- a. CGS shall receive 5% of total operating income before transfers that exceeds \$90,000,000.
- b. CGS shall receive a \$500,000 achievement bonus if combined sales of Natural State Jackpot and Lotto equate to \$18,200,000 in fiscal year 2023. If the launch of Lotto extends beyond week 14 of fiscal year 2023, this target reduces by \$312,820 per week. Net sales shall be GAAP-based, which shall exclude any free tickets offered as a promotion.

For the fiscal year ended June 30, 2023 the OAL paid or accrued total incentive compensation to CGS of \$1,000,000 and total compensation of \$1,500,000. The maximum total compensation available to CGS under this agreement shall not exceed \$1,500,000.

Cranford Johnson Robinson Woods (CJRW) provides the OAL with services for advertising, marketing, and public relations services. The initial term of the agreement between the OAL and CJRW was for a period of five (5) years, from February 16, 2017, through February 15, 2022, with the option of renewal up to two (2) additional one (1) year increments or a portion thereof. In May of 2022, OAL and CJRW entered into a third contract for a period of July 1, 2022 to June 30, 2023, a final extension of the original contract between the parties. All provisions of the original contract, first amendment, and second amendment were to remain in full force in effect provided that such provisions were consistent with the provisions of the third amendment. Total fees paid to CJRW for all services for the fiscal year ended June 30, 2023 were \$6,844,183.

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Notes to Financial Statements
June 30, 2023

18. CONTINGENCIES

At June 30, 2023 there were no pending lawsuits or claims to which the OAL is a party.

19. RISK MANAGEMENT

The OAL is exposed to various types of risk related to its operations. These risks can result in losses incurred from property damage or destruction, business interruption such as inability to operate gaming activities and worker compensation claims. The OAL manages these risks by participating in the various self-insurance programs established by the State for property and casualty losses and employee health insurance. Coverages include property, general liability, automobile liability, workers' compensation, state unemployment, court-awarded attorney fees, and Federal civil rights actions. Property is self-insured for actual cash value to an aggregate of \$1.95 million per loss event for all perils. Losses from earthquake and flood are also subject to an annual aggregate loss for the State of up to \$200 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.

The OAL also has an annual crime policy. The effective date of coverage for the 2022-2023 plan year is September 18, 2022 through September 18, 2023. Coverages include employee theft, forgery or alteration, computer fraud, and funds transfer fraud and has a limit of liability of \$2,000,000.

Claims and settlements incurred for fiscal years ended June 30, 2023, 2022, and 2021 did not exceed the OAL's insurance coverage.

20. SUBSEQUENT EVENTS

In accordance with GASB 56, the OAL's Management has evaluated subsequent events that occurred after June 30, 2023, but prior to December 13, 2023, the date the financial statements were available to be issued. Such evaluation subsequently identified the following transactions:

On August 9, 2023, ADHE refunded \$5,775,854 to the OAL for the fiscal year ended June 30, 2023. This amount was due to a refund of excess requested Lottery scholarship trust funds over scholarships issued.

On September 15, 2023, the OAL made a payment of \$5,356,059 to Scientific Games Inc. (SGI), its exclusive ticket vendor, for the annual bonus payment for sales exceeding \$360,000,000 during the contract year period from August 18, 2022 through August 17, 2023. Of this payment, \$4,659,039 had been accrued at June 30, 2023, based on sales from August 18, 2022 to June 30, 2023. Per the amended contract with SGI, instant game sales totaled \$479,023,533 for the period from August 18, 2022 through the end of the contract year on August 17, 2023. Accordingly, the sales exceeded the bonus calculation base by \$119,023,533, resulting in the bonus amount of \$5,356,059.

On September 28, 2023 a payment of \$30,750,000 was made from the Scholarship trust account to ADHE. \$30,000,000 of the amount was for the Academic Challenge Scholarship funding for the fall 2023 semester, and \$750,000 was for the Workforce Challenge Scholarship program for 2023-2024 Academic Year.



Arkansas
Scholarship Lottery



REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
OAL proportion of the total pension liability (asset)	0.19%	0.19%	0.19%	0.19%
OAL proportionate share of the total pension liability (asset)	\$ 4,990,011	\$ 1,476,746	\$ 5,317,319	\$ 4,646,795
OAL covered payroll (2)	\$ 3,888,718	\$ 3,708,982	\$ 3,660,163	\$ 3,678,231
OAL proportionate share of the total pension liability (asset) as a percentage of its covered payroll	128.32%	39.82%	145.28%	126.33%
Plan fiduciary net position as a percentage of the total pension liability	78.31%	93.57%	75.38%	78.55%

Note - 1) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the ALC and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration. 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.

2) Since the pension asset and liability are based on last year's actuarial study, the OAL covered payroll is using last year's amount

Source: State of Arkansas ACFR and OAL Finance Division

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

<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
0.19%	0.20%	0.20%	0.23%	0.24%	N/A
\$ 4,301,376	\$ 5,110,275	\$ 4,732,352	\$ 4,415,000	\$ 3,408,000	
\$ 3,651,448	\$ 3,564,158	\$ 3,649,566	\$ 3,992,710	4,244,368	
117.80%	143.38%	129.67%	110.58%	80.29%	
79.59%	76.65%	75.50%	80.39%	84.15%	

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Statutorily determined contribution	\$ 622,550	\$ 595,752	\$ 568,216	\$ 560,737
Contributions in relation to the statutorily determined contribution	622,550	595,752	568,216	560,737
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 4,063,642	\$ 3,888,718	\$ 3,708,982	\$ 3,660,163
Contributions as a percentage of covered payroll	15.32%	15.32%	15.32%	15.32%

Note - 1) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the ALC and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.
N/A - The OAL implemented GASB Statement 68 in fiscal year 2015.

Source: State of Arkansas ACFR and OAL Finance Division

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

<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 563,505	\$ 538,589	\$ 516,803	\$ 529,187	\$ 589,324	\$ 631,562
563,505	538,589	516,803	529,187	589,324	631,562
<u>\$ -</u>					
\$ 3,678,231	\$ 3,651,448	\$ 3,564,158	\$ 3,649,566	\$ 3,992,710	\$ 4,244,368
15.32%	14.75%	14.50%	14.50%	14.76%	14.88%

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Other Post Employment Benefits
Schedule of Changes in Total OPEB Liability
Last Ten Fiscal Years**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017-2014</u>
Service cost	\$ 106,141	\$ 229,449	\$ 220,097	\$ 124,540	\$ 115,489	\$ 122,032	N/A
Interest	90,959	101,704	99,690	121,545	135,469	127,429	
Changes of benefit terms	-	(1,167,287)	-	-	-	-	
Difference between expected and actual experience	45,894	(378,912)	13,126	(117,328)	22,506	(23,182)	
Changes in assumptions or other inputs	(186,393)	(1,013,937)	(189,458)	1,182,650	(357,709)	(160,833)	
Changes in proportion	282,311	(35,728)	30,438	-	-	-	
Benefit payments	(110,018)	(116,482)	(98,807)	(94,599)	(104,567)	(100,606)	
Net Change in Total OPEB Liability	<u>\$ 228,894</u>	<u>\$(2,381,193)</u>	<u>\$ 75,086</u>	<u>\$1,216,808</u>	<u>\$ (188,812)</u>	<u>\$ (35,160)</u>	
Total OPEB liability beginning	\$2,235,556	\$ 4,616,749	\$4,541,662	\$3,324,854	\$3,513,666	\$3,548,826	
Total OPEB liability ending	\$2,464,450	\$ 2,235,556	\$4,616,749	\$4,541,662	\$3,324,854	\$3,513,666	
Covered-employee payroll	\$3,328,765	\$ 2,717,703	\$2,410,720	\$2,155,335	\$1,906,339	\$1,741,853	
Total as a percentage of covered payroll	74.03%	82.26%	191.51%	210.72%	174.41%	201.72%	

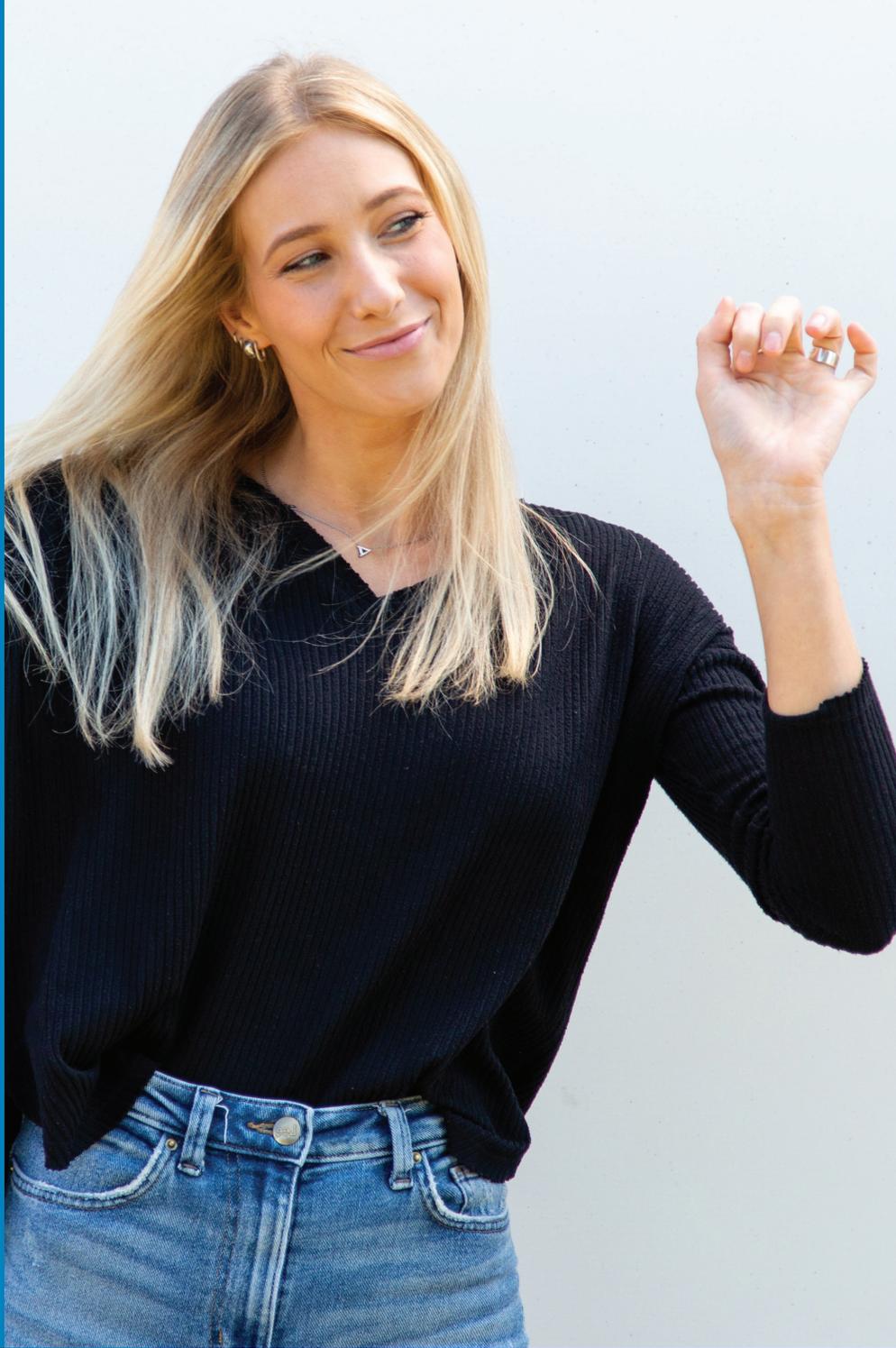
Notes 1) There are no assets accumulated in a trust to pay related benefits for the OPEB plan.

2) The State implemented GASB Statement 75 in fiscal year 2018. Information for the schedule was not available prior to this fiscal year.

Source: State of Arkansas DFA ACFR group and FY2023 Actuarial Valuation Report

STATISTICAL SECTION





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

The Arkansas Department of Finance and Administration Office of the Arkansas Lottery Annual Comprehensive 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	48
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	56
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	60
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 Ten Fiscal Years

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues:				
Instant ticket sales:				
Instant games sales	\$ 476,578,850	\$ 480,101,229	\$ 529,369,617	\$ 452,281,204
Online ticket sales:				
Powerball®	39,097,190	31,021,045	26,748,835	20,530,932
Mega Millions®	32,331,680	15,488,984	23,809,304	16,863,474
Fast Play	17,874,449	18,681,356	19,717,873	16,662,501
Natural State Jackpot	7,478,765	9,262,233	10,332,159	8,027,906
Cash 3	12,330,957	12,294,808	12,016,776	9,060,396
Cash 4	6,655,536	6,474,253	6,548,725	5,045,304
Decades of Dollars	-	-	-	-
AR Million Dollar Raffle	-	-	-	-
Arkansas 50/50 Raffle	-	-	-	-
Lucky for Life®	7,052,780	6,240,794	3,391,638	2,971,144
LOTTO	8,160,918	-	-	-
Monopoly™ Millionaires' Club	-	-	-	-
Total online ticket sales	<u>130,982,275</u>	<u>99,463,473</u>	<u>102,565,310</u>	<u>79,161,657</u>
Retailer application, fidelity, bond & service fees	661,871	669,288	643,517	489,153
Other revenue	<u>6,195</u>	<u>1,788</u>	<u>1,450</u>	<u>69,221</u>
Total operating revenues	<u>608,229,191</u>	<u>580,235,778</u>	<u>632,579,894</u>	<u>532,001,235</u>
Non-operating revenue:				
Interest income	2,482,459	726,328	835,596	2,123,634
Other non-operating income	<u>(16,207)</u>	<u>(16,691)</u>	<u>-</u>	<u>-</u>
Total non-operating revenue	<u>2,466,252</u>	<u>709,637</u>	<u>835,596</u>	<u>2,123,634</u>
Total revenues	<u>\$ 610,695,443</u>	<u>\$ 580,945,415</u>	<u>\$ 633,415,490</u>	<u>\$ 534,124,869</u>

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

Source: OAL Annual Comprehensive Financial Report for fiscal years 2023, 2022, 2021
OAL Comprehensive Annual Financial Report for fiscal years 2020, 2019, 2018, 2017, 2016, 2015
ALC Comprehensive Annual Financial Report for fiscal year 2014

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

<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 407,825,514	\$ 407,604,791	\$ 368,454,561	\$ 360,007,743	\$ 335,000,613	\$ 322,415,276
34,162,016	36,745,344	32,755,119	48,073,339	27,099,705	35,042,460
33,552,661	19,598,073	14,313,090	14,632,244	15,158,385	19,847,674
15,329,643	12,731,621	12,313,567	10,993,360	10,770,484	10,126,554
9,303,843	7,918,644	7,047,543	7,567,005	7,035,843	8,863,034
7,677,432	7,736,793	7,128,685	7,184,616	6,712,769	6,255,740
4,430,762	4,516,508	4,238,553	3,823,987	3,832,385	3,606,991
-	-	-	-	612,932	2,345,532
-	-	-	-	-	1,426,490
-	-	-	-	38,210	143,375
3,211,636	2,856,202	2,889,910	3,317,108	2,013,064	-
-	-	-	-	-	-
-	-	-	-	388,990	-
<u>107,667,993</u>	<u>92,103,185</u>	<u>80,686,467</u>	<u>95,591,659</u>	<u>73,662,767</u>	<u>87,657,850</u>
728,897	776,503	769,959	717,150	550,952	554,292
14,439	5,849	5,749	9,259	20,346	10,550
<u>516,236,843</u>	<u>500,490,328</u>	<u>449,916,736</u>	<u>456,325,811</u>	<u>409,234,678</u>	<u>410,637,968</u>
2,569,816	1,269,083	489,046	232,275	224,546	252,614
-	-	-	1,875	-	461,047
<u>2,569,816</u>	<u>1,269,083</u>	<u>489,046</u>	<u>234,150</u>	<u>224,546</u>	<u>713,661</u>
<u>\$ 518,806,659</u>	<u>\$ 501,759,411</u>	<u>\$ 450,405,782</u>	<u>\$ 456,559,961</u>	<u>\$ 409,459,224</u>	<u>\$ 411,351,629</u>

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues:				
Instant ticket sales	\$ 476,578,850	\$ 480,101,229	\$ 529,369,617	\$ 452,281,204
Online ticket sales	130,982,275	99,463,473	102,565,310	79,161,657
Retailer application, fidelity, bond & service fees	661,871	669,288	643,517	489,153
Other revenue	6,195	1,788	1,450	69,221
Total operating revenues	<u>608,229,191</u>	<u>580,235,778</u>	<u>632,579,894</u>	<u>532,001,235</u>
Operating expenses:				
Instant game prizes	346,188,839	347,682,702	383,337,055	325,816,713
Online game prizes	70,731,337	54,723,364	56,809,420	43,791,459
Retailer commissions	34,300,134	32,801,115	35,732,276	30,108,024
Gaming contract costs	31,867,750	29,745,565	34,080,392	26,360,780
Compensation and benefits	5,150,818	3,276,934	5,525,220	5,400,746
Marketing, advertising and promotions	7,146,036	6,542,802	7,229,142	7,801,436
General and administrative expenses	2,762,721	2,612,894	5,874,746	3,847,612
Services provided by other agencies:				
Arkansas Department of Education - Division of Higher Education	1,143,690	1,723,995	530,853	500,335
Arkansas Legislative Audit	158,550	163,850	155,070	128,160
Amortization	271,832	226,527	-	-
Depreciation	427,831	430,784	448,620	409,285
Total operating expenses	<u>500,149,538</u>	<u>479,930,532</u>	<u>529,722,794</u>	<u>444,164,550</u>
Operating income	108,079,653	100,305,246	102,857,100	87,836,685
Non-operating revenue:				
Interest income	2,482,459	726,328	835,596	2,123,634
Interest expense	(16,207)	(16,691)	-	-
Other non-operating income	-	-	-	-
Total non-operating revenue	<u>2,466,252</u>	<u>709,637</u>	<u>835,596</u>	<u>2,123,634</u>
Income before transfers	110,545,905	101,014,883	103,692,696	89,960,319
Transfers to:				
Education Trust Account	-	-	(68,000,000)	(73,000,000)
Workforce Challenge Trust Account	-	-	(38,417,224)	(16,265,394)
Lottery Scholarship Trust Account	(113,091,392)	(99,386,657)	-	-
Arkansas Department of Human Services	-	-	-	-
Total transfers	<u>(113,091,392)</u>	<u>(99,386,657)</u>	<u>(106,417,224)</u>	<u>(89,265,394)</u>
Change in net position	<u>\$ (2,545,487)</u>	<u>\$ 1,628,226</u>	<u>\$ (2,724,528)</u>	<u>\$ 694,925</u>

Note: 1) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the ALC and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

2) During the 91st General Assembly, Act 613 of 2017 was enacted which created the Arkansas Workforce Challenge Scholarship which provides for the use of 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.

3) During the 93rd General Assembly, Act 636 of 2021 established the Lottery Scholarship Trust Account to fund the Arkansas Academic Challenge Scholarship Program, the Arkansas Workforce Challenge Scholarship Program and any other scholarship funded with net proceeds from the state lottery.

Source: OAL Annual Comprehensive Financial Report for fiscal years 2023, 2022, 2021

OAL Comprehensive Annual Financial Report for fiscal years 2020, 2019, 2018, 2017, 2016, 2015

ALC Comprehensive Annual Financial Report for fiscal year 2014

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

<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 407,825,514	\$ 407,604,791	\$ 368,454,561	\$ 360,007,743	\$ 335,000,613	\$ 322,415,276
107,667,993	92,103,185	80,686,467	95,591,659	73,662,767	87,657,850
728,897	776,503	769,959	717,150	550,952	554,292
14,439	5,849	5,749	9,259	20,346	10,550
<u>516,236,843</u>	<u>500,490,328</u>	<u>449,916,736</u>	<u>456,325,811</u>	<u>409,234,678</u>	<u>410,637,968</u>
293,635,992	292,489,286	263,190,873	258,461,952	241,758,220	229,462,196
56,240,230	49,406,134	43,238,515	50,485,363	38,708,574	45,487,903
29,062,835	28,196,969	25,315,020	25,704,177	23,253,196	23,046,410
23,691,567	21,967,841	19,090,227	19,384,187	20,622,707	20,511,439
4,829,725	5,092,375	5,024,854	5,232,605	5,382,544	5,990,541
7,251,773	6,477,277	5,861,130	4,798,502	5,032,317	4,472,456
5,622,715	4,949,440	3,801,799	3,383,068	1,286,531	1,421,328
427,384	454,932	441,317	396,995	538,487	751,556
131,880	144,000	139,760	143,360	129,960	139,080
-	-	-	-	-	-
123,426	104,011	96,917	95,063	158,363	188,270
<u>421,017,527</u>	<u>409,282,265</u>	<u>366,200,412</u>	<u>368,085,272</u>	<u>336,870,899</u>	<u>331,471,179</u>
95,219,316	91,208,063	83,716,324	88,240,539	72,363,779	79,166,789
2,569,816	1,269,083	489,046	232,275	224,546	252,614
-	-	-	-	-	-
-	-	-	1,875	-	461,047
<u>2,569,816</u>	<u>1,269,083</u>	<u>489,046</u>	<u>234,150</u>	<u>224,546</u>	<u>713,661</u>
97,789,132	92,477,146	84,205,370	88,474,689	72,588,325	79,880,450
(75,000,000)	(83,500,000)	(71,000,000)	(85,274,927)	(72,619,369)	(81,488,844)
(23,639,040)	(8,344,929)	(14,157,060)	-	-	-
-	-	-	-	-	-
-	-	-	-	(200,000)	(200,000)
<u>(98,639,040)</u>	<u>(91,844,929)</u>	<u>(85,157,060)</u>	<u>(85,274,927)</u>	<u>(72,819,369)</u>	<u>(81,688,844)</u>
<u>\$ (849,908)</u>	<u>\$ 632,217</u>	<u>\$ (951,690)</u>	<u>\$ 3,199,762</u>	<u>\$ (231,044)</u>	<u>\$ (1,808,394)</u>

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020 (4)</u>
Net position:				
Net investment in capital assets	\$ 789,641	\$ 1,212,452	\$ 1,394,688	\$ 1,782,439
Restricted for:				
Scholarship shortfall reserve	20,000,000	20,000,000	20,000,000	20,000,000
Retailer fidelity reserve	-	-	-	-
Retailer bond reserve	500,000	500,000	500,000	500,000
Deposits with Multi-State				
Lottery Association	2,080,890	2,034,648	2,130,976	2,515,353
Unclaimed prizes reserve	1,000,000	1,000,000	1,000,000	1,000,000
Unrestricted (deficit)	<u>(17,080,528)</u>	<u>(14,911,610)</u>	<u>(16,818,400)</u>	<u>(14,866,000)</u>
 Total net position (deficit)	 <u>\$ 7,290,003</u>	 <u>\$ 9,835,490</u>	 <u>\$ 8,207,264</u>	 <u>\$ 10,931,792</u>

Note: 1) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the ALC and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

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

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

4) During the 92nd General Assembly, Act 683 of 2019 was enacted which established a separate account for Bond Fees and repealed the establishment of a separate Fidelity Fund. Effective for fiscal year 2020, Fidelity Funds were transferred into the Bond Fund.

Source: OAL Annual Comprehensive Financial Report for fiscal years 2023, 2022, 2021

OAL Comprehensive Annual Financial Report for fiscal years 2020, 2019, 2018, 2017, 2016, 2015

ALC Comprehensive Annual Financial Report for fiscal year 2014

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

<u>2019</u>	<u>2018</u>	<u>2017 (3)</u>	<u>2016</u>	<u>2015</u>	<u>2014 (2)</u>
\$ 1,249,343	\$ 345,095	\$ 384,288	\$ 376,417	\$ 223,178	\$ 246,113
20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
207,608	182,514	158,355	136,900	113,582	91,133
709,671	583,166	373,312	163,872	-	-
2,579,250	2,165,572	1,948,071	1,847,611	1,762,386	1,794,079
1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
<u>(15,509,005)</u>	<u>(13,189,572)</u>	<u>(13,409,468)</u>	<u>(10,752,564)</u>	<u>(13,526,672)</u>	<u>(13,327,807)</u>
<u>\$ 10,236,867</u>	<u>\$ 11,086,775</u>	<u>\$ 10,454,558</u>	<u>\$ 12,772,236</u>	<u>\$ 9,572,474</u>	<u>\$ 9,803,518</u>

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:				
Cash received from retailers and others	\$ 607,194,823	\$ 584,515,863	\$ 631,663,508	\$ 527,425,949
Cash paid for prizes	(413,150,674)	(404,312,420)	(437,271,456)	(368,268,399)
Cash paid for gaming vendors	(29,643,203)	(31,958,022)	(31,520,711)	(24,165,209)
Cash paid for retailer commissions	(34,300,134)	(32,801,115)	(35,732,276)	(30,108,024)
Cash paid for marketing and advertising	(7,188,838)	(6,492,380)	(7,528,145)	(7,923,598)
Cash paid for employee services	(5,644,455)	(5,104,227)	(4,798,539)	(4,986,502)
Cash paid for other expenses	(4,861,496)	(4,471,029)	(6,628,343)	(4,193,322)
Cash received from other non-operating income	-	-	-	-
Net cash provided (used) by operating activities	<u>112,406,023</u>	<u>99,376,670</u>	<u>108,184,038</u>	<u>87,780,895</u>
Cash flows from non-capital financing activities:				
Transfers to Arkansas Department of Education - Division of Higher Education	(62,400,000)	(74,750,000)	(70,900,000)	(74,000,000)
Transfers from Arkansas Department of Education - Division of Higher Education	15,927,228	-	4,466,023	3,904,288
Transfers to Arkansas Department of Human Services	-	-	-	-
Net cash provided (used) by non-capital financing activities	<u>(46,472,772)</u>	<u>(74,750,000)</u>	<u>(66,433,977)</u>	<u>(70,095,712)</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(6,053)	-	(60,869)	(942,381)
Loss on disposal of fixed assets	-	-	-	-
Net cash flows from capital and related financing activities	<u>(6,053)</u>	<u>-</u>	<u>(60,869)</u>	<u>(942,381)</u>
Cash flows from investing activities:				
Interest received	<u>2,482,459</u>	<u>726,329</u>	<u>835,596</u>	<u>2,123,634</u>
Net increase in cash and cash equivalents	<u>68,409,657</u>	<u>25,352,999</u>	<u>42,524,788</u>	<u>18,866,436</u>
Cash and cash equivalents, beginning	<u>205,557,491</u>	<u>180,204,492</u>	<u>137,679,704</u>	<u>118,813,268</u>
Cash and cash equivalents, ending	<u>\$ 273,967,148</u>	<u>\$ 205,557,491</u>	<u>\$ 180,204,492</u>	<u>\$ 137,679,704</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 108,079,653	\$ 100,305,246	\$ 102,857,100	\$ 87,836,685
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	427,831	430,784	448,620	409,285
Amortization	271,832	226,526	-	-
Pension Earnings	(191,571)	(764,253)	236,441	213,549
Other post employment benefits expense	(62,237)	(1,158,914)	300,428	260,169
Lease expense	(276,427)	(230,355)	-	-
Other non-operating income	-	-	-	-
Net changes in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(1,068,860)	4,189,932	(855,829)	(4,587,967)
Receivable from other Funds of the State	944	(869)	-	(55)
Prepaid items	(3,464)	(33,933)	(83,728)	(15,468)
Deposits with Multit-State Lottery Association	(46,242)	96,328	384,377	63,897
Increase (decrease) in liabilities:				
Accounts payable	(12,787)	15,140	(914,625)	356,091
Prizes payable	3,815,745	(2,002,682)	2,490,641	1,275,877
Accrued and other liabilities	2,043,724	(3,020,760)	3,370,119	1,824,167
Due to other funds of the State	(568,985)	1,194,891	32,952	64,388
Compensated absences	(36,681)	38,568	(21,903)	67,542
Unearned revenue	33,548	91,021	(60,555)	12,735
Net other post employment benefits	-	-	-	-
Net cash provided (used) by operating activities	<u>\$ 112,406,023</u>	<u>\$ 99,376,670</u>	<u>\$ 108,184,038</u>	<u>\$ 87,780,895</u>

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

Source: OAL Annual Comprehensive Financial Report for fiscal years 2023, 2022, 2021
OAL Comprehensive Annual Financial Report for fiscal years 2020, 2019, 2018, 2017, 2016, 2015
ALC Comprehensive Annual Financial Report for fiscal year 2014

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

2019	2018	2017	2016	2015	2014
\$ 515,478,097	\$ 500,126,133	\$ 448,872,673	\$ 457,634,809	\$ 407,714,967	\$ 410,690,974
(347,546,374)	(342,721,524)	(305,141,493)	(310,865,471)	(279,650,934)	(275,024,448)
(23,731,011)	(21,710,991)	(19,154,160)	(19,540,446)	(20,638,704)	(20,308,816)
(29,062,835)	(28,196,969)	(25,400,020)	(25,742,753)	(23,253,196)	(23,046,410)
(6,593,736)	(6,861,300)	(5,492,302)	(5,413,835)	(4,772,451)	(4,319,538)
(4,859,829)	(4,783,897)	(4,749,058)	(4,834,544)	(5,432,980)	(5,725,930)
(5,939,380)	(5,526,375)	(5,645,415)	(2,412,905)	(2,139,793)	(2,402,273)
-	-	-	1,875	-	461,047
<u>97,744,932</u>	<u>90,325,077</u>	<u>83,290,225</u>	<u>88,826,730</u>	<u>71,826,909</u>	<u>80,324,606</u>
(76,000,000)	(83,500,000)	(71,000,000)	(77,000,000)	(80,000,000)	(95,000,000)
11,710,439	4,887,237	542,198	286,177	2,319,469	2,138,092
-	-	-	-	(200,000)	(200,000)
<u>(64,289,561)</u>	<u>(78,612,763)</u>	<u>(70,457,802)</u>	<u>(76,713,823)</u>	<u>(77,880,531)</u>	<u>(93,061,908)</u>
(1,056,195)	(36,296)	(104,787)	(248,302)	(138,605)	(76,011)
-	-	-	-	3,177	-
<u>(1,056,195)</u>	<u>(36,296)</u>	<u>(104,787)</u>	<u>(248,302)</u>	<u>(135,428)</u>	<u>(76,011)</u>
2,569,816	1,269,083	489,046	232,275	224,546	252,614
34,968,992	12,945,101	13,216,682	12,096,880	(5,964,504)	(12,560,699)
<u>83,844,276</u>	<u>70,899,175</u>	<u>57,682,493</u>	<u>45,585,613</u>	<u>51,550,117</u>	<u>64,110,816</u>
<u>\$ 118,813,268</u>	<u>\$ 83,844,276</u>	<u>\$ 70,899,175</u>	<u>\$ 57,682,493</u>	<u>\$ 45,585,613</u>	<u>\$ 51,550,117</u>
\$ 95,219,316	\$ 91,208,063	\$ 83,716,324	\$ 88,240,539	\$ 72,363,779	\$ 79,166,789
123,426	104,011	96,917	95,063	158,363	188,270
-	-	-	-	-	-
(64,654)	186,455	11,108	(90,790)	(201,028)	-
42,587	112,052	-	-	-	-
-	-	-	-	-	-
-	-	-	1,875	-	461,047
(785,562)	(280,305)	(929,311)	1,166,802	(1,493,924)	33,527
97	(117)	3,579	(3,576)	-	7,020
201,182	(36,830)	(156,757)	(9,191)	59,650	(51,876)
(413,677)	(217,501)	(100,460)	(85,225)	31,693	(20,459)
521,412	(84,155)	118,383	(481,522)	(609,762)	871,837
2,743,525	(608,602)	1,388,353	(1,832,930)	784,166	(53,889)
168,340	2,212	(973,880)	1,261,440	864,662	(481,765)
(46,969)	20,579	(4,626)	(66,992)	(248,295)	(123,695)
9,189	2,990	33,716	16,613	(38,879)	5,449
26,720	(83,775)	(114,751)	142,196	(25,787)	19,479
-	-	201,630	472,428	182,271	302,872
<u>\$ 97,744,932</u>	<u>\$ 90,325,077</u>	<u>\$ 83,290,225</u>	<u>\$ 88,826,730</u>	<u>\$ 71,826,909</u>	<u>\$ 80,324,606</u>

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

<u>Calendar year</u>	<u>Total population (in thousands)</u>	<u>Total personal income (in millions)</u>	<u>Per capita personal income</u>	<u>Unemployment rate</u>
2023	3,058	\$ 165,326	\$ 54,071	3.0%
2022	3,036	\$ 153,107	\$ 50,435	3.4%
2021	3,036	\$ 148,825	\$ 49,023	5.2%
2020	3,023 *	\$ 142,192	\$ 47,037	5.1%
2019	3,021 *	\$ 130,457	\$ 43,183	3.7%
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 (1)	2,976 *	\$ 116,249	\$ 39,062	5.0%
2014	2,965 *	\$ 112,619	\$ 37,983	6.0%

* Estimated Amounts

Note: 1) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the 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. 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)
Year 2023 as Compared to 2014**

2023	Employers	Total Employees	% of Total Arkansas Employment
1	Wal-Mart Stores, Inc.	55,074	4.3%
2	Arkansas State Government (2)	26,666	2.1%
3	U.S. Federal Government	21,273	1.7%
4	Tyson Foods, Inc.	15,253	1.2%
5	University of Arkansas for Medical Sciences (UAMS)	12,712	1.0%
6	University of Arkansas	7,457	0.6%
7	Baptist Health	6,793	0.5%
8	J.B. Hunt Transport Services, Inc.	6,113	0.5%
9	Mercy	5,696	0.4%
10	Amazon Services, Inc.	4,454	0.3%
		161,491	12.6%

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

Note: 1) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the ALC and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration

2) Effective for fiscal year 2020, Arkansas State Government does not include educational employees.

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

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

Function	2023	2022	2021	2020	2019
Executive	1	1	1	1	1
Human Resources	1	1	1	1	-
Legal Counsel	1	1	1	1	2
Internal Audit	1	1	1	3	3
Sales	23	23	21	23	23
Marketing	4	4	4	4	3
Security	6	6	5	4	5
Draw Managers	-	-	1	2	2
Licensing	4	4	3	4	4
Gaming	1	1	1	1	1
IT-Gaming	6	6	6	6	6
Product Development	3	3	3	3	3
Finance	1	1	1	1	1
Treasurer	3	3	3	3	2
Claims Center	3	3	3	3	3
Controller	2	2	2	2	2
Procurement	2	2	2	1	1
IT-Admin	2	2	2	1	1
Financial Analyst	1	1	1	1	1
Total Employees	65	65	62	65	64
Gender:					
Female	33	34	30	31	30
Male	32	31	32	34	34
Race:					
Black/Non-Hispanic	21	21	15	16	17
Caucasian	41	41	43	46	44
Hispanic	-	-	-	-	-
Other	3	3	4	3	3
Age:					
Under 40	17	17	17	18	14
40+	48	48	45	47	50

Note: 1) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the ALC and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration.

Source: OAL Human Resources

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

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015 (1)</u>	<u>2014</u>
1	1	1	1	1
-	-	-	-	2
2	2	1	2	2
3	2	3	3	2
24	24	23	22	23
3	4	4	4	7
4	4	6	6	6
2	2	2	2	2
4	4	4	3	3
1	1	1	1	1
6	6	6	6	6
3	3	3	3	3
1	1	1	1	1
3	3	3	3	3
3	3	3	3	9
2	2	2	2	5
1	1	1	1	2
2	2	1	2	3
1	1	-	-	-
<u>66</u>	<u>66</u>	<u>65</u>	<u>65</u>	<u>81</u>
30	30	30	28	40
36	36	35	37	41
14	16	16	15	19
49	45	43	43	53
-	2	2	2	3
3	3	4	5	6
20	19	20	21	29
46	47	45	44	52

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
U.S. Lotteries' Sales (Unaudited)
Fiscal year 2023 (1)

Lottery Jurisdiction	Population (in millions)	Sales (in millions)	Sales Per Capita	Instant Sales (in millions)	Instant Sales Per Capita
Arizona	7.4	\$ 1,516.7	\$ 206	\$ 1,063.0	\$ 144
Arkansas	3.0	607.6	200	476.6	159
California	39.0	9,250.4	237	6,585.5	169
Colorado	5.8	889.8	152	596.7	103
Connecticut	3.6	1,451.2	400	754.9	210
District of Columbia (1)	0.7	197.3	294	42.1	60
Delaware	1.0	254.7	250	117.2	117
Florida	22.2	9,801.8	441	7,043.9	317
Georgia	10.9	6,136.9	562	3,694.1	339
Idaho	1.9	422.6	218	239.8	126
Illinois	12.6	3,609.6	287	2,042.5	162
Indiana	6.8	1,746.3	256	1,306.7	192
Iowa	3.2	481.5	150	293.6	92
Kansas	2.9	351.3	120	216.9	75
Kentucky	4.5	1,499.8	332	943.5	210
Louisiana	4.6	652.4	142	319.3	69
Maine	1.4	410.3	296	317.9	227
Maryland	6.2	2,764.4	448	1,063.1	171
Massachusetts	7.0	6,111.5	875	4,043.6	578
Michigan (1)	10.0	4,864.0	485	2,324.4	232
Minnesota	5.7	787.2	138	545.7	96
Mississippi	2.9	467.7	159	311.5	107
Missouri	6.2	1,644.5	266	1,159.7	187
Montana	1.1	87.6	78	26.6	24
Nebraska	2.0	220.2	112	116.6	58
New Hampshire	1.4	548.0	393	320.2	229
New Jersey	9.3	3,899.0	421	2,169.9	233
New Mexico	2.1	168.5	80	88.0	42
New York (1)	19.7	8,292.3	421	4,406.3	224
North Carolina	10.7	4,342.7	406	2,979.9	278
North Dakota (2)	0.8	39.3	50	-	-
Ohio	11.8	4,463.7	380	2,338.9	198
Oklahoma	4.0	379.8	95	248.9	62
Oregon	4.2	440.6	104	158.0	38
Pennsylvania	13.0	5,136.0	396	3,348.6	258
Rhode Island	1.1	316.3	289	124.3	113
South Carolina	5.3	2,402.7	455	1,628.6	307
South Dakota	0.9	85.2	94	48.2	54
Texas (1)	30.0	8,725.7	291	6,729.3	224
Vermont	0.6	161.5	250	116.1	194
Virginia	8.7	2,774.1	319	1,281.7	147
Washington	7.8	1,003.5	129	669.0	86
West Virginia	1.8	265.2	149	171.9	96
Wisconsin	5.9	981.7	167	653.0	111
Wyoming (2)	0.6	44.3	76	-	-
Total	312.3	\$ 100,697.4	\$ 322	\$ 63,126.2	\$ 202

Note: 1) Fiscal years end June 30 except New York (March 31), Texas (August 31) and District of Columbia and Michigan (September 30)

2) North Dakota and Wyoming do not have instant ticket sales.

Source: *La Fluer's* Magazine - September/October 2023

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
U.S. Lotteries' Sales (Unaudited)
Fiscal year 2022 (1)

Lottery Jurisdiction	Population (in millions)	Sales (in millions)	Sales Per Capita	Instant Sales (in millions)	Instant Sales Per Capita
Arizona	7.3	\$ 1,368.4	\$ 188	\$ 1,043.2	\$ 143
Arkansas	3.0	579.6	192	480.1	160
California	39.2	8,865.8	226	6,842.6	175
Colorado	5.8	826.9	142	590.3	102
Connecticut	3.6	1,452.1	403	801.3	223
District of Columbia (1)	0.7	205.5	307	45.9	66
Delaware	1.0	230.7	230	110.9	111
Florida	21.8	9,324.6	428	7,025.3	322
Georgia	10.8	5,793.9	536	3,742.9	347
Idaho	1.9	378.8	199	224.7	118
Illinois	12.7	3,396.3	268	2,156.9	170
Indiana	6.8	1,703.1	250	1,343.1	198
Iowa	3.2	432.7	136	293.1	92
Kansas	2.9	326.1	111	220.3	76
Kentucky	4.5	1,480.4	328	963.5	214
Louisiana	4.6	582.9	126	292.8	64
Maine	1.4	385.8	281	311.0	222
Maryland	6.2	2,649.6	430	1,009.5	163
Massachusetts	7.0	5,834.9	835	3,898.7	557
Michigan (1)	10.1	4,882.4	486	2,364.3	234
Minnesota	5.7	740.2	130	561.6	99
Mississippi	3.0	436.4	148	343.7	115
Missouri	6.2	1,623.3	263	1,196.7	193
Montana	1.1	71.9	65	26.6	24
Nebraska	2.0	202.5	103	117.5	59
New Hampshire	1.4	504.4	363	314.0	224
New Jersey	9.3	3,778.3	408	2,201.1	237
New Mexico	2.1	136.9	65	80.1	38
New York (1)	19.8	8,178.1	412	4,517.7	228
North Carolina	10.6	3,887.1	368	2,649.7	250
North Dakota (2)	0.8	29.2	38	-	-
Ohio	11.8	4,291.2	364	2,287.8	194
Oklahoma	4.0	350.3	88	263.5	66
Oregon	4.2	397.1	94	163.4	39
Pennsylvania	13.0	5,131.2	396	3,513.4	270
Rhode Island	1.1	295.6	270	130.6	119
South Carolina	5.2	2,253.6	434	1,599.0	308
South Dakota	0.9	75.3	84	48.3	54
Texas (1)	29.5	8,296.9	281	6,727.3	228
Vermont	0.6	151.5	234	121.3	202
Virginia	8.6	2,618.1	303	1,325.1	154
Washington	7.7	907.7	117	665.2	86
West Virginia	1.8	242.8	136	168.8	94
Wisconsin	5.9	887.8	151	637.8	108
Wyoming (2)	0.6	25.6	44	-	-
Total	311.4	\$ 96,213.5	\$ 309	\$ 63,420.6	\$ 204

Note: 1) Fiscal years end June 30 except New York (March 31), Texas (August 31) and District of Columbia and Michigan (September 30).
2) North Dakota and Wyoming do not have instant ticket sales.

Source: *La Fluer's Magazine* - September/October 2022

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Demographic Summary (Unaudited)
Fiscal Year Ended June 30, 2023

Number of respondents =	Census	All Respondents
	3.0 Million	1,035
Male	49%	48%
Female	51%	52%
18-34	29%	28%
35-64	53%	50%
65 or older	18%	22%
Caucasian	77%	72%
African American	15%	14%
Hispanic	8%	7%
Other (includes multi-racial)	0%	7%
Some high school		6%
High school graduate or equivalency		29%
Some college		22%
Associate's degree or technical school certification		13%
Bachelor's degree		17%
Graduate or professional degree		13%
Employed part-time		14%
Employed full-time		37%
Retired		24%
Temporarily unemployed		8%
Disabled		9%
Full-time student		2%
Homemaker		6%
Less than \$25,000		33%
\$25,000 to just under \$50,000		29%
\$50,000 to just under \$100,000		23%
\$100,000 to just under \$150,000		9%
\$150,000 and over		6%
Presently married		48%
Widowed		9%
Divorced		16%
Separated		4%
Never Married		23%

Source: OAL Demographic Research Study April - June 2021, Consumer Insights Group
U.S. Census Bureau



**SUPPLEMENTARY
INFORMATION**



**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Unclaimed Lottery Prizes (Unaudited)
Fiscal Year Ended June 30, 2023**

<u>Month</u>	<u>Unclaimed lottery prizes</u>	<u>Expenditures from unclaimed lottery prizes</u>	<u>Increase (decrease) in unclaimed prize reserve</u>	<u>Deposits to net lottery proceeds from unclaimed lottery prizes</u>
July	\$ 286,582	\$ -	\$ 286,582	\$ -
August	1,527,863	-	1,527,863	-
September	817,396	-	817,396	-
October	116,641	-	116,641	-
November	1,473,147	-	1,473,147	-
December	1,481,434	-	1,481,434	-
January	379,546	-	379,546	-
February	988,418	-	988,418	-
March	104,796	-	104,796	-
April	1,225,652	-	1,225,652	-
May	461,052	-	461,052	-
June	1,141,476	-	(8,862,527)	10,004,003
Total	<u>\$ 10,004,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,004,003</u>

Source - OAL general ledger

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Scholarship Shortfall Reserve Trust Account (Unaudited)
Fiscal Year Ended June 30, 2023**

	<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 Finance and Administration
Office of the Arkansas Lottery
Minority and Female-owned Business Participation (Unaudited)
Fiscal Year Ended June 30, 2023**

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>
A-Absolute Moving & Hauling	\$ 498	Moving/Hauling	Certified Minority Business Enterprise
Arkansas Flag and Banner	9,575	Banners	Women Business Enterprise
Burris, Inc	32,350	Promotional Items	Certified Women Owned Business
Choice Promotion	66,591	Promotional Items	Minority Business Enterprise
Government Supply Services	2,302	Office Products	Certified Minority Business Enterprise
LaHarpe's Office Furniture	1,298	Office Furniture	Women Business Enterprise
Total	<u>\$ 112,614</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	\$ 516,853	Call Center/Information Svcs	Certified Minority Business Enterprise
Total	<u>\$ 516,853</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>
Pure Cleaning Services	\$ 13,489	Janitorial Svcs	Minority Business Enterprise
Ingage, LLC	930,082	Fulfillment Services and Prizes	Women Business Enterprise
Expedited Transportation Svcs	57,141	Transportation Svcs	Disadvantage Business Enterprise
Total	<u>\$ 1,000,712</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, 2023

County	Instant*	Powerball ® *	Mega Millions ® *	Fast Play*	Natural State	Cash 3*	Cash 4*	LOTTO	Lucky for	Total
					Jackpot*				Life ® *	
ARKANSAS	5,652,061.00	261,858.00	221,444.00	165,143.00	40,475.00	194,043.50	132,891.50	62,254.00	39,272.00	\$ 6,769,442
ASHLEY	2,739,828.00	175,084.00	120,597.00	145,450.00	22,261.00	193,345.50	197,924.50	26,034.00	20,538.00	3,641,062
BAXTER	5,980,607.00	592,225.00	468,658.00	222,304.00	120,940.00	39,814.00	29,898.00	88,984.00	107,952.00	7,651,382
BENTON	18,276,369.00	2,751,434.00	2,329,443.00	307,369.00	289,177.00	110,956.00	43,661.50	347,402.00	277,324.00	24,733,136
BOONE	5,554,870.00	426,153.00	342,114.00	283,141.00	53,409.00	29,015.50	38,342.50	51,046.00	30,884.00	6,808,975
BRADLEY	2,040,497.00	87,338.00	72,208.00	35,467.00	16,710.00	33,174.00	51,371.00	20,688.00	13,128.00	2,370,581
CALHOUN	616,679.00	30,735.00	21,910.00	23,953.00	6,898.00	38,707.00	5,319.50	5,218.00	8,300.00	757,720
CARROLL	3,301,321.00	262,726.00	212,440.00	139,331.00	38,530.00	7,609.00	6,743.50	35,530.00	28,530.00	4,032,761
CHICOT	2,354,305.00	202,870.00	161,149.00	61,595.00	27,862.00	99,149.00	36,710.50	30,210.00	45,634.00	3,019,485
CLARK	4,928,419.00	278,500.00	232,938.00	314,129.00	57,254.00	43,380.00	14,144.50	75,978.00	42,566.00	5,987,309
CLAY	1,584,670.00	93,229.00	71,377.00	45,559.00	19,006.00	13,105.50	806.50	18,220.00	24,102.00	1,870,075
CLEBURNE	4,001,091.00	371,757.00	300,755.00	378,078.00	87,285.00	31,717.00	7,434.00	86,500.00	64,240.00	5,328,857
CLEVELAND	721,065.00	42,236.00	31,835.00	20,208.00	5,460.00	9,663.00	3,291.50	8,130.00	15,868.00	857,757
COLUMBIA	4,375,099.00	200,301.00	153,261.00	132,995.00	31,637.00	209,573.00	101,297.50	29,542.00	36,110.00	5,269,816
CONWAY	5,496,591.00	329,278.00	252,606.00	177,009.00	85,941.00	89,892.50	30,651.50	120,944.00	51,476.00	6,634,389
CRAIGHEAD	21,975,962.00	1,197,138.00	945,309.00	572,470.00	150,297.00	171,545.50	109,827.50	194,130.00	140,394.00	25,457,073
CRAWFORD	4,926,113.00	599,726.00	508,897.00	147,131.00	94,424.00	49,841.00	11,897.50	105,478.00	74,544.00	6,518,052
CRITTENDEN	8,742,801.00	836,828.00	618,196.00	243,224.00	96,009.00	514,274.00	248,518.50	62,206.00	102,626.00	11,464,683
CROSS	4,517,453.00	170,559.00	131,647.00	120,116.00	19,837.00	90,154.50	57,883.50	30,370.00	17,976.00	5,155,996
DALLAS	2,471,511.00	89,965.00	71,615.00	75,456.00	15,203.00	34,841.00	14,949.00	22,438.00	9,570.00	2,805,548
DESHA	2,730,696.00	148,641.00	122,639.00	53,399.00	28,160.00	33,646.50	21,081.50	29,134.00	12,970.00	3,180,367
DREW	4,690,341.00	210,479.00	168,280.00	162,893.00	39,727.00	47,417.50	35,275.00	48,596.00	41,030.00	5,444,039
FAULKNER	16,822,650.00	1,302,304.00	1,077,025.00	695,661.00	252,179.00	154,513.50	67,593.00	358,292.00	206,288.00	20,936,506
FRANKLIN	2,436,425.00	211,641.00	176,101.00	186,183.00	36,773.00	8,973.50	1,331.00	47,660.00	16,200.00	3,121,288
FULTON	766,894.00	68,389.00	52,814.00	68,110.00	9,807.00	3,109.00	9,338.00	10,066.00	9,120.00	997,647
GARLAND	14,420,635.00	1,589,181.00	1,356,564.00	470,901.00	411,138.00	192,278.50	91,779.00	374,662.00	242,962.00	19,150,101
GRANT	2,154,757.00	176,809.00	148,892.00	104,696.00	36,573.00	13,531.00	12,061.00	42,572.00	34,654.00	2,724,545
GREENE	7,957,053.00	483,948.00	369,862.00	289,921.00	68,413.00	10,298.50	8,249.50	73,906.00	46,818.00	9,308,469
HEMPSTEAD	4,592,935.00	201,056.00	174,947.00	125,296.00	29,722.00	805,579.50	281,441.00	30,168.00	35,274.00	6,276,419
HOT SPRING	4,860,663.00	296,478.00	253,283.00	223,641.00	62,305.00	14,761.50	6,728.00	81,942.00	51,196.00	5,850,998
HOWARD	2,875,788.00	129,361.00	110,194.00	107,239.00	22,956.00	663,634.00	170,089.00	24,018.00	26,140.00	4,129,419
INDEPENDENCE	7,650,013.00	391,945.00	314,636.00	649,071.00	66,485.00	52,707.00	29,357.50	84,372.00	49,940.00	9,288,527
IZARD	1,329,711.00	106,026.00	85,875.00	109,651.00	21,711.00	1,922.50	1,851.50	18,218.00	10,436.00	1,685,402
JACKSON	3,893,574.00	178,136.00	141,672.00	267,235.00	37,257.00	226,544.50	137,925.50	47,404.00	20,462.00	4,950,210
JEFFERSON	16,243,505.00	1,059,480.00	852,253.00	440,764.00	240,831.00	771,193.00	493,213.00	270,142.00	203,766.00	20,575,147
JOHNSON	3,344,285.00	239,966.00	192,836.00	72,165.00	42,831.00	12,904.00	19,717.00	38,820.00	28,136.00	3,991,660
LAFAYETTE	1,063,184.00	58,614.00	48,160.00	27,468.00	6,164.00	188,526.50	58,131.00	5,472.00	8,814.00	1,464,534
LAWRENCE	3,845,395.00	169,818.00	134,050.00	190,502.00	23,067.00	8,948.00	1,528.00	24,476.00	24,842.00	4,422,626
LEE	1,063,117.00	70,318.00	54,321.00	29,398.00	6,208.00	46,765.50	146,331.00	6,236.00	14,018.00	1,436,713
LINCOLN	1,325,975.00	86,412.00	66,138.00	35,542.00	19,308.00	6,419.00	5,513.00	20,010.00	20,416.00	1,585,733
LITTLE RIVER	1,646,382.00	116,333.00	101,000.00	51,295.00	15,164.00	79,227.00	39,720.00	13,652.00	9,620.00	2,072,393
LOGAN	2,974,465.00	209,154.00	166,692.00	180,386.00	40,297.00	8,522.00	1,299.00	41,418.00	21,680.00	3,643,913
LONOKE	13,861,823.00	978,573.00	809,507.00	638,207.00	199,621.00	167,294.00	120,351.00	246,088.00	136,894.00	17,158,358
MADISON	1,261,292.00	140,546.00	119,256.00	21,462.00	16,110.00	865.50	2,963.00	25,166.00	15,932.00	1,603,593
MARION	2,849,828.00	181,502.00	149,073.00	163,439.00	49,778.00	76,728.50	27,884.00	36,034.00	32,176.00	3,566,443
MILLER	6,976,077.00	412,415.00	367,038.00	203,617.00	66,259.00	410,116.00	163,117.50	60,678.00	85,248.00	8,744,566
MISSISSIPPI	9,335,497.00	417,182.00	336,086.00	240,483.00	39,588.00	730,817.00	343,541.50	48,340.00	39,566.00	11,531,101
MONROE	2,471,047.00	161,032.00	130,584.00	299,196.00	25,095.00	357,048.50	137,690.00	33,848.00	19,004.00	3,634,545
MONTGOMERY	422,511.00	55,317.00	48,226.00	28,392.00	8,866.00	3,057.00	2,491.50	12,476.00	5,586.00	586,923
NEVADA	2,101,898.00	83,454.00	73,875.00	27,905.00	8,807.00	54,606.50	24,936.50	15,146.00	13,868.00	2,404,496
NEWTON	469,494.00	40,605.00	29,555.00	29,091.00	8,775.00	664.50	426.50	6,088.00	3,122.00	587,821
OUACHITA	7,762,275.00	280,893.00	219,167.00	236,091.00	51,056.00	208,111.00	108,159.00	76,666.00	53,856.00	8,996,274
PERRY	1,316,875.00	105,022.00	83,240.00	57,622.00	21,307.00	12,418.00	8,241.50	31,590.00	15,710.00	1,652,026

(Continued)

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

**Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Retail Sales by County (Unaudited)
Fiscal Year Ended June 30, 2023**

County	Instant*	Powerball ® *	Mega Millions ® *	Fast Play*	Natural State	Cash 3*	Cash 4*	LOTTO	Lucky for	Total
					Jackpot*				Life ® *	
PHILLIPS	2,593,537.00	206,862.00	154,574.00	50,250.00	31,580.00	184,864.00	69,935.00	23,146.00	28,646.00	3,343,394
PIKE	1,614,343.00	115,828.00	97,100.00	85,338.00	27,071.00	2,776.50	1,507.50	37,568.00	19,158.00	2,000,690
POINSETT	6,578,202.00	267,145.00	206,654.00	312,996.00	32,186.00	48,505.50	12,960.00	43,058.00	23,586.00	7,525,293
POLK	2,096,829.00	207,037.00	164,633.00	123,922.00	44,934.00	20,057.50	1,039.50	47,048.00	26,616.00	2,732,116
POPE	10,279,837.00	798,617.00	658,770.00	317,347.00	144,391.00	39,306.00	13,799.00	169,106.00	109,708.00	12,530,881
PRAIRIE	2,160,247.00	93,450.00	80,097.00	68,072.00	13,113.00	20,900.00	8,707.00	19,834.00	9,732.00	2,474,152
PULASKI	86,143,965.00	9,859,188.00	8,183,682.00	3,028,511.00	2,470,761.00	2,339,504.00	1,870,220.00	2,578,624.00	2,964,002.00	119,438,457
RANDOLPH	2,352,806.00	181,679.00	143,878.00	137,388.00	26,518.00	3,331.50	953.50	31,140.00	32,752.00	2,910,446
SAINTE FRANCIS	4,296,889.00	302,819.00	216,977.00	82,088.00	34,157.00	337,785.00	147,658.50	31,620.00	35,508.00	5,485,502
SALINE	16,000,530.00	1,308,569.00	1,114,724.00	792,194.00	286,091.00	307,084.50	89,804.00	345,620.00	227,046.00	20,471,663
SCOTT	1,131,538.00	110,954.00	94,889.00	45,282.00	14,061.00	6,050.00	2,259.50	19,474.00	11,558.00	1,436,066
SEARCY	1,155,674.00	81,154.00	66,245.00	79,066.00	13,813.00	572.00	1,876.00	18,032.00	9,262.00	1,425,694
SEBASTIAN	11,565,663.00	1,532,024.00	1,297,427.00	298,889.00	255,815.00	151,068.50	50,114.00	254,874.00	206,408.00	15,612,283
SEVIER	2,401,616.00	136,403.00	121,274.00	25,533.00	22,431.00	62,798.00	6,067.50	21,928.00	23,462.00	2,821,513
SHARP	4,125,807.00	308,474.00	247,840.00	250,036.00	56,702.00	13,396.00	2,962.50	46,654.00	35,986.00	5,087,858
STONE	1,236,756.00	103,694.00	84,941.00	67,825.00	31,256.00	11,834.00	3,210.00	25,660.00	12,304.00	1,577,480
UNION	11,626,663.00	492,793.00	382,276.00	528,561.00	86,250.00	966,640.50	448,881.50	70,284.00	76,988.00	14,679,337
VAN BUREN	2,742,007.00	225,968.00	177,425.00	127,906.00	56,245.00	12,995.50	11,663.50	56,098.00	29,940.00	3,440,248
WASHINGTON	20,937,461.00	2,445,305.00	2,090,861.00	520,998.00	350,296.00	257,559.00	117,543.50	389,810.00	322,372.00	27,432,206
WHITE	12,769,799.00	787,908.00	639,821.00	711,616.00	138,843.00	140,634.50	53,658.00	198,380.00	110,694.00	15,551,354
WOODRUFF	1,643,267.00	82,846.00	65,473.00	64,304.00	11,870.00	22,003.50	12,378.50	15,602.00	8,570.00	1,926,314
YELL	3,005,787.00	183,803.00	148,504.00	59,277.00	35,516.00	3,774.50	6,512.00	52,802.00	22,084.00	3,518,060
Grand Total	\$ 476,233,595	\$ 39,193,490	\$ 32,240,305	\$ 17,874,449	\$ 7,474,853	\$ 12,330,390	\$ 6,656,629	\$ 8,201,020	\$ 7,053,160	\$ 607,257,891

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

**Demographic Report from the Arkansas Department of Education - Division of Higher Education (Unaudited)
Fiscal Year Ended June 30, 2023**

Institution	Awards	Scholarships
Arkansas Baptist College	12	\$ 21,625
Arkansas Northeastern College	89	80,750
Arkansas State University Beebe	674	593,875
Arkansas State University Jonesboro	5,015	8,388,875
Arkansas State University Mid South	45	41,500
Arkansas State University Mountain Home	258	231,375
Arkansas State University Newport	203	152,250
Arkansas State University Three Rivers	63	40,750
Arkansas Tech University	4,394	7,140,028
Arkansas Tech University Ozark Campus	203	141,750
Baptist Health College Little Rock	25	34,500
Black River Technical College	214	179,250
Central Baptist College	254	407,750
Champion Christian College	21	33,000
Cossatot Community College UA	156	125,042
Crowley's Ridge College	84	120,500
East Arkansas Community College	68	65,000
Ecclesia College	41	69,125
Harding University	1,184	1,925,000
Henderson State University	1,346	2,291,500
Hendrix College	840	1,400,875
Jefferson School of Nursing	13	17,750
John Brown University	533	892,750
Lyon College	415	671,250
National Park College	338	282,589
North Arkansas College	351	303,125
Northwest Arkansas Community College	653	530,180
Ouachita Baptist University	1,476	2,348,375
Ozarka College	124	99,750
Philander Smith College	70	115,750
Phillips Community College UA	82	70,000
Shorter College	3	3,375
South Arkansas Community College	114	102,375
Southeast Arkansas Community College	86	70,750
Southern Arkansas University	2,053	3,339,125
Southern Arkansas University Tech	202	171,750
University of Arkansas Community College Crossett	22	18,625
University of Arkansas Community College McGee	16	11,125
University of Arkansas Community College Batesville	247	191,875
University of Arkansas Community College Hope	121	102,000
University of Arkansas Community College Morrilton	466	341,375
University of Arkansas Community College Rich Mountain	203	173,000
University of Arkansas Fayetteville	12,281	18,787,153
University of Arkansas Medical Sciences	289	626,000
University of Arkansas Fort Smith	2,338	3,726,625
University of Arkansas Little Rock	1,826	3,041,927
University of Arkansas Monticello	809	1,330,750
University of Arkansas Pine Bluff	427	771,492
University of Arkansas Pulaski Technical College	610	542,875
University of Central Arkansas	6,852	10,955,358
University of the Ozarks	293	485,375
Williams Baptist College	436	715,250
Total	48,938	\$ 74,324,019

Totals include Traditional, Nontraditional, Current Achiever and Original Challenge Recipients.
Source: Arkansas Department of Education - Division of Higher Education

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 Education - Division of Higher Education (Unaudited)
Fiscal Year Ended June 30, 2023

Program	FY 23 Expenditures	FY 24 Budget
Academic Challenge Scholarships	\$ 20,000,000	\$ 20,000,000
AR Geographical Critical Needs	53,000	150,000
Arkansas Future Grant	3,539,185	5,000,000
Law Enforcement Dependents	499,520	400,000
Governor's Scholars Program	18,674,049	22,000,000
Osteopathic Rural Medical Scholarship	-	400,000
Military Dependents	2,796,774	1,500,000
National Guard Tuition Assistance	2,885,582	1,400,000
Single Parent Scholarship	175,000	175,000
SREB Minority Doctoral Scholars	175,000	175,000
State Teacher Education Program	1,136,335	4,000,000
SURF Program	149,624	150,000
Teacher Opportunity Program	1,578,958	2,500,000
Tuition Adjustment	350,000	350,000
Transition Scholarships	190,000	800,000
Washington Center Scholarships	182,325	150,000
Arkansas Health Education Grants:		
Dental Aid	2,890,800	2,950,000
Dental Loans	972,000	987,370
Optometry Grants	518,400	650,000
Optometry Loans	100,000	140,000
Veterinary Aid	1,349,625	1,750,000
Veterinary Loan Forgiveness	-	250,000
Chiropractic	128,317	260,000
Podiatry	5,000	80,000
Total	\$ 58,349,494	\$ 66,217,370

Source: Arkansas Department of Education - Division of Higher Education

**Arkansas Department of Higher Education
Academic Challenge Scholarship Program
County Report (Unaudited)
Fiscal Year Ended June 30, 2023**

<u>County</u>	<u>2022 Population Estimate</u>	<u>% State Population</u>	<u>Awards</u>	<u>Amount</u>
Arkansas	16,512	0.54%	1,253	\$ 1,922,170
Ashley	18,354	0.60%	312	500,302
Baxter	42,435	1.39%	562	772,250
Benton	302,863	9.94%	3,944	5,968,813
Boone	38,284	1.26%	539	714,590
Bradley	10,135	0.33%	200	283,250
Calhoun	4,695	0.15%	38	54,000
Carroll	28,742	0.94%	236	354,910
Chicot	9,873	0.32%	93	126,438
Clark	21,250	0.70%	434	648,250
Clay	14,265	0.47%	137	211,125
Cleburne	25,284	0.83%	402	562,875
Cleveland	7,467	0.25%	194	303,125
Columbia	22,216	0.73%	421	621,750
Conway	21,046	0.69%	352	575,486
Craighead	113,017	3.71%	1,793	2,813,875
Crawford	61,075	2.01%	1,107	1,700,153
Crittenden	47,061	1.55%	425	667,854
Cross	16,601	0.55%	244	375,000
Dallas	6,191	0.20%	149	217,625
Desha	10,771	0.35%	181	295,594
Drew	16,911	0.56%	297	471,000
Faulkner	127,665	4.19%	2,782	4,252,056
Franklin	17,271	0.57%	361	559,375
Fulton	12,382	0.41%	173	235,875
Garland	100,089	3.29%	1,311	1,966,426
Grant	18,160	0.60%	357	566,125
Greene	46,448	1.53%	711	1,047,790
Hempstead	19,453	0.64%	206	324,635
Hot Spring	33,203	1.09%	535	762,250
Howard	12,557	0.41%	279	417,540
Independence	37,945	1.25%	656	941,000
Izard	14,048	0.46%	193	269,375
Jackson	16,624	0.55%	175	252,750
Jefferson	64,246	2.11%	793	1,228,664
Johnson	26,001	0.85%	474	728,209
Lafayette	6,101	0.20%	103	141,775
Lawrence	16,205	0.53%	273	404,593
Lee	8,364	0.27%	59	94,625
Lincoln	12,916	0.42%	153	241,750
Little River	11,821	0.39%	144	230,875
Logan	21,253	0.70%	371	557,125
Lonoke	75,225	2.47%	1,722	2,566,089
Madison	17,486	0.57%	198	277,003
Marion	17,254	0.57%	129	184,625
Miller	42,552	1.40%	514	835,332
Mississippi	38,896	1.28%	449	670,089
Monroe	6,564	0.22%	75	107,750
Montgomery	8,556	0.28%	137	224,875
Nevada	8,181	0.27%	114	163,625

**Arkansas Department of Higher Education
Academic Challenge Scholarship Program
County Report (Unaudited)
Fiscal Year Ended June 30, 2023**

<u>County</u>	<u>2022 Population Estimate</u>	<u>% State Population</u>	<u>Awards</u>	<u>Amount</u>
Newton	7,078	0.23%	76	102,375
Ouachita	22,049	0.72%	341	523,875
Perry	10,063	0.33%	224	289,250
Phillips	15,304	0.50%	138	222,477
Pike	10,179	0.33%	172	245,927
Poinsett	22,495	0.74%	263	376,551
Polk	19,337	0.63%	333	509,250
Pope	64,065	2.10%	1,288	2,008,112
Prairie	8,069	0.26%	126	189,250
Pulaski	399,145	13.11%	6,097	9,484,196
Randolph	18,837	0.62%	248	377,250
St. Francis	22,451	0.74%	172	279,750
Saline	127,357	4.18%	2,645	4,024,563
Scott	9,805	0.32%	164	252,578
Searcy	7,918	0.26%	88	130,375
Sebastian	129,059	4.24%	2,349	3,739,664
Sevier	15,686	0.52%	303	448,042
Sharp	17,810	0.58%	268	334,250
Stone	12,575	0.41%	150	206,125
Union	37,752	1.24%	638	928,011
Van Buren	16,102	0.53%	248	340,000
Washington	256,054	8.41%	3,680	5,644,542
White	77,755	2.55%	1,475	2,270,407
Woodruff	6,049	0.20%	61	92,500
Yell	20,129	0.66%	361	531,314
Not Reported			268	360,750
Total	<u>3,045,637</u>	<u>100%</u>	<u>48,936</u>	<u>\$ 74,324,020</u>

Source: Arkansas Department of Education - Division 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 Education - Division of Higher Education (Unaudited)
Fiscal Year Ended June 30, 2023**

Fund Balances

Higher Education Grants Fund	\$	16,947,547
Lottery Net Proceeds Trust Account (1)	\$	6,112,619

Arkansas Challenge Scholarship Trust Account

Deposits	\$	83,648,662
Disbursements		77,536,043
June 30, 2022 Balance	\$	<u>6,112,619</u>

Evaluation of Net Proceeds

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

Recommendations by the Arkansas Department of Education - Division of Higher Education for changes to the program:

None

Note: 1) Trust accounts maintained by the director of Arkansas Department of Education - Division of Higher Education to hold transfers from the Lottery Scholarship Trust Account.

Source: Arkansas Department of Education - Division of Higher Education

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Debt Set-off Collections (Unaudited)
Fiscal Year Ended June 30, 20223

Department of Finance and Administration:	
Taxes due to the State	\$ 121,663
Delinquent Child Support	<u>19,236</u>
 Total	 <u><u>\$ 140,899</u></u> (1)

Note: 1) In accordance with regulation 23-115-403 of the Arkansas Scholarship Lottery Act, the OAL must set-off against any prize greater than \$500, the sum of any debt in excess of \$100 owed to the State of Arkansas or to persons on whose behalf the State and its claiming agencies act.

Source: OAL Finance Division

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Retailer Sales (Unaudited)
Fiscal Year Ended June 30, 2023

Retail Type	Number of retailers*	Instant Sales*	Online Sales*	Total Sales*
Grocery/food stores	188	\$ 15,295,964	\$ 5,625,894	\$ 20,921,858
C-stores	446	63,966,718	14,627,999	78,594,717
C-store with gas	1,198	325,779,174	78,152,245	403,931,419
Restaurant	2	48,662	19,880	68,542
Travel Plaza/Truck Stop	35	4,483,699	1,302,805	5,786,504
Liquor (ABC)	108	9,631,702	3,937,638	13,569,340
Bar/Taven	6	391,819	353,380	745,199
Merchandise store	6	293,005	105,079	398,084
Discount/Variety	3	41,748	19,256	61,004
Drug/Pharmacy	2	434,741	182,564	617,305
News/smoke	206	39,475,846	9,963,867	49,439,713
Kiosk	82	15,482,055	16,461,856	31,943,911
Miscellaneous / other	12	908,462	271,837	1,180,299
Total	2,294	\$ 476,233,595	\$ 131,024,296	\$ 607,257,891

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

Arkansas Department of Finance and Administration
Office of the Arkansas Lottery
Analysis of Budgetary Variations
Fiscal Year Ended June 30, 2023

	<u>Original Budget FY 2023 (1)</u>	<u>Actual Results FY 2023</u>	<u>Variation</u>
Operating revenues:			
Instant ticket sales	\$ 440,700,000	\$ 476,578,850	\$ 35,878,850
Online ticket sales	94,660,000	130,982,275	36,322,275
Retailer fees and other revenues	602,000	668,066	66,066
Total operating revenues	<u>535,962,000</u>	<u>608,229,191</u>	<u>72,267,191</u>
Operating expenses:			
Instant game prizes	319,363,000	346,188,839	26,825,839
Online game prizes	51,699,000	70,731,337	19,032,337
Retailer commissions	30,293,000	34,300,134	4,007,134
Gaming contract costs	26,798,000	31,867,750	5,069,750
Compensation and benefits	5,800,000	5,150,818	(649,182)
Marketing, advertising and promotions	7,300,000	7,146,036	(153,964)
General and administrative expenses	4,331,000	4,064,961	(266,039)
Depreciation and amortization	420,000	699,663	279,663
Total operating expenses	<u>446,004,000</u>	<u>500,149,538</u>	<u>54,145,538</u>
Operating income	89,958,000	108,079,653	18,121,653
Non-operating revenue (expense):			
Interest income	1,500,000	2,482,459	982,459
Interest expense	0	(16,207)	(16,207)
Income before transfers	91,458,000	110,545,905	19,087,905
Transfers to Lottery Scholarship Trust Account	<u>(91,450,000)</u>	<u>(113,091,392)</u>	<u>(21,641,392)</u>
Change in net position	<u>\$ 8,000</u>	<u>\$ (2,545,487)</u>	<u>\$ (2,553,487)</u>

Note 1) No amended budget was prepared for Fiscal Year 2023
Source: OAL Finance Division



Arkansas
Scholarship Lottery



OTHER REPORTS







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
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 (DFA) – Office of the Arkansas Lottery (the “Agency”), an office of Arkansas state government, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the DFA – Office of the Arkansas Lottery’s basic financial statements, and have issued our report thereon dated December 13, 2023.

Report on 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) as a basis for designing 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 a 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below in the Schedule of Findings and Responses as item 2023-1.

SCHEDULE OF FINDINGS AND RESPONSES

2023-1

During review of OAL's October 2022 Monthly Disclosure Report to the Governor and Co-Chairs of the Arkansas Legislative Council Lottery Oversight Subcommittee, we noted a Draw Integrity Audit report issued by the OAL Internal Auditor. The report disclosed a damaged fiberoptic cable, which caused a network outage between the Central Gaming System and OAL. The lack of connectivity caused the Automated Draw System to not function as designed during the Midday and Evening Draws held on August 1 and 2, and the Midday Draws held on August 3 for the Cash 3, Cash 4, and Natural State Jackpot games. Ultimately, the draws were conducted by OAL Security and Compliance staff using manual draw procedures on-site at Intralot.

We reviewed the internal auditor's observations, as well as management's response to those observations, and determined that there was not a clearly defined policy regarding which draw procedures should be followed in the event a lottery draw process failed. Lack of a clearly defined policy led to confusion among OAL staff and resulted in backup draw procedures being amended when the Automated Draw process could not be completed. Not having a clearly defined draw policy, that instructs staff as to which procedures should be implemented if certain circumstances occur, could lead to lottery draws not occurring on time and/or loss of credibility with the public, negatively impacting sales and net proceeds.

We recommend the OAL implement a clearly defined draw policy that covers all possibilities of a lottery draw failure that could occur and update the disaster recovery plan and any other policy or procedure to mirror or refer to the newly implemented draw policy to eliminate any confusion regarding backup draw procedures.

Management Response

The office of the Arkansas Lottery reviewed the alleged deficiencies and responds as follows. It is our belief that communication between Security draw staff and IA during the incident was not sufficient. However, the actions of Lottery staff and the resolution achieved served the best interest of players and the public at large.

The manual draw process that was utilized was set up and designed for a failure on the automation system. This is the sole purpose of this feature. This then-existing procedure was used during the fiber optic cut with great efficiency and served to ensure continuity of operations (e.g., the draws).

Policies have been created to address the Internal Auditor's concerns with communication and situational awareness. However, the substantive process has not been changed, but notification measures have been addressed. Simply, it is not possible to foresee every lottery draw failure scenario. The Arkansas Lottery feels it is better to implement a general plan for troubleshooting purposes; and it is management's belief that a degree of fluidity in the procedures ensures that remediation of any issues can occur.

The revision has been implemented and are set forth in the OAL disaster recovery plan (6.4 Drawing and Game Related Functions). The revision has also been updated in Security Policy 15.4 MUSL Emergency Drawing Procedures, 15.5 Manual Procedures for In-State Drawings, 15.6 Manual Drawing Procedures for In-State Drawings (on-site at Intralot).

Following is a summary of the actions described in the amended procedures:

IA will be notified, and if unavailable, the draw process will be recorded (Security 15.5 and 15.6). Primary RNGs will be used with the manual draw function (Security Policy 15.5). If needed the backup RNG, at secondary location, will be used for a manual draw (Security Policy 15.6). If all RNGs are unavailable for manual draw, then MUSL will be contacted to conduct draws (Security 15.4).

Agency's Response to Findings

Government Auditing Standards require the auditors to perform limited procedures on the Agency's response to the finding identified in our audit and described in the Schedule of Findings and Responses above. The Agency's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

Purpose of this Report

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

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
December 13, 2023



Arkansas
Scholarship Lottery





Arkansas Scholarship Lottery

