



Arkansas Lottery Commission

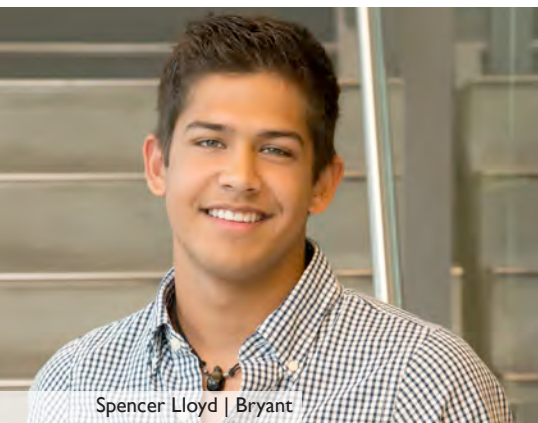
An Enterprise Fund of the State of Arkansas



John Patterson | Jonesboro



Amber Ray | Little Rock



Spencer Lloyd | Bryant



Lisa Summers | Mountain View



Lamont Moore | El Dorado



Latasha Briscoe | Augusta



Skylar Jones | Smackover

Comprehensive Annual Financial Report for the Fiscal Year Ended JUNE 30, 2012



IT PUTS MY LIFE'S DREAMS AND GOALS INTO ACTION

“For me, the Arkansas [Academic] Challenge is more than a scholarship program. It’s more than the dollar it’s worth. For me, it’s a way to successfully plan for my future. Through this program, I can gain an education that will allow me to put my life’s dreams and goals into action.

Tony Jones | Freshman | University of Arkansas-Fort Smith
Fort Smith



Arkansas Lottery Commission
An Enterprise Fund of the State of Arkansas

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012**



Mike Beebe
Governor, State of Arkansas

Bishop Woosley
Director

Prepared by
Finance Division



THE LOTTERY SCHOLARSHIP MEANS OPPORTUNITY

“For me, the lottery scholarship means opportunity. Attending college can get expensive and any scholarship help I can get is appreciated.

Samuel Leonard | Sophomore | University of Arkansas at Monticello
Monticello



Arkansas Lottery Commission
An Enterprise Fund of the State of Arkansas
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012

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IT'S A RELIEF

“It’s a relief to know I have money coming from somewhere other than my own pocket to help pay for school because that is one less loan I have to take out every semester.

Clay Wyllia | Junior | Arkansas Tech University
Atkins

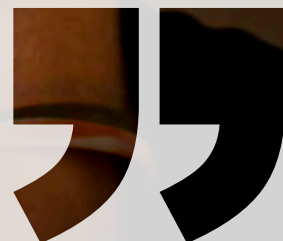


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IT HAS HELPED ME SIGNIFICANTLY

“In today’s uncertain job market, a degree is becoming increasingly necessary. The Arkansas [Academic] Challenge Scholarship has helped me by significantly reducing the cost of my higher education.

Sheldon Gilker | Sophomore | University of Arkansas-Fayetteville
Fort Smith



section



**IT BRINGS IN DIFFERENT PEOPLE
OVER HERE – IT’S FUN.**

Karen Standridge
Ever So Fast
Dardanelle



November 13, 2012

Fellow Arkansans:

The Arkansas Lottery Commission (ALC) is embarking on its fourth year of enterprise to create scholarships for Arkansas college students. Within these pages, you will find a comprehensive overview of the ALC's finances, products, retailers and students helped during the fiscal year ended June 30, 2012.



In my role as a college administrator, I had the opportunity to work directly with Arkansas students for thirty years. Sharing their accomplishments was the most rewarding part of my career. Unfortunately, many students encountered problems that hampered their ability to complete their degrees, and most of these concerns included funding their education. With your input and guidance, funds from the ALC have provided more than \$274 million. As a state agency, it is our hope to continue to provide funding, in an open and ethical manner, to assist students in entering higher education in Arkansas and enhance their prospects for graduation.

Reading through this fiscal year report, you will see that the ALC sales exceeded \$473 million this past year, and the agency returned more than \$97.5 million in scholarship funds for this period. These funds go to Arkansas residents attending two- and four-year Arkansas colleges and universities.

Eighteen hundred and eighty-five Arkansas businesses sell lottery tickets, and they deserve enormous credit for making these awards to students possible. These businesses, our retailers, have realized a profit of about \$74 million collectively. They are grocery stores, gas stations, convenience stores, liquor stores, pharmacies and even tanning salons and hardware stores—and they all build the scholarship fund on a daily basis.

What is the purpose of this publication? The ALC belongs to the people of our state, and each person who reads this Comprehensive Annual Financial Report submitted to the Arkansas Legislature—either in paper form or on the myarkansaslottery.com website—will have access to information that Arkansas citizens deserve to know. To our players, we appreciate your business and hope you enjoy our games and win a few! To our retailers, we thank you for working hard as our primary link between lottery products and the public. To the students of today and tomorrow, we are happy that these Arkansas Academic Challenge Scholarships are available to many of you, and we promise to work hard every year to maximize the dollars for this good cause.

Best regards,

A handwritten signature in black ink that reads "Ben Pickard". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Ben Pickard
Chairman, Arkansas Lottery Commission

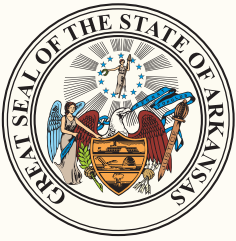


ARKANSANS DO CARE ABOUT EDUCATION

“The Challenge has helped me finance my books and summer school. To me, the [Arkansas Academic Challenge Scholarship] means that Arkansans do care about the education of their residents.

Elise Hampton | Senior | University of Central Arkansas
Conway





State of Arkansas
Arkansas Lottery Commission

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<http://myarkansaslottery.com>

November 13, 2012

The Honorable Mike Beebe, Governor
Members of the Arkansas Lottery Commission Legislative Oversight Committee
Ben Pickard, Chair, Arkansas Lottery Commission
Members of the Arkansas Lottery Commission
Citizens of the State of Arkansas

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Arkansas Lottery Commission (ALC) for the fiscal year ended June 30, 2012. The CAFR is prepared in accordance with the requirements set forth in Arkansas Code Annotated (A.C.A.) § 23-115-206 (a)(8) (C). These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB).

Management is responsible for the accuracy of the financial data as well as the completeness and fairness of the information and disclosures within this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations and cash flows of the ALC. We have included all disclosures necessary to enable the reader to gain an understanding of the ALC's financial activities.



Tayler Ginn | Walnut Ridge

BACKGROUND

A constitutional amendment approved on November 4, 2008, allowed the General Assembly to establish a State of Arkansas lottery with proceeds used to fund college scholarships. With the passage of Act 605 and 606 of 2009, the General Assembly created the ALC. Ticket sales began on September 28, 2009, with the introduction of four instant ticket games. ALC proceeds are utilized to fund college scholarships under the Academic Challenge Scholarship program administered by the Arkansas Department of Higher Education (ADHE).



Adela Hernandez | Glenwood

PRODUCTS

The public has the opportunity to participate in a variety of instant and terminal-generated games from the 1,885 ALC-licensed retailers across the state.



INSTANT TICKET GAMES are played by removing a scratch-off coating from the play area of the ticket. There are various ways to win, including matching certain symbols, adding up to a specified total or otherwise satisfying the requirements listed on the ticket. If the specified condition occurs, the ticket is an instant winner. These play styles are combined with a variety of game themes and ticket prices. Instant games were the first type of games offered by the ALC. For fiscal year ended June 30, 2012, we released 51 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. We offer seven different types of terminal-generated games: Powerball®, Mega Millions®, Decades of Dollars, Cash 3, Cash 4, Fast Play and Arkansas 50/50.



POWERBALL® is a multi-state draw game jointly operated by the 33 member lotteries of the Multi-State Lottery Association and sold in 44 states and territories. Players select one set of five numbers from a pool of one to 59 and one additional number designated as the "Powerball" from a second pool of one to 35. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$40 million, which increases for each subsequent draw when the jackpot is not won. Each Powerball® play costs \$2. For an additional dollar, the Power Play® feature allows players to win an additional fixed prize of up to \$1,000,000. A jackpot winner may select either an annuitized prize paid in 30 annual installments or a lump sum payment. Drawings are held every Wednesday and Saturday night. On January 15, 2012, the Powerball® game underwent major changes that included increasing the cost of a ticket to \$2 per play from \$1 per play. Other key changes included doubling the starting jackpot from \$20 million to \$40 million, increasing jackpots by a minimum of \$10 million with each roll, increasing the Powerball®-only prize from \$3 to \$4, improving the odds of winning the jackpot from 1 in 195.2 million to 1 in 175.2 million, improving the overall game odds from 1 in 35 to 1 in 32, changing the Power Play® multiplier feature to a fixed prize and increasing the Match-5 from \$200,000 to \$1 million.





MEGA MILLIONS® is a second multi-state draw game sold in accordance with a cross-selling agreement between the 12 Mega Millions® member states and the Multi-State Lottery Association. Mega Millions® is sold in 44 states and territories. Players select one set of five numbers from a pool of one to 56 and one additional number from a second pool of one to 46. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$12 million, which increases for each subsequent draw when the jackpot is not won. Each Mega Millions® play costs \$1. For an additional dollar, the Megaplier® feature allows players to multiply non-jackpot winnings up to four times. A jackpot winner may select either an annuitized prize paid in 26 annual installments or a lump sum payment. Drawings are held every Tuesday and Friday night.



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



CASH 3 is a terminal-generated game in which players select three numbers between zero and nine and can play the numbers straight (numbers in the exact order), box (numbers in any order), straight/box (combine straight and box plays) or combo (equal to a straight play for all combinations of winning numbers). Cash 3 can be played starting at 50 cents. Drawings are conducted twice per day except Sunday, which has one drawing.



CASH 4 is played similarly to Cash 3, with players selecting four numbers between zero and nine. Players may play the numbers straight, box, straight/box, and combo. Cash 4 can be played starting at 50 cents. Drawings are conducted twice per day for Cash 4 except Sunday, which has one drawing.



FAST PLAY is an instant play-style game that prints from retail terminals so players can determine instantly whether they have won. There are various ways to win, including matching certain symbols, adding up to a specified total or otherwise satisfying the requirements listed on the ticket.





ARKANSAS 50/50 is a raffle-style draw game exclusive to Arkansas. Draw sales begin on the first of every month and end on the last day of every month. Arkansas 50/50 tickets are generated from the retail terminal in sequential order, beginning with 000001 for each drawing. Twenty-five winning numbers are selected in each drawing, which is held on the first Tuesday of each month. Fifty percent of sales during the month preceding the draw are allocated to prizes. Of that amount, 75% is won by one ticket number. The remaining 25% is divided among 24 winning tickets. A player wins if the number on his or her ticket matches, with digits in exactly the same order, the winning number drawn by ALC.

PLAYERS CLUB SERVICES

The ALC offers a players club at myarkansaslottery.com called The Club. By registering for a free account, players gain access to lottery news, winning number emails, the Play It Again™ and Points for Prizes™ programs and special second-chance drawings. There were a total of 68,514 new player registrations and 30,283,423 tickets entered into the program in the fiscal year ended June 30, 2012, bringing the membership total to 255,915.



The **Play It Again™** program allows players to submit eligible, non-winning instant tickets for entry into top prize drawings. At the end of each instant game, one entry is drawn to win the final top prize in that game. The same entry mechanism gives players both their Play It Again™ entry and Points for Prizes™ rewards points. Forty-seven Play It Again™ drawings occurred during fiscal year ended June 30, 2012.



The **Points for Prizes™** program gives players loyalty rewards points for eligible tickets entered into their accounts. On January 15, 2012, terminal-generated game tickets became eligible for the Points for Prizes™ program; previously only non-winning instant tickets were eligible. A player's points accumulate and can be redeemed for merchandise from the Points for Prizes™ online store, from music downloads to electronics. There were a total of 480,370,550 points redeemed in the Points for Prizes™ program during the fiscal year ended June 30, 2012. Points may also be used to gain entries for special drawing prizes; there were a total of 11 Points for Drawings during fiscal year ended June 30, 2012.

Points for Drawings	Entry period	Drawing date	# of winners	# of entries
Fuji Camera Package	06/24/11-08/05/11	08/09/11	20	465,447
Tailgate Package	08/23/11-09/28/11	09/29/11	7	194,812
Duck Hunt Package	09/29/11-11/11/11	11/14/11	5	60,081
DeWalt Tool Package	11/14/11-12/16/11	12/20/11	5	220,303
Home Gym Package	12/14/11-01/20/12	01/23/12	3	157,646
Tag Watch Package	01/04/12-02/06/12	02/07/12	3	125,938
Wheel of Fortune® Trip	01/18/12-02/27/12	02/28/12	1	101,182
2010 Harley-Davidson® Fat Boy® Motorcycle	02/16/12-03/28/12	03/29/12	1	70,325
Great Cookout Package	03/14/12-04/27/12	04/30/12	3	161,608
Spring Bling Package	04/06/12-05/16/12	05/17/12	2	86,431
Family Road Trip	05/07/12-06/18/12	06/19/12	5	99,496

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



In honor of the ALC's first \$20 instant game which launched in May of 2011, the **Diamond Dazzler Dash** Second-Chance Promotion began, awarding 200 players \$25,000 Point for Prizes™ rewards points and eight prize trips to players who entered non-winning \$1,000,000 Diamond Dazzler instant tickets into their accounts. Two drawings were held to select the winners of trips for two to a Points for Prizes™ merchandise warehouse in Chicago. Winners had the opportunity to take home anything they were able to pick up during a 90-second dash through the warehouse.



The **MONOPOLY™** Second-Chance Promotion awarded 40 prize packs, including a deluxe board game and other MONOPOLY™-branded items. Each non-winning \$5 MONOPOLY™ instant ticket submitted gave players the chance to play a web-based MONOPOLY™ game that revealed how many drawing entries they earned into the next prize pack drawing.



The **Harley-Davidson®** Second-Chance Promotion awarded prize packs and a motorcycle in drawings held for players who entered non-winning \$5 Harley-Davidson® instant tickets. Upon entering eligible tickets, players could play a driving game that would reveal how many entries were won for the next drawing. Four drawings for 12 prize packs and a Harley-Davidson® drawing occurred during fiscal year ended June 30, 2012.



The **WHEEL OF FORTUNE®** Second-Chance Promotion awarded three prize trips for a chance to play in an exclusive non-broadcast, lottery players-only Wheel of Fortune® game with Pat Sajack and Vanna White. The prize was five-day, four-night trips for the prizewinners and up to three guests to Los Angeles, California.



The **Run for the Roses™** Second-Chance Promotion awarded prize trips to players who entered non-winning Run for the Roses™ instant tickets into their accounts. A drawing was held to select four winners of a trip for two to the Kentucky Derby.



The **Decades of Dollars** Second-Chance Promotion awarded a trip for four to Big Cedar® Lodge in Branson, Missouri, and 100 \$200 Bass Pro Shops® gift cards in two drawings for players who entered Decades of Dollars tickets.

Second-Chance Promotion	Entry period	Drawing date	# of winners	# of entries
Diamond Dazzler Dash	Drawing #1: 05/31/11-06/30/11	07/01/11	4+100	180,612
Diamond Dazzler Dash	Drawing #2: 07/01/11-07/31/11	08/01/11	4+100	153,018
Monopoly™ Prize Pack	Drawing #3: 01/25/11-08/31/11	09/07/11	40	809,813
Harley-Davidson® Prize Pack #1	06/29/10-12/05/11	12/06/11	3	101,597
Harley-Davidson® Prize Pack #2	06/29/10-12/05/11	12/06/11	3	101,675
Harley-Davidson® Prize Pack #3	06/29/10-12/05/11	12/06/11	3	100,428
Harley-Davidson® Prize Pack #4	06/29/11-12/05/11	12/06/11	3	101,246
Wheel of Fortune® Trip	Drawing #1: 08/02/11-02/27/12	02/28/12	3	2,852,483
Run for the Roses™ Trip	11/01/11-03/12/12	03/13/12	4	521,661
Decades of Dollars \$200 Bass Pro Shops® Gift Cards	Drawing #1: 04/01/12-04/15/12	04/18/12	100	19,406
Decades of Dollars Big Cedar®Lodge Outdoor Adventure Trip	Drawing #2: 04/01/12-05/10/12	05/14/12	1	60,643
Harley-Davidson® Fat Boy® motorcycle	Drawing #1: 05/01/12-06/17/12	06/19/12	1	127,980

ECONOMIC CONDITIONS AND OUTLOOK

The start of the lottery in Arkansas in September 2009 was at a time when the nation and state were still experiencing the impact of a severe economic recession. Economic activity started to improve in the third quarter of calendar year 2009 and continued to improve through the first half of 2012, with inflationary adjusted Gross Domestic Product (GDP) and industrial production both showing continued gains.

GROSS DOMESTIC PRODUCT

GDP is the broadest measure of economic activity. The economic output of the national economy, as measured by the GDP, significantly decreased due to the economic recession which began in December 2007, but has been expanding each quarter since the third quarter of calendar year 2009. The last half of calendar year 2011 and the first half of calendar year 2012 continued to show small, incremental gains in the GDP, and the unemployment rate for the State finished the June 30th fiscal year at 7.2%.

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, measured in current dollars, reached a total of \$101.29 billion in fiscal year 2012. This represented an increase of \$3.14 billion or 3.2% over fiscal year 2011. Fiscal year 2013 is estimated at \$104.73 billion (current dollars), an increase of \$3.51 billion or 3.5% over fiscal year 2012.

ARKANSAS WAGE AND SALARY DISBURSEMENTS

Measured in current dollars, wage and salary rose to \$47.26 billion in fiscal year 2012, an increase of \$1.64 billion, or 3.6%, from fiscal year 2011. Fiscal year 2013 is estimated at \$48.78 billion (current dollars), an increase of \$1.49 billion, or 3.2%, from fiscal year 2012.

EMPLOYMENT

In fiscal year 2012, wage and salary employment in Arkansas decreased to 1.163 million jobs. This represents a decrease of 200 jobs, or .02%, compared to fiscal year 2011. In fiscal year 2013, wage and salary employment is expected to average 1.180 million jobs. This represents a projected increase of 17,000 jobs, or 1.4%, from fiscal year 2012.

HIGHLIGHTS OF THE PAST YEAR

Management's discussion and analysis (MD&A) can be found immediately following the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. The lottery's MD&A complements this letter of transmittal and should be read in conjunction with it. In addition to financial accomplishments, other noteworthy accomplishments during the fiscal year 2012 included:

- Surpassing \$1 billion in ticket sales since the lottery's inception.
- Increasing sales across all products as compared to fiscal year 2011 sales.
- Transferring \$115 million to the ADHE for the purpose of funding scholarships.
- The ADHE awarding \$129 million in scholarships during the fall 2011 and spring 2012 semesters.
- The Powerball® game increasing to \$2, resulting in bigger jackpots and better game odds.
- Record day, week, month and fiscal year sales for the Mega Millions® game due to the \$640 million jackpot in March 2012.
- Launching the Arkansas 50/50 game.
- Introducing terminal-generated games to the Points for Prizes™ program.

RELEVANT FINANCIAL POLICIES

Budgetary Controls— The lottery staff annually submits an operating budget to the ALC and the Arkansas Lottery Commission Legislative Oversight Committee.

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

Shortfall Reserve— In accordance with Arkansas state requirements, the ALC established a Scholarship Shortfall Reserve Trust account. As of June 30, 2012, the trust account was fully funded in the amount of \$20 million.

INTERNAL CONTROL ENVIRONMENT

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the ALC for its CAFR for the fiscal year ended June 30, 2011. As required by law, the ALC will be submitting the 2012 CAFR to the GFOA for review for potential awarding of the Certificate of Achievement for Excellence in Financial Reporting. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. Management believes that the 2012 CAFR presented will meet the Certificate of Achievement Program's requirements and will submit this report to the GFOA to determine its eligibility for the certificate.

OTHER INFORMATION

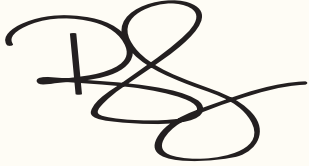
Information on rules, gaming and frequently asked questions can be found on the ALC's website at myarkansaslottery.com. Information on gambling disorder treatment and education programs can be found by calling the National Council on Problem Gambling Helpline at 1-800-522-4700 or by visiting ncpgambling.org,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



ACKNOWLEDGEMENTS

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

Respectfully submitted,

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

Bishop Woosley
Director

A handwritten signature in black ink, appearing to be "Jerry Fetzer". The signature is written in a cursive style with a large, looped initial "J" and a long, sweeping horizontal stroke at the end.

Jerry Fetzer
Chief Fiscal Officer

MISSION

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

VISION

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

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

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

VALUES

ALC's values include:

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



LISTING OF COMMISSIONERS



**BEN PICKARD,
CHAIR**

Pickard retired in 2008 after 28 years as Vice Chancellor of Student Services at Arkansas State University-Beebe. He is past president of the Arkansas College Personnel Association, Arkansas Association of Student Financial Aid Administration and the Arkansas Council on Student Services, and he serves by appointment of the Governor on the Arkansas Student Loan Authority. This appointment by Governor Mike Beebe expires April 1, 2013.



**DR. GEORGE HAMMONS,
VICE CHAIR**

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



**STEVE FARIS,
SECRETARY-TREASURER**

Faris, a former Arkansas senator and state representative, has had a career in public service since graduating from Henderson State University in Arkadelphia. He is a veteran of the Arkansas Army National Guard and served on the staffs of the Arkansas Secretary of State and the Arkansas Treasurer. Faris is general manager of Central Arkansas Telephone Cooperative, Inc. This appointment by Senator Paul Bookout expires April 1, 2017.



JOHN C. (SMOKEY) CAMPBELL III

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



BRUCE R. ENGSTROM

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



RAYMOND FRAZIER

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



DIANNE LAMBERTH

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



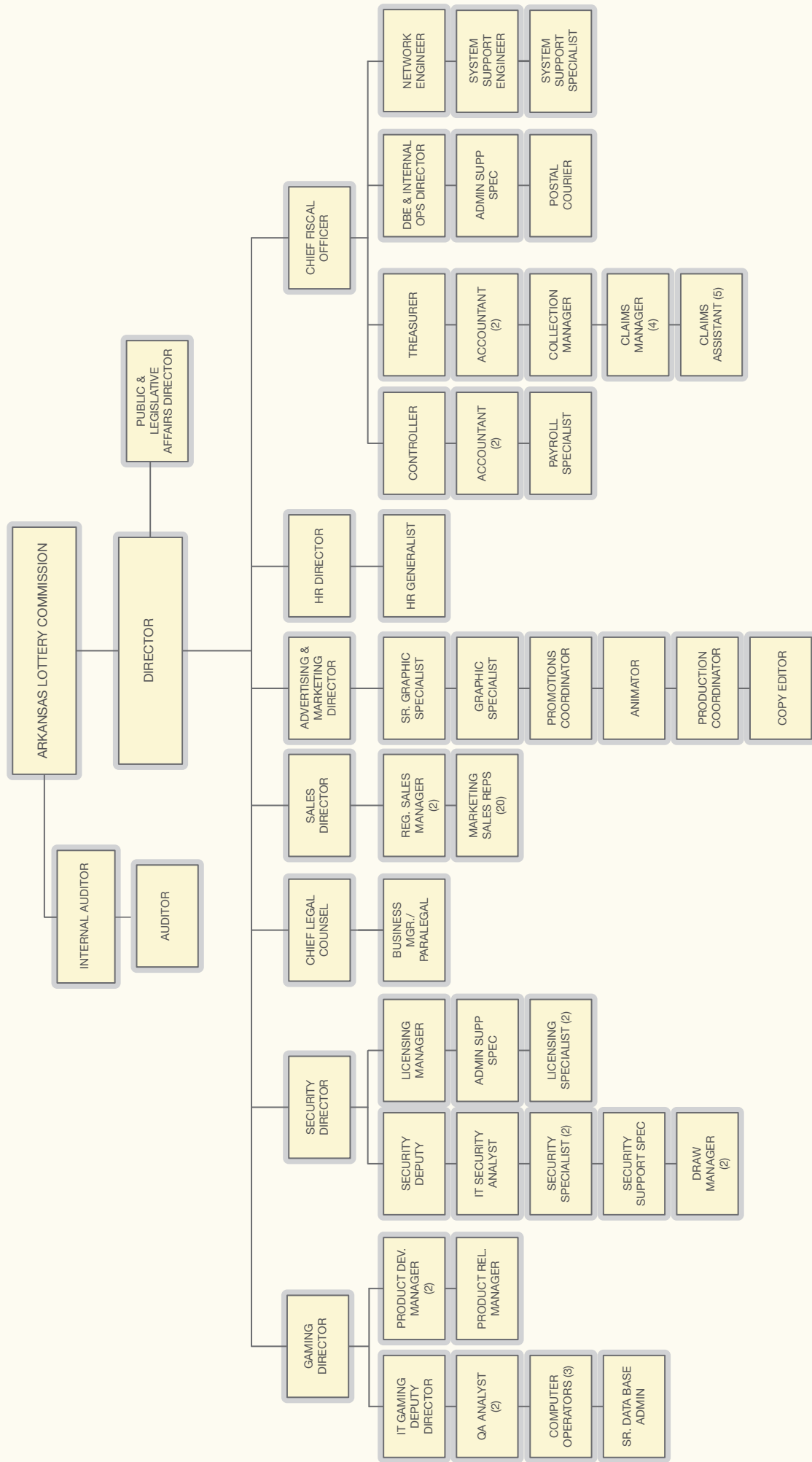
MIKE MALONE

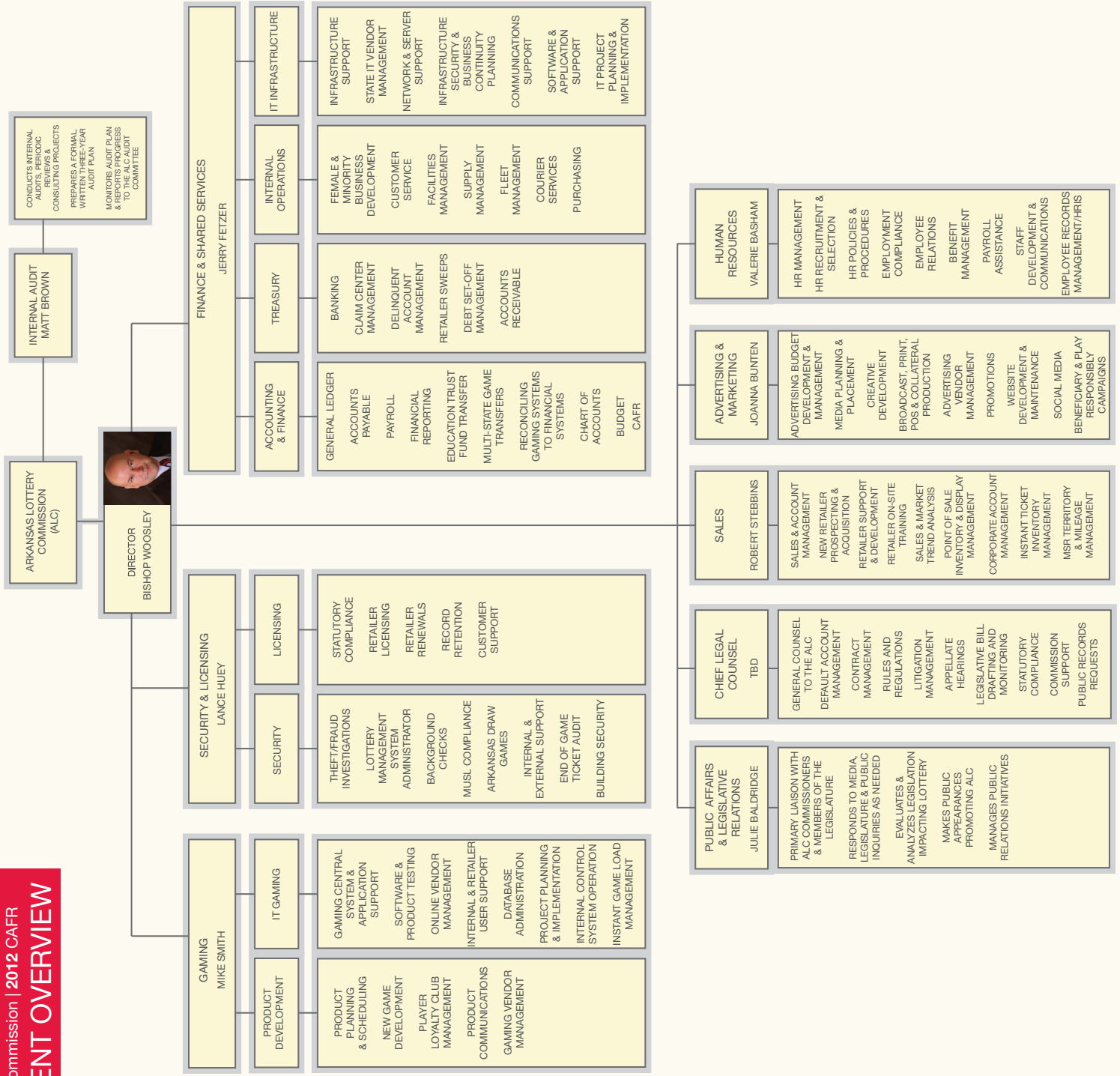
Malone is the executive director of the Northwest Arkansas Council, an economic development group. Previously, he worked as a congressional aide in Washington, D.C., and as an assistant in the Clinton White House. This appointment by House Speaker Robbie Wills expires April 1, 2013.



PATTY L. SHIPP

Shipp, along with her husband Kenny, has been a small business owner since 1979. The two have owned and operated several retail businesses, including a clothing store and a convenience store. This appointment by Senator Bob Johnson expires April 1, 2013.





Certificate of Achievement for Excellence in Financial Reporting

Presented to

Arkansas Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Sandson
President

Jeffrey L. Esser
Executive Director

FINANCIAL section



**I'M A WINNER TWICE. FIRST
BECAUSE MY DAUGHTER IS
AN ARKANSAS ACADEMIC
CHALLENGE SCHOLARSHIP
RECIPIENT ATTENDING UALR,
AND SECOND FOR THIS PRIZE!**

Felecia Patterson
Benton



I CAN FOCUS ON MY EDUCATION

“Thanks to the Arkansas [Academic] Challenge Scholarship, I’m not having to take out as many loans to pay for my college education, and that’s a huge relief for me and my parents. Knowing that I can focus on my education and not worry about how I’m going to pay for it has allowed me to get the most out of my college experience.”

Taylor Plugge | Senior | University of the Ozarks
Clarksville



Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

Independent Auditor's Report

Arkansas Lottery Commission
and Members of the Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the major fund of the Arkansas Lottery Commission, a Commission of Arkansas State government, as of and for the year ended June 30, 2012, which collectively comprise the Arkansas Lottery Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Arkansas Lottery Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As indicated above, the financial statements of the Arkansas Lottery Commission are intended to present the financial position and the changes in financial position and cash flows of the major fund of the State that is attributable to the transactions of the Arkansas Lottery Commission. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund of the Arkansas Lottery Commission as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012 on our consideration of the Arkansas Lottery Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Arkansas Lottery Commission's basic financial statements. The introductory section, statistical section, and supplementary information, listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The introductory section, statistical section, and supplementary information have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

DIVISION OF LEGISLATIVE AUDIT



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

Little Rock, Arkansas
October 19, 2012
SALC08512

MANAGEMENT'S discussion & analysis



**[THE LOTTERY IS] GREAT – THE KEY IS
EDUCATING YOUR EMPLOYEES TO
ESTABLISH INTEGRITY WITH YOUR
CUSTOMERS. THIS HAS DEVELOPED
AN EXTREMELY LOYAL CUSTOMER
BASE WITH CONSISTENT LOTTERY
SALES FOR OUR STORE.**

Kim Tinner
Metro
Little Rock



I'M HONORED

“The Arkansas [Academic] Challenge Scholarship took a financial burden off my family. A lot of people would not have been able to go to school without it. I’m honored to have received it.

Melvin DeShawn Clayton | Junior | University of Arkansas at Pine Bluff
Pine Bluff



**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2012
(Unaudited)**

As management of the Arkansas Lottery Commission (ALC), we offer readers of the ALC's financial statements this narrative overview and analysis of the financial activities of the ALC for the fiscal year ended June 30, 2012. Please read it in conjunction with the ALC's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Operating revenues for the ALC increased by \$8.5 million as compared to fiscal year 2011, an increase of 1.8%. Instant ticket sales increased \$3.8 million or 1.0%, Powerball® sales increased \$2.9 million or 8.4%, Mega Millions® increased \$1.5 million or 6.0% and remaining games sales increased \$0.9 million or 4.9%.
- The ALC successfully introduced one new online game called Arkansas 50/50 in October 2011. Arkansas 50/50 is a raffle style draw game which had revenues of \$0.9 million during fiscal 2012. Raffle involves the sale of lottery tickets, each representing an entry in a future drawing.
- The ALC's operating expenses increased \$7.4 million or 2% mostly due to the increase in game prizes as it relates to the increase in online game sales

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The statement of net assets presents information on all of the ALC's assets and liabilities, with the difference between the two reported as net assets. However, the increase or decrease in net assets does not reflect the condition of the ALC's financial position, because, by law, the ALC is required to transfer all net proceeds, which are revenues less all operating costs, to the Education Trust Account on a monthly basis.

The statement of revenues, expenses and changes in net assets reports the ALC's net assets and changes in them. As stated above, the ALC is required by law to transfer all net proceeds to an Education Trust Account. Therefore, the change in net assets does not reflect the actual results of the ALC's operating activities.

The statement of cash flows outlines the cash inflows and outflows related to the ALC's primary activities of selling lottery related products.

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

The ALC is a self-supporting agency of the State of Arkansas (State). For financial reporting purposes, the ALC is a major proprietary enterprise fund of the primary government of the State of Arkansas and is reported as such in the Comprehensive Annual Financial Report (CAFR) of the State

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2012
(Unaudited)**

FINANCIAL ANALYSIS

Statement of Net Assets

The ALC's net assets at June 30, 2012 and 2011 were as follows:

Condensed Summary of Assets, Liabilities and Net Assets		
	2012	2011
Current assets	\$ 72,861,057	\$ 79,630,922
Non-current assets	21,733,038	21,180,338
Capital assets	540,530	722,689
Total assets	95,134,625	101,533,949
Current liabilities	76,461,089	82,279,092
Long term liabilities	974,130	697,923
Total liabilities	77,435,219	82,977,015
Net assets:		
Invested in capital assets	540,530	722,689
Restricted	22,733,038	22,180,338
Unrestricted	(5,574,162)	(4,346,093)
Total net assets	\$ 17,699,406	\$ 18,556,934

Cash and cash equivalents were \$81.9 million and \$88.4 million at June 30, 2012 and 2011, respectively. Accounts receivable were \$11.0 million and \$11.2 million at June 30, 2012 and 2011, respectively. Capital assets, net of depreciation, decreased during the current fiscal year from \$0.7 million in 2011 to \$0.5 million in 2012.

The ALC's current liabilities consist primarily of amounts due to the Arkansas Department of Higher Education (ADHE), unclaimed prizes, accrued operating expenses and deferred revenue. Total liabilities decreased during the current fiscal year by \$5.5 million or 6.7%.

The ALC's assets exceed its liabilities resulting in net assets of \$17.7 million at June 30, 2012. This is a decrease of \$0.9 million from the prior year. The restricted net assets increased over the prior year by \$0.5 million, which is primarily due to increased deposits with the Multi-State Lottery Association (MUSL). The unrestricted net assets (deficit) has declined by \$1.2 million from the prior year, to a \$5.6 million deficit, primarily as a result of timing differences related to the accounting method used to calculate net proceeds and because of increases in the unfunded portion of the Other Post Employment Benefits (OPEB) liability. In the unlikely event that the ALC ceases operations, the Commission or State Legislature may be required to resolve this deficit.

Statement of Revenue, Expenses and Changes in Net Assets

During fiscal year 2012, the ALC's activities resulted in a decrease in net assets of \$0.9 million compared to an increase in net assets of \$19.4 in 2011. The decrease in net assets for the current year is primarily due to timing differences related to the accounting method used to calculate net proceeds and because of increases in the unfunded portion of the OPEB liability, while the increase in net assets in 2011 was due to a \$20 million transfer from ADHE for the Scholarship Shortfall Reserve Trust. The key elements of the changes in net assets for the fiscal years ended June 30, 2012, with comparative information for 2011 are shown in the following table.

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2012
(Unaudited)**

Summary of Revenues, Expenses, and Changes in Net Assets		
	<u>2012</u>	<u>2011</u>
Operating revenues		
Instant ticket sales	\$ 391,290,225	\$ 390,114,991
Online ticket sales	81,795,382	73,904,360
Retailer application, fidelity and service fees	538,584	1,055,538
Other revenue	15,038	5,450
Total operating revenues	<u>473,639,229</u>	<u>465,080,339</u>
Operating expenses		
Instant game prizes	274,203,122	271,709,950
Online game prizes	41,115,706	35,744,755
Commissions and contract costs	50,834,482	50,329,571
General and administrative expenses	11,797,890	12,300,367
Services provided by other agencies	1,005,549	1,451,438
Depreciation	182,159	179,750
Total operating expenses	<u>379,138,908</u>	<u>371,715,831</u>
Operating income	94,500,321	93,364,508
Nonoperating revenue:		
Interest income	352,431	464,252
Other non-operating income	2,000,000	-
Income before transfers	96,852,752	93,828,760
Transfers to :		
Education Trust Account	(97,510,280)	(74,229,349)
Transfers to ADHS	(200,000)	(200,000)
Increase (decrease) in net assets	(857,528)	19,399,411
Beginning net assets (deficit)	<u>18,556,934</u>	<u>(842,477)</u>
Ending net assets	<u>\$ 17,699,406</u>	<u>\$ 18,556,934</u>

OPERATING REVENUES

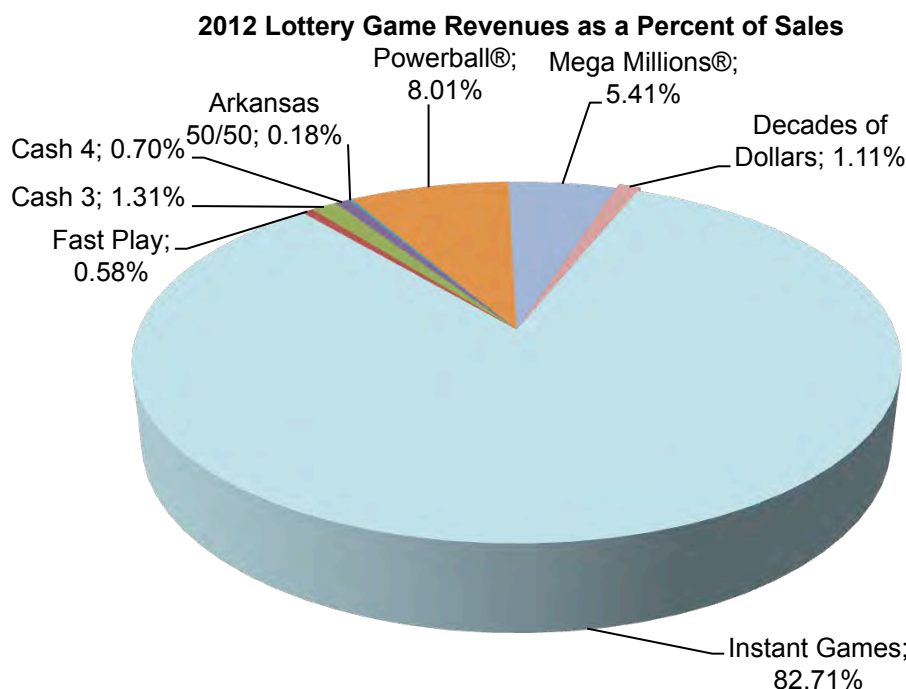
Games Sales

The ALC's game revenues are made up of a variety of instant and online lottery products. The ALC is an active member of two separate joint venture arrangements; the Multi-State Lottery Association (MUSL), and the Decades of Dollars Consortium. Powerball® and Mega Millions® are online games operated under MUSL and the Decades of Dollars Consortium is comprised of four states and operated by the State of Virginia. The ALC also operates Fast Play, Cash 3 and Cash 4, which are all online games. The ALC also added Arkansas 50/50, which is another online game introduced in October 2011. Arkansas Million Dollar Raffle was a limited time draw game and sales were concluded in April 2011. The table below shows instant ticket sales and sales by online lottery game for the years ended June 30, 2012 and 2011.

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2012
(Unaudited)**

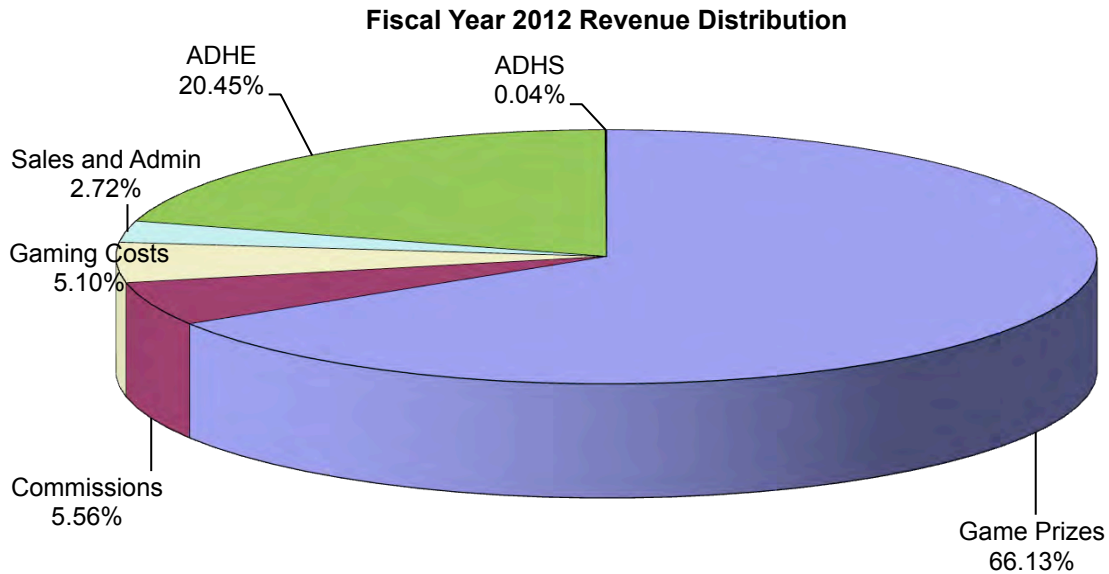
Lottery Games Sales for Years Ended June 30, 2012 and 2011				
Game	2012	2011	Change	% Change
Instant game sales	\$ 391,290,225	\$ 387,478,608	\$3,811,617	1.0%
Fast Play	2,721,436	2,636,383	85,053	3.2%
Cash 3	6,178,537	5,805,414	373,124	6.4%
Cash 4	3,325,490	3,091,218	234,272	7.6%
Arkansas 50/50	857,760	-	857,760	100.0%
Powerball®	37,903,399	34,961,543	2,941,856	8.4%
Mega Millions®	25,571,602	24,113,365	1,458,237	6.0%
Decades of Dollars	5,237,158	932,820	4,304,338	461.4%
Arkansas Million Dollar Raffle	-	5,000,000	(5,000,000)	-100.0%
Total game sales	\$ 473,085,607	\$ 464,019,351	\$9,066,256	2.0%

The ALC saw a \$9.1 million or 2.0% increase in lottery sales for fiscal year 2012 of which \$3.8 million was for instant ticket sales and \$5.3 million was for online game ticket sales. Instant ticket sales were the ALC's most popular product contributing 82.7% and 84.1% to total fiscal year sales for 2012 and 2011, respectively. However, the increase in total game sales for 2012 is primarily attributed to the increase in sales for online game tickets. For online game sales Decades of Dollars had a \$4.3 million increase in sales for 2012, based on a full year of sales compared to only two months of sales for 2011. The other online games such as Powerball®, Mega Millions®, Fast Play, Cash 3 and Cash 4 also contributed to the overall increase bringing in an additional \$5.0 million in sales for 2012 over 2011. Arkansas 50/50, which commenced sales on October 1, 2011, added sales of 0.9 million for fiscal 2012. Arkansas Million Dollar Raffle sold all \$5 million of its tickets in fiscal 2011 and the game was ended.



**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2012
(Unaudited)**

Distribution of the fiscal year 2012 revenue was as follows:



OPERATING EXPENSES

Prizes

Prizes are the largest operating expense the ALC incurs. Fiscal year 2012 prize expense of \$315.3 million reflects a 2.4% increase over fiscal year 2011 prize expense of \$307.4 million. This increase primarily corresponds to the increase in online ticket sales experienced in fiscal year 2012. The Arkansas Million Dollar Raffle (Raffle) ended in fiscal year 2011. However, because prize liability for online games remains for 180 days after end of game, the remaining unclaimed prize liability for Raffle was recognized as a decrease in prize expense of \$159,040 for fiscal 2012 when the 180 days expired.

The following table shows prize expense by lottery game for the years ended June 30, 2012 and 2011.

Game Prize Expense	Game Prize Expenses			
	2012	2011	Change	% Change
Instant Game prizes	\$ 274,203,122	\$ 269,898,596	\$ 4,304,526	1.6%
Fast Play	1,829,979	1,811,354	18,625	1.0%
Cash 3	3,198,570	2,625,770	572,800	21.8%
Cash 4	1,754,300	1,418,900	335,400	23.6%
Arkansas 50/50	425,722	-	425,722	100.0%
Powerball®	17,636,208	15,986,341	1,649,867	10.3%
Mega Millions®	12,486,075	12,168,144	317,931	2.6%
Decades of Dollars	3,943,892	545,600	3,398,292	622.9%
Arkansas Million Dollar Raffle	(159,040)	3,000,000	(3,159,040)	-105.3%
Total game prize expense	\$ 315,318,828	\$ 307,454,705	\$ 7,864,123	2.6%

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2012
(Unaudited)**

The following table shows sales profit margin for instant and online games by for the years ended June 30, 2012 and 2011.

Lottery Game Profit Margins				
	Instant Tickets		Online Tickets	
	2012	2011	2012	2011
Game revenues	\$ 391,290,225	\$ 387,478,608	\$ 81,795,382	\$ 76,540,743
Prize expense	274,203,122	269,898,596	41,115,706	37,556,109
Gross profit after prizes	\$ 117,087,103	\$ 117,580,012	\$ 40,679,676	\$ 38,984,634
Profit margin after prizes	29.9%	30.3%	49.7%	50.9%

As the table above shows, the profit margin after prizes paid is less for instant games versus online games. High jackpots normally drive sales for online games, whereas the different types of games on the market and the number of winning tickets (prizes) in a game primarily drives instant ticket sales.

Other Operating Expenses

In addition to prize expense, other expenses include retailer commissions, gaming contract costs, marketing & advertising costs, general administrative costs and depreciation. These other expenses totaled \$63.8 million for fiscal year 2012 and \$64.3 million for fiscal year 2011, which was a very slight decrease.

The table below shows comparative operating expenses for lottery games for the years ended June 30, 2012 and 2011.

Operating Expenses Profit Margin				
	2012	2011	Change	Percent Change
Operating revenues	\$ 473,639,229	\$ 465,080,339	\$ 8,558,890	1.8%
Operating expenses	379,138,908	371,715,831	7,423,077	2.0%
Operating Income	\$ 94,500,321	\$ 93,364,508	\$ 1,135,813	1.2%
Profit margin	20.0%	20.1%		

NON-OPERATING REVENUES AND TRANSFERS

Non-operating revenues consisted of interest income totaling \$352,431 and \$464,252 for the year ended June 30, 2012 and 2011, respectively. For the year ended June 30, 2012, non-operating revenues also included \$2,000,000 paid by Scientific Games, Inc., as an incentive payment not required by the contract.

In 2012 and 2011, net transfers of \$97.5 and \$74.2 million, respectively were made to the Education Trust Account. In 2011, the transfer was net of a return of \$20 million from ADHE for the purpose of funding the Scholarship Shortfall Reserve Trust (Shortfall Reserve). By statute, the Shortfall Reserve is set aside to provide scholarships in case of a lack of sufficient ALC net proceeds. For 2012 and 2011, net transfers for scholarships from the Education Trust Account to ADHE were \$115,000,000 for each year.

**Arkansas Lottery Commission
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2012
(Unaudited)**

CAPITAL ASSETS

At June 30, 2012 and 2011, the ALC had invested \$1 million in capital assets, including equipment and leasehold improvements. These capital assets are depreciating over their estimated useful lives of 5 to 7 years. More detailed information on capital assets may be found in Note 7 of the notes to the financial statements.

Capital Assets			
	2012	2011	Total % Change
Equipment	\$ 526,665	\$ 526,665	0.0%
Leasehold improvements	498,417	498,417	0.0%
Totals capital assets	1,025,082	1,025,082	0.0%
Total accumulated depreciation	(484,552)	(302,393)	60.2%
Net capital assets	\$ 540,530	\$ 722,689	-25.2%

CONTACT INFORMATION

This financial report is designed to provide a general overview of the ALC's finances and to demonstrate the ALC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the ALC's Finance Division at 124 West Capitol Avenue, Suite 1400, Little Rock, Arkansas 72201-3706 or call (501) 683-2000.



BASIC financial statements



**I WILL PUT [THIS] IN SAVINGS
TO USE THIS FALL FOR COLLEGE.**

Nathan Maynard
Fort Smith



OPPORTUNITY TO FINISH A DEGREE

“The Arkansas [Academic] Challenge Scholarship has allowed me the opportunity to finish a degree I started 35 years ago. I am forever grateful.

Joslyn Kuykendall | Junior | University of Central Arkansas
Conway



Arkansas Lottery Commission
Statement of Net Assets
June 30, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 3,887,687
Restricted assets:	
Cash and cash equivalents	57,969,648
Accounts receivable	10,971,639
Prepaid items	32,083
Total current assets	<u>72,861,057</u>

Noncurrent assets:

Restricted assets:	
Cash and cash equivalents	20,049,232
Deposits with Multi-State Lottery Association	1,683,806
Capital assets:	
Equipment	526,665
Leasehold improvements	498,417
Less accumulated depreciation	(484,552)
Total noncurrent assets	<u>22,273,568</u>
 Total assets	 <u><u>\$ 95,134,625</u></u>

LIABILITIES

Current liabilities:

Accounts payable	\$ 501,306
Prizes payable	15,898,130
Accrued and other liabilities	1,765,202
Due to other funds of the State	946,795
Due to Arkansas Department of Higher Education	56,969,648
Compensated absences	45,939
Deferred revenue	334,069
Total current liabilities	<u>76,461,089</u>

Long-Term liabilities:

Compensated absences	246,850
Net post employment benefits payable	727,280
Total long-term liabilities	<u>974,130</u>
 Total liabilities	 <u>77,435,219</u>

NET ASSETS

Net assets:

Invested in capital assets	540,530
Restricted for:	
Scholarship Shortfall Reserve Trust Account	20,000,000
Retailer Fidelity Fund	49,232
Deposits with Multi-State Lottery Association	1,683,806
Future prizes or special prize promotions	1,000,000
Unrestricted	<u>(5,574,162)</u>
 Total net assets	 <u>17,699,406</u>
 Total liabilities & net assets	 <u><u>\$ 95,134,625</u></u>

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

Arkansas Lottery Commission
Statement of Revenue, Expenses, and Changes in Net Assets
For the Twelve Months Ending June 30, 2012

Operating revenues:

Instant ticket sales	\$ 391,290,225
Online ticket sales	81,795,382
Retailer application, fidelity and service fees	538,584
Other revenue	<u>15,038</u>
Total operating revenues	<u>473,639,229</u>

Operating expenses:

Instant game prizes	274,203,122
Online game prizes	41,115,706
Retailer commissions	26,526,329
Gaming contract costs	24,308,153
Compensation and benefits	5,954,138
Marketing, advertising and promotions	4,466,054
General and administrative expenses	1,270,047
Services provided by Arkansas Department of Higher Education	846,109
Audit Services provided by Arkansas Division of Legislative Audit	159,440
Legal and professional services	107,651
Depreciation	<u>182,159</u>
Total operating expenses	<u>379,138,908</u>

Operating income	94,500,321
------------------	------------

Nonoperating revenue:

Interest income	352,431
Other nonoperating Income	<u>2,000,000</u>

Income before transfers	96,852,752
-------------------------	------------

Transfers to:

Education Trust Account	(97,510,280)
Arkansas Department of Human Services	<u>(200,000)</u>

Change in net assets	(857,528)
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Total net assets - beginning	18,556,934
Total net assets - ending	<u><u>\$ 17,699,406</u></u>

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

**Arkansas Lottery Commission
Statement of Cash Flows
Year Ended June 30, 2012**

Cash flows from operating activities:

Cash received from retailers and others	\$ 473,876,584
Cash paid for prizes	(315,948,269)
Cash paid for gaming vendors	(24,588,775)
Cash paid for retailer commissions	(26,526,329)
Cash paid for marketing and advertising	(4,280,198)
Cash paid for employee services	(5,848,550)
Cash paid for other expenses	(2,726,247)
Cash received from other nonoperating income	2,000,000
Net cash provided by operating activities	<u>95,958,216</u>

Cash flows from noncapital financing activities:

Nonoperating transfers to Arkansas Department of Higher Education	(115,000,000)
Nonoperating transfers to Arkansas Department of Human Services	(200,000)
Nonoperating transfers from Arkansas Department of Higher Education	12,430,211
Net cash used by noncapital financing activities	<u>(102,769,789)</u>

Cash flows from capital and related financing activities:

Purchases of capital assets	-
-----------------------------	---

Cash flows from investing activities:

Interest received	<u>352,431</u>
-------------------	----------------

Net decrease in cash and cash equivalents (6,459,142)

Cash and cash equivalents, beginning of year 88,365,709

Cash and cash equivalents, end of year \$ 81,906,567

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

Operating income	\$ 94,500,321
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	182,159
Other nonoperating income	2,000,000
Net changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	258,522
Prepaid items	45,174
Multi-State Lottery Association Reserves	(545,673)
Increase (decrease) in:	
Accounts payable	(766,472)
Prizes payable	(83,767)
Accrued and other liabilities	501,610
Due to other funds of State	(382,971)
Compensated absences	1,191
Deferred revenue	(21,168)
Net post employment benefits	269,290
Net cash provided by operating activities	<u><u>\$ 95,958,216</u></u>

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



NOTES TO financial statements



**IT'S A GOOD DRAW. IT GETS
PEOPLE IN THE BUILDING --
ESPECIALLY WHEN THE
JACKPOTS GO UP.**

Richard Ney
Mapco Mart
Sherwood



ARKANSANS ARE HELPING SUPPORT MY GOALS

"I honestly do not think I would be able to attain such a quality education without the help of the Arkansas lottery scholarship. It is comforting to know that Arkansans are helping support my goals of higher education."

Angelica Holmes | Sophomore | Lyon College
Little Rock

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Arkansas Lottery Commission (ALC) was created by Acts 605 and 606 of 2009 (Act) for the purpose of establishing, operating, and regulating State of Arkansas (State) lotteries as authorized by the Arkansas Constitution. The primary purpose of the Act is to supplement higher education scholarships with net proceeds from State lottery operations. The ALC is charged with overseeing the lottery operations of the State and consists of nine members with three members appointed by each of the following: the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate.

The ALC is a self-supporting, revenue-raising agency of the state. The ALC commenced sales of instant scratch-off tickets on September 28, 2009; Powerball® on October 31, 2009; Cash 3 on December 14, 2009; Mega Millions® on January 31, 2010; Cash 4 on July 12, 2010; Fast Play games on October 25, 2010; Decades of Dollars on May 3, 2011 and Arkansas 50/50 on October 1, 2011. Powerball® and Mega Millions® are offered through the Multi-State Lottery Association (MUSL). Decades of Dollars is offered through a consortium of participating lottery states.

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

b. Basis of Presentation

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

c. Basis of Accounting

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

Private-sector standards of accounting and financial reporting, published by the Financial Accounting Standards Board (FASB), which were issued on or before November 30, 1989, are followed in the enterprise fund financial statements to the extent that such standards do not conflict with standards issued by the Governmental Accounting Standards Board (GASB). As permitted by the GASB, the ALC has elected not to adopt FASB guidance issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. New GASB Statements and Interpretations are adopted in the years they become effective.

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2012**

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

d. Cash and Cash Equivalents

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

e. Accounts Receivable

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

f. Capital Assets

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

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

When capital assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the Statement of Revenues, Expenses, and Changes in Net Assets, in the period of disposal. The ALC did not dispose of capital assets during the year ended June 30, 2012.

g. Net Assets

Net assets include categories for net investments in capital assets and restricted net assets for the Scholarship Shortfall Reserve Trust Account, Retailer Fidelity Fund, MUSL deposits and for future prizes or special prize promotions. The net investment in capital assets category represents the purchases of capital assets, recorded at cost less accumulated depreciation. The restricted net assets for Scholarship Shortfall Reserve Trust Account represents monies set aside to fund scholarships, if needed, due to a lack of ALC Net Lottery Proceeds. The Retailer Fidelity Fund fees may be used to cover losses due to retailer nonfeasance, malfeasance or misfeasance. The MUSL deposits

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2012**

represent funds set aside to fund Powerball® and Mega Millions® prizes in the event of multiple grand prize winners. The Reserve for future prizes or special prize promotions represents monies set aside from unclaimed prizes to be used to supplement future prizes or special prize promotions. Act 1180, enacted April 6, 2011, authorized the reserve for future prizes or special prize promotions. It is the practice of the ALC to use restricted resources first, then unrestricted resources when both restricted and unrestricted resources are available.

h. Revenue Recognition

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

i. Deferred Revenue

Funds collected from retailers for online game tickets sold in advance of the game drawings are recorded as deferred revenue and recognized as revenue once the related drawing occurs. Retailer application fees are for a two year period and amounts for the period beyond twelve months are recorded as deferred revenues, which are recognized as revenue over the following twelve months.

j. Commissions

Retailers receive a commission of five percent on all instant tickets settled and online tickets sold. In addition, (1) retailers receive a cashing commission of one percent of each one dollar redeemed up to the cashing limit of \$500 per ticket, and (2) retailers receive an additional selling commission of one percent for each ticket validated and paid to a player for prize amounts of \$10,000 or more. The maximum selling commission for selling tickets for a prize of \$10,000 or more is \$50,000.

k. Prizes and Unclaimed Prizes

For instant scratch-off games, prize expense is accrued based on the end of production prize structure percentage provided by the gaming vendor for each game and recorded based on value of packs activated for sale by retailers. Prize expense for merchandise prizes is recognized when invoiced by the gaming vendor. Any prize that remains unclaimed 90 days after a scratch-off game ends is considered unclaimed.

Prize expenses for online games are recorded for each draw at an established prize payout estimate percentage of the revenue recognized. Any prize that remains unclaimed at the end of a 180-day period following a draw is considered unclaimed.

During fiscal year 2012 unclaimed prize money totaled \$4,897,955 of which \$4,897,955 was credited to Net Proceeds for deposit into the Education Trust Account. Act 1180, enacted April 6, 2011, required \$1,000,000 of unclaimed prizes be set aside and maintained to supplement future prizes or for special prize promotions. For the year ended June 30, 2012 none of the \$1,000,000 set aside to supplement future prizes or for special prize promotions was used. For financial statement purposes unclaimed prizes reduce the overall prize expense recognized.

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2012**

l. Compensated Absences

Employees earn the right to be compensated during absences for vacation, illness, overtime worked for non-exempt employees, and on legal holidays. Compensated absences for annual leave and legal holidays banked are recorded as a liability when the benefits are earned. Compensated absences for sick leave are calculated based on the vesting method for employees that are eligible for retirement benefits. Within the limits established by law or rule, unused leave benefits are paid to employees upon separation from State service for vacation, banked holidays and eligible sick leave. The compensated absences amounts are based on current year-end salary rates and include employer Social Security contributions at current rates.

m. Use of Estimates

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

n. Bad Debt Expense

Bad debt expense is normally recognized when an ALC retailer's uncollected revenue is significantly past due and is in excess of amounts deemed to be collectible. The amount of expense is based on the outstanding aged accounts receivable less the amount of any fidelity bond. The ALC recorded bad debt expense for the fiscal year ended June 30, 2012 of \$13,632. For net proceeds, bad debt expense amounts are recovered from the fidelity fund trust account, which is maintained to offset such potential loss.

o. Due to Arkansas Department of Higher Education

The Act requires the ALC to deposit each month's Net Proceeds into an Education Trust Account by the 15th of the following month. This amount is accrued as a liability on the Statement of Net Assets using accrual basis accounting as required by GAAP. However, the amount actually deposited into the Education Trust Account is computed using modified cash basis revenues for monies received from retailers for instant ticket games. The Act requires these funds to be held in trust for the funding of higher education scholarships.

2. DEPOSITS

Arkansas Code Annotated 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 September 1, 1990 as referenced by the Department of Finance and Administration within the Financial Management Guide for use by all State agencies.

The stated primary goal of state cash management is the protection of principal, while maximizing investments and minimizing non-interest bearing balances. Deposits are to be made within the borders of the State of Arkansas and placed with an Arkansas Bank or Savings and Loan Association. Policy requires a minimum of four (4) bids to be sought on interest bearing deposits, in order to obtain the highest rate possible.

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2012**

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. A single checking account should be sufficient for each cash fund. Funds in excess of immediate expenditure requirements (excluding minimum balances) should not remain in non-interest bearing accounts.

In 2009, the ALC entered into a seven-year contract with Bank of the Ozarks to provide banking services to its operations. The contract has the provision that all banking services be provided to ALC at no cost. Additionally, the contract calls for interest to be paid on all ALC deposits at a rate of 20 basis points over the Federal Funds Target rate with a floor of 55 basis points. During the year ended June 30, 2012, the ALC was paid 55 basis points on all ALC deposits. All cash and equivalents at June 30, 2012 were held in accounts at the Bank of the Ozarks. As agreed to in their contract, the Bank of the Ozarks has agreed to pledge collateral on all accounts of the ALC in an amount to exceed the State requirement of 102 percent of deposits. As of June 30, 2012, total collateral pledged to the ALC was \$86,381,371 to secure total bank balances of \$82,012,368. The collateral is held in the ALC's name by Arkansas Banker's Bank and the Federal Home Loan Bank of Dallas.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the ALC will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The ALC has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. It is the opinion of management that none of the ALC's bank balances of \$82,012,368 were exposed to custodial credit risk as of June 30, 2012.

3. *EDUCATION TRUST ACCOUNT AND UNCLAIMED PRIZE RESERVE*

Per the Act, each month on or before the 15th day, the ALC must deposit the net proceeds of the previous month into a trust account. To meet this requirement, the Education Trust Fund Account (the Trust Account) was established with Bank of the Ozarks. Such account is restricted for transfers to and from the Arkansas Department of Higher Education (ADHE). Funds are transferred from the Trust Account to ADHE based on their request, to meet scholarship needs. During fiscal year 2012 a total of \$115,000,000 was transferred to ADHE. The Trust Account balance as of June 30, 2012 of \$47,883,000 and the June 2012 Net Proceeds of \$9,086,648, the net transfer of which occurred in July 2012, are included in current restricted cash and cash equivalents on the Statement of Net Assets.

Act 1180, enacted April 6, 2011, required \$1,000,000 of unclaimed prizes be set aside to supplement future prizes or special prize promotions. The reserve for future prizes or special prize promotions represents monies set aside for this purpose. The reserve for future prizes or special prize promotions is also shown as current restricted cash and cash equivalents on the Statement of Net Assets; the balance at June 30, 2012 was \$1,000,000.

4. *ACCOUNTS RECEIVABLE*

Management believes that an allowance for uncollectable accounts is not necessary at June 30, 2012. Subsequent collections and surety bond amounts are sufficient to cover past due accounts.

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2012**

Amounts due from retailers and others are summarized as follows:

Amount due for activated instant scratch-off tickets, not settled	\$ 8,645,432
Amount due for partial week sales through June 30, 2012	2,318,208
Past due accounts and other receivables	<u>7,999</u>
Total accounts receivable	<u>\$ 10,971,639</u>

5. SCHOLARSHIP SHORTFALL RESERVE TRUST ACCOUNT AND FIDELITY FUNDS

The Scholarship Shortfall Reserve Trust Account represents monies set aside to fund scholarships, if needed, due to a lack of ALC Net Proceeds. The balance of the Scholarship Shortfall Reserve Trust Account at June 30, 2012 was \$20,000,000.

In accordance with the Act, ALC retailers are assessed an annual fidelity fund fee. Fidelity fund proceeds are held in a separate demand deposit account and are classified as restricted on the Statement of Net Assets. These funds may be used to cover losses incurred as a result of any nonfeasance, malfeasance or misfeasance of ALC retailers. The ALC sustained losses of \$13,632 that were charged to the fidelity fund during the year ended June 30, 2012. Per statute, at the end of each fiscal year, fidelity funds exceeding \$500,000 may be treated as net proceeds from the ALC, and subject to deposit into the Educational Trust Account. The balance of the Fidelity Trust fund at June 30, 2012 was \$49,232.

6. JOINT VENTURES

GASB Statement No.14, The Financial Reporting Entity, as amended, defines a joint venture as a legal entity which 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 (a) an ongoing financial interest or (b) an ongoing financial responsibility. The ALC is an active participant in two separate joint venture arrangements; MUSL and the Decades of Dollars Consortium. MUSL is audited annually by a separate independent audit firm. For Decades of Dollars, each Lottery in the Consortium shall annually subject transactions, accounts and processes to a test of agreed upon procedures by an independent auditor in its state.

Multi-State Lottery Association

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

The ALC commenced Powerball® sales on October 31, 2009. Mega Millions® sales by the ALC began on January 31, 2010. As a member of MUSL, the ALC is required to contribute to various prize reserve funds maintained by MUSL. The prize reserve funds serve as a contingency reserve to protect MUSL 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, will be returned to the ALC, upon leaving MUSL. As of June 30, 2012, the ALC had reserve fund deposits with MUSL of \$1,683,806.

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2012**

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

ALC's portion of the MUSL's games for the fiscal year ended June 30, 2012 is summarized below:

	<u>Powerball®</u>	<u>Mega Millions®</u>
Operating Revenues	\$ 37,903,399	\$ 25,571,602
Prizes	17,636,208	12,486,075

Decades of Dollars Consortium

On May 3, 2011, the ALC joined the Decades of Dollars Consortium comprised of the Georgia Lottery Corporation, Kentucky Lottery Corporation and Virginia Lottery to create and operate a multi-state lottery game entitled "Decades of Dollars". The chief officials of each member lottery shall serve as the Executive Committee.

The ALC's portion of revenues for "Decades of Dollars" game for the fiscal year ended June 30, 2012 was \$5,237,158 and prizes were \$3,943,892.

7. CAPITAL ASSETS

The activity for capital assets for the year ended June 30, 2012, was:

<u>Capital Assets</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Equipment	\$ 526,665	\$ -	-	\$ 526,665
Leasehold improvements	498,417	-	-	498,417
Total capital assets	1,025,082	-	-	1,025,082
Less accumulated depreciation for:				
Equipment	(160,537)	(98,902)		(259,439)
Leasehold improvements	(141,856)	(83,257)	-	(225,113)
Total accumulated depreciation	(302,393)	(182,159)	-	(484,552)
Capital Assets, net	\$ 722,689	\$ (182,159)	-	\$ 540,530

8. LIABILITIES

a. Prizes Payable

Prizes payable at June 30, 2012 consisted of instant and online game prizes as well as related state and federal withholdings. Instant ticket prizes are estimated based on the end of production prize structure provided by Scientific Games. Prizes payable by category are as follows:

Instant ticket prizes	\$ 14,044,150
Fast Play prizes	9,776
Powerball® prizes	830,491
Mega Millions® prizes	637,475
Decades of Dollars prizes	191,396
Arkansas 50/50 prizes	9,968
Cash 4 prizes	34,700
Cash 3 prizes	45,800
Income tax withholdings	94,374
Total	<u>\$ 15,898,130</u>

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2012**

b. Due to Other Funds of the State

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

The Division of Legislative Audit (DLA) is required by law to perform an annual audit of the ALC financial position. The law also states that the ALC shall reimburse DLA at an hourly rate set by the Legislative Joint Auditing Committee for work performed. DLA also provides validation services for certain ALC daily online draw games. The amount due to DLA at June 30, 2012 is listed in the table below.

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

ADHE	\$ 846,109
DLA	10,480
Department of Finance and Administration	1,074
Department of Information Systems	32,303
University of Arkansas	56,623
Office of the Attorney General	206
Total	<u>\$ 946,795</u>

c. Due to Arkansas Department of Higher Education

The ALC is required by law to deposit each month's Net Proceeds into an Education Trust Account. Per the Act, Net Proceeds are to be determined by the Commission as a percentage of lottery proceeds equal to an amount to maximize net proceeds, less operating expenses. Net Proceeds for the year ended June 30, 2012 were \$97,510,280. Activity in the Due to ADHE account consists of:

Due to ADHE at 7/01/11	\$ 62,029,157
Educational Proceeds for year ended 6/30/12	97,510,280
Returns from ADHE during fiscal year ended 6/30/12	<u>12,430,211</u>
Total Available	171,969,648
Transfers to ADHE during fiscal year ended 6/30/12	<u>115,000,000</u>
Due to ADHE at 6/30/12	<u>\$ 56,969,648</u>

d. Accounts Payable, Accrued Liabilities and Compensated Absences

Accounts payable consist of amounts due to vendors for operating costs of the lottery. Accrued liabilities consist of amounts due to gaming vendors for gaming costs of the lottery, accrued payroll earned and related health insurance withholdings as of June 30, 2012.

**Arkansas Lottery Commission
Notes to Financial Statements
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As a proprietary type enterprise fund, for financial reporting purposes the ALC recognizes and accrues liabilities for compensated absences as services are performed and the benefits accrue to employees. The compensated absences payable to ALC employees for annual, sick, and compensatory leave at June 30, 2012 totaled \$292,789. The ALC has adopted the State of Arkansas methodology for the computation of the current vs. long-term portion of this liability. This computation is based upon the State average of current vs. long-term portion of this liability for all state employees. For the year ended June 30, 2012 the current portion of the compensated absences liability decreased by \$5,726 to a balance of \$45,939 and the long-term portion increased by \$6,917 to a balance of \$246,850.

e. Deferred Online Revenue

Funds collected from retailers for online game tickets sold in advance of the game drawings are recorded as deferred revenue and recognized as revenue once the related drawing occurs.

Deferred revenue at June 30, 2012 is summarized as follows:

Powerball®	\$ 113,431
Mega Millions®	94,452
Arkansas 50/50	52,690
Decades of Dollars	23,526
Cash 3	3,438
Cash 4	3,218
Total	<u>\$ 290,755</u>

9. ONLINE GAME REVENUE

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 as of June 30, 2012 consisted of the following:

Powerball®	\$ 37,903,399
Mega Millions®	25,571,602
Cash 3	6,178,537
Cash 4	3,325,490
Arkansas 50/50	857,760
Decades of Dollars	5,237,158
Fast Play	2,721,436
Total	<u>\$ 81,795,382</u>

10. OPERATING LEASES

The ALC has entered into operating leases for the rental of office space for its headquarters, as well as its three district claim centers. These leases are renewable at the option of the ALC at the end of their initial terms. The ALC headquarter's offices are currently under a six-year lease,

**Arkansas Lottery Commission
Notes to Financial Statements
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expiring August 31, 2015. The claim center leases are five-year terms, ending on various dates in 2014. Annual rent expense for the year ended June 30, 2012 was \$445,061.

Future minimum rental payments as of June 30, 2012, are scheduled as follows:

2013	\$456,740
2014	468,553
2015	438,405
2016	69,673
2017	0

11. UNRESTRICTED NET ASSETS (DEFICIT)

Act 606 of 2009 (Scholarship Lottery Act) section ACA 23-115-801 (a) (3) requires "The percentage of lottery proceeds determined by the commission to be net proceeds shall equal an amount determined by the commission to maximize net proceeds." Section ACA 23-115-103 (19) defines net proceeds to be lottery proceeds less operating expenses; the amount of fidelity fund revenue that exceeds \$500,000; the undepreciated amount of capital assets; and 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 Arkansas Lottery Commission under this chapter. Also ACA 23-115-801 Section (b) (1) requires "On or before the fifteenth day of each month, the commission shall deposit the net proceeds from the lottery into one (1) or more trust accounts at one (1) or more financial institutions."

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

However, the calculation method utilized results in modified cash basis net proceeds each month which vary from the GAAP net proceeds. Since the net proceeds for each month are transferred to a trust account by the 15th day of the next month, such transfer creates a timing difference for the recognition of certain instant games prize expense, which results in a debit balance (deficit) in Unrestricted Net Assets. At June 30, 2012 the cumulative variance due to the modified cash basis method was a debit balance (deficit) in Unrestricted Net Assets of \$4,846,882.

In addition, the ALC's net OPEB liability (see note 17) of \$727,280 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 Assets at June 30, 2012 of \$727,280. The total debit balance (deficit) in Unrestricted Net Assets at June 30, 2012 was \$5,574,162.

**Arkansas Lottery Commission
Notes to Financial Statements
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12. TRANSFERS

Transfers of Net Proceeds to the Education Trust Account were \$97,510,280 for the year ended June 30, 2012.

The ALC also made a transfer to the Arkansas Department of Human Services (DHS) in the amount of \$200,000 as stated in note 13.

13. COMPULSIVE GAMBLING CONTRIBUTION

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

14. RETIREMENT PLANS

a. Plan Description

The ALC contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Board of Trustees of the APERS. The State is considered the employer and the ALC is an agency of the State. APERS provides retirement, disability and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. The Constitution of Arkansas, Article 5, vests with the General Assembly the legislative power. This power includes the enactment and amendment of benefit provisions of APERS as published in Chapters 2, 3 and 4 of Title 24 of the Arkansas Code Annotated. Since all State agencies are considered collectively to be a single employer, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the ALC's employees cannot be determined. Similarly, the net assets available for benefits of ALC employees cannot be determined. APERS issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees' Retirement System, One Union National Plaza, 124 West Capitol, Little Rock, Arkansas, 72201 or by calling 1-501-682-7855

b. Funding Policy

Contributory plan members are required to contribute 5% of their annual covered salary. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the ALC are established and may be amended by the Board of Trustees of the APERS. ALC is required to contribute to this plan for all covered State employees. For the years ended June 30, 2012, 2011 and 2010 the required contribution rates were 13.47%, 12.46% and 11% of annual covered payroll respectively.

The annual ALC required contribution amounts and the percentage contributed are determined by the annual actuarial valuation as set forth in the Arkansas Code for APERS.

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The current year and each of the two preceding years are as follows:

	<u>June 30, 2012</u>		<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>
Contributions:						
Employee	5.0 %	\$212,340	5.0 %	\$230,580	5.0 %	\$187,750
ALC	13.47%	<u>606,017</u>	12.46%	<u>598,408</u>	11.00%	<u>436,304</u>
 Required Contribution		<u><u>\$818,357</u></u>		<u><u>\$828,988</u></u>		<u><u>\$624,054</u></u>
 % Contributed		100%		100%		100%

At June 30, 2012 no pension liability exists for APERS as the State's contribution to each plan was equal to or exceeded its annual required contributions.

15. CONTRACTUAL ARRANGEMENTS AND OTHER COMMITMENTS

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

INTRALOT operates the gaming network that consists of approximately 1,885 instant and online retailer ticket terminals and associated software. In accordance with its contract, INTRALOT receives the negotiated fee on the selling price of online tickets sold and on instant ticket settlements. ALC has a seven-year contract with INTRALOT ending in 2016, which includes an option for up to three additional renewals in one-year increments, or a portion thereof. During the year ended June 30, 2012, INTRALOT was compensated at the rate of 2.45% for all online and instant ticket game sales. Intralot's compensation for online and instant game services for the fiscal year ended June 30, 2012 was \$11,619,038.

SGI prints, warehouses, and distributes the instant game tickets to retailers. In accordance with its contract, SGI receives the negotiated fee on the selling price of all instant ticket settlements. ALC has a seven-year contract with SGI ending in 2016. During the year ended June 30, 2012, SGI was compensated \$7,512,769 which represents a rate of 1.92% of sales for these services. Additionally SGI is paid a fee for the Points for Prizes program of 1.50% of the prize fund. During the year ended June 30, 2012 this fee totaled \$4,232,407. This program provides merchandise prizes awarded to players based upon tickets registered by the players. In addition, SGI provides other products and services for which ALC pays various contracted fees. Total fees paid to SGI for all services for the fiscal year ended June 30, 2012 was \$12,537,697. On June 29, 2012, SGI made a payment of \$2,000,000 to the ALC as an incentive payment for the maintenance and execution of the terms of the contract. Such payment was not required per any terms of the contract and accordingly was classified as other non-operating revenue for financial statement purposes.

16. CONTINGENCIES

There are pending lawsuits to which the ALC is a party, both as a Plaintiff and Defendant, as a result of matters which have arisen in the ordinary course of business. The final outcome of the lawsuits is not presently determinable. ALC management does not anticipate the resolution of these matters to have a material adverse effect on the financial condition of the ALC.

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2012**

17. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

a. Plan Description

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

b. Funding Policy and Funded Status

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

Projections of benefits are based on actuarial calculations which reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions used in the calculation of the OPEB liability were as follows: Actuarial valuation date: July 2012; Actuarial cost method: Projected Unit Credit; Amortization method: Level Dollar Open; Remaining amortization period: 30 years; Asset valuation method: Market value; Actuarial Assumptions: Investment rate of return, 4.25%; Rate of salary increases, not applicable; Ultimate rate of medical inflation, 4.25%; Inflation, 3.00%.

For the year ended June 30, 2012, there was no required contribution rate and no contributions were made, as the plan is funded on a pay-as-you-go basis and there were no ALC plan members receiving benefits. The ALC's annual OPEB cost for the years

**Arkansas Lottery Commission
Notes to Financial Statements
June 30, 2012**

ended June 30, 2012, 2011 and 2010 were \$269,290, \$227,968 and \$230,022 respectively. The ALC's portion of the net OPEB liability at June 30, 2012, 2011 and 2010 totaled \$727,280, \$457,990 and \$ 230,022 respectively. The increase in the net liability for the year ended June 30, 2012 was \$269,290.

18. RISK MANAGEMENT

The ALC is exposed to various types of risk related to its operations. These risks can result in losses incurred from property damage or destruction, inability to operate gaming activities and worker compensation claims. The ALC manages these risks by participating in the various self-insurance programs established by the State for property and casualty losses and employee health insurance. Coverages include property, general liability, automobile liability, workers' compensation, state unemployment, court-awarded attorney fees, and Federal civil rights actions. Property is self-insured for actual cash value to an aggregate of \$1.7 million per loss event for all perils. Losses from earthquake and flood are also subject to an annual aggregate loss for the State of \$1 million. Workers' compensation is provided in compliance with the applicable law. The employee health and dental insurance program provides for payment of medical claims of employees and covered dependents. Claims and settlements incurred for fiscal years ended June 30, 2012, 2011 and 2010 did not exceed the ALC's insurance coverage.

19. SUBSEQUENT EVENTS

In accordance with GASB 56, ALC's Management has evaluated subsequent events that occurred after June 30, 2012, but prior to October 19, 2012, the date the financial statements were available to be issued.

Such evaluation identified the following transactions related to the Education Trust Account for ADHE (Trust Account) and the corresponding Due to ADHE liability account. On August 7, 2012, ADHE returned \$6,342,312 to the ALC for excess funds for fiscal 2012, which were deposited to the Trust Account and reflected in the Due to ADHE liability. On August 10, 2012, upon the request of ADHE, a payment of \$55,000,000 was made from the Trust Account to ADHE.

STATISTICAL section



**“ IN THE PAST YEAR I’VE LOST MY
HUSBAND AND MOTHER AND MY
HOME WAS HIT BY A TORNADO.
THIS PRIZE COULDN’T HAVE COME
AT A BETTER TIME. ”**

Susan Matthews
Jacksonville



IT'S FINANCIAL RELIEF FOR MY EDUCATION

“It’s comforting to know that the Arkansas Academic Challenge [Scholarship] brought financial relief for my education so that I may pursue my future.

Paxton Huse | Freshman | Arkansas Tech University
Springdale



STATISTICAL SECTION TABLE OF CONTENTS
(Unaudited)

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

<u>Contents</u>	<u>Page</u>
Financial Trends	30
These schedules contain trend information to help the reader understand how the Commission's financial performance and well-being have changed over time.	
Demographics and Operation Information	34
These schedules offer demographic and operation indicators to help the reader understand the environment within which the Commission's financial activities take place.	
National Lottery Statistics	38
This schedule provides the reader with an understanding of lottery sales across the United States by state.	

**Arkansas Lottery Commission
Principal Revenue Sources (Unaudited)
Last Three Fiscal Years Ended June 30**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues:			
Instant ticket sales:			
Instant games sales	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156
Online ticket sales:			
Cash 3	6,178,537	5,805,414	5,277,255
Cash 4	3,325,490	3,091,218	-
Arkansas Million Dollar Raffle	-	5,000,000	-
Arkansas 50/50	857,760	-	-
Powerball®	37,903,399	34,961,543	34,998,429
Mega Millions®	25,571,602	24,113,365	7,935,615
Decades of Dollars	5,237,158	932,820	-
Fast Play	2,721,436	2,636,383	-
Retailer application, fidelity and service fees	538,584	1,055,538	867,023
Other revenue	15,038	5,450	5,650
	<u>473,639,229</u>	<u>465,080,339</u>	<u>384,571,128</u>
Total operating revenues			
	<u>473,639,229</u>	<u>465,080,339</u>	<u>384,571,128</u>
Nonoperating revenue:			
Interest income	352,431	464,252	181,807
Other non-operating income	2,000,000	-	-
	<u>2,352,431</u>	<u>464,252</u>	<u>181,807</u>
Total revenues	<u><u>\$ 475,991,660</u></u>	<u><u>\$ 465,544,591</u></u>	<u><u>\$ 384,752,935</u></u>

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

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:				
Instant ticket sales	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156	\$ -
Online ticket sales	81,795,382	76,540,743	48,211,299	-
Retailer application, fidelity and service fees	538,584	1,055,538	867,023	-
Other revenue	<u>15,038</u>	<u>5,450</u>	<u>5,650</u>	<u>-</u>
Total operating revenues	<u>473,639,229</u>	<u>465,080,339</u>	<u>384,571,128</u>	<u>-</u>
Operating expenses:				
Instant game prizes	274,203,122	269,898,596	224,341,940	-
Online game prizes	41,115,706	37,556,109	23,381,100	-
Retailer commissions	26,526,329	26,217,851	21,578,603	-
Gaming contract costs	24,308,153	24,111,720	20,448,694	-
Compensation and benefits	5,954,138	6,226,266	6,118,300	-
Marketing, advertising and promotions	4,466,054	4,631,388	4,352,303	-
General and administrative expenses	1,270,047	1,434,229	1,841,340	11,683
Services provided by other agencies:				
Arkansas Department of Higher Education	846,109	1,170,710	216,849	-
Arkansas Division of Legislative Audit	159,440	280,728	153,180	-
Legal and professional services	107,651	8,484	24,182	4,786
Depreciation	<u>182,159</u>	<u>179,750</u>	<u>122,643</u>	<u>-</u>
Total operating expenses	<u>379,138,908</u>	<u>371,715,831</u>	<u>302,579,134</u>	<u>16,469</u>
Operating income (loss)	94,500,321	93,364,508	81,991,994	(16,469)
Nonoperating revenue:				
Interest income	352,431	464,252	181,807	-
Other non-operating income	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) before transfers	96,852,752	93,828,760	82,173,801	(16,469)
Transfers to:				
Education Trust Account	(97,510,280)	(74,229,349)	(82,799,809)	-
Arkansas Department of Human Services	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
Change in net assets	<u><u>\$ (857,528)</u></u>	<u><u>\$ 19,399,411</u></u>	<u><u>\$ (826,008)</u></u>	<u><u>\$ (16,469)</u></u>

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

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

ALC Annual Financial Report for fiscal 2010 and ALC General Ledger for fiscal 2009

Arkansas Lottery Commission
Net Assets by Component (Unaudited)
Last Four Fiscal Years

ASSETS	2012	2011	2010	2009
Net assets:				
Invested in capital assets	\$ 540,530	\$ 722,689	\$ 867,607	\$ -
Restricted for:				
Scholarship shortfall fund	20,000,000	20,000,000	-	-
Retailer fidelity fund	49,232	42,205	18,831	-
Deposits with MUSL	1,683,806	1,138,133	457,268	-
Future prizes or special prize promotions	1,000,000	1,000,000	-	-
Unrestricted (deficit)	<u>(5,574,162)</u>	<u>(4,346,093)</u>	<u>(2,186,183)</u>	<u>(16,469)</u>
Total net assets (deficit)	<u><u>\$ 17,699,406</u></u>	<u><u>\$ 18,556,934</u></u>	<u><u>\$ (842,477)</u></u>	<u><u>\$ (16,469)</u></u>

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

Arkansas Lottery Commission
Changes in Cash and Cash Equivalents (Unaudited)
Last Four Fiscal Years

	2012	2011	2010	2009
Cash flows from operating activities:				
Cash received from retailers and others	\$ 473,876,584	\$ 468,220,833	\$ 370,120,513	\$ -
Cash paid for prizes	(315,948,269)	(306,303,849)	(231,877,356)	-
Cash paid for gaming vendors	(24,588,775)	(24,016,144)	(22,766,421)	-
Cash paid for retailer commissions	(26,526,329)	(26,217,851)	(20,594,364)	-
Cash paid for marketing	(4,280,198)	(4,009,445)	(3,515,419)	-
Cash paid for employee services	(5,848,550)	(6,157,322)	(5,114,532)	-
Cash paid for other expenses	(2,726,247)	(1,897,589)	(1,914,665)	(11,657)
Cash received from other non-operating income	2,000,000	-	-	-
Net cash provided (used) by operating activities	95,958,216	99,618,633	84,337,756	(11,657)
Cash flows from noncapital financing activities:				
Interagency advances	-	-	(6,000,000)	6,000,000
Payments to ADHE	(115,000,000)	(115,000,000)	-	-
Payments from ADHE	12,430,211	20,000,000	-	-
Payments to ADHS	(200,000)	(200,000)	-	-
Net cash provided (used) by noncapital financing activities	(102,769,789)	(95,200,000)	(6,000,000)	6,000,000
Cash flows from capital and related financing activities:				
Purchases of capital assets	-	(34,832)	(990,250)	-
Cash flows from investing activities:				
Interest received	352,431	464,252	181,807	-
Net increase in cash and cash equivalents	(6,459,142)	4,848,053	77,529,313	5,988,343
Cash and cash equivalents, beginning of year	88,365,709	83,517,656	5,988,343	-
Cash and cash equivalents, end of year	<u>\$ 81,906,567</u>	<u>\$ 88,365,709</u>	<u>\$ 83,517,656</u>	<u>\$ 5,988,343</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 94,500,321	\$ 93,364,508	\$ 81,991,994	\$ (16,468)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	182,159	179,750	122,643	-
Other non-operating income	2,000,000	-	-	-
Net changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	258,522	3,059,565	(14,289,726)	-
Prepaid assets	45,174	(72,138)	(5,119)	-
MUSL Reserves	(545,673)	(680,865)	(457,268)	-
Increase (decrease) in:				
Accounts payable	(766,472)	521,541	746,237	-
Prizes payable	(83,767)	1,831,721	14,150,175	-
Accrued and other liabilities	501,610	338,875	924,716	-
Due to other funds	(382,971)	958,107	396,869	4,811
Compensated absences	1,191	(191,329)	482,927	-
Deferred revenue	(21,168)	80,930	274,307	-
Net post employment benefits	269,290	227,968	-	-
Net cash provided (used) by operating activities	<u>\$ 95,958,216</u>	<u>\$ 99,618,633</u>	<u>\$ 84,337,756</u>	<u>\$ (11,657)</u>

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

Arkansas Lottery Commission
Total Personal and Per Capita Income and Unemployment Rate (Unaudited)
Last Four 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>
2012*	2,960	101,820	34,399	7.3%
2011	2,940	99,127	33,713	8.0%
2010	2,923	94,581	32,355	7.9%
2009	2,900	91,794	31,651	7.5%

* Estimated Amounts

Note: The ALC was established in fiscal year 2009 but began operations in fiscal 2010
Source: IHS Global Insight Inc. (October 2012), derived from data compiled by the U.S. Bureau of
Economic Analysis and Census Bureau

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

2012	Employer	Total Employees	% of Total Arkansas Employment
1	Arkansas State Government	56,705	4.8%
2	Wal-Mart Stores, Inc.	46,531	4.0%
3	Tyson Foods, Inc.	23,300	2.0%
4	U.S. Federal Government	20,400	1.7%
5	Baptist Health	7,878	0.7%
6	Sisters of Mercy Health System	6,150	0.5%
7	J.B. Hunt Transport Services	4,270	0.4%
8	Arkansas Children's Hospital	4,194	0.4%
9	Kroger Co.	3,875	0.3%
10	Simmons Foods	3,238	0.3%
		<u>176,541</u>	<u>15.1%</u>

2009	Employer	Total Employees	% of Total Arkansas Employment
1	Arkansas State Government	55,871	4.8%
2	Wal-Mart Stores, Inc.	48,470	4.1%
3	Tyson Foods, Inc.	24,005	2.1%
4	U.S. Federal Government	20,939	1.8%
5	Baptist Health	7,400	0.6%
6	J.B. Hunt Transportation Services, Inc.	6,250	0.5%
7	Sisters of Mercy Health System	5,493	0.5%
8	Arkansas Children's Hospital	4,337	0.4%
9	Community Health Systems, Inc.	3,750	0.3%
10	Dillard's Inc.	3,750	0.3%
		<u>180,265</u>	<u>15.4%</u>

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

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

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

Note: The ALC was established in fiscal 2009 but began operations in fiscal 2010
Source: ALC Payroll Department

**Arkansas Lottery Commission
Capital Assets by Department (Unaudited)
Last Four Fiscal Years**

Function	2012	2011	2010	2009
Executive	-	-	-	-
Finance:				
Furniture and Fixtures	9	9	8	-
Computer Equipment	1	1	1	-
Vehicles	2	2	1	-
Buildings/Building Improvements	8	8	8	-
Gaming:				
Furniture and Fixtures	6	6	5	-
Computer Equipment	7	7	5	-
Vehicles	2	2	2	-
Internal Audit	-	-	-	-
Total Number of Assets	<u>35</u>	<u>35</u>	<u>30</u>	<u>-</u>

Note: The ALC was established in fiscal 2009 but began operations in fiscal 2010
Source: ALC Finance Division

Arkansas Lottery Commission
U.S. Lotteries' Sales (Unaudited)
Fiscal Year 2012

<u>Lottery Jurisdiction</u>	<u>Population</u> <u>(in millions)</u>	<u>Sales</u> <u>(in millions)</u>	<u>Sales Per</u> <u>Capita</u>	<u>Instant Sales</u> <u>(in millions)</u>	<u>Instant Sales</u> <u>Per Capita</u>
Arizona	6.5	\$ 646.7	\$ 100	\$ 409.8	\$ 63
Arkansas	2.9	473.1	161	391.3	135
California	37.7	4,371.5	116	2,755.4	73
Colorado	5.1	545.3	107	364.2	71
Connecticut	3.6	1,081.7	302	653.3	181
D.C.	0.6	245.0	397	58.3	97
Delaware	0.9	136.0	150	46.1	51
Florida	19.1	4,449.9	233	2,567.0	134
Georgia	9.8	3,834.7	391	2,585.0	264
Idaho	1.6	175.8	111	99.8	62
Illinois	12.9	2,670.4	208	1,624.6	126
Indiana	6.5	855.8	131	547.8	84
Iowa	3.1	310.9	102	188.8	61
Kansas	2.9	253.3	88	130.0	45
Kentucky	4.4	818.8	187	503.1	114
Louisiana	4.6	429.6	94	158.0	34
Maine	1.3	227.7	171	165.1	127
Maryland	5.8	1,794.9	308	506.8	87
Massachusetts	6.6	4,774.1	725	3,295.7	499
Michigan EST (1)	9.9	2,413.3	244	762.0	77
Minnesota	5.3	520.0	97	355.3	67
Missouri	6.0	1,099.7	183	744.2	124
Montana	1.0	52.7	53	16.5	17
Nebraska	1.8	150.1	81	81.5	45
N. Hampshire	1.3	257.9	196	179.4	138
New Jersey	8.8	2,754.9	312	1,417.7	161
New Mexico	2.1	133.7	64	68.7	33
New York (1)	19.5	7,012.7	360	3,578.9	184
N. Carolina	9.7	1,596.7	165	960.0	99
N. Dakota	0.7	26.0	38	-	-
Ohio	11.5	2,733.3	237	1,505.0	131
Oklahoma	3.8	199.9	53	96.0	25
Oregon	3.9	323.2	83	117.5	30
Pennsylvania	12.7	3,480.9	273	2,134.6	168
Rhode Island	1.1	249.5	237	84.0	76
S. Carolina	4.7	1,135.6	243	758.6	161
South Dakota	0.8	52.9	64	24.5	31
Tennessee	6.4	1,311.2	205	1,049.6	164
Texas EST (1)	25.7	4,171.5	162	3,074.8	120
Vermont	0.6	101.0	161	74.6	124
Virginia	8.1	1,616.0	200	842.1	104
Washington	6.8	535.2	78	318.1	47
West Virginia	1.9	201.3	109	117.7	62
Wisconsin	5.7	547.4	96	319.9	56
Total	295.6	\$ 60,771.6	\$ 206	\$ 35,731.3	\$ 121

(1) Fiscal year ends 6/30 except New York (March 31), Texas (August 31) and Michigan (September 30)

Source: *La Fluer's Magazine* - September/October 2012

Arkansas Lottery Commission
U.S. Lotteries' Sales (Unaudited)
Fiscal Year 2011

<u>Lottery Jurisdiction</u>	<u>Population</u> <u>(in millions)</u>	<u>Sales</u> <u>(in millions)</u>	<u>Sales Per</u> <u>Capita</u>	<u>Instant Sales</u> <u>(in millions)</u>	<u>Instant Sales</u> <u>Per Capita</u>
Arizona	6.7	\$ 583.5	\$ 87	\$ 373.5	\$ 56
Arkansas	2.9	464.0	160	387.5	134
California	37.3	3,438.6	92	2,002.1	54
Colorado	5.1	518.9	102	344.9	68
Connecticut	3.5	1,016.6	290	610.6	174
D.C.	0.6	231.0	385	56.2	94
Delaware	0.9	124.0	138	40.9	45
Florida	18.7	4,008.7	214	2,225.7	119
Georgia	9.9	3,597.9	363	2,423.8	245
Idaho	1.6	147.1	92	90.6	57
Illinois	12.9	2,258.8	175	1,279.6	99
Indiana	6.4	791.4	124	508.5	79
Iowa	3.0	271.4	90	165.3	55
Kansas	2.8	243.8	87	128.6	46
Kentucky	4.3	770.9	179	476.6	111
Louisiana	4.5	383.6	85	148.1	33
Maine	1.3	216.7	167	156.9	121
Maryland	5.7	1,714.4	301	493.5	87
Massachusetts	6.6	4,424.3	670	2,998.4	454
Michigan (1)	9.9	2,340.0	236	739.2	75
Minnesota	5.3	504.4	95	354.8	67
Missouri	6.0	1,001.3	167	666.8	111
Montana	1.0	46.1	46	15.1	15
Nebraska	1.8	131.6	73	71.6	40
N. Hampshire	1.3	233.0	179	164.2	126
New Jersey	8.7	2,636.3	303	1,364.4	157
New Mexico	2.0	135.5	68	75.8	38
New York (1)	19.6	6,758.7	345	3,546.4	181
N. Carolina	9.5	1,461.1	154	862.1	91
N. Dakota	0.7	23.0	33	-	-
Ohio	11.5	2,596.1	226	1,460.3	127
Oklahoma	3.7	198.2	54	103.0	28
Oregon	3.9	317.5	81	115.9	30
Pennsylvania	12.6	3,207.9	255	1,922.1	153
Rhode Island	1.1	230.7	210	77.2	70
S. Carolina	4.6	1,047.1	228	698.2	152
South Dakota	0.8	47.0	59	22.1	28
Tennessee	6.3	1,186.6	188	948.7	151
Texas (1)	25.2	3,811.3	151	2,842.3	113
Vermont	0.6	95.6	159	71.3	119
Virginia	8.0	1,482.7	185	756.8	95
Washington	6.7	510.5	76	309.0	46
West Virginia	1.8	193.6	108	115.7	64
Wisconsin	5.7	502.5	88	298.9	52
Total	293.0	\$ 55,903.9	\$ 191	\$ 32,513.1	\$ 111

(1) Fiscal year ends 6/30 except New York (March 31), Texas (August 31) and Michigan (September 30)

Source: *La Fluer's Magazine* - September/October 2012

Arkansas Lottery Commission
Lottery Player Demographics (Unaudited)
Fiscal Year Ended June 30, 2012

			Lottery Players				Non-Players		
	<u>Census1</u>	<u>All Respondents</u>	<u>Players Total</u>	<u>Core</u>	<u>Light</u>	<u>Lapsed</u>	<u>Non-Player Total</u>	<u>Trier/Rejecter</u>	<u>Non-Player</u>
Number of respondents =	2.8 Million	1,198	856	296	460	100	342	54	288
Male	48%	48%	49%	50%	49%	45%	48%	50%	47%
Female	52%	52%	51%	50%	51%	55%	52%	50%	53%
18-24	13%	13%	11%	8%	13%	7%	14%	6%	15%
25-34	18%	18%	24%	20%	26%	14%	14%	16%	14%
35-44	17%	17%	23%	28%	21%	16%	14%	19%	14%
45-54	18%	18%	19%	19%	19%	25%	18%	23%	18%
55-64	15%	15%	14%	16%	12%	20%	16%	22%	15%
65 or older	19%	19%	10%	10%	9%	18%	24%	16%	25%
Some high school		6%	7%	6%	7%	5%	6%	4%	6%
Completed high school		24%	23%	28%	22%	18%	25%	32%	24%
Technical or vocational school above high school level		11%	10%	8%	11%	7%	12%	15%	12%
Some college or university		29%	33%	35%	33%	29%	26%	20%	27%
College or university degree or diploma (Bachelor's Degree)		19%	19%	17%	20%	21%	19%	17%	20%
Post-graduate degree (Masters, Doctorate, or equivalent)		10%	8%	6%	9%	20%	12%	11%	12%
Hispanic, Latino or Spanish origin	95%	95%	94%	97%	93%	92%	95%	90%	95%
Not of Hispanic, Latino or Spanish origin	5%	5%	6%	3%	7%	8%	5%	10%	5%
Caucasian	78%	80%	75%	73%	76%	81%	83%	80%	83%
African American	16%	15%	22%	25%	21%	16%	12%	14%	11%
Native American or Alaska Native	1%	2%	2%	0%	3%	1%	2%	0%	2%
Asian	1%	1%	0%	1%	0%	1%	2%	3%	1%
Other (includes Multi – racial, hence may sum to greater than 100%)	4%	3%	3%	1%	3%	3%	3%	3%	3%
Less than \$25,000		29%	26%	19%	29%	28%	31%	41%	30%
\$25,000 to just under \$50,000		34%	37%	45%	34%	29%	32%	20%	33%
\$50,000 to just under \$75,000		19%	22%	21%	22%	23%	18%	24%	17%
\$75,000 to just under \$100,000		10%	11%	11%	10%	16%	10%	7%	10%
\$100,000 or more		7%	4%	4%	4%	4%	9%	8%	9%

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

SUPPLEMENTARY information



**IT'S PURE PROFIT FOR BUSINESSES;
THE PLAYERS HAVE FUN; THE KIDS
GET SCHOLARSHIPS – EVERYBODY
WINS!**

Lisa Shoup
Quitman Doublebee's
Quitman



ALLOWS ME THE TIME TO FOCUS ON MY STUDIES

“The Arkansas Academic Challenge Scholarship has been a great help to me and my family. It’s not only funding my education, it allows me the time to focus primarily on my studies and keep my mind on successfully completing my courses.

Addison Grandy | Freshman | Arkansas Baptist College
Pine Bluff



Arkansas Lottery Commission
Unclaimed Lottery Prize Money (Unaudited)
Fiscal Year Ended June 30, 2012

Month	Unclaimed lottery prize money	Expenditures from unclaimed lottery prize money	Reserved for future prizes and promotions	Deposits to net lottery proceeds from unclaimed lottery prize money
July	\$ 152,477	\$ -	\$ -	\$ 152,477
August	592,242	-	-	592,242
September	667,758	-	-	667,758
October	388,665	-	-	388,665
November	91,605	-	-	91,605
December	723,241	-	-	723,241
January	503,860	-	-	503,860
February	897,181	-	-	897,181
March	95,038	-	-	95,038
April	588,678	-	-	588,678
May	87,167	-	-	87,167
June	110,043	-	-	110,043
Total	\$ 4,897,955	\$ -	\$ -	\$ 4,897,955

Source - ALC general ledger

**Arkansas Lottery Commission
Scholarship Shortfall Reserve Trust Account (Unaudited)
Fiscal Year Ended June 30, 2012**

	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>
Beginning Balance	\$ 20,009,041	\$ 20,009,343	\$ 20,009,343	\$ 20,009,042	\$ 20,009,343	\$ 20,009,042
Shortfall Deposits	-	-	-	-	-	-
Interest Earned	9,343	9,343	9,042	9,343	9,042	9,342
Transfers	9,041	9,343	9,343	9,042	9,343	9,042
Ending Balance	<u>\$ 20,009,343</u>	<u>\$ 20,009,343</u>	<u>\$ 20,009,042</u>	<u>\$ 20,009,343</u>	<u>\$ 20,009,042</u>	<u>\$ 20,009,342</u>

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
Beginning Balance	\$ 20,009,342	\$ 20,009,318	\$ 20,008,717	\$ 20,017,737	\$ 20,009,319	\$ 20,009,318
Shortfall Deposits	-	-	-	-	-	-
Interest Earned	9,318	8,717	9,020	9,319	9,318	9,018
Transfers	9,342	9,318	-	17,737	9,319	9,318
Ending Balance	<u>\$ 20,009,318</u>	<u>\$ 20,008,717</u>	<u>\$ 20,017,737</u>	<u>\$ 20,009,319</u>	<u>\$ 20,009,318</u>	<u>\$ 20,009,018</u>

Source - ALC general ledger and corresponding bank statements

Arkansas Lottery Commission
Minority-owned and Female-owned Business Participation (Unaudited)
Fiscal Year Ended June 30, 2012

Arkansas Lottery Commission Minority- and Female-Owned Diversity Compliance Report

<u>Vendors</u>	<u>Amount Paid</u>	<u>Good or Service</u>	<u>Classification</u>
African American Perspectives	\$ 3,750	Advertising/Public Relations	Minority-Owned
Goddess Products	22,105	Office Furniture/Supplies	Minority-Owned
Hogwash Detail Dent & Tint	269	Auto Detail & Cosmetic Repair	Minority-Owned
Trivia Marketing	1,176	Advertising/Public Relations	Female-Owned
Shi International Corporation	13,972	Computer Software	Female-Owned
Party Prints	2,577	Advertising/Public Relations	Minority-Owned
Archway Graphics	12,206	Advertising/Public Relations	Female-Owned
Choice Promotions	4,726	Advertising/Public Relations	Minority-Owned
BSW Advertising	754	Advertising/Public Relations	Female-Owned
Hola! Arkansas	1,500	Advertising/Public Relations	Minority-Owned
Northeast Arkansas Cleaning Service	5,805	Janitorial Svcs	Female-Owned
Total	<u>\$ 68,840</u>		

Intralot Minority- and Female-Owned Diversity Compliance Report

<u>Vendors</u>	<u>Amount Paid</u>	<u>Good or Service</u>	<u>Classification</u>
Goddess Products	\$ 719	Office Furniture/Supplies	Minority-Owned
J Kelly Referrals & Information Svcs, Inc	171,208	Call Center/Information Svcs	Minority-Owned
Total	<u>\$ 171,927</u>		

Scientific Games Minority- and Female-Owned Diversity Compliance Report

<u>Vendors</u>	<u>Amount Paid</u>	<u>Good or Service</u>	<u>Classification</u>
Mr. Klean Carpet & Janitorial Service	\$ 3,758	Janitorial Svcs	Minority-Owned
Premier Staffing	17,784	Staffing Svcs	Female-Owned
Central Copiers	1,399	Office Supplies/Equipment	Female-Owned
Expedited Transportation Service	186,277	Transportation Svcs	Female-Owned
Total	<u>\$ 209,218</u>		

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

Arkansas Lottery Commission
Retail Sales by County (Unaudited)
Fiscal Year Ended June 30, 2012

<u>County</u>	<u>Arkansas 50/50*</u>	<u>Cash 3*</u>	<u>Cash 4*</u>	<u>Decades of Dollars *</u>	<u>Fast Play*</u>	<u>Instant*</u>	<u>Mega Millions ® *</u>	<u>Powerball ® *</u>	<u>Total</u>
Arkansas	\$ 5,560	\$ 70,012	\$ 79,451	\$ 61,546	\$ 52,897	\$ 5,614,255	\$ 233,404	\$ 318,660	\$ 6,435,784
Ashley	3,280	147,060	160,779	25,830	18,563	1,448,707	110,637	198,940	2,113,795
Baxter	8,480	45,953	34,226	67,750	42,346	3,826,277	301,246	475,871	4,802,149
Benton	37,600	56,142	27,273	182,292	86,566	9,786,920	1,145,216	1,675,660	12,997,669
Boone	6,955	26,844	24,178	34,940	34,754	4,149,937	218,569	351,496	4,847,673
Bradley	2,540	12,630	6,672	14,642	8,961	1,462,108	63,442	93,849	1,664,843
Calhoun	785	6,762	5,739	9,600	6,905	630,160	27,435	42,076	729,462
Carroll	4,225	8,465	9,262	27,972	22,785	2,820,953	146,512	242,554	3,282,728
Chicot	5,660	69,392	37,222	43,870	15,233	2,189,574	346,977	524,360	3,232,288
Clark	5,475	49,672	21,495	36,746	25,029	4,388,296	192,108	284,510	5,003,331
Clay	2,090	7,582	1,180	12,060	6,561	1,078,083	40,613	68,340	1,216,509
Cleburne	10,180	16,677	3,723	70,156	34,486	3,798,658	291,021	418,430	4,643,330
Cleveland	1,485	8,746	6,357	12,432	6,516	702,693	43,280	74,083	855,592
Columbia	3,785	125,588	69,337	30,316	23,800	2,472,006	107,837	170,856	3,003,524
Conway	10,370	82,973	27,326	55,242	41,146	5,118,711	265,603	397,571	5,998,942
Craighead	31,080	101,027	66,269	129,286	98,741	15,296,819	752,503	1,143,130	17,618,855
Crawford	18,580	32,094	19,984	77,962	33,007	4,361,918	446,236	759,296	5,749,077
Crittenden	12,115	168,957	113,983	65,040	34,370	6,468,578	563,345	933,807	8,360,195
Cross	6,260	26,302	20,358	22,722	14,499	2,617,200	131,577	198,515	3,037,433
Dallas	3,090	18,296	13,229	20,832	45,473	1,868,219	86,625	129,234	2,184,998
Desha	3,880	12,727	5,491	27,618	9,380	2,029,697	123,768	181,703	2,394,263
Drew	5,595	12,236	7,145	26,432	16,903	2,355,416	136,415	211,140	2,771,281
Faulkner	42,455	118,902	68,678	213,724	72,478	14,254,830	1,052,003	1,512,429	17,335,498
Franklin	6,740	7,399	3,127	22,002	38,044	2,164,091	134,916	223,827	2,600,146
Fulton	1,115	3,504	506	8,574	3,067	669,709	39,037	63,952	789,463
Garland	38,880	85,410	49,496	279,656	80,486	10,647,850	1,197,234	1,738,098	14,117,110
Grant	5,955	5,565	3,230	34,604	13,698	1,990,969	156,727	228,969	2,439,717
Greene	13,460	41,771	13,304	46,952	30,932	6,514,425	275,463	435,342	7,371,649
Hempstead	4,365	279,637	83,487	22,564	32,232	4,195,688	147,611	196,602	4,962,186
Hot Spring	7,860	23,668	11,657	59,510	19,870	3,865,299	240,768	354,498	4,583,129
Howard	2,620	192,140	54,344	18,164	8,638	1,642,907	81,160	98,431	2,098,404
Independence	32,370	61,441	29,986	84,248	61,152	7,956,964	349,661	519,605	9,095,427
Izard	2,370	4,469	1,539	11,656	6,563	953,533	64,446	102,609	1,147,185
Jackson	9,065	139,449	84,851	59,678	37,500	4,231,967	203,681	309,337	5,075,528
Jefferson	31,540	431,461	311,153	208,928	106,308	15,067,841	855,269	1,221,969	18,234,469
Johnson	8,695	5,043	2,429	34,426	16,437	2,981,373	172,537	270,759	3,491,699
Lafayette	1,020	41,022	13,699	6,010	8,704	970,157	25,392	43,402	1,109,405
Lawrence	4,550	14,444	4,596	21,684	20,239	3,088,627	99,056	150,722	3,403,918
Lee	1,075	23,552	22,609	6,748	7,216	1,213,734	42,600	67,340	1,384,873
Lincoln	1,920	9,391	3,384	10,790	5,679	1,270,931	69,080	100,362	1,471,537
Little River	1,260	37,412	16,697	10,640	9,026	952,550	60,764	66,844	1,155,193
Logan	7,775	10,359	2,864	33,594	27,196	3,105,523	159,763	276,008	3,623,081
Lonoke	27,070	84,857	35,151	172,702	69,186	13,109,204	783,736	1,172,266	15,454,171
Madison	2,120	1,883	1,547	9,930	6,920	792,282	56,348	98,254	969,284

(continued)

**Arkansas Lottery Commission
Retail Sales by County (Unaudited)
Fiscal Year Ended June 30, 2012**

<u>County</u>	<u>Arkansas 50/50*</u>	<u>Cash 3*</u>	<u>Cash 4*</u>	<u>Decades of Dollars *</u>	<u>Fast Play*</u>	<u>Instant*</u>	<u>Mega Millions ® *</u>	<u>Powerball ® *</u>	<u>Total</u>
Marion	3,055	16,546	5,162	32,952	30,559	1,865,924	104,124	179,979	2,238,301
Miller	9,930	280,338	95,116	38,094	31,279	5,122,170	261,180	311,182	6,149,288
Mississippi	9,525	414,434	159,956	42,688	41,377	6,794,034	280,700	401,497	8,144,210
Monroe	2,460	54,781	20,668	22,618	14,397	1,680,656	116,197	181,106	2,092,882
Montgomery	1,055	1,130	349	5,856	6,676	356,910	43,718	67,870	483,564
Nevada	2,225	33,430	10,765	22,478	11,610	2,978,054	87,603	111,196	3,257,361
Newton	895	2,012	1,435	3,720	4,620	885,581	28,912	46,561	973,736
Ouachita	9,660	113,523	56,652	63,816	62,541	5,624,245	216,275	334,316	6,481,028
Perry	2,215	8,256	3,289	13,966	9,638	1,024,596	83,708	125,189	1,270,857
Phillips	3,470	53,380	38,701	21,478	14,936	2,824,188	198,977	300,263	3,455,393
Pike	2,535	2,307	1,279	17,394	4,943	1,098,000	91,474	121,568	1,339,500
Poinsett	13,180	80,100	28,865	33,512	30,770	5,848,623	187,489	310,821	6,533,359
Polk	5,400	8,185	1,306	30,134	12,509	1,740,490	126,681	213,366	2,138,071
Pope	27,400	63,515	33,053	136,904	61,884	10,023,424	617,648	909,827	11,873,654
Prairie	3,075	46,379	18,004	17,712	13,558	2,013,199	88,592	136,578	2,337,097
Pulaski	169,130	1,176,311	753,230	1,214,152	481,129	74,878,208	5,329,451	7,350,421	91,352,032
Randolph	4,480	1,811	1,270	23,692	5,120	1,776,169	83,236	123,011	2,018,789
Saint Francis	3,685	94,085	51,675	23,874	14,467	2,693,155	182,899	287,369	3,351,209
Saline	36,550	72,470	37,550	248,986	81,118	15,576,480	1,146,652	1,635,125	18,834,931
Scott	2,035	2,816	640	8,976	15,104	1,546,724	63,715	113,838	1,753,848
Searcy	1,350	27,560	7,061	14,554	22,753	1,121,477	49,324	81,353	1,325,431
Sebastian	43,515	148,345	47,249	190,480	66,971	9,814,088	1,054,668	1,733,843	13,099,159
Sevier	2,005	42,712	7,635	12,128	8,796	1,463,534	70,551	93,198	1,700,559
Sharp	5,925	10,432	4,080	21,882	22,554	2,308,267	100,620	158,514	2,632,273
Stone	2,430	15,147	3,118	17,420	16,380	1,014,746	69,862	121,075	1,260,177
Union	12,690	481,276	243,309	59,942	55,692	7,860,072	329,985	528,105	9,571,071
Van Buren	6,245	10,795	6,712	29,160	15,988	1,991,739	145,046	224,810	2,430,495
Washington	49,870	108,317	67,048	265,854	88,420	16,288,603	1,479,213	2,237,762	20,585,087
White	22,885	38,523	32,005	135,306	84,604	14,195,885	619,219	930,660	16,059,087
Woodruff	3,110	28,067	6,654	12,710	7,739	1,811,989	75,377	110,882	2,056,528
Yell	5,115	12,847	3,849	29,548	22,812	1,998,133	139,779	208,891	2,420,973

Grand Totals (1)	\$ 910,450	\$6,178,726	\$3,326,678	\$ 5,244,056	\$2,721,436	\$392,345,002	\$ 25,514,496	\$ 37,835,882	\$ 474,076,726
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(concluded)

***Estimates**
(1) Cash Sales, not on accrual basis

Arkansas Lottery Commission
Demographic Reports from the Arkansas Department of Higher Education (Unaudited)
Fiscal Year Ending June 30, 2012

Institution	Awards	Scholarships
Arkansas Baptist College	49	\$ 191,000
Arkansas Northeastern College	145	268,070
Arkansas State University Beebe	729	1,415,291
Arkansas State University Jonesboro	3,475	15,398,687
Arkansas State University Mountain Home	243	\$474,715
Arkansas State University Newport	164	\$306,485
Arkansas Tech University	3,080	13,751,065
Arkansas Tech University Ozark Campus	95	185,881
Baptist Health Schools - Little Rock	79	167,631
Black River Technical College	290	550,597
Central Baptist College	243	1,076,990
College of the Ouachitas	122	210,262
Cossatot Community College UA	154	259,709
Crowley's Ridge College	67	301,000
East Arkansas Community College	94	168,736
Ecclesia College	16	69,750
Harding University	627	2,819,000
Henderson State University	1,364	6,000,229
Hendrix College	328	1,542,000
Jefferson School of Nursing	8	9,251
John Brown University	293	1,257,500
Lyon College	285	1,277,375
Mid South Community College	106	193,577
National Park Community College	331	629,370
North Arkansas College	375	729,270
Northwest Arkansas Community College	749	1,369,295
Ouachita Baptist University	607	2,796,454
Ozarka College	140	269,578
Philander Smith College	68	297,000
Phillips Community College UA	131	254,700
Pulaski Technical College	760	1,397,929
Rich Mountain Community College	124	\$228,768
South Arkansas Community College	108	197,142
Southeast Arkansas College	187	316,992
Southern Arkansas University	803	3,569,363
Southern Arkansas University Tech	97	204,193
University of Arkansas at Monticello College of Technology - Crossett	4	8,250
University of Arkansas at Monticello College of Technology - McGehee	3	4,438
University of Arkansas Community College Batesville	240	474,517
University of Arkansas Community College Hope	126	247,133
University of Arkansas Community College Morrilton	400	769,337
University of Arkansas Fayetteville	5,757	25,579,156
University of Arkansas for Medical Sciences	211	991,750
University of Arkansas Fort Smith	1,876	8,228,446
University of Arkansas Little Rock	2,024	8,156,620
University of Arkansas Monticello	720	3,052,858
University of Arkansas Pine Bluff	401	1,682,284
University of Central Arkansas	3,880	17,407,548
University of the Ozarks	223	1,007,250
Williams Baptist College	292	1,302,125
Total	31,958	\$ 129,066,567

Source: Arkansas Department of Higher Education, unaudited

Arkansas Lottery Commission
Projected Obligations from Scholarship and Grant Funding Sources
from Arkansas Department of Higher Education (Unaudited)
Fiscal Year Ending June 30, 2012

Title	FY 13 Budget	FY14 Budget
Academic Challenge Scholarships	\$20,000,000	\$ 20,000,000
AR Geographical Critical Needs	150,000	150,000
Chiropractic	230,000	235,000
Dental Aid	2,180,100	2,296,800
Dental Loans	987,370	987,370
Dependents of Law Enforcement Officers	375,000	375,000
Governor's Scholars	13,450,000	13,450,000
Higher Education Opportunities Grants	6,000,000	6,000,000
Military Dependents of POWS, MIAS, KIAS	275,000	575,000
National Guard Tuition Assistance	1,500,000	1,500,000
Optometry Grants	399,600	428,400
Optometry Loans	90,000	90,000
Osteopathy	123,800	131,800
Podiatry	45,400	46,600
Second Effort Scholarships	10,000	10,000
Single Parent Scholarship	175,000	175,000
SREB Minority Doctoral Scholars	200,000	200,000
STEP State Teacher Education Program	2,000,000	2,000,000
SURF Program	150,000	150,000
Teacher Opportunity Program	1,500,000	1,500,000
Tuition Adjustment	350,000	350,000
Veterinary Aid	1,097,780	1,131,700
Washington Center Scholarships	100,000	100,000
Workforce Improvement Grants	3,500,000	2,500,000
Total All Financial Aid Programs	\$54,889,050	\$ 54,382,670

**Arkansas Department of Higher Education
Academic Challenge Scholarship Program
County Report
Fiscal 2012**

County	<u>2011 Population</u> <u>Estimate</u>	<u>% State</u> <u>Population</u>	<u>Awards</u>		<u>Amount</u>
Arkansas	18,892	0.64%	226	\$	885,746
Ashley	21,692	0.74%	164		720,934
Baxter	41,536	1.41%	380		1,356,165
Benton	227,556	7.75%	1,934		7,707,444
Boone	37,051	1.26%	424		1,434,251
Bradley	11,482	0.39%	100		417,751
Calhoun	5,144	0.18%	48		195,212
Carroll	27,512	0.94%	148		597,258
Chicot	11,721	0.40%	94		416,695
Clark	22,858	0.78%	358		1,505,485
Clay	15,880	0.54%	150		584,754
Cleburne	25,901	0.88%	268		974,363
Cleveland	8,672	0.30%	118		465,951
Columbia	24,401	0.83%	225		981,169
Conway	21,270	0.72%	268		988,295
Craighead	98,315	3.35%	1,192		5,152,130
Crawford	61,944	2.11%	795		3,482,104
Crittenden	50,525	1.72%	441		1,709,108
Cross	17,781	0.61%	209		846,621
Dallas	8,072	0.27%	80		318,759
Desha	12,763	0.43%	153		638,169
Drew	18,467	0.63%	209		910,533
Faulkner	116,342	3.96%	1,794		7,502,171
Franklin	18,047	0.61%	218		942,814
Fulton	12,296	0.42%	142		520,637
Garland	97,124	3.31%	986		3,826,309
Grant	17,988	0.61%	190		777,911
Greene	42,720	1.45%	548		2,286,491
Hempstead	22,541	0.77%	188		676,963
Hot Spring	32,881	1.12%	375		1,450,502
Howard	13,886	0.47%	191		704,535
Independence	36,861	1.25%	399		1,469,634
Izard	13,419	0.46%	153		542,697
Jackson	17,866	0.61%	135		457,189
Jefferson	76,246	2.60%	813		3,235,331
Johnson	25,742	0.88%	259		1,128,826
Lafayette	7,516	0.26%	57		231,448
Lawrence	17,178	0.58%	229		835,880
Lee	10,326	0.35%	67		245,188
Lincoln	14,006	0.48%	110		469,432
Little River	12,996	0.44%	106		425,376
Logan	22,290	0.76%	281		1,207,760
Lonoke	69,341	2.36%	908		3,542,870
Madison	15,776	0.54%	152		570,752
Marion	16,573	0.56%	141		514,560
Miller	43,759	1.49%	169		738,336

(continued)

**Arkansas Department of Higher Education
Academic Challenge Scholarship Program
County Report
Fiscal 2012**

<u>County</u>	<u>2011 Population Estimate</u>	<u>% State Population</u>	<u>Awards</u>	<u>Amount</u>
Mississippi	45,966	1.56%	348	1,265,821
Monroe	8,075	0.27%	80	328,002
Montgomery	9,433	0.32%	88	306,934
Nevada	9,017	0.31%	78	319,439
Newton	8,264	0.28%	90	300,987
Ouachita	25,880	0.88%	288	1,146,523
Perry	10,405	0.35%	149	552,686
Phillips	21,442	0.73%	195	742,359
Pike	11,259	0.38%	132	477,881
Poinsett	24,514	0.83%	231	934,089
Polk	20,610	0.70%	248	876,400
Pope	62,331	2.12%	890	3,937,687
Prairie	8,618	0.29%	102	370,879
Pulaski	386,299	13.15%	4,193	17,191,135
Randolph	18,017	0.61%	221	806,758
St. Francis	27,970	0.95%	184	705,097
Saline	109,526	3.73%	1,448	5,906,235
Scott	11,272	0.38%	137	507,384
Searcy	8,036	0.27%	93	311,637
Sebastian	127,127	4.33%	1,516	6,809,689
Sevier	17,293	0.59%	180	671,344
Sharp	17,380	0.59%	230	846,005
Stone	12,603	0.43%	127	469,756
Union	41,427	1.41%	435	1,769,835
Van Buren	17,083	0.58%	145	546,128
Washington	207,521	7.06%	2,299	9,502,873
White	78,167	2.66%	905	3,508,052
Woodruff	7,229	0.25%	76	282,125
Yell	22,060	0.75%	229	982,504
Not Reported			26	97,814
Total	<u>2,937,979</u>	<u>100%</u>	<u>31,958</u>	<u>\$ 129,066,567</u> (complete)

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

**Arkansas Lottery Commission
Debt Set-off Collections (Unaudited)
Fiscal Year Ended June 30, 2012**

Department of Finance and Administration:

Taxes due to the State	\$ 164,989
Delinquent Child Support	<u>83,146</u>
Total	<u><u>\$248,135</u></u> *

* Note: In accordance with regulation 23-115-403, the ALC set-offs against any prize the sum of any debt in excess of \$100 owed to the State of Arkansas or to persons on whose behalf the State and its claiming agencies act.

Source: ALC Finance Division

**Arkansas Lottery Commission
Fund Balance and Other Information
from Arkansas Department of Higher Education (Unaudited)
Fiscal Year Ending June 30, 2012**

Fund Balances

Higher Education Grants Fund	\$13,800,213
Lottery Net Proceeds Trust Account*	\$6,342,313

State Lottery Net Proceeds Trust Account

Deposits	\$135,311,378
Disbursements	\$128,969,065
June 30, 2012 Balance	<u>\$6,342,313</u>

Evaluation of Net Proceeds

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

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

None

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

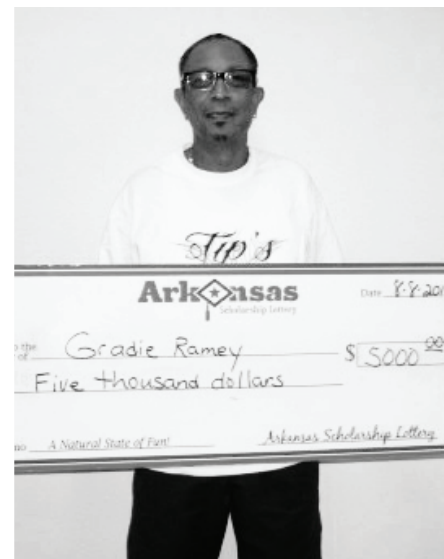
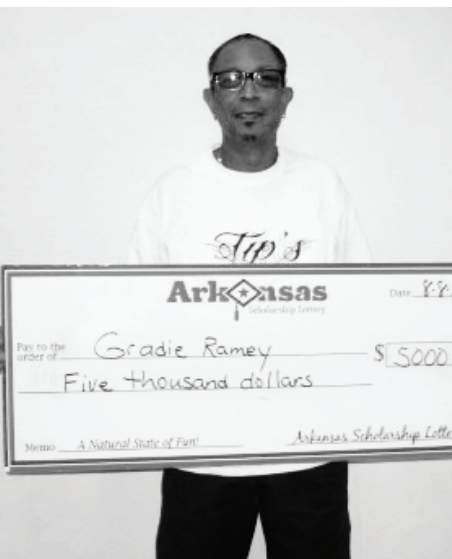
Source: Arkansas Department of Higher Education

**Arkansas Lottery Commission
Term Contracts for Goods and Services
Fiscal Year Ended June 30, 2012**

1. On August 30, 2011, the Arkansas Lottery Commission (ALC) and Crowe Horwath LLP entered into an agreement for the completion of a Comprehensive Annual Financial Report.
2. On September 13, 2011, ALC entered into a Non-Exclusive Licensing Agreement with Scientific Games International (SGI) to allow ALC to reproduce, use and make copies of A Christmas Story™ licensed property. The agreement was provided to the Arkansas Lottery Commission Legislative Oversight Committee (ALC LOC).
3. On September 28, 2011, ALC entered into a Non-Exclusive Licensing Agreement with SGI to allow ALC to reproduce, use and make copies of the Run for the Roses™ licensed property. The agreement was provided to the ALC LOC.
4. On October 19, 2011, ALC entered into a Non-Exclusive Licensing Agreement with SGI to allow ALC to reproduce, use and make copies of Betty Boop Crossword™. The agreement was provided to the ALC LOC.
5. On January 20, 2012, ALC entered into a Non-Exclusive Licensing Agreement with SGI to allow ALC to reproduce, use and make copies of Loteria© licensed property. The agreement was provided to the ALC LOC.
6. On February 6, 2012, ALC entered into an agreement with Mitchell Williams Selig Gates & Woodward, P.L.L.C., for Outside Legal Counsel services. The agreement is for a period of two years, from February 6, 2012, through February 6, 2014. There will be a monthly retainer of \$1,500.00 per month (24 months x \$1,500.00) for a total amount of \$36,000.00. In addition to the monthly retainer, ALC may engage Outside Legal Counsel for special projects, including, but not limited to, hearings, contract reviews, and reports requiring extensive research which will extend the amount of time required for Counsel to carry out its duties beyond the agreed retainer (Special Projects). Counsel shall be paid a rate not to exceed \$200.00 per hour for special projects. Counsel will not bill ALC an hourly rate for a Special Project in any month in which the retainer is not exhausted.
7. On March 13, 2012, ALC entered into a Non-Exclusive Licensing Agreement with SGI to allow ALC the non-exclusive right in the state of Arkansas to reproduce, use and make copies of the Property in association with the sale, marketing, advertising and promotion of a scratch-off instant-win lottery game to be conducted by ALC and identified as AR-141 Harley-Davidson®. A copy of the agreement was provided to the ALC LOC.
8. On March 30, 2012, a Non-Exclusive Licensing Agreement was executed between Intralot, Inc. (Intralot), Alchemy3, LLC (A3) and ALC. During the terms of the agreement, A3 (and its Licensor, Bass Pro Shops®, owned and licensed by Bass Pro Shops Outdoor World, LLC) granted to Intralot the limited, non-exclusive, non-transferable and non-sub-licensable right to manufacture Bass Pro Shops® Decades of Dollars Promotion Tickets on behalf of ALC. A copy of the agreement was provided to the ALC LOC.
9. On June 8, 2012, a Non-Exclusive Licensing Agreement was executed between ALC and SGI. SGI grants ALC the non-exclusive right in the state of Arkansas to reproduce, use and make copies of the Property in association with the sale, marketing, advertising and promotion of a scratch-off instant-win lottery game to be conducted by ALC and identified as AR-157 Family Feud®. A copy of the agreement was provided to the ALC LOC.
10. On June 28, 2012, ALC entered into an amended agreement (*First Amendment to the Agreement for Contractual Services for Instant Ticket Lottery Game Services*) to the August 25, 2009, Scientific Games International Instant Ticket Contract for the remainder of the contract term. A copy of the agreement was provided to the ALC LOC.

Source: ALC's Legal Division

OTHER reports



**THIS GAVE ME ENOUGH
MONEY NOW TO OPEN MY
OWN BUSINESS.**

Gradie Ramey
Fort Smith



LESS FINANCIAL BURDEN

“The lottery scholarship means less financial burden on my family. Paying for college isn’t easy so I’m grateful for the help I’m receiving.

Samantha Milner | Junior | University of Arkansas at Monticello
Pine Bluff





LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Arkansas Lottery Commission
and Members of the Legislative Joint Auditing Committee

We have audited the financial statements of the major fund of the Arkansas Lottery Commission (the "Agency"), a Commission of Arkansas State government, as of and for the year ended June 30, 2012, which collectively comprise the Arkansas Lottery Commission's basic financial statements and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Agency in a separate letter dated October 19, 2012.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, agency management, Arkansas Lottery Commission and other parties as required by Arkansas Code and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, appearing to read "Roger A. Norman", is positioned below the title "DIVISION OF LEGISLATIVE AUDIT".

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

Little Rock, Arkansas
October 19, 2012



Jordan Chandler | Camden



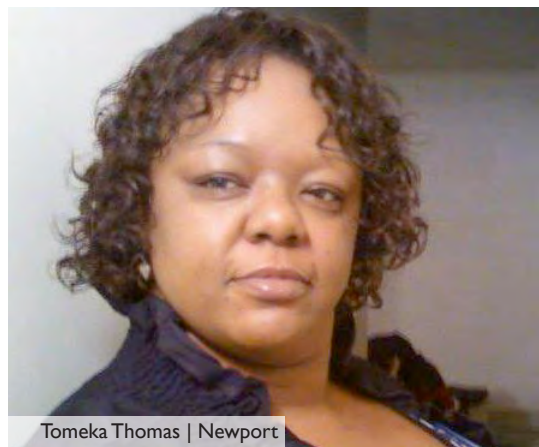
Jesse Young | Carlisle



Stacy Howard | Pine Bluff



Kaitlyn Biggin | Weiner



Tomeka Thomas | Newport



Tyler Banks | Blytheville



Tessa Cucurullo | Monticello



Keith White | Pine Bluff



Fernanda Minden | Fort Smith



Ashley Owen | Pine Bluff



Max Hilgendorf | Fort Smith



Corbett Courtney | Batesville



Samantha Strader | Beebe



Charlyne Hatton | Hot Springs



Zach Stambuck | Farmington



Kayla Wood | Pleasant Plains



Deborah Patton | Little Rock



Christopher Ha | Fort Smith



Allie Wilson | Greenwood