



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



COMPREHENSIVE ANNUAL  
FINANCIAL REPORT FOR THE  
FISCAL YEAR ENDED JUNE 30,

**2017**



Pay to the Order of

**ELIBERTO L. CANTU**

**\$177,000,000**

**ONE HUNDRED SEVENTY-SEVEN MILLION DOLLARS**

Memo **Arkansas' Biggest Winner!**

*Arkansas Scholarship Lottery*

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

**Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2017**



**Asa Hutchinson  
Governor, State of Arkansas**

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

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

**Prepared by  
Finance Division**



**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**An Enterprise Fund of the State of Arkansas**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2017**

**Table of Contents**

**INTRODUCTORY SECTION**

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

**FINANCIAL SECTION**

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis .....	3
Basic Financial Statements	
Statement of Net Position.....	13
Statement of Revenues, Expenses and Changes in Net Position.....	14
Statement of Cash Flows.....	15
Notes to Financial Statements.....	16
Required Supplementary Information	
Schedule of Employer’s Proportionate Share of the Net Pension Liability .....	37
Schedule of Employer Contributions .....	38

**STATISTICAL SECTION**

Statistical Section Table of Contents .....	39
Financial Trends	
Principal Revenue Sources .....	40
Revenues, Expenses and Change in Net Position .....	42
Net Position by Component.....	44
Changes in Cash and Cash Equivalents .....	46
Demographics and Operation Information	
Total Personal and Per Capita Income and Unemployment Rate .....	48
State of Arkansas Principal Employers.....	49
Employees by Department and by Function.....	50
Capital Assets by Department .....	51
Other Information	
U.S. Lotteries’ Sales .....	52
Demographic Summary .....	54
Supplementary Information	
Unclaimed Lottery Prizes.....	55
Scholarship Shortfall Reserve Trust Fund .....	56
Minority-owned and Female-owned Business Participation .....	57



## Table of Contents (continued)

Supplementary Information (continued)	
Retail Sales by County .....	58
Demographic Report from the Arkansas Department of Higher Education .....	60
Expenditures and Projected Obligations from Scholarship and Grant Funding	
Sources from Arkansas Department of Higher Education .....	61
Academic Challenge Scholarship Program County Report.....	62
Debt Set-off Collections .....	64
Fund Balance and Other Information from Arkansas Department of Higher Education ....	65
Term Contracts for Goods and Services.....	66
Other Reports	
Report on Internal Control over Financial Reporting and on Compliance and Other	
Matters Based on an Audit of Financial Statements Performed in Accordance with	
<i>Government Auditing Standards</i> .....	68

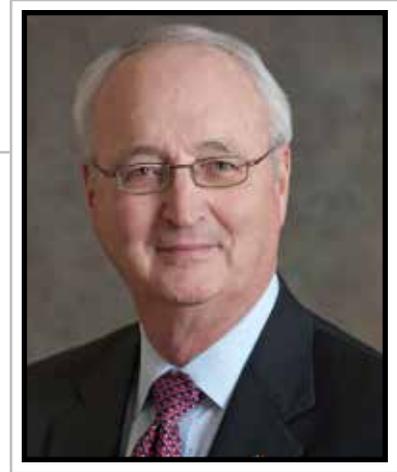


# INTRODUCTORY SECTION





November 28, 2017



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To the citizens of the State of Arkansas,

The attached report contains a comprehensive overview of the operations of the Office of the Arkansas Lottery (OAL) for the fiscal year ended June 30, 2017. The report details the lottery's performance, finances and products. It also provides information on the students who benefit from lottery proceeds and on the 1,934 independent and chain retail partners who sell our products.

During FY 2017, the OAL produced \$85.2 million in funds for scholarships, allowing 33,229 students to attend college in the state. Since its inception, the lottery has generated \$689 million in proceeds.

The OAL paid out over \$25 million to state lottery retailers during FY 2017, creating tangible economic impact at the local level by providing business owners with added revenue. OAL has paid nearly \$200 million to lottery retailers since September 2009.

In FY 2017, sales of lottery tickets were nearly \$450 million. \$306 million of that amount was returned to the people of Arkansas by way of prizes awarded.

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

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

Sincerely,

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

Larry W. Walther  
Director



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

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

November 28, 2017

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

We are pleased to submit to you this Comprehensive Annual Financial Report (CAFR) of the Department of Finance and Administration Office of the Arkansas Lottery (OAL) for the fiscal year ended June 30, 2017. The CAFR is prepared in accordance with the requirements set forth in Arkansas Code Annotated (A.C.A.) § 23-115-206 (a)(8)(C).

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

Lottery management is responsible for establishing and maintaining an internal control structure designed to ensure that assets of the OAL are protected from loss, theft or misappropriation. Adequate accounting data is compiled to provide a reasonable basis for asserting that the financial statements are fairly presented and to assure that the OAL is in compliance with applicable laws and regulations. The internal control structure has been designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, the reliability of financial records for preparing financial statements and compliance with applicable laws and regulations. The structure does not provide a guarantee, but rather reasonable assurances that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that valuation of costs and benefits require estimates and judgments by management. A.C.A. § 23-115-206(b)(1)(A) requires Arkansas Legislative Audit to conduct an annual audit of the OAL, and they may conduct other special reports as may be

deemed necessary. The annual audit includes a review of internal controls as they relate to the expression of an opinion on the financial statements. Auditing standards generally accepted in the United States of America were used by the auditors in conducting the engagement. The auditor's unmodified opinion on the fair presentation of the OAL's basic financial statements is included in their report on page 1 in the financial section of this report.

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

**BACKGROUND**

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

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

## PRODUCTS

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



**INSTANT TICKET GAMES** are played by removing a scratch-off coating from the play area of the ticket. There are various ways to win, including matching certain symbols, adding up to a specified total or otherwise satisfying the requirements listed on the ticket. If the specified condition occurs, the ticket is an instant winner. These play styles are combined with a variety of game themes and ticket prices. Instant games were the first type of games offered by the OAL. For fiscal year ended June 30, 2017, the OAL released 53 instant ticket games with price points of \$1, \$2, \$3, \$5, \$10, and \$20.

**TERMINAL-GENERATED GAMES** allow players to select the numbers for their wager, or players may utilize computer-generated plays. Players receive a ticket with the numbers selected or automatically generated and await the results of a drawing to determine if they have matched the numbers and won. In fiscal year ended June 30, 2017, the OAL sold 8 different types of terminal-generated games: Powerball®, Mega Millions®, Natural State Jackpot, Cash 3, Cash 4, Fast Play, AR Progressive Jackpot Fastplay and Lucky for Life®.



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



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



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



**NATURAL STATE JACKPOT** is an Arkansas-only terminal-generated draw game similar to Powerball®, with drawings Monday through Saturday. Five numbers are drawn from 1 to 39; if all numbers match those that are chosen, the jackpot is won. If other players also match all five numbers, the jackpot is shared. The NSJ jackpot starts at \$50,000, and increases by \$5,000 every draw up to \$150,000 — after that, NSJ jackpots increase by \$10,000 every draw until it's won. Each play is \$1. In March 2017, the game underwent changes that increased starting jackpots from \$25,000 to \$50,000, and increased jackpot rolls from \$5,000 to \$10,000 when the jackpot reaches \$150,000 and higher.



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



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



The **AR Progressive Jackpot Fast Play** launched on April 15, 2013. The game incorporates a new progressive jackpot gaming theme along with fixed lower-tier prizes. The game offers a chance to win a prize at different fixed-prize levels, or a portion of the cumulative jackpot, or the entire cumulative jackpot with each play/ticket purchase. The game is available at three different price points (\$1, \$2 and \$5). On the AR Progressive Jackpot Fast Play ticket, a play can win up to five times, \$250 (or 20% of the jackpot) on a single \$1 ticket; up to ten times, \$500 (or 40% of the jackpot) on a single \$2 ticket; and up to fifteen times, \$1,000 (or 100% of the jackpot) on a single \$5 ticket. The AR Progressive Jackpot amount re-sets to \$1,000 if the entire \$5 AR Progressive Jackpot is won. If the \$1 or \$2 AR Progressive Jackpot is won, the jackpot is reduced to the greater of \$1,000, or by that price point's jackpot percentage (\$1=20%, \$2=40%) and continues to grow from that level. The AR Progressive Jackpot amount continuously grows with each ticket sold (10% of each ticket sale is contributed to the AR Progressive Jackpot amount).

## PLAYERS CLUB SERVICES

The Lottery offers a players club at MyArkansasLottery.com called The Club. By registering a free account, players gain access to Lottery news, winning number emails, the Play It Again® and Points for Prizes® programs, and special second-chance drawings. There were a total of 31,578 new player registrations (and 26,543,456 tickets) entered into the program in fiscal 2017, bringing the membership total to 152,151.



The **Play It Again®** program allows players to submit eligible, non-winning instant tickets for entry into cash prize drawings. After the last day to redeem tickets for any eligible instant game(s), one entry is drawn to win a monetary prize. The same entry mechanism gives players both their Play It Again® entry(s) and Points for Prizes® rewards points. There were 3 Play It Again® drawings held during fiscal year 2017.



The **Points for Prizes®** program gives players loyalty rewards points for eligible instant and terminal-generated tickets entered into their accounts. A player's points accumulate and may be redeemed for merchandise in the Points for Prizes® online store. Merchandise ranges from jewelry and housewares to electronics. There were a total of 245,000,000 points redeemed in the Points for Prizes® program during fiscal year 2017. Points may also be used for special drawing prizes; there were 22 Points for Drawings™ held during fiscal year 2017.

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

Points for Drawings™	Entry Period	Draw Date	# of winners	# of entries
Water Fun Package	06/01/2016-07/11/2016	07/12/16	4	28,964
Drum Set	05/10/2016-07/11/2016	07/12/16	2	11,758
Orlando Theme Park Adventure	05/10/2016-08/08/2016	08/09/16	1	39,442
Cuisinart Cookware Set	07/12/2016-08/15/2016	08/16/16	4	29,004
Apple Package	07/12/2016-09/12/2016	09/13/16	2	57,834
PS4 Bundle	08/16/2016-09/12/2016	09/13/16	3	39,716
Tailgate Package	09/13/2016-10/10/2016	10/11/16	3	9,848
Appliance Renovation Package	08/09/2016-11/07/2016	11/08/16	1	49,306
Smart Home Package	09/13/2016-11/14/2016	11/15/16	2	29,513
Dyson	10/11/2016-11/14/2016	11/15/16	3	22,604
Vera Bradley Bundle	11/15/2016-12/19/2016	12/20/16	3	16,924
Sound of Music	11/15/2016-01/16/2017	01/17/17	2	25,076
Drone	12/20/2016-01/16/2017	01/17/17	3	37,039
Movie Time Package	11/08/2016-02/13/2017	02/14/17	1	40,416
Dyson Hot + Cool Fan Heater	01/17/2017-02/13/2017	02/14/17	3	16,418
Fitness Package	01/17/2017-03/13/2017	03/14/17	2	25,098
Dooney & Bourke Purse & Clutch	02/14/2017-03/13/2017	03/14/17	3	17,462
Treasure Hunt	03/14/2017-04/10/2017	04/11/17	3	26,329
Jukebox	03/14/2017-05/15/2017	05/16/17	2	18,758
Chef Package	02/14/2017-05/15/2017	05/16/17	1	25,302
Canon Camcorder	04/11/2017-05/15/2017	05/16/17	3	19,332
Ultimate Grilled Pizza Package	05/16/2017-06/15/2017	06/16/17	3	10,058

## **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 2016 and the first half of 2017, with inflationary adjusted Gross Domestic Product (GDP) and industrial production showing continued gains.

### **GROSS DOMESTIC PRODUCT**

GDP is the broadest measure of economic activity. The economic output of the national economy, as measured by the GDP, has been expanding each quarter since the third quarter of calendar year 2009 when the OAL first started selling lottery tickets. The GDP growth averaged 2.3% during the last half of calendar year 2016 and the first half of calendar year 2017. The unemployment rate for the State of Arkansas finished the June 30, 2017 fiscal year end at 3.4%.

### **STATE PERSONAL INCOME**

Personal income consists of wages and salaries, dividends, interest, rent, and transfer payments such as Social Security and other retirement incomes. Personal income does not include realized capital gains from the sale of assets. Personal income for the State of Arkansas, measured in current dollars, reached \$120.6 billion at the end of the June 30, 2017 fiscal year, while non-farm personal income reached a total of \$119.0 billion. This represented an increase in personal income of \$3.4 billion, or 3.0% from fiscal year ended June 30, 2016. For the fiscal year ending June 30, 2018, personal income is forecast at \$124.5 billion (current dollars) an increase of \$3.9 billion or 3.2% over the fiscal year ended June 30, 2017, while non-farm personal income is forecast at \$123.6 billion.

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

Measured in current dollars, wage and salary disbursements were \$54.9 billion for the June 30, 2017 fiscal year, an increase of \$2.4 million or 0.7% from the June 30, 2016 fiscal year. Wage and salary disbursements for the fiscal year ending June 30, 2018 are forecast at \$57.3 billion (current dollars), an increase of \$2.4 billion or 4.4% from the June 30, 2017 fiscal year.

### **EMPLOYMENT**

During the June 30, 2017 fiscal year, wage and salary employment in Arkansas increased to 1.246 million jobs which represents an increase of 19,000 jobs or 1.5% compared to the June 30, 2016 fiscal year. For the fiscal year ending June 30, 2018, wage and salary employment is expected to increase to 1.259 million jobs. This represents a projected increase of 12,590 jobs or 1.0% from the June 30, 2017 fiscal year.

## **HIGHLIGHTS OF THE PAST YEAR**

**Management's discussion and analysis (MD&A) provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it. In addition to financial accomplishments, other noteworthy accomplishments during fiscal year 2017 included:**

- **Surpassing \$3.4 billion in ticket sales since the lottery's inception.**
- **Surpassing \$2.3 billion in prizes paid to players since the lottery's inception.**
- **Transferring over \$689 million to the ADHE for the purpose of funding scholarships since the lottery's inception including transfers of \$85 million for June 30, 2017 fiscal year.**
- **The ADHE awarded nearly \$86 million in scholarships during the fall 2016 and spring 2017 semesters.**

## **RELEVANT FINANCIAL POLICIES**

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

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

**Shortfall Reserve:** In accordance with the Arkansas Scholarship Lottery Act, legislation was enacted which required the OAL to establish a Scholarship Shortfall Reserve Trust Account. As of June 30, 2017, the Scholarship Shortfall Reserve Trust Account was fully funded in the amount of \$20 million.

## **INTERNAL CONTROL ENVIRONMENT**

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

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the OAL for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the sixth consecutive year that the OAL has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A certificate of achievement is valid for a period of one year only. Management believes that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and as required by the requirements of the Arkansas Scholarship Lottery Act, we are submitting it to the GFOA to determine its eligibility for another certificate.

## **OTHER INFORMATION**

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

## **ACKNOWLEDGEMENTS**

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

Respectfully submitted,

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

Jerry Fetzer  
Chief Fiscal Officer

## MISSION

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

## VISION

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

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

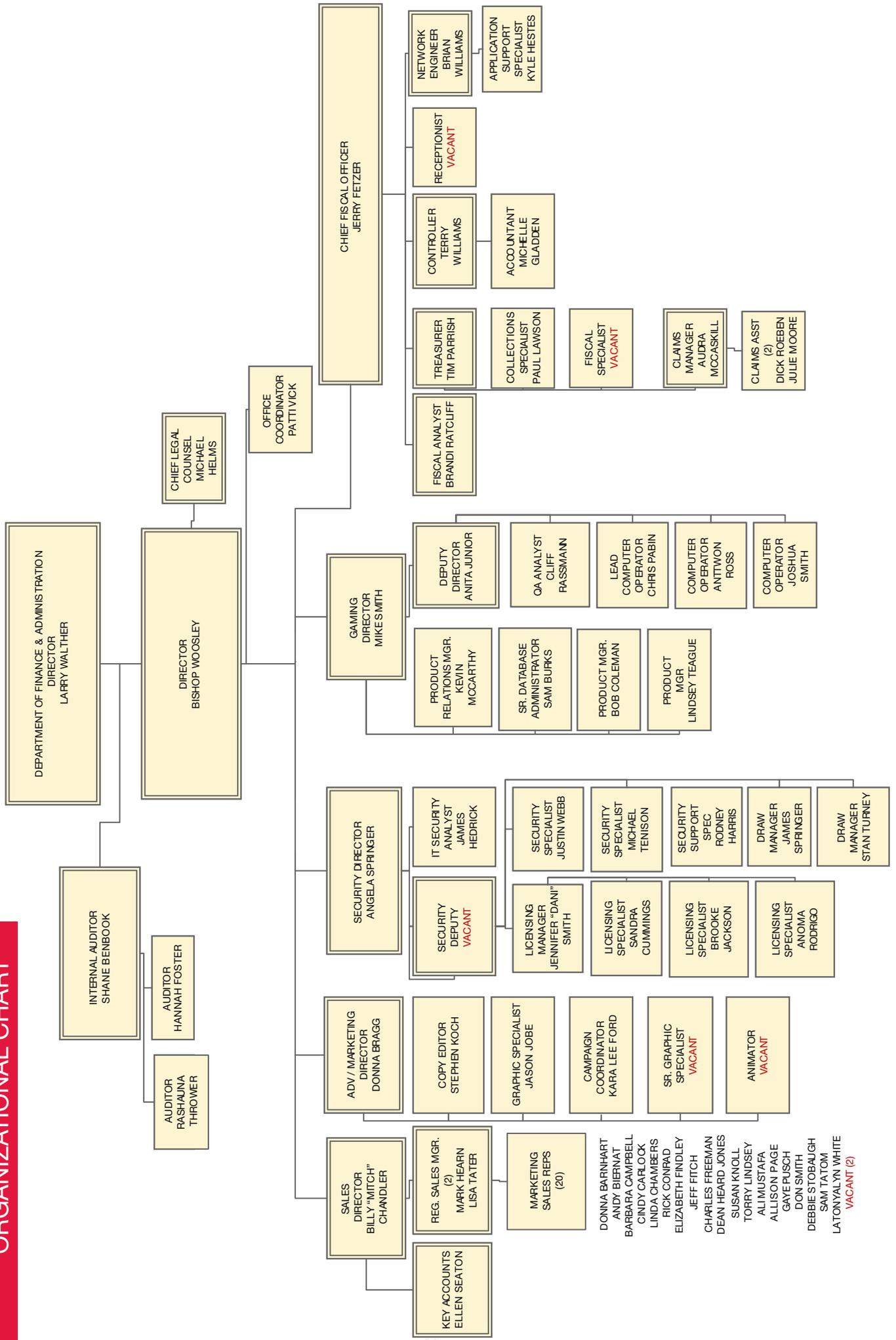
We control our expenses in an attempt to give the legislature as much money as possible to allocate toward education in Arkansas. These dollars should go to the support of a broad range of educational benefits across the entire age spectrum.

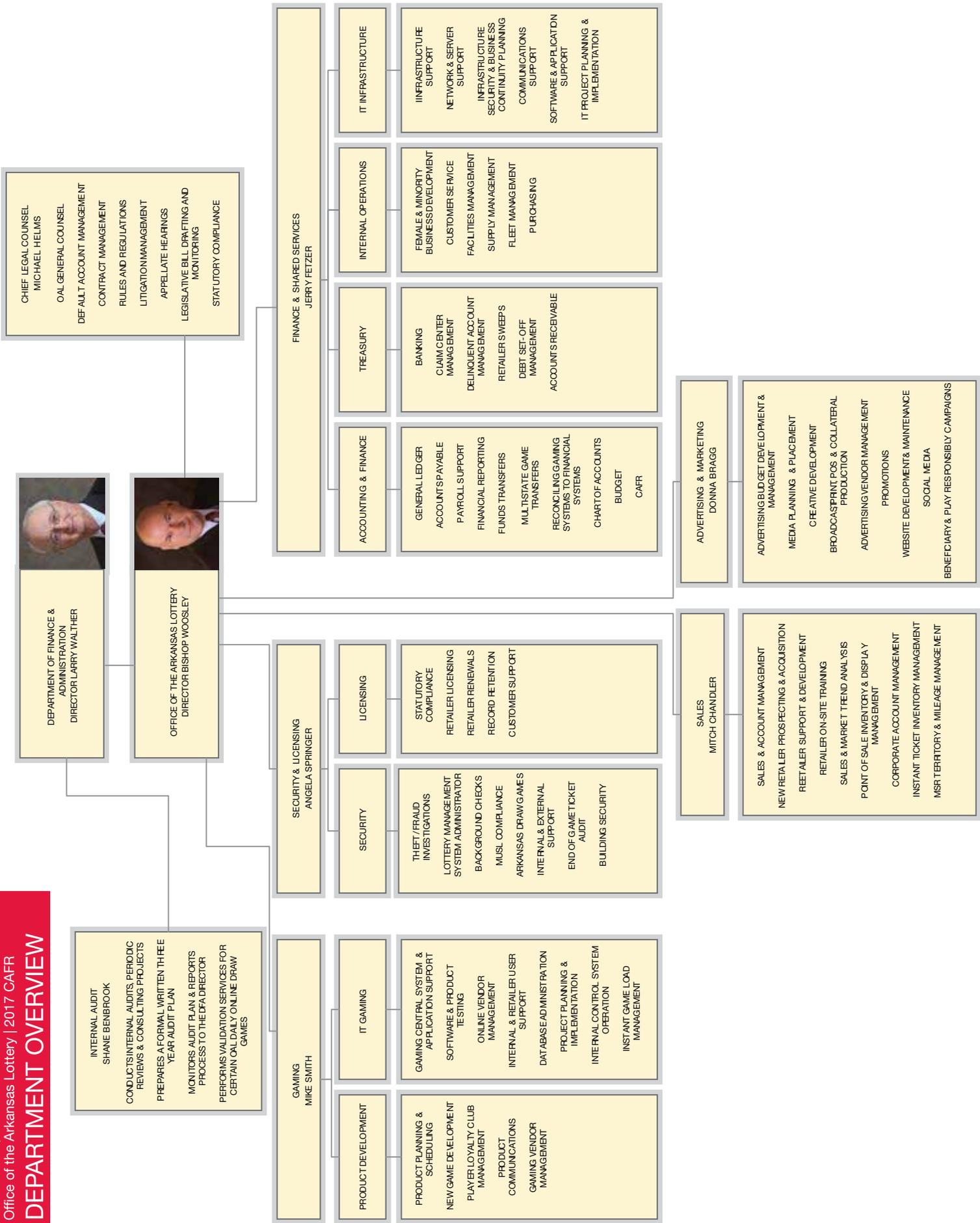
## VALUES

OAL's values include:

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









Government Finance Officers Association

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

Presented to

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

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

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

Executive Director/CEO

# FINANCIAL SECTION





# Arkansas

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



Rep. Richard Womack  
House Chair  
Rep. Mary Bentley  
House Vice Chair

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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

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

#### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the major fund of the Department of Finance and Administration - Office of the Arkansas Lottery, an office of Arkansas state government, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department of Finance and Administration - Office of the Arkansas Lottery's basic financial statements as listed in the table of contents.

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

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund of the Department of Finance and Administration - Office of the Arkansas Lottery as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As indicated above, the financial statements of the Department of Finance and Administration - Office of the Arkansas Lottery are intended to present the financial position, changes in financial position, and cash flows of the major fund of the State that is attributable to the transactions of the Department of Finance and Administration - Office of the Arkansas Lottery. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2017, changes in its financial position, or its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2017 on our consideration of the Department of Finance and Administration - Office of the Arkansas Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Finance and Administration - Office of the Arkansas Lottery's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
November 28, 2017  
SA1661317

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# MANAGEMENT'S DISCUSSION & ANALYSIS





**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2017**  
**(Unaudited)**

As management of the Arkansas Department of Finance and Administration (DFA) Office of the Arkansas Lottery (OAL), we offer readers of the OAL's financial statements this narrative overview and analysis of the financial activities of the OAL for the fiscal year ended June 30, 2017. Please read it in conjunction with the OAL's financial statements, which follow this section.

**FINANCIAL AND OPERATING HIGHLIGHTS**

- Operating revenues for the OAL decreased by \$6.4 million in fiscal year 2017 as compared to fiscal year 2016, a decrease of 1.4%. Instant ticket sales for fiscal year 2017 increased \$8.4 million or 2.3% from fiscal year 2016. Online ticket sales for fiscal year 2017 decreased by \$14.9 million or 15.6% from fiscal year 2016. During fiscal year 2016 a \$1.6 billion Powerball® jackpot occurred, which spurred sales by more than \$10 million during that jackpot run. While there were several large Powerball® jackpots in fiscal year 2017, none were near the level of the \$1.6 billion amount, so Powerball® sales were lower in relation to the prior year. The other online games, Fast Play, Cash 3, Cash 4, Mega Millions®, Natural State Jackpot and Lucky for Life had a total sales increase for fiscal year 2017 of \$0.4 million or 0.9% as compared to fiscal year 2016.
- The OAL's operating expenses decreased in fiscal year 2017 as compared to the previous fiscal year by \$1.9 million or 1%. This decrease was primarily related to a \$7.2 million decrease in online game prizes, which was partially offset by a \$4.7 million increase in instant game prizes expense and an increase in marketing expense of \$1.1 million.
- For fiscal year 2017 transfers to the Education Trust Account of net proceeds were \$85.2 million, which was almost the same amount as the prior fiscal year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2017  
(Unaudited)**

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

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

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

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

The OAL's total net position at June 30, 2017 and 2016 were as follows:

<u>Condensed Summary of Assets, Liabilities and Net Position</u>		
	June 30, 2017	June 30, 2016
Current assets	\$ 62,967,954	\$ 48,690,238
Non-current assets	22,106,426	21,984,511
Capital assets	384,288	376,417
Total assets	<u>85,458,668</u>	<u>71,051,166</u>
Deferred outflow s of resources	1,717,009	1,130,745
Total assets and deferred outflow s	<u>\$ 87,175,677</u>	<u>\$ 72,181,911</u>
Current liabilities	\$ 67,438,980	\$ 52,323,016
Long term liabilities	7,213,085	6,393,195
Total liabilities	<u>74,652,065</u>	<u>58,716,211</u>
Deferred inflow s of resources	703,066	693,464
Total liabilities and deferred inflow s	<u>75,355,131</u>	<u>59,409,675</u>
Net position:		
Invested in capital assets	384,288	376,417
Restricted	23,479,738	23,148,383
Unrestricted (Deficit)	(12,043,480)	(10,752,564)
Total net position	<u>11,820,546</u>	<u>12,772,236</u>
Total liabilities, deferred inflow s and net position	<u>\$ 87,175,677</u>	<u>\$ 72,181,911</u>

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2017**  
**(Unaudited)**

Assets consisted primarily of cash and cash equivalents which were \$70.9 million and \$57.7 million at June 30, 2017 and 2016 respectively. Accounts receivable were \$12.0 million and \$11.1 million at June 30, 2017 and 2016 respectively. Capital assets, net of depreciation, were \$0.4 million and \$0.4 million at June 30, 2017 and June 30, 2016 respectively.

At June 30, 2017 the OAL's liabilities consist primarily of amounts due to the Arkansas Department of Higher Education (ADHE), accrued prizes expense, accrued operating expenses, the pension obligation and other post retirement obligations. Total liabilities were \$74.7 million which was an increase of \$16.0 million or 27.1% from fiscal year 2016.

At June 30, 2017 the OAL's total assets and deferred outflows of resources exceed its total liabilities and deferred inflows of resources resulting in total net position of approximately \$11.8 million. This is a decrease in total net position of \$1.0 million or -7.5% from fiscal year 2016 total net position. The restricted net position was approximately \$0.3 million more than at the prior year end. Unrestricted net position (deficit) was \$(12.0) million which was an increase in the deficit of \$(1.3) million from the fiscal year 2016 unrestricted net position (deficit). This deficit relates primarily to timing differences related to the adjusted cash basis accounting method used to calculate net proceeds for transfer to the Arkansas Department of Higher Education, due to the change in liability of the OAL's unfunded portion of the OPEB liability and due to the accrual of the OAL's pension liability. In the unlikely event that the OAL ever ceases operations, the Arkansas State Legislature may be required to resolve this deficit in unrestricted net position.

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

During fiscal year 2017, the OAL's activities resulted in net proceeds transfers to the Trust Accounts of \$85.2 million, which was almost the same amount for the prior fiscal year. Also, as previously discussed, the total net position of the OAL decreased by \$1.0 million from the prior fiscal year. This decrease was primarily due to timing differences related to the accounting method used to calculate net proceeds. The key elements of the revenues, expenses and changes in net position for the fiscal year ended June 30, 2017, with comparative information for fiscal year 2016 are shown in the following table.

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2017  
(Unaudited)**

<u>Summary of Revenues, Expenses and Changes in Net Position</u>		
	<u>2017</u>	<u>2016</u>
Operating revenues		
Instant ticket sales	\$ 368,454,561	\$ 360,007,743
Online ticket sales	80,686,467	95,591,659
Retailer fees	769,959	717,150
Other operating revenue	5,749	9,259
Total operating revenues	<u>449,916,736</u>	<u>456,325,811</u>
Operating expenses		
Instant game prizes	263,190,873	258,461,952
Online game prizes	43,238,515	50,485,363
Commissions and contract costs	44,405,247	45,088,364
General and administrative expenses	14,687,783	13,414,175
Services provided by other agencies	581,077	540,355
Depreciation	96,917	95,063
Total operating expenses	<u>366,200,412</u>	<u>368,085,272</u>
Operating income	83,716,324	88,240,539
Non-operating revenue		
Interest Income	489,046	232,275
Other non-operating revenue	0	1,875
Total non-operating income	<u>489,046</u>	<u>234,150</u>
Income before transfers	84,205,370	88,474,689
Transfers to		
Trust Accounts	<u>(85,157,060)</u>	<u>(85,274,927)</u>
Increase (Decrease) in net position		
Beginning net position	(951,690)	3,199,762
Ending net position	<u>12,772,236</u>	<u>9,572,474</u>
	<u>\$ 11,820,546</u>	<u>\$ 12,772,236</u>

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2017**  
**(Unaudited)**

**OPERATING REVENUES**

**Games Sales**

The OAL's games revenues are made up of a variety of instant and online lottery products. The OAL is an active member of a joint venture arrangement with the Multi-State Lottery Association (MUSL). Powerball®, Mega Millions® and Lucky for Life are online games operated under MUSL. The OAL also operates Fast Play, Cash 3, Cash 4, and Natural State Jackpot which are all online games. The table below shows instant ticket sales and sales for online lottery games for the years ended June 30, 2017 and 2016.

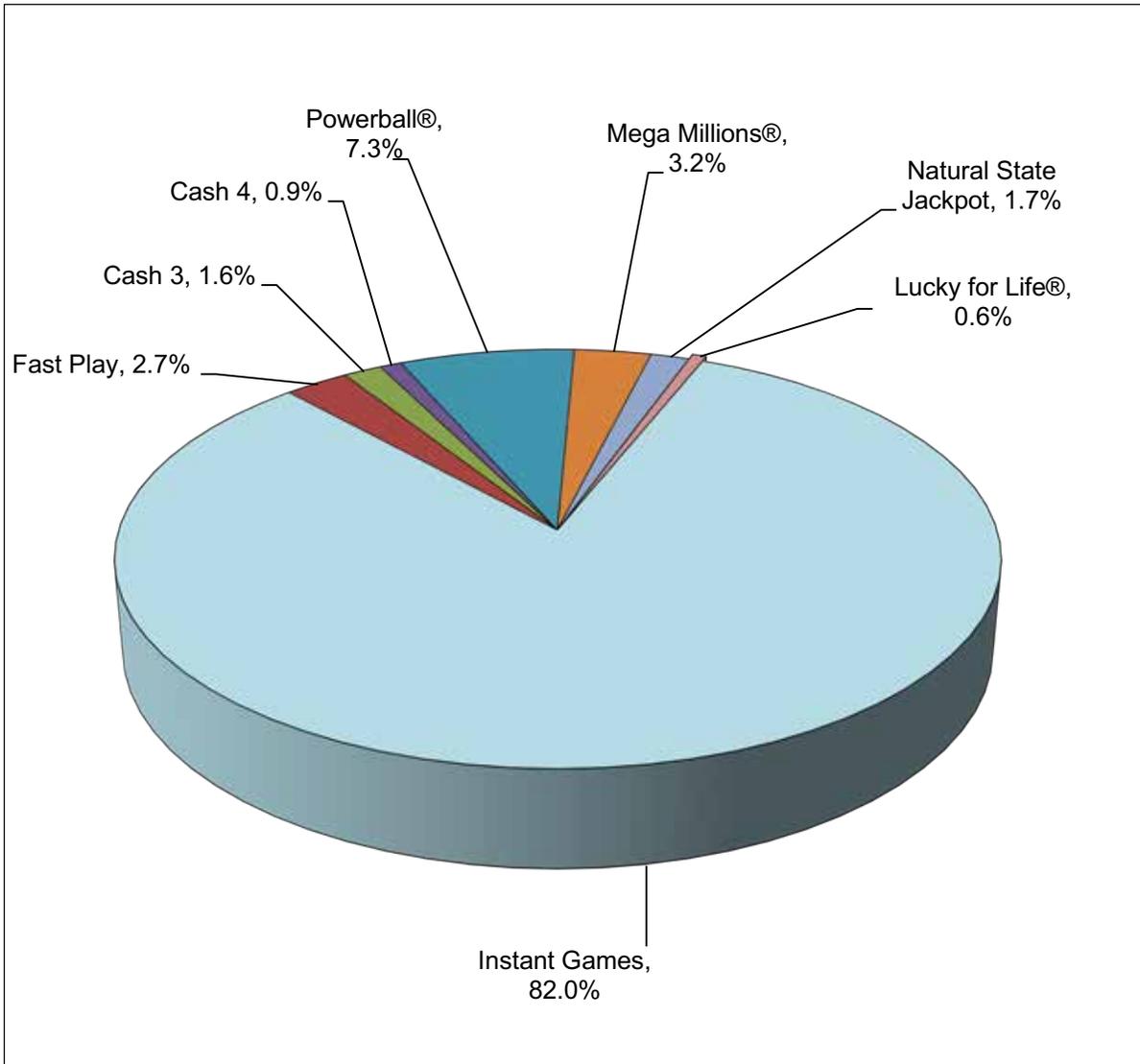
<u>Lottery Games Sales for Years Ended June 30, 2017 and 2016</u>				
Game	2017	2016	Change	% Change
Instant ticket sales	\$ 368,454,561	\$ 360,007,743	\$ 8,446,818	2.3%
Powerball®	32,755,119	48,073,339	(15,318,220)	-31.9%
Mega Millions®	14,313,090	14,632,244	(319,154)	-2.2%
Fast Play	12,313,567	10,993,360	1,320,207	12.0%
Natural State Jackpot	7,047,543	7,567,005	(519,462)	-6.9%
Cash 3	7,128,685	7,184,616	(55,931)	-0.8%
Cash 4	4,238,553	3,823,987	414,566	10.8%
Lucky for Life	2,889,910	3,317,108	(427,198)	-12.9%
<b>Total games sales</b>	<b>\$ 449,141,028</b>	<b>\$ 455,599,402</b>	<b>\$ (6,458,374)</b>	<b>-1.4%</b>

The OAL experienced an decrease of \$6.5 million or 1.4% in total lottery ticket sales for fiscal year 2017 as compared to fiscal year 2016. For fiscal year 2017 instant ticket sales increased by \$8.4 million or 2.3% while online games sales decreased by \$14.9 million or -15.6%. Instant ticket sales continued to be the OAL's most popular product contributing 82.0% and 79.0% to total fiscal year sales for 2017 and 2016 respectively. For online games sales for fiscal year 2017, Fast Play had a \$1.3 million or 12.0% increase in sales and Cash 4 sales increased by \$0.4 million or 10.8%. For fiscal year 2017 Powerball® had a significant decrease in sales of \$15.3 million or -31.9%, which was primarily attributable to the enhanced sales for fiscal year 2016 which resulted from the record \$1.6 billion Powerball® jackpot that occurred in January 2016. Mega Millions® had a slight decrease in sales of \$0.3 million or -2.2% for fiscal year 2017 as compared to 2016. Natural State Jackpot experienced a decrease in sales for fiscal year 2017 of \$0.5 million or -6.9%. Cash 3 sales decreased by \$0.1 million or -0.8% during fiscal year 2017. And the Lucky for Life game sales decreased for fiscal year 2017 by \$0.4 million or -12.9%.

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2017  
(Unaudited)**

The graph below summarizes the fiscal year 2017 sales as a percent of total ticket revenues:

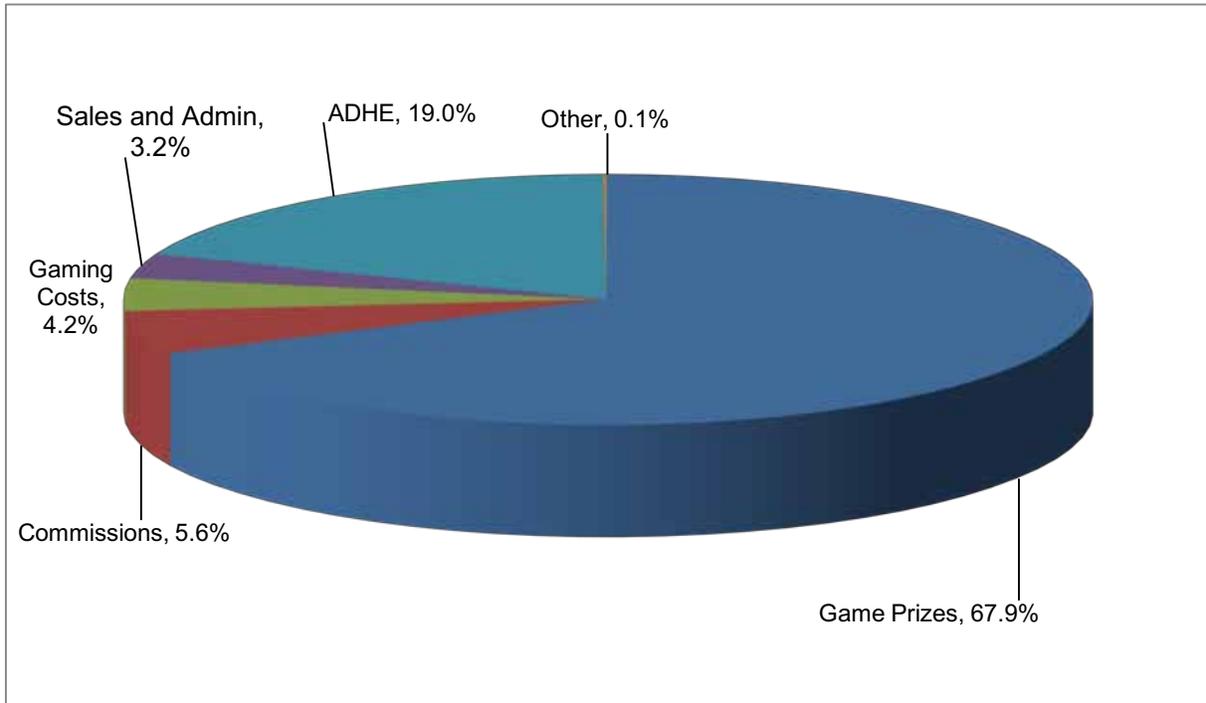
**2017 Lottery Game Revenues as a Percent of Sales**



**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2017  
(Unaudited)**

Distribution of the fiscal year 2017 revenues were as follows:

**Fiscal Year 2017 Revenue Distribution**



**OPERATING EXPENSES**

**Prizes**

Prizes are the largest operating expense the OAL incurs. Fiscal year 2017 prizes expense of \$306.4 million reflects a \$2.5 million or -0.8% decrease from fiscal year 2016 prizes expense of \$308.9 million. This overall decrease in prizes expense relates primarily to the significant decrease in online ticket sales experienced in fiscal year 2017, which was somewhat offset by the increase in instant ticket sales.

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2017  
(Unaudited)**

The following table shows prizes expense by lottery game for the years ended June 30, 2017 and 2016 respectively.

<u>Game Prizes Expense</u>	<u>Game Prizes Expense</u>			
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
Instant Game prizes	\$ 263,190,873	\$ 258,461,952	\$ 4,728,921	1.8%
Powerball®	15,031,736	23,402,887	(8,371,151)	-35.8%
Mega Millions®	6,882,014	7,050,852	(168,838)	-2.4%
Natural State Jackpot	3,836,787	3,763,834	72,953	1.9%
Lucky for Life	1,936,456	2,215,645	(279,189)	-12.6%
Fast Play	9,713,832	8,707,655	1,006,177	11.6%
Cash 3	3,385,590	3,361,410	24,180	0.7%
Cash 4	2,452,100	1,983,300	468,800	23.6%
Arkansas 50/50 Raffle	0	(220)	220	-100.0%
Total game prizes expense	<u>\$ 306,429,388</u>	<u>\$ 308,947,315</u>	<u>\$ (2,517,927)</u>	-0.8%

The following table shows sales profit margin for instant and online games by for the years ended June 30, 2017 and 2016.

	<u>Lottery Game Profit Margins</u>			
	<u>Instant Tickets</u>		<u>Online Games</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Game revenues	\$ 368,454,561	\$ 360,007,743	\$ 80,686,467	\$ 95,591,659
Prize expense	<u>263,190,873</u>	<u>258,461,952</u>	<u>43,238,515</u>	<u>50,485,363</u>
Gross profit after prizes	<u>\$ 105,263,688</u>	<u>\$ 101,545,791</u>	<u>\$ 37,447,952</u>	<u>\$ 45,106,296</u>
Profit margin after prizes	28.6%	28.2%	46.4%	47.2%

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2017  
(Unaudited)**

**Other Operating Expenses**

In addition to prizes expense, other expenses include retailer commissions, gaming contract costs, marketing & advertising costs, general administrative costs and depreciation. These other expenses totaled \$59.8 million and \$59.1 million for fiscal years 2017 and 2016 respectively.

The table below shows the operating profit margin, which is the OAL's total operating revenues less its total operating expenses, for the years ended June 30, 2017 and 2016 respectively.

<u>Operating Profit Margin</u>				
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Operating revenues	\$ 449,916,736	\$ 456,325,811	\$(6,409,075)	-1.4%
Operating expenses	366,200,412	368,085,272	(1,884,860)	-0.5%
Operating Income	<u>\$ 83,716,324</u>	<u>\$ 88,240,539</u>	<u>\$(4,524,215)</u>	-5.1%
Profit margin	18.6%	19.3%		

**NON-OPERATING REVENUES AND TRANSFERS**

Non-operating revenues were primarily related to interest income of \$489,046 and \$232,275 for the years ended June 30, 2017 and 2016 respectively. For fiscal year 2017 there were no other non-operating revenues recognized.

In fiscal years 2017 and 2016, net transfers of \$85.2 million and \$85.3 million respectively, were made to the Education Trust Fund Account bank account. In addition, the net transfers for scholarships from the Education Trust Fund Account bank account to ADHE were \$71.0 million for fiscal year 2017 as compared to \$77.0 million for fiscal year 2016.

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2017  
(Unaudited)**

**CAPITAL ASSETS**

At June 30, 2017 the OAL had \$1.4 million in capital assets as compared to \$1.4 million at the prior fiscal year end. Capital assets are primarily composed of equipment and leasehold improvements. These capital assets are depreciating over their estimated useful lives of 5 to 7 years. More detailed information on capital assets may be found in Note 10 of the notes to the financial statements.

	<u>Capital Assets</u>		
	<u>2017</u>	<u>2016</u>	<u>Total % Change</u>
Assets under construction	\$ -	\$ 68,452	-100.0%
Equipment	949,289	801,039	18.5%
Leasehold improvements	492,796	492,796	0.0%
Total Capital Assets	<u>1,442,085</u>	<u>1,362,287</u>	
Less: Accumulated depreciation	<u>(1,057,797)</u>	<u>(985,870)</u>	
Net Capital Assets	<u>\$ 384,288</u>	<u>\$ 376,417</u>	

**CONTACT INFORMATION**

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

# BASIC FINANCIAL STATEMENTS





**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Statement of Net Position**  
**June 30, 2017**  
**ASSETS**

<b>Current assets:</b>	
Cash and cash equivalents	\$ 4,345,563
Restricted assets:	
Cash and cash equivalents	46,395,257
Accounts receivable	12,037,291
Prepaid items	189,843
Total current assets	<u>62,967,954</u>
<b>Non-current assets:</b>	
Restricted assets:	
Cash and cash equivalents	20,158,355
Deposits with Multi-State Lottery Association	1,948,071
Capital assets:	
Equipment	949,289
Leasehold improvements	492,796
Less accumulated depreciation	<u>(1,057,797)</u>
Total non-current assets	<u>22,490,714</u>
 Total assets	 85,458,668
<b>Deferred outflows of resources:</b>	
Related to pension	<u>1,717,009</u>
 Total assets and deferred outflows of resources	 <u>\$ 87,175,677</u>

**LIABILITIES**

<b>Current liabilities:</b>	
Accounts payable	\$ 126,403
Prizes payable	19,084,125
Accrued and other liabilities	1,940,776
Due to other funds of the State	519,849
Due to Education Trust Account	31,238,198
Due to Workforce Challenge Trust Account	14,157,060
Compensated absences	49,824
Unearned revenue	<u>322,745</u>
Total current liabilities	<u>67,438,980</u>
<b>Long-Term liabilities:</b>	
Net other post employment benefits	2,182,837
Compensated absences	297,896
Net pension liability	<u>4,732,352</u>
Total long-term liabilities	<u>7,213,085</u>
 Total liabilities	 74,652,065
<b>Deferred inflows of resources:</b>	
Related to pension	<u>703,066</u>
 Total liabilities and deferred inflows of resources	 <u>75,355,131</u>

**NET POSITION**

<b>Net position:</b>	
Invested in capital assets	384,288
Restricted for:	
Scholarship shortfall reserve	20,000,000
Retailer fidelity reserve	158,355
Retailer bond reserve	373,312
Deposits with Multi-State Lottery Association	1,948,071
Unclaimed prizes reserve	1,000,000
Unrestricted (deficit)	<u>(12,043,480)</u>
 Total net position	 <u>11,820,546</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 87,175,677</u>

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

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Statement of Revenues, Expenses and Change in Net Position**  
**For the Year Ended June 30, 2017**

<b>Operating revenues:</b>	
Instant ticket sales	\$ 368,454,561
Online ticket sales	80,686,467
Retailer application, fidelity, bond and service fees	769,959
Other revenue	<u>5,749</u>
 Total operating revenues	 <u>449,916,736</u>
 <b>Operating expenses:</b>	
Instant game prizes	263,190,873
Online game prizes	43,238,515
Retailer commissions	25,315,020
Gaming contract costs	19,090,227
Compensation and benefits	5,024,854
Marketing, advertising and promotions	5,861,130
General and administrative expenses	3,799,935
Services provided by Arkansas Department of Higher Education	441,317
Services provided by Arkansas Legislative Audit	139,760
Legal and professional services	1,864
Depreciation	<u>96,917</u>
 Total operating expenses	 <u>366,200,412</u>
 Operating income	 83,716,324
 <b>Non-operating revenue:</b>	
Interest income	<u>489,046</u>
 Income before transfers	 84,205,370
 <b>Transfers to:</b>	
Education Trust Account	(71,000,000)
Workforce Challenge Trust Account	<u>(14,157,060)</u>
 Total transfers	 <u>(85,157,060)</u>
 Change in net position	 (951,690)
 Total net position - beginning	 <u>12,772,236</u>
Total net position - ending	<u><u>\$ 11,820,546</u></u>

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

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Statement of Cash Flows**  
**For the Twelve Months Ended June 30, 2017**

**Cash flows from operating activities:**

Cash received from retailers and others	\$ 448,872,673
Cash paid for prizes	(305,141,493)
Cash paid for gaming vendors	(19,154,160)
Cash paid for retailer commissions	(25,400,020)
Cash paid for marketing and advertising	(5,492,302)
Cash paid for employee services	(4,749,058)
Cash paid for other expenses	(5,645,415)
Net cash provided by operating activities	83,290,225

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

Non-operating transfers to Arkansas Department of Higher Education	(71,000,000)
Non-operating transfers from Arkansas Department of Higher Education	542,198
Net cash used by non-capital financing activities	(70,457,802)

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

Purchases of capital assets	(104,787)
Net cash flows from capital and related financing activities	(104,787)

**Cash flows from investing activities:**

Interest received	489,046
Net increase in cash and cash equivalents	13,216,682

Cash and cash equivalents, beginning	57,682,493
Cash and cash equivalents, ending	\$ 70,899,175

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

**by operating activities:**

Operating income	\$ 83,716,324
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	96,917
Pension earnings	11,108
Net changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(929,311)
Receivable from other funds of the State	3,579
Prepaid items	(156,757)
Deposits with Multi-State Lottery Association	(100,460)
Increase (decrease) in:	
Accounts payable	118,383
Prizes payable	1,388,353
Accrued and other liabilities	(973,880)
Due to other funds of the State	(4,626)
Compensated absences	33,716
Unearned revenue	(114,751)
Net post employment benefits	201,630
Net cash provided by operating activities	\$ 83,290,225

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

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Notes to Financial Statements**  
**June 30, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Reporting Entity**

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

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

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

**b. Basis of Presentation**

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

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Notes to Financial Statements**  
**June 30, 2017**

**c. Basis of Accounting**

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

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

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

**d. Cash and Cash Equivalents**

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

**e. Accounts Receivable**

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

**f. Capital Assets**

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

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

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Notes to Financial Statements**  
**June 30, 2017**

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

***g. Net Position***

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

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

***h. Revenue Recognition***

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

***i. Unearned Revenue***

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

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

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Notes to Financial Statements**  
**June 30, 2017**

***j. Retailer Commissions***

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

***k. Prizes and Unclaimed Prizes***

For instant ticket (scratch-off) games, prizes expense is accrued based on the end of production prize structure percentage provided by the gaming vendor for each game and recorded based on value of packs activated for sale by retailers. Prizes expense for any merchandise prize is recognized when invoiced by the gaming vendor. Any instant game prizes that remain unclaimed 90 days after an instant game ending date are considered unclaimed.

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

Act 1180, enacted April 6, 2011, provided that unclaimed prizes are to be accumulated during the fiscal year, with the OAL being allowed to spend up to \$2,500,000 for future lottery prizes, to maintain online reserves or for prizes promotion. At the end of each fiscal year the amount of unclaimed prizes money, less \$1 million, is to be deposited into the Education Trust Account as net proceeds. For financial statement purposes, unclaimed prizes are a reduction to the overall prizes expense recognized.

***l. Compensated Absences***

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

***m. Retirement Plan***

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

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Notes to Financial Statements**  
**June 30, 2017**

**n. Use of Estimates**

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

**o. Bad Debt Expense**

Bad debt expense is normally recognized when an OAL retailer's uncollected revenue is significantly past due and is in excess of amounts deemed to be collectible. The amount of expense is based on the retailer's outstanding aged accounts receivable balance. The OAL recorded no bad debt expense for the fiscal year ended June 30, 2017. For net proceeds calculations, bad debt expense amounts are recovered from the Retailer Fidelity Reserve or the Retailer Bond Reserve, which are maintained to offset such potential losses.

**2. DEPOSITS**

Arkansas Code Annotated (ACA) requires that agencies holding monies not deposited in the State Treasury (cash fund agencies), other than institutions of higher learning, abide by the recommendations of the State Board of Finance as to the best investment decisions for any idle cash balances. The State Board of Finance promulgated certain new cash management and investments standards and procedures, effective July 14, 2012, which replaced the prior standards and procedures established in September 1, 1990. Such standards are referenced by the Department of Finance and Administration within the Financial Management Guide for use by all State agencies.

The stated primary goal of state cash management is the protection of principal, while maximizing investments and minimizing non-interest bearing balances. Collateral pledged to secure deposits is to be held within the borders of the State of Arkansas and placed with any Federal Reserve Bank; any Federal Home Loan Bank; a banker's bank; or the trust department, or similar safekeeping function, of a commercial bank or trust company primarily located in Arkansas that is unaffiliated with the bank or financial institution in which the funds are deposited. State financial policy also states that funds may be maintained in demand deposit accounts for the purposes of meeting day-to-day operating expenditures. It is suggested that service charges associated with this type of account can generally be avoided by maintaining required minimum balances or compensating balances in other accounts. Funds in excess of immediate expenditure requirements (excluding minimum balances) should not remain in non-interest bearing accounts.

In 2009, the OAL entered into a seven-year contract with Bank of the Ozarks to provide primarily all banking services for its operations. On June 30, 2016, The OAL executed a first amendment to the contract for a period of twelve months, with an effective date of September 2, 2016. The contract amendment has the provision that all banking services be provided to OAL at no cost. Additionally, the contract amendment calls for interest to be paid on all OAL deposits at a rate of 20 basis points over the Federal Funds Target rate with a floor of 55 basis points. In December 2016, the Federal Funds Target rate exceeded the floor of 55 basis points and continued to exceed the floor through June 30, 2017. All of the OAL's cash and equivalents at June 30, 2017 were held in accounts at the Bank of the Ozarks. As agreed to in their contract, the Bank of the Ozarks has agreed to pledge collateral on all accounts of the OAL in an amount to exceed the State requirement of 105 percent of deposits. As of June 30, 2017, the total collateral pledged to the OAL, was in the form of two irrevocable standby letters of credit and one security. The letters of credit were both issued in the

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Notes to Financial Statements  
June 30, 2017**

OAL's name by the Federal Home Loan Bank of Dallas, for any sum or sums not to exceed \$70,000,000 and \$10,000,000 respectively. In addition to the letters of credit, the pledged security to OAL had a market value of \$334,434 on June 30, 2017. The total value of collateral pledged at June 30, 2017 was \$80,334,434. At June 30, 2017 the OAL's total bank balances were \$71,154,132, so the pledged collateral maximum was 112.9% of the OAL's deposits.

***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that in the event of the failure of a depository institution, the OAL will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The OAL has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. It is the opinion of management that none of the OAL's bank balances of \$71,154,132 were exposed to custodial credit risk as of June 30, 2017.

**3. ACCOUNTS RECEIVABLE**

Management believes that an allowance for uncollectable accounts is not necessary at June 30, 2017, as subsequent collections, Retailer fidelity Reserve and Retailer Bond Reserve amounts are sufficient to cover any past due accounts. Amounts due from retailers and others at June 30, 2017 are summarized as follows:

Amount due for activated instant scratch-off tickets, not settled	\$ 9,946,140
Amount due for partial weeks sales through June 30, 2017	2,050,988
Past due accounts and other receivables	<u>40,163</u>
Total accounts receivable	<u>\$ 12,037,291</u>

**4. TRUST ACCOUNT for NET PROCEEDS**

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

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

For financial statement purposes, the total amount reflected for the Education Trust Account as current restricted cash and cash equivalents on the statement of net position at June 30, 2017 was \$31,238,198. Total net proceeds for the fiscal year ended June 30, 2017 were \$85,157,060. During fiscal year 2017 a total of \$71,000,000 were transferred to ADHE for scholarships, which resulted in excess net proceeds of \$14,157,060 which must now be recognized as a transfer to the Workforce Challenge Trust Account (see note 5).

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Notes to Financial Statements**  
**June 30, 2017**

Activity in the Education Trust Account for the fiscal year ended June 30, 2017 consisted of the following activities:

Education Trust Account balance at 7/01/16	\$ 30,695,999
Net Proceeds for fiscal year ended 6/30/17	85,157,060
Returns from ADHE during fiscal year ended 06/30/17	542,199
Payments to ADHE during fiscal year ended 6/30/17	(71,000,000)
Excess Net Proceeds for fiscal year ended 06/30/17	<u>(14,157,060)</u>
Education Trust Account balance at 6/30/17	<u>\$ 31,238,198</u>

**5. ARKANSAS WORKFORCE CHALLENGE SCHOLARSHIP PROGRAM**

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

Under the provisions of the Program, the OAL was to establish the Workforce Challenge Trust Account for the deposit of any funds received under the Program. The funding for an academic year were to be received from (A) excess funding returned to the OAL by ADHE from the previous academic year, and (B) net proceeds remaining from the previous academic year after the OAL (1) transfers the funds requested by ADHE to fund scholarships, and (2) deposits the amount necessary to maintain the Scholarship Shortfall Reserve Trust Account at twenty million dollars. As of June 30, 2017 the amount of net proceeds remaining from the previous academic year were \$14,157,060.

**6. UNCLAIMED PRIZES RESERVE**

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

During fiscal year 2017, in addition to the \$1,000,000 beginning balance the unclaimed prizes totaled \$6,370,941 with none of the unclaimed prizes money being used for the three specified purposes allowed by Act 1180. So, the unclaimed prizes balance remaining at June 30, 2017, less \$1,000,000, resulted in a deposit of \$6,370,941 to the Education Trust Account for net proceeds. At June 30, 2017, the balance of the unclaimed prizes reserve was \$1,000,000 and is reflected in the Statement of Net Position as restricted net position, while the corresponding monies related to this reserve are shown as current restricted cash and cash equivalents.

Activity in the Unclaimed Prizes Reserve for the fiscal year ended June 30, 2017 consisted of the following activities:

Unclaimed Prizes Reserve at 7/01/16	\$ 1,000,000
Unclaimed prizes for fiscal year ended 6/30/17	6,370,941
Expended for future prizes, promotions or reserves	0
Transferred to the Education Trust Account at 6/30/17	<u>(6,370,941)</u>
Unclaimed Prizes Reserve at 6/30/17	<u>\$ 1,000,000</u>

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Notes to Financial Statements**  
**June 30, 2017**

**7. SCHOLARSHIP SHORTFALL RESERVE**

The Scholarship Shortfall Reserve account represents monies set aside to fund scholarship payment requests to ADHE, if needed, in case of a shortage of funds in the Education Trust Account. The balance of the Scholarship Shortfall Reserve at June 30, 2017 was \$20,000,000 and is reflected as restricted net position on the statement of net position, while the corresponding monies related to the reserve are reflected as non-current restricted cash and cash equivalents.

**8. RETAILER FIDELITY RESERVE**

In accordance with the Act, OAL retailers are assessed an annual fidelity reserve fee which is recorded to a Retailer Fidelity Reserve account, which is reflected as restricted net position on the statement of net position. The retailer fidelity reserve fees collected are deposited in a separate demand deposit account and are classified as non-current restricted cash and cash equivalents. The balance of the Retailer Fidelity Reserve at June 30, 2017 was \$158,355. Per the Act, these reserves may be used to cover losses incurred as a result of any nonfeasance, malfeasance or misfeasance of OAL retailers. The OAL sustained no losses that were charged to the Retailer Fidelity Reserve during the fiscal year ended June 30, 2017. Also, per the Act, at the end of each fiscal year, if the Retailer Fidelity Reserve is in excess of \$500,000, the excess amount may be treated as net proceeds from the OAL, and subject to transfer into the Education Trust Account.

**9. RETAILER BOND RESERVE**

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

The retailer self-bond fees collected are recorded as a Retailer Bond Reserve, which is reflected as restricted net position on the statement of net position. At June 30, 2017 the balance of the Retailer bond Reserve was \$373,312. The retailer self-bond fees collected are deposited in the OAL operating account and are classified as current restricted cash and cash equivalents. The OAL sustained no losses that were charged to the Retailer Bond Reserve during the fiscal year ended June 30, 2017.

**10. JOINT VENTURES**

GASB Statement No.14, *The Financial Reporting Entity*, as amended, defines a joint venture as a legal entity or other organization that results from a contractual arrangement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain 1) an ongoing financial interest or 2) an ongoing financial responsibility. During the fiscal year ended June 30, 2017 the OAL was an active participant in several joint venture arrangements with the Multi-State Lottery Association (MUSL).

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Notes to Financial Statements  
June 30, 2017**

***Multi-State Lottery Association***

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

As a member of MUSL, the OAL is required to contribute to various prize reserve funds for Powerball® and Mega Millions® which are maintained by MUSL. The MUSL prize reserve funds serve as a contingency reserve to protect MUSL and its member state lotteries from unforeseen prize payment liabilities. MUSL periodically reallocates the prize reserve funds among the member state lotteries based on relative Powerball® and Mega Millions® sales levels. All remaining funds remitted, and the related interest earnings (net of administrative costs), less any portion of unanticipated prize claims that may have been paid from the fund, would be returned to the OAL if it were to ever leave MUSL. As of June 30, 2017 the OAL had reserve fund deposits with MUSL of \$1,948,071. MUSL does not maintain prize reserve funds for Lucky for Life. Instead, each participating lottery is responsible for maintaining their own prize reserve funds for potential Lucky for Life prize payments.

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

The OAL's portion of the MUSL's games for the fiscal year ended June 30, 2017 is summarized in the table below:

	<u>Operating Revenues</u>	<u>Prizes</u>
Powerball®	\$32,755,119	\$15,031,736
Mega Millions®	\$14,313,090	\$ 6,882,014
Lucky for Life	\$ 2,889,910	\$ 1,936,456

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Notes to Financial Statements  
June 30, 2017**

**11. CAPITAL ASSETS**

The activity for capital assets for the fiscal year ended June 30, 2017, was as follows:

<b>Capital Assets</b>	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2017</b>
Assets under construction	\$ 68,452		\$ (68,452)	\$ -
Equipment	801,039	173,239	(24,989)	949,289
Leasehold improvements	492,796	-	-	492,796
<b>Total capital assets</b>	<b>1,362,287</b>	<b>173,239</b>	<b>(93,441)</b>	<b>1,442,085</b>
Less accum. Depreciation				
Equipment	(493,555)	(96,436)	24,990	(565,001)
Leasehold improvements	(492,315)	(481)	-	(492,796)
<b>Total accum. Depreciation</b>	<b>(985,870)</b>	<b>(96,917)</b>	<b>24,990</b>	<b>(1,057,797)</b>
<b>Capital assets, net</b>	<b>\$ 376,417</b>	<b>\$ 76,322</b>	<b>\$ (68,451)</b>	<b>\$ 384,288</b>

**12. LIABILITIES**

**a. Prizes Payable**

Prizes payable at June 30, 2017 consisted of instant and online game prizes payable and estimated game reserves as well as any related state and federal withholdings. Instant ticket prizes payable are estimated based on the end of production prize structure provided by Scientific Games Inc. Estimated prizes payable by category are as follows:

Instant tickets	\$ 16,442,524
Powerball®	669,548
Mega Millions®	406,379
Natural State Jackpot	332,974
Lucky for Life	908,758
Fast Play	131,153
Cash 3	40,440
Cash 4	36,900
Income tax and other withholding	<u>115,449</u>
<b>Total</b>	<b><u>\$ 19,084,125</u></b>

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

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Notes to Financial Statements  
June 30, 2017**

Arkansas Legislative Audit (ALA) performs an annual audit of the OAL's financial position. The OAL reimburses ALA at an hourly rate set by the Legislative Joint Auditing Committee for work performed. At June 30, 2017 the OAL had \$4,640 payable owed to ALA.

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

ADHE	\$	441,314
Department of Information Systems		12,483
Department of Finance and Administration		56,876
Workers Compensation Commission		747
Legislative Audit		4,640
APERS		3,789
		3,789
 Total	 \$	 <u>519,849</u>

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

Accounts payable consists of amounts due to vendors for operating costs of the lottery. Accrued liabilities consist of amounts due to gaming vendors for gaming costs of the lottery, accrued payroll earned and related health insurance withholdings as of June 30, 2017.

As a proprietary type enterprise fund, for financial reporting purposes the OAL recognizes and accrues liabilities for compensated absences as services are performed and the benefits accrue to employees. The compensated absences payable to OAL employees for annual, sick, and compensatory leave at June 30, 2017 totaled \$347,720. The OAL has adopted the State of Arkansas methodology for the computation of the current vs. long-term portion of this liability. This computation is based upon the State average of current vs. long-term portion of this liability for all state employees. For the fiscal year ended June 30, 2017 the current portion of the compensated absences liability increased by \$3,226 to a balance of \$49,824 and the long-term portion increased by \$30,490 to a balance of \$297,896.

<b>Long Term Compensated Absences</b>	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
Annual	\$ 244,683	\$ 393,650	\$(370,978)	\$ 267,355
Sick	22,723	11,178	(3,360)	30,541
Compensatory	0	0	0	0
Total	<u>\$ 267,406</u>	<u>\$ 404,828</u>	<u>\$(374,338)</u>	<u>\$ 297,896</u>

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Notes to Financial Statements**  
**June 30, 2017**

**d. Unearned Revenue**

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

Unearned revenue from online game tickets at June 30, 2017 is summarized as follows:

Powerball®	\$	193,068
Mega Millions®		50,832
Natural State Jackpot		19,838
Lucky for Life		15,008
Cash 3		4,084
Cash 4		<u>3,760</u>
 Total	 \$	 <u>286,590</u>

Additionally, retailer licensing renewal fees are collected cover a two year period. The amounts which pertain to periods beyond the current fiscal year end are also recorded as unearned revenue. At June 30, 2017 the amount of unearned revenue which related to retailer licensing and renewal fees was \$36,155.

**13. UNRESTRICTED NET POSITION (DEFICIT)**

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

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Notes to Financial Statements  
June 30, 2017**

However, the calculation method utilized results in modified cash basis net proceeds each month which vary from GAAP net proceeds. Since the net proceeds for each month are transferred to a trust account by the 15th day of the next month, such transfer creates a timing difference for the recognition of certain instant game prize expenses, which results in a debit balance (deficit) in Unrestricted Net Position. At June 30, 2017 the cumulative variance due to the modified cash basis method was a debit balance (deficit) in Unrestricted Net Position of \$(9,860,643).

In addition, the OAL's net OPEB liability at June 30, 2017 (see note 16) of \$2,182,837 has not been funded to date. It will be funded on a pay-as-you-go basis as the benefits related to this liability are due and payable. This creates an additional debit balance (deficit) in Unrestricted Net Position at June 30, 2017 of \$(2,182,837). The total debit balance (deficit) in Unrestricted Net Position at June 30, 2017 was \$(12,043,480).

**14. ONLINE GAME REVENUES**

Online game tickets are produced through terminals at lottery retailer locations based on player instructions for number selection. Drawings are conducted to determine winning number combinations. Online game sales for the fiscal year ended June 30, 2017 consisted of the following:

Powerball®	\$ 32,755,119
Mega Millions®	14,313,090
Fast Play	12,313,567
Natural State Jackpot	7,047,543
Cash 3	7,128,685
Cash 4	4,238,553
Lucky for Life	<u>2,889,910</u>
Total	<u>\$ 80,686,467</u>

**15. OPERATING LEASES**

At its start up in 2009 the OAL entered into an operating lease for the rental of office space for its headquarters. The headquarters lease was renewable at the option of the OAL at the end of the initial lease term. During the fiscal year ended June 30, 2015 the lease of the OAL headquarters offices was extended for an additional six year term expiring on August 31, 2021. The annual rent office expense for the fiscal year ended June 30, 2017 was \$435,376.

The OAL also has equipment leases for printers, copiers, postage meters and other office equipment that are generally for two to three year lease periods. The annual office equipment lease expense for the fiscal year ended June 30, 2017 was \$16,164.

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Notes to Financial Statements  
June 30, 2017**

Future minimum rental payments on operating leases as of June 30, 2017, are scheduled as follows:

2018	466,149
2019	465,761
2020	468,340
2021	463,627
2022-2026	77,271

**16. RETIREMENT PLAN**

**a. Plan Description**

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

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

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

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

**b. Benefits Provided**

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

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Notes to Financial Statements**  
**June 30, 2017**

**c. Contributions**

Arkansas Code Title 24 establishes the contribution requirements of active members and participating employers. Contribution provisions applicable to the participating employers are established by the APERS' Board of Trustees and should be based on an independent actuary's determination of the rate required to fund the plan. The General Assembly and certain agencies employing individuals in public safety positions must also remit additional amounts. For the fiscal year ended June 30, 2017, the employer contribution rates, as a percentage of active member payroll, ranged from 4.00% to 26.8%. Contributory plan members are required to contribute 5% of their annual covered salary. The OAL is required to contribute for all covered state employees at a rate of 14.50% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the OAL are established and may be amended by the APERS Board of Trustees. The OAL's contributions to APERS for the years ended June 30, 2017, 2016, and 2015 were \$516,803, \$529,187, and \$589,324, respectively, which were equal to the required contributions for each year.

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

**d. Net Pension Liability**

At June 30, 2017, the OAL reported a net pension liability of \$4.7 million. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The OAL's proportion of the net pension liability was based on actual contributions in the 2016 fiscal year of all participating employers. At June 30, 2016, the OAL's proportion was 0.198%.

Actuarial assumptions

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

Actuarial valuation date:	June 30, 2016
Inflation rate:	3.25% wages, 2.50% prices
Salary increases (Includes assumed inflation):	3.25% to 9.85%
Investment rate of return (Includes assumed inflation):	7.50%
Mortality rates:	RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females
Actuarial experience study dates:	2007-2012

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2015 to 2024 were based upon capital market assumptions provided by the plan's investment consultants. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2016, these best estimates are summarized in the table on the following page:

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Notes to Financial Statements  
June 30, 2017**

<b>Asset Class</b>	<b>Current Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Broad Domestic Equity	38%	6.82%
International Equity	24%	6.88%
Real Assets	16%	3.07%
Absolute Return	5%	3.35%
Domestic Fixed	17%	0.83%
Total	100%	

**Discount Rate**

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

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

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

	<u>1% lower than current discount rate</u>	<u>Current discount rate</u>	<u>1% higher than current discount rate</u>
Rate	6.50%	7.50%	8.50%
Net pension liability	\$7,163,596	\$4,732,352	\$2,708,973

**e. *Pension Plan Fiduciary Net Position***

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Notes to Financial Statements  
June 30, 2017**

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

For the year ended June 30, 2017, the OAL recognized pension expense of \$535,575. For the year ended June 30, 2017, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Changes of assumptions	\$362,648	
Differences between expected and actual experience	\$4,468	\$169,760
Net difference between projected and actual investment earnings on pension plan investments	\$826,231	
Changes in proportion and differences Between employer contributions and share of contributions		\$533,306
Contributions subsequent to the measurement date		\$523,662

The deferred outflows of resources related to pensions resulting from OAL contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	<u>Total</u>
2017	\$(46,852)
2018	(13,602)
2019	(255,123)
2020	(174,704)

**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 ended June 30, 2008. The Statement establishes standards for the measurement, recognition and display of other Postemployment Benefits (OPEB) under government accounting standards.

**a. Plan Description**

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Notes to Financial Statements  
June 30, 2017**

**b. Funding Policy and Funded Status**

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

Projections of benefits are based on actuarial calculations which reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions used in the calculation of the OPEB liability were as follows: Actuarial valuation date: July 1, 2016; 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, 3.20%; Rate of salary increases, not applicable; Ultimate rate of medical inflation, 3.25%; Inflation, not applicable.

For the fiscal year ended June 30, 2017, there was no required contribution rate and no contributions were made, as the plan is funded on a pay-as-you-go basis and the OAL had no eligible retirees for whom contributions were yet due. The OAL's annual OPEB cost for the fiscal years ended June 30, 2017, 2016 and 2015 were \$201,630, \$472,428 and \$182,271 respectively. The liability for the current year and each of the three preceding fiscal years were as follows:

	<b><u>Beginning Balances</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balances</u></b>
June 30, 2017	\$1,981,207	\$ 201,630	\$ 0	\$2,182,837
June 30, 2016	1,508,779	472,428	0	1,981,207
June 30, 2015	1,326,508	182,271	0	1,508,779

**18. CONTRACTUAL ARRANGEMENTS AND OTHER COMMITMENTS**

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

INTRALOT operates the gaming network that consists of approximately 1,900 instant and online retailer ticket terminals and associated software. In accordance with its contract, INTRALOT receives the negotiated fee on the selling price of online tickets sold and on instant ticket settlements. The OAL had an initial seven-year contract with INTRALOT ending in 2016, which included an option for up to three additional renewals in one-year increments, or a portion thereof. During the fiscal year ended June 30, 2015 the OAL exercised the option to extend the INTRALOT contract for a period of three years. The current contract extension will expire on August 14, 2019.

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Notes to Financial Statements**  
**June 30, 2017**

During the fiscal year ended June 30, 2017, INTRALOT was compensated at the rate of 2.165% of all online and instant ticket game sales. Total fees paid to INTRALOT and others for all gaming network and related services for the fiscal year ended June 30, 2017 were \$9,721,679 which was 2.16% of sales.

SIGI prints, warehouses, and distributes the instant game tickets to retailers. In accordance with its contract with the OAL, SIGI receives the negotiated fee on the selling price of all instant ticket settlements. During the fiscal year ended June 30, 2016 the OAL and SIGI executed a third amendment to the contract for an additional seven-year period ending with an expiration date of August 18, 2026. The amended contract sets the SIGI fees at 1.30% of instant ticket net sales up to \$360 million during a contract year. The contract year is from August 18, 2016 through August 17, 2017. Should the total net sales of instant tickets exceed \$360 million in a contract year, SIGI will receive a one-time bonus payment in an amount equivalent to 4.5% of all such incremental sales exceeding \$360 million. Instant ticket sales during the fiscal year ended June 30, did exceed \$360 million during the contract year. During the fiscal year ended June 30, 2017, SIGI was compensated \$5,101,623, which represents a rate of 1.38% of instant ticket sales for these services. SIGI also maintains the OAL's Points for Prizes program. This program provides merchandise prizes and other awards to participating players based upon tickets registered by the players. In addition, SIGI provides other products and services for which the OAL pays various contracted fees. During the fiscal year ended June 30, 2017 these other SIGI fees totaled \$4,196,134 or 1.14 % of instant ticket sales. Total fees paid to SIGI for all services for the fiscal year ended June 30, 2017 were \$9,297,757.

The OAL also has a contract with Camelot Global Services (CGS) to provide a Business Plan (BP) and other consultancy services. The contract was effective November 30, 2015 and expires on June 30, 2020 with two optional extension periods of twelve months each, which automatically renew unless either party informs the other party, in writing, of their intent not to renew at least 90 days prior to the expiration date. As specified by the contract, CGS delivered a BP which the OAL accepted. CGS also delivered a price sheet with the prices of services CGS included in the BP. The OAL will negotiate the parameters and pricing of any CGS consultancy services it accepts. On or before January 31, 2018, and by that date each year through the life of the contract, the OAL and CGS will meet to discuss implementation of the BP for the next fiscal year and will agree to the amendments, if any, to the BP; the portions of the BP to be implemented in the next fiscal year; the CGS personnel who will assist with the implementation; and the pricing of the consultancy services CGS will provide.

The contract specifies that CGS be paid a base compensation amount of \$650,000 per year paid monthly. The base compensation is to be paid in eleven monthly payments of \$54,167, one payment of \$54,163. In addition to the base compensation CGS will be reimbursed for travel expenses such as airfare, lodging, meals and other allowed travel costs not to exceed \$100,000 per year. For the fiscal year ended June 30, 2017 the OAL paid CGS \$650,000 for base compensation and \$64,973 for expenses.

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

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

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Notes to Financial Statements**  
**June 30, 2017**

For purposes of the incentive compensation, calculation AOI is defined as Operating Income before any expenses related to (1) services provided by ADHE, (2) services provided by Legislative Audit, (3) legal and professional fees, (4) depreciation, and (5) any incentive compensation payable to CGS. CGS will invoice the OAL after the end of each fiscal year quarter for the amount of incentive compensation owed. The final quarterly incentive payment for each fiscal year is subject to final adjustment upon the completion and release of the OAL's audited financial statements. For the fiscal year ended June 30, 2017 the OAL paid or accrued total incentive compensation to CGS of \$1,818,610.

**19. CONTINGENCIES**

At June 30, 2017 there were no pending lawsuits or claims to which the OAL is a party.

**20. RISK MANAGEMENT**

The OAL is exposed to various types of risk related to its operations. These risks can result in losses incurred from property damage or destruction, business interruption such as inability to operate gaming activities and worker compensation claims. The OAL manages these risks by participating in the various self-insurance programs established by the State for property and casualty losses and employee health insurance. Coverages include property, general liability, automobile liability, workers' compensation, state unemployment, court-awarded attorney fees, and Federal civil rights actions. Property is self-insured for actual cash value to an aggregate of \$1.6 million per loss event for all perils. Losses from earthquake and flood are also subject to an annual aggregate loss for the State of \$1 million. Workers' compensation is provided in compliance with the applicable law. The employee health and dental insurance program provides for payment of medical claims of employees and covered dependents. Claims and settlements incurred for fiscal years ended June 30, 2017, 2016 and 2015 did not exceed the OAL's insurance coverage.

**21. SUBSEQUENT EVENTS**

In accordance with GASB 56, the OAL's Management has evaluated subsequent events that occurred after June 30, 2017, but prior to November 28, 2017, the date the financial statements were available to be issued.

Such evaluation subsequently identified the following transactions related to the Arkansas Department of Higher Education (ADHE). On August 14, 2017, ADHE provided notice that they will refund \$4,887,237 to the OAL for the fiscal year ended June 30, 2017. As of November 28, 2017 such refund had not been received.

Also at the request of ADHE, on October 6, 2017 a payment of \$35,000,000 was made from the Education Trust Account to ADHE. A supplemental payment of \$3,500,000 was requested by ADHE and made from the Education Trust Account on November 21, 2017.

Such evaluation also identified that per the amended contract with SGI, upon the completion of the contract year on August 17, 2017, instant games sales totaled \$373,476,602 for the period from August 18, 2016 through the end of the contract year. The amount of sales exceeded the pro-rated bonus calculation base by \$13,476,602 resulting in a bonus amount of \$606,447 which was paid to SGI on August 29, 2017.

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Notes to Financial Statements  
June 30, 2017**

Such evaluation also identified that on June 25, 2017, The OAL executed a second amendment to the contract with Bank of the Ozarks for a period of twelve months, with an effective date of September 2, 2017.

# REQUIRED SUPPLEMENTARY INFORMATION





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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014 to 2007</u>
OAL proportion of the net pension liability (asset)	0.20%	0.23%	0.24%	N/A
OAL proportionate share of the net pension liability (asset)	\$ 4,732,352	\$ 4,415,000	\$ 3,408,000	
OAL covered-employee payroll	\$ 3,564,158	\$ 3,649,566	3,992,710	
OAL proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	132.78%	120.97%	85.36%	
Plan fiduciary net position as a percentage of the total pension liability	75.50%	80.39%	84.15%	

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

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

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

Source: State of Arkansas CAFR and OAL Finance Division

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013 to 2007</u>
Statutorily determined contribution	\$516,803	\$529,187	\$589,324	\$631,562	N/A
Contributions in relation to the statutorily determined contribution	<u>516,803</u>	<u>529,187</u>	<u>589,324</u>	<u>631,562</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered-employee payroll	\$3,564,158	\$3,649,566	\$3,992,710	\$4,244,368	
Contributions as a percentage of covered-employee payroll	14.50%	14.50%	14.76%	14.88%	

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

Information for this schedule was not available prior to fiscal year 2014.

Source: State of Arkansas CAFR and OAL Finance Division

# STATISTICAL SECTION



Natural State  
**JACKPOT**

Date 3-14-17

Pay to the  
order of

Danny McCollum

\$ 210,000.00

Two Hundred Ten Thousand Dollars

Memo A Natural State of Fun!

Arkansas Scholarship Lotte

Scholarship Lottery

Scholarship L



**Arkansas**  
Scholarship Lottery

Date 5-5-17

Pay to the order of Orlando Cooper

Fifty Thousand Eight Hundred Dollars

\$ 50,800.00

Memo Celebrate the Opportunities!

Arkansas Scholarship Lottery

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

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

<b><u>Contents</u></b>	<b><u>Page</u></b>
------------------------	--------------------

<b>Financial Trends</b>	40
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These schedules contain trend information to help the reader understand how the OAL's financial performance and well-being have changed over time.

<b>Demographics and Operation Information</b>	48
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These schedules offer demographic and operation indicators to help the reader understand the environment within which the OAL's financial activities take place.

<b>Other Information</b>	52
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These schedules provide the reader with an understanding of lottery sales across the United States by state and other player demographics.

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

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

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

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

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

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

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 322,415,276	\$ 355,061,785	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156
35,042,460	47,409,700	37,903,399	34,961,543	34,998,429
19,847,674	13,891,465	25,571,602	24,113,365	7,935,615
10,126,554	3,391,691	2,721,436	2,636,383	-
8,863,034	6,994,820	-	-	-
6,255,740	6,161,706	6,178,537	5,805,414	5,277,255
3,606,991	3,324,150	3,325,490	3,091,218	-
2,345,532	2,927,572	5,237,158	932,820	-
1,426,490	-	-	5,000,000	-
143,375	385,105	857,760	-	-
-	-	-	-	-
-	-	-	-	-
<u>87,657,850</u>	<u>84,486,209</u>	<u>81,795,382</u>	<u>76,540,743</u>	<u>48,211,299</u>
554,292	556,792	538,584	1,055,538	867,023
<u>10,550</u>	<u>4,490</u>	<u>15,038</u>	<u>5,450</u>	<u>5,650</u>
<u>410,637,968</u>	<u>440,109,276</u>	<u>473,639,229</u>	<u>465,080,339</u>	<u>384,571,128</u>
252,614	322,722	352,431	464,252	181,807
<u>461,047</u>	<u>-</u>	<u>2,000,000</u>	<u>-</u>	<u>-</u>
<u>713,661</u>	<u>322,722</u>	<u>2,352,431</u>	<u>464,252</u>	<u>181,807</u>
<u>\$ 411,351,629</u>	<u>\$ 440,431,998</u>	<u>\$ 475,991,660</u>	<u>\$ 465,544,591</u>	<u>\$ 384,752,935</u>

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

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

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

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

Source: OAL Comprehensive Annual Financial Report for fiscal years 2017, 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011, ALC Annual Financial Report for fiscal year 2010 and ALC general ledger for fiscal year 2009

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

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 322,415,276	\$ 355,061,785	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156	\$ -
87,657,850	84,486,209	81,795,382	76,540,743	48,211,299	-
554,292	556,792	538,584	1,055,538	867,023	-
10,550	4,490	15,038	5,450	5,650	-
<u>410,637,968</u>	<u>440,109,276</u>	<u>473,639,229</u>	<u>465,080,339</u>	<u>384,571,128</u>	<u>-</u>
229,462,196	250,246,337	274,203,122	269,898,596	224,341,940	-
45,487,903	41,877,845	41,115,706	37,556,109	23,381,100	-
23,046,410	24,986,551	26,526,329	26,217,851	21,578,603	-
20,511,439	22,116,163	24,308,153	24,111,720	20,448,694	-
5,990,541	6,049,048	5,954,138	6,226,266	6,118,300	-
4,472,456	4,414,655	4,466,054	4,631,388	4,352,303	-
1,414,871	1,231,212	1,270,047	1,434,229	1,841,340	11,683
751,556	794,016	846,109	1,170,710	216,849	-
139,080	142,720	159,440	280,728	153,180	-
6,457	22,507	107,651	8,484	24,182	4,786
188,270	182,158	182,159	179,750	122,643	-
<u>331,471,179</u>	<u>352,063,212</u>	<u>379,138,908</u>	<u>371,715,831</u>	<u>302,579,134</u>	<u>16,469</u>
79,166,789	88,046,064	94,500,321	93,364,508	81,991,994	(16,469)
252,614	322,722	352,431	464,252	181,807	-
461,047	-	2,000,000	-	-	-
<u>713,661</u>	<u>322,722</u>	<u>2,352,431</u>	<u>464,252</u>	<u>181,807</u>	<u>-</u>
79,880,450	88,368,786	96,852,752	93,828,760	82,173,801	(16,469)
(81,488,844)	(90,257,161)	(97,510,280)	(74,229,349)	(82,799,809)	-
<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
<u>\$ (1,808,394)</u>	<u>\$ (2,088,375)</u>	<u>\$ (857,528)</u>	<u>\$ 19,399,411</u>	<u>\$ (826,008)</u>	<u>\$ (16,469)</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Net position:</b>			
Invested in capital assets	\$ 384,288	\$ 376,417	\$ 223,178
Restricted for:			
Scholarship shortfall reserve	20,000,000	20,000,000	20,000,000
Retailer fidelity reserve	158,355	136,900	113,582
Retailer bond reserve	373,312	163,872	
Deposits with Multi-State Lottery Association	1,948,071	1,847,611	1,762,386
Unclaimed prizes reserve	1,000,000	1,000,000	1,000,000
Unrestricted (deficit)	<u>(12,043,480)</u>	<u>(10,752,564)</u>	<u>(13,526,672)</u>
 Total net position (deficit)	 <u>\$ 11,820,546</u>	 <u>\$ 12,772,236</u>	 <u>\$ 9,572,474</u>

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

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

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

Source: OAL Comprehensive Annual Financial Report for fiscal years 2017, 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011, ALC Annual Financial Report for fiscal year 2010 and ALC general ledger for fiscal year 2009

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

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>			
Cash received from retailers and others	\$ 448,872,673	\$ 457,634,809	\$ 407,714,967
Cash paid for prizes	(305,141,493)	(310,865,471)	(279,650,934)
Cash paid for gaming vendors	(19,154,160)	(19,540,446)	(20,638,704)
Cash paid for retailer commissions	(25,400,020)	(25,742,753)	(23,253,196)
Cash paid for marketing and advertising	(5,492,302)	(5,413,835)	(4,772,451)
Cash paid for employee services	(4,749,058)	(4,834,544)	(5,432,980)
Cash paid for other expenses	(5,645,415)	(2,412,905)	(2,139,793)
Cash received from other non-operating income	-	1,875	-
Net cash provided (used) by operating activities	<u>83,290,225</u>	<u>88,826,730</u>	<u>71,826,909</u>
<b>Cash flows from non-capital financing activities:</b>			
Interagency advances	-	-	-
Non-operating transfers to Arkansas Department of Higher Education	(71,000,000)	(77,000,000)	(80,000,000)
Non-operating transfers from Arkansas Department of Higher Education	542,198	286,177	2,319,469
Non-operating transfers to Arkansas Department of Human Services	-	-	(200,000)
Net cash provided (used) by non-capital financing activities	<u>(70,457,802)</u>	<u>(76,713,823)</u>	<u>(77,880,531)</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchases of capital assets	(104,787)	(248,302)	(138,605)
Loss on disposal of fixed assets	-	-	3,177
Net cash flows from capital and related financing activities	<u>(104,787)</u>	<u>(248,302)</u>	<u>(135,428)</u>
<b>Cash flows from investing activities:</b>			
Interest received	489,046	232,275	224,546
<b>Net increase in cash and cash equivalents</b>	13,216,682	12,096,880	(5,964,504)
<b>Cash and cash equivalents, beginning</b>	57,682,493	45,585,613	51,550,117
<b>Cash and cash equivalents, ending</b>	<u>\$ 70,899,175</u>	<u>\$ 57,682,493</u>	<u>\$ 45,585,613</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ 83,716,324	\$ 88,240,539	\$ 72,363,779
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	96,917	95,063	158,363
Pension Earnings	11,108	(90,790)	(201,028)
Other non-operating income	-	1,875	-
Net changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(929,311)	1,166,802	(1,493,924)
Receivable from other Funds of the State	3,579	(3,576)	-
Prepaid items	(156,757)	(9,191)	59,650
Deposits with Multi-State Lottery Association	(100,460)	(85,225)	31,693
Increase (decrease) in:			
Accounts payable	118,383	(481,522)	(609,762)
Prizes payable	1,388,353	(1,832,930)	784,166
Accrued and other liabilities	(973,880)	1,261,440	864,662
Due to other funds of the State	(4,626)	(66,992)	(248,295)
Compensated absences	33,716	16,613	(38,879)
Unearned revenue	(114,751)	142,196	(25,787)
Net other post employment benefits	201,630	472,428	182,271
Net cash provided (used) by operating activities	<u>\$ 83,290,225</u>	<u>\$ 88,826,730</u>	<u>\$ 71,826,909</u>

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

Source: OAL Comprehensive Annual Financial Report for fiscal year 2017, 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011, ALC Annual Financial Report for fiscal year 2010 and ALC general ledger for fiscal year 2009

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

2014	2013	2012	2011	2010	2009
\$ 410,690,974	\$ 440,234,069	\$ 473,876,584	\$ 468,220,833	\$ 370,120,513	\$ -
(275,024,448)	(289,313,701)	(315,948,269)	(306,303,849)	(231,877,356)	-
(20,308,816)	(22,410,639)	(24,588,775)	(24,016,144)	(22,766,421)	-
(23,046,410)	(24,986,551)	(26,526,329)	(26,217,851)	(20,594,364)	-
(4,319,538)	(4,863,664)	(4,280,198)	(4,009,445)	(3,515,419)	-
(5,725,930)	(5,691,914)	(5,848,550)	(6,157,322)	(5,114,532)	-
(2,402,273)	(2,228,385)	(2,726,247)	(1,897,589)	(1,914,665)	(11,657)
461,047	-	2,000,000	-	-	-
<u>80,324,606</u>	<u>90,739,215</u>	<u>95,958,216</u>	<u>99,618,633</u>	<u>84,337,756</u>	<u>(11,657)</u>
-	-	-	-	(6,000,000)	6,000,000
(95,000,000)	(115,000,000)	(115,000,000)	(115,000,000)	-	-
2,138,092	6,342,312	12,430,211	20,000,000	-	-
(200,000)	(200,000)	(200,000)	(200,000)	-	-
<u>(93,061,908)</u>	<u>(108,857,688)</u>	<u>(102,769,789)</u>	<u>(95,200,000)</u>	<u>(6,000,000)</u>	<u>6,000,000</u>
(76,011)	-	-	(34,832)	(990,250)	-
<u>(76,011)</u>	<u>-</u>	<u>-</u>	<u>(34,832)</u>	<u>(990,250)</u>	<u>-</u>
252,614	322,722	352,431	464,252	181,807	-
(12,560,699)	(17,795,751)	(6,459,142)	4,848,053	77,529,313	5,988,343
64,110,816	81,906,567	88,365,709	83,517,656	5,988,343	-
<u>\$ 51,550,117</u>	<u>\$ 64,110,816</u>	<u>\$ 81,906,567</u>	<u>\$ 88,365,709</u>	<u>\$ 83,517,656</u>	<u>\$ 5,988,343</u>
\$ 79,166,789	\$ 88,046,064	\$ 94,500,321	\$ 93,364,508	\$ 81,991,994	\$ (16,468)
188,270	182,158	182,159	179,750	122,643	-
-	-	-	-	-	-
461,047	-	2,000,000	-	-	-
33,527	157,254	258,522	3,059,565	(14,289,726)	-
7,020	(7,020)	-	-	-	-
(51,876)	414	45,174	(72,138)	(5,119)	-
(20,459)	(89,814)	(545,673)	(680,865)	(457,268)	-
871,837	(273,839)	(766,472)	521,541	746,237	-
(53,889)	2,900,295	(83,767)	1,831,721	14,150,175	-
(481,765)	(494,883)	501,610	338,875	924,716	-
(123,695)	16,659	(382,971)	958,107	396,869	4,811
5,449	38,032	1,191	(191,329)	482,927	-
19,479	(32,461)	(21,168)	80,930	274,307	-
302,872	296,356	269,290	227,968	-	-
<u>\$ 80,324,606</u>	<u>\$ 90,739,215</u>	<u>\$ 95,958,216</u>	<u>\$ 99,618,633</u>	<u>\$ 84,337,756</u>	<u>\$ (11,657)</u>

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

<u>Calendar year</u>	<u>Total population (in thousands)</u>	<u>Total personal income (in millions)</u>	<u>Per capita personal income</u>	<u>Unemployment rate</u>
2017	3,002 *	\$ 121,400	\$ 40,440	3.4%
2016	2,984 *	115,717	38,779	3.9%
2015	2,978 *	116,068	38,975	5.7%
2014	2,975 *	107,450	36,118	6.3%
2013	2,969 *	104,070	35,052	7.3%
2012	2,960 *	101,820	34,399	7.3%
2011	2,940	99,127	33,713	8.0%
2010	2,923	94,581	32,355	7.9%
2009	2,900	91,794	31,651	7.5%
2008	2,877	94,461	32,832	5.4%

\* Estimated Amounts

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

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

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

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

<b>2017</b>	<b>Employer</b>	<b>Total Employees</b>	<b>% of Total Arkansas Employment</b>
1	Arkansas State Government	60,520	4.9%
2	Wal-Mart Stores, Inc.	53,310	4.3%
3	Tyson Foods, Inc.	22,900	1.8%
4	U.S. Government	20,400	1.6%
5	Baptist Health	9,168	0.7%
6	Mercy	4,850	0.4%
7	CHI St. Vincent Health System	4,721	0.4%
8	Kroger Co.	4,487	0.4%
9	Arkansas Children's Hospital	4,257	0.3%
10	Simmons Foods Inc.	3,785	0.3%
		188,398	15.1%

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

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

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

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

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

<b>Function</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Executive	1	1	1	1	1	1	2	2	1
Public Affairs	0	0	0	0	0	1	1	1	1
Human Resources	0	0	0	2	2	2	1	3	-
Legal Counsel	2	1	2	2	2	1	2	2	-
Internal Audit	2	3	3	2	2	1	2	2	-
Sales	24	23	22	23	23	23	23	22	-
Marketing	4	4	4	7	7	7	7	7	-
Security	4	6	6	6	5	6	4	4	-
Draw Managers	2	2	2	2	2	2	1	2	-
Licensing	4	4	3	3	3	3	4	3	-
Gaming	1	1	1	1	1	1	1	1	-
IT-Gaming	6	6	6	6	6	6	7	6	-
Product Development	3	3	3	3	3	3	2	2	-
Finance									
Chief Fiscal Officer	1	1	1	1	1	1	1	1	-
Treasurer	3	3	3	3	3	3	4	4	-
Claims Center	3	3	3	9	9	9	9	9	-
Controller	2	2	2	5	5	5	4	3	-
Procurement	1	1	1	2	2	3	6	6	-
IT-Admin	2	1	2	3	3	3	3	4	-
Financial Analyst	1	0	0	0	0	0	0	0	-
<b>Total Employees</b>	<b>66</b>	<b>65</b>	<b>65</b>	<b>81</b>	<b>80</b>	<b>81</b>	<b>84</b>	<b>84</b>	<b>2</b>

**Gender:**

Female	30	30	28	40	39	41	41	41	1
Male	36	35	37	41	41	40	43	43	1

**Race:**

Black/Non-Hispanic	16	16	15	19	19	23	23	24	-
Caucasian	45	43	43	53	54	51	57	57	2
Hispanic	2	2	2	3	3	2	2	1	-
Other	3	4	5	6	4	5	2	2	-

**Age:**

Under 40	19	20	21	29	31	34	35	36	-
40+	47	45	44	52	49	47	49	48	2

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

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

Source: OAL Finance Department

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Capital Assets by Department (Unaudited)**  
**Year Ended June 30, 2017**

<b>Function</b>	<b>2017</b>
Executive:	
Furniture and fixtures	\$ 24,244
Computer equipment	40,917
Vehicles	6,755
Buildings/building improvements	<u>37,333</u>
Total executive assets	<u>109,249</u>
 Sales and Marketing:	
Furniture and fixtures	135,768
Computer equipment	229,134
Vehicles	37,827
Buildings/building improvements	<u>209,065</u>
Total sales and marketing assets	<u>611,794</u>
 Gaming and Security:	
Furniture and fixtures	96,977
Computer equipment	163,667
Vehicles	27,019
Buildings/building improvements	<u>149,332</u>
Total gaming and security assets	<u>436,995</u>
 Finance:	
Furniture and fixtures	63,035
Computer equipment	106,383
Vehicles	17,563
Buildings/building improvements	<u>97,066</u>
Total finance assets	<u>284,047</u>
 Total assets	<u><u>\$ 1,442,085</u></u>

Source: OAL Finance Division

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**U.S. Lotteries' Sales (Unaudited)**  
**Fiscal year 2017**

<b>Lottery Jurisdiction</b>	<b>Population (in millions)</b>	<b>Sales (in millions)</b>	<b>Sales Per Capita</b>	<b>Instant Sales (in millions)</b>	<b>Instant Sales Per Capita</b>
Arizona	6.9	\$ 852.0	\$ 123	\$ 632.8	\$ 92
<b>Arkansas</b>	<b>3.0</b>	<b>449.5</b>	<b>150</b>	<b>368.5</b>	<b>123</b>
California	39.3	6,244.7	159	4,587.2	117
Colorado	5.5	555.3	100	380.2	69
Connecticut	3.6	1,216.3	340	720.6	200
D.C.	0.7	218.6	321	51.5	74
Delaware	1.0	169.8	178	69.3	69
Florida	20.6	6,156.5	299	4,243.6	206
Georgia	10.3	4,528.9	439	3,117.2	303
Idaho	1.7	239.6	142	137.1	81
Illinois	12.8	2,844.0	222	1,871.9	146
Indiana	6.6	1,202.6	181	897.1	136
Iowa	3.1	352.3	112	237.7	77
Kansas	2.9	272.2	94	164.3	57
Kentucky	4.4	1,000.5	225	603.8	137
Louisiana	4.7	455.0	97	206.3	44
Maine	1.3	270.4	203	212.4	163
Maryland	6.0	1,923.2	320	676.8	113
Massachusetts	6.8	5,077.8	745	3,518.6	517
Michigan EST (1)	9.9	3,221.1	324	1,282.2	130
Minnesota	5.5	563.5	102	398.3	72
Missouri	6.1	1,235.9	203	869.5	143
Montana	1.0	52.7	51	17.1	17
Nebraska	1.9	173.5	91	101.3	53
N. Hampshire	1.3	297.5	223	223.6	172
New Jersey	8.9	3,186.7	356	1,839.6	207
New Mexico	2.1	126.0	61	72.4	34
New York (1)	19.7	7,666.8	388	4,058.6	206
N. Carolina	10.1	2,428.1	239	1,695.2	168
N. Dakota (2)	0.8	27.6	36	-	-
Ohio	11.6	2,997.4	258	1,526.3	132
Oklahoma	3.9	151.5	39	68.0	17
Oregon	4.1	332.2	81	126.5	31
Pennsylvania	12.8	4,001.0	313	2,726.6	213
Rhode Island	1.1	249.9	237	94.2	86
S. Carolina	5.0	1,635.7	330	1,189.7	238
South Dakota	0.9	49.2	57	26.1	29
Tennessee (2)					
Texas EST (1)	27.9	5,000.2	179	3,941.3	141
Vermont	0.6	122.4	196	96.3	161
Virginia	8.4	1,989.9	237	1,117.7	133
Washington	7.3	672.2	92	472.3	65
West Virginia	1.8	166.5	91	94.4	52
Wisconsin	5.8	602.8	104	384.8	66
Wyoming	0.6	28.1	48	-	-
<b>Total</b>	<b>300.3</b>	<b>\$ 71,007.6</b>	<b>\$ 236</b>	<b>\$ 45,118.9</b>	<b>\$ 150</b>

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

(2) North Dakota Instant sales not reported. Wyoming does not have instant ticket sales. Tennessee did not report sales.

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

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

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

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

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

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

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Demographic Summary (Unaudited)**  
**Fiscal Year Ended June 30, 2017**

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

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

# SUPPLEMENTARY INFORMATION





**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Unclaimed Lottery Prizes (Unaudited)  
Fiscal Year Ended June 30, 2017**

<u>Month</u>	<u>Unclaimed lottery prizes</u>	<u>Expenditures from unclaimed lottery prizes</u>	<u>Increase (decrease) in unclaimed prize reserve</u>	<u>Deposits to net lottery proceeds from unclaimed lottery prizes</u>
July	\$ 1,505,931	\$ -	\$ 1,505,931	\$ -
August	109,870	-	109,870	-
September	834,697	-	834,697	-
October	115,123	-	115,123	-
November	563,541	-	563,541	-
December	904,455	-	904,455	-
January	218,304	-	218,304	-
February	802,147	-	802,147	-
March	429,635	-	429,635	-
April	67,802	-	67,802	-
May	737,920	-	737,920	-
June	81,516	-	(6,289,425)	6,370,941
<b>Total</b>	<b>\$ 6,370,941</b>	<b>\$ -</b>	<b>\$ 0</b>	<b>\$ 6,370,941</b>

Source - OAL general ledger

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Scholarship Shortfall Reserve Trust Account (Unaudited)  
Fiscal Year Ended June 30, 2017**

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

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

Source - OAL general ledger and corresponding bank statements

**Arkansas Department Finance and Administration  
Office of the Arkansas Lottery  
Minority and Female-owned Business Participation (Unaudited)  
Fiscal Year Ended June 30, 2017**

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

<b><u>VENDORS</u></b>	<b><u>Amount Paid</u></b>	<b><u>Good or Service</u></b>	<b><u>Classification</u></b>
A-Absolute Moving & Hauling	\$ 1,073	Moving/Hauling	Certified Minority Owner
Allegra Print & Imaging	11,511	Advertising/Public Relations	Female-Owned
BSW Advertising	36,561	Advertising/Public Relations	Female-Owned
Goddess Products	20,567	Office Furniture/Supplies	Certified Minority Owner
Government Supply Services	1,607	Office Products	Minority-Owned
Party Prints	32,493	Advertising/Public Relations	Certified Minority Owner
Trivia Marketing	7,322	Advertising/Public Relations	Female-Owned
Total	<u>\$ 111,135</u>		

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

<b><u>VENDORS</u></b>	<b><u>Amount Paid</u></b>	<b><u>Good or Service</u></b>	<b><u>Classification</u></b>
J Kelly Referrals and Information Svcs, Inc	\$ 110,006	Call Center/Information Svcs	Minority-Owned
Total	<u>\$ 110,006</u>		

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

<b><u>VENDORS</u></b>	<b><u>Amount Paid</u></b>	<b><u>Good or Service</u></b>	<b><u>Classification</u></b>
Mr. Klean Carpet and Janitorial Svcs	\$ 4,752	Janitorial Svcs	Minority-Owned
Central Copiers	111	Office Products/Supplies	Female-Owned
Premier Staffing	7,588	Staffing Svcs	Minority-Owned
Ingage, LLC	310,497	Fulfillment Services and Prizes	Female-Owned
Expedited Transportation Svcs	26,372	Transportation Svcs	Female-Owned
Total	<u>\$ 349,320</u>		

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Retail Sales by County (Unaudited)  
Fiscal Year Ended June 30, 2017**

COUNTY	Instant*	Powerball®*	Mega Millions®*	Fast Play*	Natural State Jackpot*	Cash 3*	Cash 4*	Lucky for Life ®*	Total
Arkansas	\$ 5,317,555	\$ 299,256	\$ 134,449	\$ 155,168	\$ 59,853	\$ 100,285	\$ 80,239	\$ 23,498	\$ 6,170,302
Ashley	1,385,578	169,400	68,952.00	54,428	21,541	129,687	166,994	19,306	2,015,886
Baxter	4,025,190	431,901	189,099.00	115,447	118,448	33,414	26,675	77,574	5,017,748
Benton	11,384,977	1,953,175	785,056.00	351,580	268,990	63,727	34,624	144,676	14,986,805
Boone	5,130,515	352,663	154,402.00	126,552	53,055	29,681	29,352	26,878	5,903,098
Bradley	1,375,612	107,492	32,626.00	23,388	20,953	15,911	28,099	9,668	1,613,749
Calhoun	528,192	32,625	16,781.00	12,391	8,263	43,276	10,584	4,162	656,274
Carroll	2,938,763	228,015	97,841.00	86,310	29,843	5,354	8,854	20,728	3,415,708
Chicot	1,774,219	630,778	249,714.00	40,353	69,541	111,998	73,635	49,914	3,000,152
Clark	3,554,454	260,887	102,183.00	183,637	48,976	38,018	20,964	19,550	4,228,669
Clay	991,214	74,281	28,019.00	11,857	16,505	2,867	627	5,786	1,131,155
Cleburne	3,229,203	343,600	154,196.00	236,882	111,436	13,462	9,903	32,690	4,131,371
Cleveland	641,518	40,285	16,202.00	8,899	9,691	4,232	4,537	1,920	727,284
Columbia	3,565,132	180,232	78,872.00	218,721	29,996	173,674	94,802	22,946	4,364,374
Conway	5,280,524	335,245	143,943.00	145,864	78,018	56,467	20,634	21,544	6,082,239
Craighead	14,337,516	980,471	402,022.00	336,890	171,668	101,768	58,723	63,302	16,452,360
Crawford	3,929,801	553,748	242,547.00	140,887	111,661	17,127	9,144	36,470	5,041,385
Crittenden	6,071,828	887,986	335,720.00	78,535	109,803	214,046	132,284	66,578	7,896,780
Cross	2,857,214	160,121	67,516.00	127,020	31,657	36,801	25,822	10,214	3,316,364
Dallas	1,653,481	87,472	40,549.00	34,897	22,605	13,800	6,332	5,206	1,864,342
Desha	1,979,026	188,185	85,103.00	91,633	42,592	25,740	18,499	12,554	2,443,332
Drew	2,129,037	207,720	84,687.00	71,518	39,595	19,810	15,585	28,206	2,596,158
Faulkner	12,541,024	1,286,197	542,537.00	522,924	324,591	111,988	58,908	105,122	15,493,290
Franklin	1,872,202	200,289	84,630.00	165,648	35,131	5,295	3,866	14,362	2,381,423
Fulton	885,567	57,061	23,235.00	48,485	10,593	3,509	2,134	5,384	1,035,967
Garland	10,419,116	1,434,522	632,217.00	501,473	410,267	96,530	52,917	133,056	13,680,098
Grant	1,489,690	156,039	64,732.00	44,376	38,044	9,241	2,868	17,900	1,822,890
Greene	6,236,821	453,747	190,168.00	233,728	85,648	11,605	7,470	37,368	7,256,555
Hempstead	4,043,699	175,133	85,781.00	77,845	34,709	394,299	132,902	16,138	4,960,506
Hot Springs	3,555,172	294,083	134,599.00	101,039	76,777	13,100	8,988	28,168	4,211,925
Howard	2,383,851	119,851	58,581.00	70,644	27,599	237,245	99,515	12,932	3,010,217
Independence	5,979,742	397,091	174,663.00	483,826	92,075	49,605	10,989	26,692	7,214,683
Izard	967,176	96,635	46,350.00	90,562	29,471	3,778	1,285	6,940	1,242,197
Jackson	3,404,113	209,719	90,387.00	119,515	52,903	138,639	68,392	21,934	4,105,601
Jefferson	16,971,420	965,680	455,470.00	447,900	287,352	528,348	384,390	102,170	20,142,730
Johnson	2,659,954	221,632	91,806.00	71,143	51,611	6,968	4,354	17,692	3,125,160
Lafayette	817,022	39,871	18,852.00	21,510	8,209	65,896	24,088	8,582	1,004,030
Lawrence	2,562,205	144,665	58,384.00	80,566	23,702	15,378	3,998	10,974	2,899,871
Lee	879,046	57,383	26,111.00	11,946	6,104	32,734	40,542	3,886	1,057,752
Lincoln	1,134,717	86,862	38,129.00	64,008	27,520	3,028	4,230	7,696	1,366,189
Little River	1,122,126	81,348	41,955.00	36,850	12,674	48,701	38,393	5,970	1,388,016
Logan	2,314,063	209,555	90,512.00	90,833	40,719	14,090	3,430	13,888	2,777,089
Lonoke	10,661,838	924,263	397,377.00	303,856	211,938	136,668	68,789	79,492	12,784,221
Madison	849,483	106,577	47,826.00	13,080	16,188	2,576	336	8,274	1,044,340
Marion	1,729,104	151,018	65,928.00	63,634	43,836	25,788	6,076	26,064	2,111,448
Miller	5,698,876	313,679	150,721.00	149,150	55,235	234,787	129,936	34,146	6,766,530
Mississippi	5,468,816	371,837	147,198.00	100,905	48,313	485,357	192,309	24,200	6,838,934
Monroe	1,508,147	142,152	53,923.00	24,653	24,910	26,066	14,628	6,474	1,800,953
Montgomery	292,400	61,476	25,693.00	17,643	12,678	279	78	6,150	416,397
Nevada	1,991,242	86,443	40,566.00	35,377	17,328	20,618	20,557	11,262	2,223,393
Newton	545,174	33,347	19,327.00	43,736	8,831	503	259	2,324	653,500
Quachita	5,988,206	267,926	112,542.00	123,533	60,040	123,623	64,059	20,768	6,760,697

(continued)

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Retail Sales by County (Unaudited)  
Fiscal Year Ended June 30, 2017**

COUNTY	Instant*	Powerball @ *	Mega Millions @ *	Fast Play*	Natural State		Cash 3*	Cash 4*	Lucky for Life @ *	Total
					Jackpot*					
Perry	980,593	95,831	45,863.00	11,766	17,954	7,504	6,364	4,686	1,170,561	
Phillips	2,072,973	388,865	166,050.00	12,125	35,146	104,390	47,790	23,456	2,850,795	
Pike	1,101,243	112,387	50,463.00	154,670	28,917	12,243	1,140	8,042	1,469,105	
Poinsett	4,677,327	269,308	111,038.00	129,072	51,741	69,347	13,032	14,828	5,335,692	
Polk	1,256,961	189,630	83,344.00	104,168	34,957	9,548	577	16,812	1,695,997	
Pope	8,432,120	769,347	316,816.00	190,636	160,847	37,252	18,248	57,488	9,982,753	
Prairie	2,028,634	111,033	43,147.00	79,413	17,705	22,465	12,529	6,514	2,321,440	
Pulaski	69,759,585	5,721,868	2,591,399.00	2,280,889	1,523,276	1,256,899	1,072,906	604,446	84,811,267	
Randolph	2,191,445	138,846	61,848.00	54,844	25,364	1,132	4,078	16,734	2,494,290	
Saint Francis	3,454,169	273,658	112,511.00	45,867	38,655	135,163	124,920	21,992	4,206,934	
Saline	12,483,288	1,312,758	559,280.00	538,539	328,200	118,454	64,687	118,908	15,524,114	
Scott	950,507	100,464	42,272.00	29,127	15,748	2,223	882	8,772	1,149,995	
Searcy	1,168,852	71,447	28,712.00	20,192	16,583	1,781	5,086	8,206	1,320,859	
Sebastian	8,459,678	1,478,343	637,632.00	154,404	275,857	227,257	75,660	116,520	11,425,351	
Sevier	1,306,365	112,718	55,363.00	17,281	13,384	24,119	9,578	9,528	1,548,336	
Sharp	2,562,828	200,484	87,572.00	186,357	48,949	10,395	4,257	16,554	3,117,396	
Stone	1,010,923	106,737	46,121.00	66,231	38,619	23,532	6,860	11,616	1,310,638	
Union	9,566,728	471,675	202,233.00	231,100	87,809	652,943	291,453	52,968	11,556,909	
Van Buren	1,777,988	175,472	76,337.00	97,210	43,033	9,591	7,749	15,096	2,202,476	
Washington	15,220,219	1,973,047	843,476.00	316,525	344,180	174,648	74,295	157,796	19,104,186	
White	12,159,162	801,632	347,865.00	575,650	194,085	81,715	52,001	65,906	14,278,016	
Woodruff	1,060,838	77,097	30,836.00	16,664	16,920	35,815	16,161	5,354	1,259,685	
Yell	2,938,168	197,900	89,533.00	187,592	45,130	13,770	2,018	12,952	3,487,063	
<b>Grand Total</b>	<b>\$ 367,673,155</b>	<b>\$ 32,802,166</b>	<b>\$ 14,150,390</b>	<b>\$ 12,313,567</b>	<b>\$ 7,052,745</b>	<b>\$ 7,129,555</b>	<b>\$ 4,239,848</b>	<b>\$ 2,894,552</b>	<b>\$ 448,255,978</b>	

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

**Arkansas Department of Finance and Administration**  
**Office of the Arkansas Lottery**  
**Demographic Report from the Arkansas Department of Higher Education (Unaudited)**  
**Fiscal Year Ended June 30, 2017**

<u>Institution</u>	<u>Awards</u>	<u>Scholarships</u>
Arkansas Baptist College	23	\$ 46,000
Arkansas Northeastern College	138	162,250
Arkansas State University Beebe	654	790,750
Arkansas State University Jonesboro	3,917	11,362,750
Arkansas State University Mid South	69	71,250
Arkansas State University Mountain Home	175	202,875
Arkansas State University Newport	264	327,375
Arkansas Tech University	3,266	8,871,851
Arkansas Tech University Ozark Campus	166	186,147
Baptist Health Schools - Little Rock	70	86,500
Black River Technical College	187	231,439
Central Baptist College	242	644,875
College of the Ouachitas	89	103,042
Cossatot Community College UA	164	186,500
Crowley's Ridge College	47	107,000
East Arkansas Community College	93	105,250
Ecclesia College	27	75,500
Harding University	716	2,035,188
Henderson State University	1,305	3,536,278
Hendrix College	419	1,144,000
Jefferson School of Nursing	*	5,375
John Brown University	389	1,165,875
Lyon College	324	899,750
National Park College	259	301,629
North Arkansas College	312	368,500
Northwest Arkansas Community College	801	895,707
Ouachita Baptist University	630	1,919,060
Ozarka College	153	180,250
Philander Smith College	57	158,500
Phillips Community College UA	86	114,375
South Arkansas Community College	91	108,125
Southeast Arkansas College	130	192,500
Southern Arkansas University	1,173	2,958,646
Southern Arkansas University Tech	109	140,375
University of Arkansas at Monticello College of Technology - Crossett	*	14,875
University of Arkansas at Monticello College of Technology - McGehee	*	5,500
University of Arkansas Community College Batesville	209	237,125
University of Arkansas Community College Hope	191	232,625
University of Arkansas Community College Morrilton	381	449,875
University of Arkansas Community College Rich Mountain	99	115,500
University of Arkansas Fayetteville	6,056	17,201,538
University of Arkansas for Medical Sciences	144	558,625
University of Arkansas Fort Smith	1,976	5,401,355
University of Arkansas Little Rock	1,853	5,197,710
University of Arkansas Monticello	711	1,931,500
University of Arkansas Pine Bluff	481	1,306,128
University of Arkansas Pulaski Technical College	524	687,125
University of Central Arkansas	4,219	12,048,173
University of the Ozarks	190	515,750
Williams Baptist College	201	611,000
Total	33,802	\$ 86,199,891

Totals include Traditional, Nontraditional, Current Achiever and Original Challenge Recipients.

\* Indicates Restricted Value and is used where the aggregate was less than ten (10).

Restricted Values are used to ensure the privacy of student records under Federal and State law.

ADHE Status Reports totals will vary due to Restricted Values.

Source: Arkansas Department of Higher Education

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Expenditures and Projected Obligations from Scholarship and Grant Funding Sources  
from Arkansas Department of Higher Education (Unaudited)  
Fiscal Year Ended June 30, 2017**

<b>Title</b>	<b>FY 17 Expenditures</b>	<b>FY 18 Budget</b>
Academic Challenge Scholarships	\$ 20,000,000	\$ 20,000,000
AR Geographical Critical Needs Program	86,625	100,000
Arkansas Future Grant	-	5,500,000
Dependents of Law Enforcement Officers	215,740	350,000
Governor's Scholars Program	16,009,787	17,148,750
Go! Opportunities Grants	6,044,442	3,500,000
Military Dependents	904,803	905,000
National Guard Tuition Assistance	1,275,141	1,400,000
Single Parent Scholarship	175,000	175,000
SREB Minority Doctoral Scholars	175,000	175,000
State Teacher Education Program	1,319,259	1,400,000
SURF Program	148,811	150,000
Teacher Opportunity Program	1,499,851	1,500,000
Tuition Adjustment	350,000	350,000
Washington Center Scholarships	99,000	100,000
Workforce Improvement Grants	2,943,228	-
Arkansas Health Education Grants:		
Dental Aid	2,364,950	2,662,500
Dental Loans	962,000	950,000
Optometry Grants	445,000	462,800
Optometry Loans	120,000	140,000
Veterinary Aid	1,260,590	1,374,700
Chiropractic	92,497	150,000
Podiatry	36,300	38,100
Osteopathy	15,000	15,000
<b>Total All Financial Aid Programs</b>	<b>\$ 56,543,024</b>	<b>\$ 58,546,850</b>

Source: Arkansas Department of Higher Education

**Arkansas Department of Higher Education  
Academic Challenge Scholarship Program  
County Report  
Fiscal Year Ended June 30, 2017**

<u>County</u>	<u>2016 Population Estimate</u>	<u>% State Population</u>	<u>Awards</u>	<u>Amount</u>
Arkansas	18,214	0.61%	280	\$ 734,385
Ashley	20,492	0.69%	232	610,093
Baxter	41,062	1.37%	339	854,625
Benton	258,291	8.64%	2,611	6,523,378
Boone	37,304	1.25%	429	1,026,829
Bradley	10,996	0.37%	93	223,378
Calhoun	5,144	0.17%	44	124,000
Carroll	27,646	0.93%	214	565,000
Chicot	10,945	0.37%	76	195,773
Clark	22,657	0.76%	309	804,645
Clay	14,920	0.50%	133	342,625
Cleburne	25,264	0.85%	267	660,000
Cleveland	8,241	0.28%	129	341,750
Columbia	23,901	0.80%	260	642,902
Conway	20,937	0.70%	229	567,375
Craighead	105,835	3.54%	1,224	3,340,125
Crawford	62,267	2.08%	827	2,188,698
Crittenden	49,235	1.65%	407	993,567
Cross	17,037	0.57%	192	445,750
Dallas	7,469	0.25%	79	216,375
Desha	11,876	0.40%	116	329,500
Drew	18,651	0.62%	219	613,553
Faulkner	122,227	4.09%	1,780	4,615,518
Franklin	17,626	0.59%	287	742,962
Fulton	12,123	0.41%	116	240,250
Garland	97,477	3.26%	1,019	2,661,338
Grant	18,082	0.61%	234	614,852
Greene	44,598	1.49%	527	1,454,750
Hempstead	21,974	0.74%	205	475,500
Hot Spring	33,374	1.12%	406	1,075,235
Howard	13,377	0.45%	176	424,845
Independence	37,168	1.24%	415	1,034,942
Izard	13,433	0.45%	139	322,958
Jackson	17,221	0.58%	138	329,125
Jefferson	70,016	2.34%	716	1,940,642
Johnson	26,176	0.88%	306	817,406
Lafayette	6,847	0.23%	56	130,500
Lawrence	16,735	0.56%	215	531,564
Lee	9,310	0.31%	65	175,500
Lincoln	13,705	0.46%	109	276,625
Little River	12,451	0.42%	130	309,000
Logan	21,792	0.73%	338	888,250
Lonoke	72,228	2.42%	975	2,520,863
Madison	16,072	0.54%	154	386,637
Marion	16,325	0.55%	118	275,375
Miller	43,787	1.47%	322	756,458
Mississippi	42,835	1.43%	405	922,701
Monroe	7,169	0.24%	72	192,625
Montgomery	8,879	0.30%	85	194,690

(continued)

**Arkansas Department of Higher Education  
Academic Challenge Scholarship Program  
County Report  
Fiscal Year Ended June 30, 2017**

<b><u>County</u></b>	<b><u>2016 Population Estimate</u></b>	<b><u>% State Population</u></b>	<b><u>Awards</u></b>	<b><u>Amount</u></b>
Nevada	8,398	0.28%	76	194,105
Newton	7,936	0.27%	85	185,750
Ouachita	24,098	0.81%	296	779,691
Perry	10,132	0.34%	121	317,625
Phillips	18,975	0.63%	145	350,885
Pike	10,832	0.36%	153	376,048
Poinsett	24,023	0.80%	248	612,875
Polk	20,173	0.68%	247	601,125
Pope	63,779	2.13%	800	2,184,436
Prairie	8,251	0.28%	89	231,000
Pulaski	393,250	13.16%	4,080	11,136,043
Randolph	17,448	0.58%	192	457,600
St. Francis	26,196	0.88%	157	415,686
Saline	118,703	3.97%	1,750	4,580,176
Scott	10,277	0.34%	126	337,250
Searcy	7,967	0.27%	101	236,250
Sebastian	127,793	4.28%	1,626	4,439,310
Sevier	16,910	0.57%	239	552,053
Sharp	17,157	0.57%	176	406,875
Stone	12,539	0.42%	129	308,309
Union	39,887	1.33%	426	1,101,000
Van Buren	16,628	0.56%	168	393,500
Washington	228,049	7.63%	2,219	5,864,010
White	79,263	2.65%	996	2,558,250
Woodruff	6,641	0.22%	76	181,250
Yell	21,552	0.72%	242	614,828
Not Reported			49	128,524
<b>Total</b>	<b><u><u>2,988,248</u></u></b>	<b><u><u>100%</u></u></b>	<b><u><u>33,229</u></u></b>	<b><u><u>\$ 86,199,891</u></u></b>

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

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Debt Set-off Collections (Unaudited)  
Fiscal Year Ended June 30, 2017**

Department of Finance and Administration:	
Taxes due to the State	\$ 131,729
Delinquent Child Support	<u>33,568</u>
 Total	 <u><u>\$ 165,297</u></u> (1)

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

Source: OAL Finance Division

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Fund Balance and Other Information  
from Arkansas Department of Higher Education (Unaudited)  
Fiscal Year Ended June 30, 2017**

**Fund Balances**

Higher Education Grants Fund	\$13,402,165
Lottery Net Proceeds Trust Account (1)	\$ 4,887,237

**Arkansas Challenge Scholarship Trust Account**

Deposits	\$91,087,128
Disbursements	<u>86,199,891</u>
June 30, 2017 Balance	<u><u>\$ 4,887,237</u></u>

**Evaluation of Net Proceeds**

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

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

None

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

Source: Arkansas Department of Higher Education

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Term Contracts for Goods and Services  
Fiscal Year Ended June 30, 2017**

1. On July 8, 2016, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Mangan Holcomb Partners “Mangan Holcomb) entered into a Second Amendment to the Agreement for Contractual Services for Supplemental Advertising, Marketing, and Media Services. The purpose of the Amendment was to extend the Agreement for a period of six (6) months. No changes were made to the value of the Agreement entered into between the parties (the Contract) on July 8, 2014. The term of the Second Amendment to the Agreement was from July 8, 2016, through January 8, 2017. The Second Amendment to the Agreement was reviewed by the Arkansas Legislative Oversight Lottery Subcommittee on June 16, 2016.
2. On July 15, 2016, a Third Amendment to the Agreement for Contract Services for Outdoor Advertising was executed between Sunshine Electronic Display Corporation (Sunshine) and Mangan Holcomb Partners (MHP) on behalf of the Department of Finance and Administration Office of the Arkansas Lottery (OAL). The purpose of the Third Amendment Agreement, effective July 15, 2016 through July 17, 2018, was to lease twenty-eight (28) jackpot displays to attach to fourteen (14) billboards leased through MHP. In accordance with the Third Amendment to the Agreement, MHP agreed to pay Sunshine \$265.00 plus sales tax per month for each display. MHP agreed to invoice OAL monthly for the jackpot displays, after payment was made to Sunshine. .
3. On July 28, 2016, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Scientific Games International (SGI) entered into a Non-Exclusive Licensing Agreement. The Non-Exclusive Licensing Agreement granted to OAL the non-exclusive right in the state of Arkansas to reproduce, use, and make copies of the Property in association with the sale, marketing, advertising, and promotion of a scratch-off instant win lottery game to be conducted by the OAL and identified as AR-359 Monopoly™ (the “Game”). Notice of Execution of the Licensing Agreement was provided to the Arkansas Legislative Council Lottery Oversight Subcommittee on August 1, 2016.
4. On September 1, 2016, The Department of Finance and Administration Office of the Arkansas Lottery and Advent Systems, Inc., entered into a one-year extension of Lottery RFQ-130001, Arkansas Lottery Security System. The purpose of the extension was to ensure the continuity of security system equipment maintenance and service, pursuant to the Agreement entered into between the parties (the Contract) on June 4, 2013. The Service Agreement cost for the term, September 1, 2016, through August 31, 2017, was \$18,624.83. There is an option for renewal at a mutually agreed-upon price up to four (4) times in one (1) year increments or a portion thereof.
5. On September 2, 2016, the Department of Finance and Administration Office of the Arkansas Lottery and Bank of the Ozarks entered into a First Amendment to the Agreement for Contractual Services for Comprehensive Banking Service. The purpose of the Amendment was to extend the Agreement for a period of one (1) year, from September 2, 2016, through September 1, 2017. No changes were made to the value of the Agreement.
6. On February 16, 2017, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Cranford, Johnson, Robinson, Woods (CJRW) entered into an Agreement for Contractual Services for Advertising, Marketing, and Public Relations Services. The term of Agreement was for a period of five (5) years, from February 16, 2017, through February 15, 2022, with the option of renewal up to two (2) additional one (1) year increments or a portion thereof. Total projected cost for the term is \$34,500,000.00. The Agreement was reviewed by the Joint Budget Committee on January 26, 2017.
7. On March 29, 2017, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Scientific Games International (SGI) entered into a Non-Exclusive Licensing Agreement. The Non-Exclusive Licensing Agreement granted to OAL the non-exclusive right in the state of Arkansas to reproduce, use, and make copies of the Property in association with the sale, marketing, advertising, and promotion of a scratch-off instant win lottery game to be conducted by the OAL and identified as AR-402

**Arkansas Department of Finance and Administration  
Office of the Arkansas Lottery  
Term Contracts for Goods and Services  
Fiscal Year Ended June 30, 2017**

Willy Wonka™ Golden Ticket (the “Game”). Notice of Execution of the Licensing Agreement was provided to the Arkansas Legislative Council Lottery Oversight Subcommittee on April 28, 2017.

8. On April 27, 2017, the Department of Finance and Administration Office of the Arkansas Lottery (OAL) and Scientific Games International (SGI) entered into a Non-Exclusive Licensing Agreement. The Non-Exclusive Licensing Agreement granted to OAL the non-exclusive right in the state of Arkansas to reproduce, use, and make copies of the Property in association with the sale, marketing, advertising, and promotion of a scratch-off instant win lottery game to be conducted by the OAL and identified as AR-400 Loteria™ (the “Game”). Notice of Execution of the Licensing Agreement was provided to the Arkansas Legislative Council Lottery Oversight Subcommittee on May 19, 2017.



**Arkansas**  
**Scholarship Lottery**

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# OTHER REPORTS





# Arkansas

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



Rep. Richard Womack  
House Chair  
Rep. Mary Bentley  
House Vice Chair

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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

#### INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the major fund of the Department of Finance and Administration – Office of the Arkansas Lottery (the "Agency"), an office of Arkansas state government, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department of Finance and Administration – Office of the Arkansas Lottery's basic financial statements, and have issued our report thereon dated November 28, 2017.

#### ***Internal Control Over Financial Reporting***

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

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

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

#### ***Compliance and Other Matters***

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

***Purpose of this Report***

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

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
November 28, 2017



**Arkansas**  
Scholarship Lottery

Date 2-10-17

Pay to the order of Ivory Daniels \$ 10,000<sup>00</sup>

Ten Thousand Dollars

Memo Celebrate the Opportunities! Arkansas Scholarship Lottery



