



# Comprehensive Annual **FINANCIAL REPORT**

For the Fiscal Year Ended June 30, 2019

*This is*  
**WINNING!**



ARKANSAS  
DEPARTMENT OF  
FINANCE AND  
ADMINISTRATION

**OFFICE OF  
THE ARKANSAS  
LOTTERY**

An Enterprise  
Fund of the  
State of Arkansas



*This is*  
**WINNING!**

**JALEASE  
LOFTON**

SCHOLARSHIP TO  
University of Arkansas  
at Fort Smith





# Comprehensive Annual FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2019

ARKANSAS DEPARTMENT OF  
FINANCE AND ADMINISTRATION

OFFICE OF THE  
ARKANSAS LOTTERY

An Enterprise Fund of the  
State of Arkansas

PREPARED BY  
FINANCE DIVISION

ASA HUTCHINSON  
GOVERNOR,  
State of Arkansas

LARRY W. WALTHER  
SECRETARY,  
Arkansas Department  
of Finance and Administration

BISHOP WOOSLEY  
DIRECTOR,  
Office of the Arkansas Lottery



*This is*  
**WINNING!**

**AMANDA  
ANDERSON**

\$100,000  
Scratch-Off Winner

*This is*  
**WINNING!**



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

Fiscal Year Ended June 30, 2019

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*This is*  
**WINNING!**

**YVONNE  
NGOME**

SCHOLARSHIP TO  
University of Arkansas  
Fayetteville

*This is*  
**WINNING**



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

Fiscal Year Ended June 30, 2019

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*This is*  
**WINNING!**

**CHRIS  
LOVSTON**

\$10,000  
Scratch-Off Winner

*This is*  
**WINNING**



# Introductory SECTION



*This is*  
**WINNING!**





*This is*  
**WINNING!**

**DAVEANTE  
JONES**

SCHOLARSHIP TO  
Southern Arkansas  
University

*This is*  
**WINNING**





STATE OF ARKANSAS  
**Department of Finance  
and Administration**



November 22, 2019

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, 2019. 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 1,965 independent and chain retail partners who sell our products.

Since its inception in 2009, the lottery has raised more than \$879 million in proceeds to help provide more than half a million scholarships to Arkansas students. During FY 2019 alone, the OAL distributed \$98.4 million in scholarship funding.

The OAL paid more than \$29 million in commissions to state lottery retailers during FY 2019, creating tangible economic impact at the local level by providing business owners with added revenue. OAL has paid nearly \$254 million to lottery retailers since September 2009.

In FY 2019, lottery ticket sales reached \$515 million, a record for the organization. Nearly \$350 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, reading "Larry W. Walther". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Larry W. Walther  
Secretary



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 22, 2019**

**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, 2019. 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. § 23-115-2016(b)(1)(A) requires Arkansas Legislative Audit to conduct an annual audit of the OAL, and they may conduct other special reports as may be

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

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

#### **BACKGROUND**

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

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



## PRODUCTS

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



**INSTANT TICKET GAMES** are played by removing a scratch-off coating from the play area of the ticket. There are various ways to win, including matching certain symbols, adding up to a specified total or otherwise satisfying the requirements listed on the ticket. If the specified condition occurs, the ticket is an instant winner. These play styles are combined with a variety of game themes and ticket prices. Instant games were the first type of games offered by the OAL. For fiscal year ended June 30, 2019, the OAL released 55 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, 2019, the OAL sold 8 different types of terminal-generated games: Powerball®, Mega Millions®, Natural State Jackpot, Cash 3, Cash 4, Fast Play, AR Progressive Jackpot Fast Play and Lucky for Life®.



**POWERBALL®** is a multi-state draw game jointly operated by the 37 member lotteries of the Multi-State Lottery Association and sold in 44 states, Washington D.C., Puerto Rico, and the U.S. Virgin Islands. Players select one set of five numbers from a pool of one to 69 and one additional number designated as the "Powerball®" from a second pool of one to 26. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$40 million, which increases for each subsequent draw when the jackpot is not won. Each Powerball® play costs \$2. For an additional \$1, the Power Play® feature allows players to multiply their non-jackpot winnings by 2, 3, 4, 5 or 10 times (the match five prize tier is set at \$2,000,000). A jackpot winner may select either an annuitized prize paid in 30 annual installments or a lump sum payment. Drawings are held every Wednesday and Saturday night.



**MEGA MILLIONS®** is a second multi-state draw game sold in accordance with a cross-selling agreement between the 10 Mega Millions® member states and the Multi-State Lottery Association. Mega Millions® is sold in 44 states, Washington D.C. and U.S. Virgin Islands. Players select one set of five numbers from a pool of one to 70 and one additional number from a second pool of one to 25. To win the jackpot, all six numbers must be matched. The minimum jackpot amount is \$40 million, which increases for each subsequent draw when the jackpot is not won. Each Mega Millions® play costs \$2. For an additional \$1, the Megaplier® feature allows players to multiply non-jackpot winnings up to five times. A jackpot winner may select either an annuitized prize paid in one immediate payment followed by 29 annual installments or a lump sum payment. Drawings are held every Tuesday and Friday night.



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



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



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



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



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

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

## PLAYERS CLUB SERVICES

The Lottery offers a players club at MyArkansasLottery.com called The Club. By registering for a free account, players gain access to Lottery news, winning number emails, the Play It Again® and Points for Prizes® programs, and special second-chance drawings. There were a total of 44,027 new player registrations (and 29,453,558 tickets) entered into the program in fiscal 2019, bringing the membership total to 219,110.



The **Play It Again®** program allows players to submit eligible, non-winning instant tickets for entry into cash prize drawings. After the last day to redeem tickets for any eligible instant game(s), one entry is drawn to win a monetary prize. The same entry mechanism gives players both their Play It Again® entry(s) and Points for Prizes® rewards points. There were two Play It Again® drawings held during fiscal year 2019.



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 279,119,505 points redeemed in the Points for Prizes® program during fiscal year 2019. Points may also be used for special drawing prizes; there were 22 Points for Drawings® held during fiscal year 2019.

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



The **WILLY WONKA GOLDEN TICKET™ BILLION DOLLAR CHALLENGE™** Second-Chance Promotion awarded trips for two to Las Vegas and a chance at winning up to \$1 billion to three players who entered non-winning WILLY WONKA GOLDEN TICKET™ instant tickets into their accounts. One drawing occurred during fiscal year ended June 30, 2019.



The **Spring Cash Giveaway** Second-Chance Promotion awarded 470 cash prizes of \$100, \$200, or \$500 to players who entered eligible winning or non-winning Powerball® tickets or any non-winning instant scratch-off tickets from the March, April, or May 2019 new game launches. Three drawings occurred during fiscal year ended June 30, 2019.



Points for Drawings®	Entry Period	Drawing Date	# of winners	# of entries
Ray-Ban Sunglasses	6/12/2018 - 7/16/2018	7/17/2018	3	13,192
Body-Solid Multi Function Gym	5/15/2018 - 7/16/2018	7/17/2018	2	14,507
Coleman Queen AeroBed	7/17/2018 - 8/13/2018	8/14/2018	3	10,702
The Big Game (Super Bowl Trip)	5/15/2018 - 8/13/2018	8/14/2018	1	10,407
iPhone X Bundle	7/17/2018 - 9/17/2018	9/18/2018	2	59,774
Coleman Tailgate Packages	8/14/2018 - 9/17/2018	9/18/2018	3	17,183
Smart Door Packages	9/18/2018 - 10/22/2018	10/23/2018	3	18,611
Dyson Bundles	9/18/2018 - 11/12/2018	11/13/2018	2	34,340
Entertainment Package	8/14/2018 - 11/12/2018	11/13/2018	1	61,086
SALAV Ultimate 1800 Steam Systems	10/23/2018 - 11/26/2018	11/27/2018	3	7,560
Brookstone Massage Bundles	11/27/2018 - 12/17/2018	12/18/2018	3	9,135
Xbox One X Bundles	11/13/2018 - 1/14/2019	1/15/2019	20	73,429
Calphalon Cookware Sets	12/18/2018 - 1/14/2019	1/15/2019	3	21,638
QFX Mobile Home Theater Projector	1/15/2019 - 2/11/2019	2/12/2019	3	15,770
Laundry Room Makeover	11/13/2018 - 2/11/2019	2/12/2019	1	36,773
My Hibachi BBQ Grill	1/15/2019 - 3/11/2019	3/12/2019	2	26,864
Brighton Halo Jewelry Sets	2/12/2019 - 3/11/2019	3/12/2019	3	14,830
Studebaker Floor Stand Turntable	3/12/2019 - 4/15/2019	4/16/2019	3	14,005
YETI Bundles	4/16/2019 - 5/13/2019	5/14/2019	3	34,699
Movado His & Hers Watch Sets	3/12/2019 - 5/13/2019	5/14/2019	2	15,186
Outdoor Furniture Set	2/12/2019 - 5/13/2019	5/14/2019	1	37,765
Yamaha Home Theater	5/14/2019 - 6/10/2019	6/11/2019	3	24,450

Second-Chance Promotion	Entry Period	Drawing Date	# of winners	# of entries
AR-457 WILLY WONKA GOLDEN TICKET™ BILLION DOLLAR CHALLENGE™	7/2/2018 - 1/29/2019	1/31/2019	2	1,018,435
Spring Cash Giveaway Drawing #1 \$500 Prizes	3/5/2019 - 4/1/2019	4/4/2019	100	153,018
Spring Cash Giveaway Drawing #1 \$100 Prizes	3/5/2019 - 4/1/2019	4/4/2019	40	809,813
Spring Cash Giveaway Drawing #2 \$500 Prizes	4/2/2019 - 4/29/2019	5/2/2019	100	101,597
Spring Cash Giveaway Drawing #2 \$100 Prizes	4/2/2019 - 4/29/2019	5/2/2019	40	101,675
Spring Cash Giveaway Drawing #3 \$500 Prizes	4/30/2019 - 5/31/2019	6/4/2019	100	100,428
Spring Cash Giveaway Drawing #3 \$200 Prizes	4/30/2019 - 5/31/2019	6/4/2019	50	101,246
Spring Cash Giveaway Drawing #3 \$ 100 Prizes	4/30/2019 - 5/31/2019	6/4/2019	40	2,852,483

## **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 2018 and the first half of 2019, 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 2018 and the first half of calendar year 2019. The unemployment rate for the State of Arkansas finished the June 30, 2019 fiscal year end at 3.5%.

### **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 \$132.815 billion at the end of the June 30, 2019 fiscal year. This represented an increase in personal income of \$5.623 billion, or 4.4% from fiscal year ended June 30, 2018. For the fiscal year ending June 30, 2020, personal income is forecast at \$138.832 billion (current dollars) an increase of \$6.017 billion or 4.5% over the fiscal year ended June 30, 2019.

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

Measured in current dollars, wage and salary disbursements were \$58.918 billion for the June 30, 2019 fiscal year, an increase of \$2.157 billion or 3.8% from the June 30, 2018 fiscal year. Wage and salary disbursements for the fiscal year ending June 30, 2020 are forecast at \$61.89 billion (current dollars), an increase of \$2.972 billion or 5.0% from the June 30, 2019 fiscal year.

### **EMPLOYMENT**

During the June 30, 2019 fiscal year, wage and salary employment in Arkansas increased to 1.269 million jobs which represents an increase of 12,725 jobs or 1.0% compared to the June 30, 2018 fiscal year. For the fiscal year ending June 30, 2020, wage and salary employment is expected to increase to 1.281 million jobs. This represents a projected increase of 12,370 jobs or 1.0% from the June 30, 2019 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 2019 included:**

- **Surpassing \$4.4 billion in ticket sales since the lottery's inception.**
- **Surpassing \$3.0 billion in prizes paid to players since the lottery's inception.**
- **Transferring over \$879 million to the ADHE for the purpose of funding scholarships since the lottery's inception including transfers of \$98.4 million for June 30, 2019 fiscal year.**
- **The ADHE awarded nearly \$89 million in scholarships during the fall 2018 and spring 2019 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, 2019, 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, 2018. This was the seventh 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 affirm our commitment to continually improve our financial management and maintain the public's trust by exhibiting the highest ethical standards and uncompromising integrity. Publication of this report could not have been accomplished without the dedicated efforts of our employees. Management would also like to recognize Department of Finance and Administration Director Larry Walther for his support, guidance and dedication in operating the OAL in a reasonable and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to be "Bishop Woosley". The signature is stylized with a large, looped "B" and a long, sweeping tail.

Bishop Woosley  
Director

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

Jerold Fetzer  
Chief Financial Officer

## MISSION

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

## VISION

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

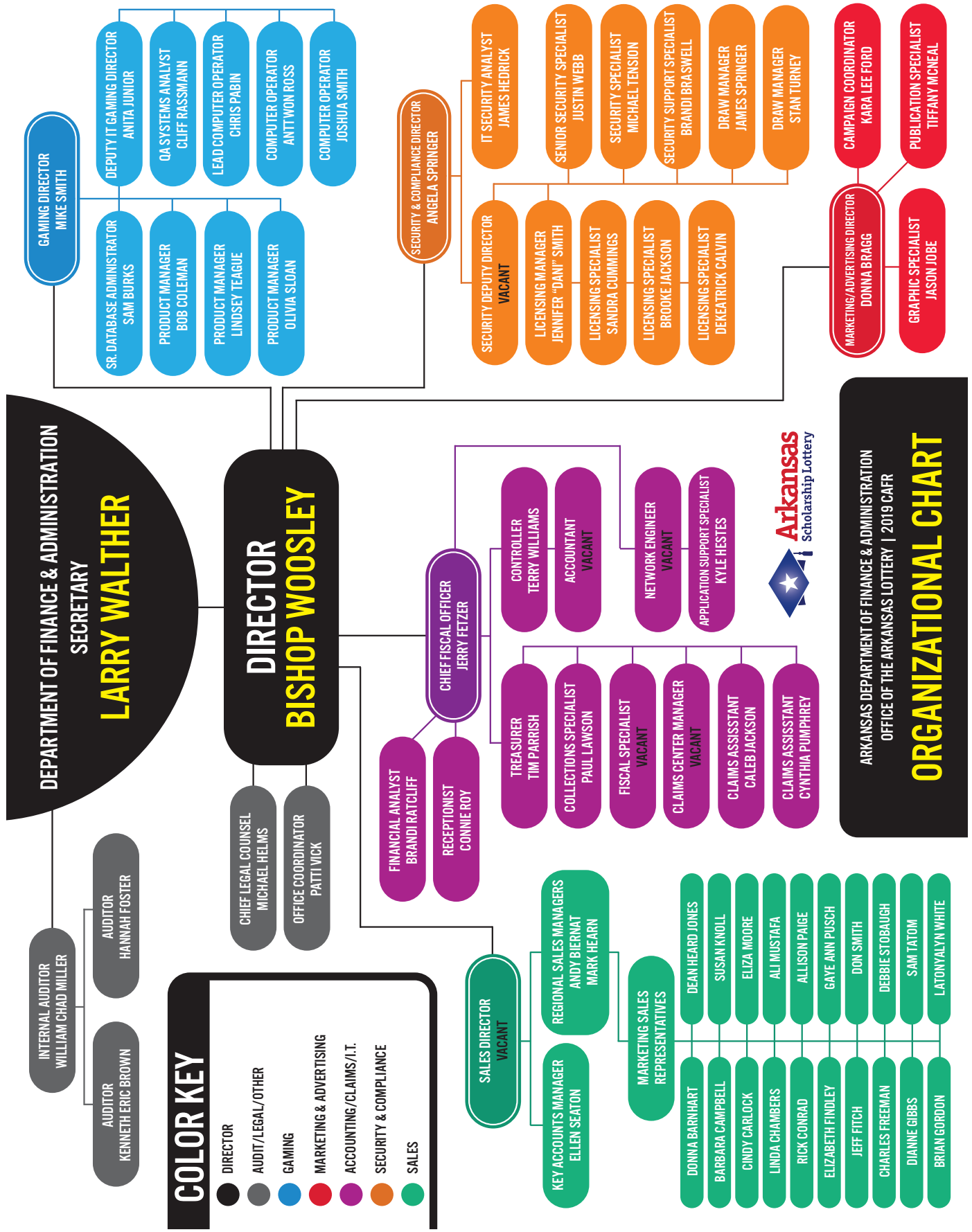
Achieving this level of performance requires a talented and well-trained workforce. With this understanding, we want to be known for our integrity and employing the brightest, best and most diverse workforce, as well as for our support of responsible gaming.

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

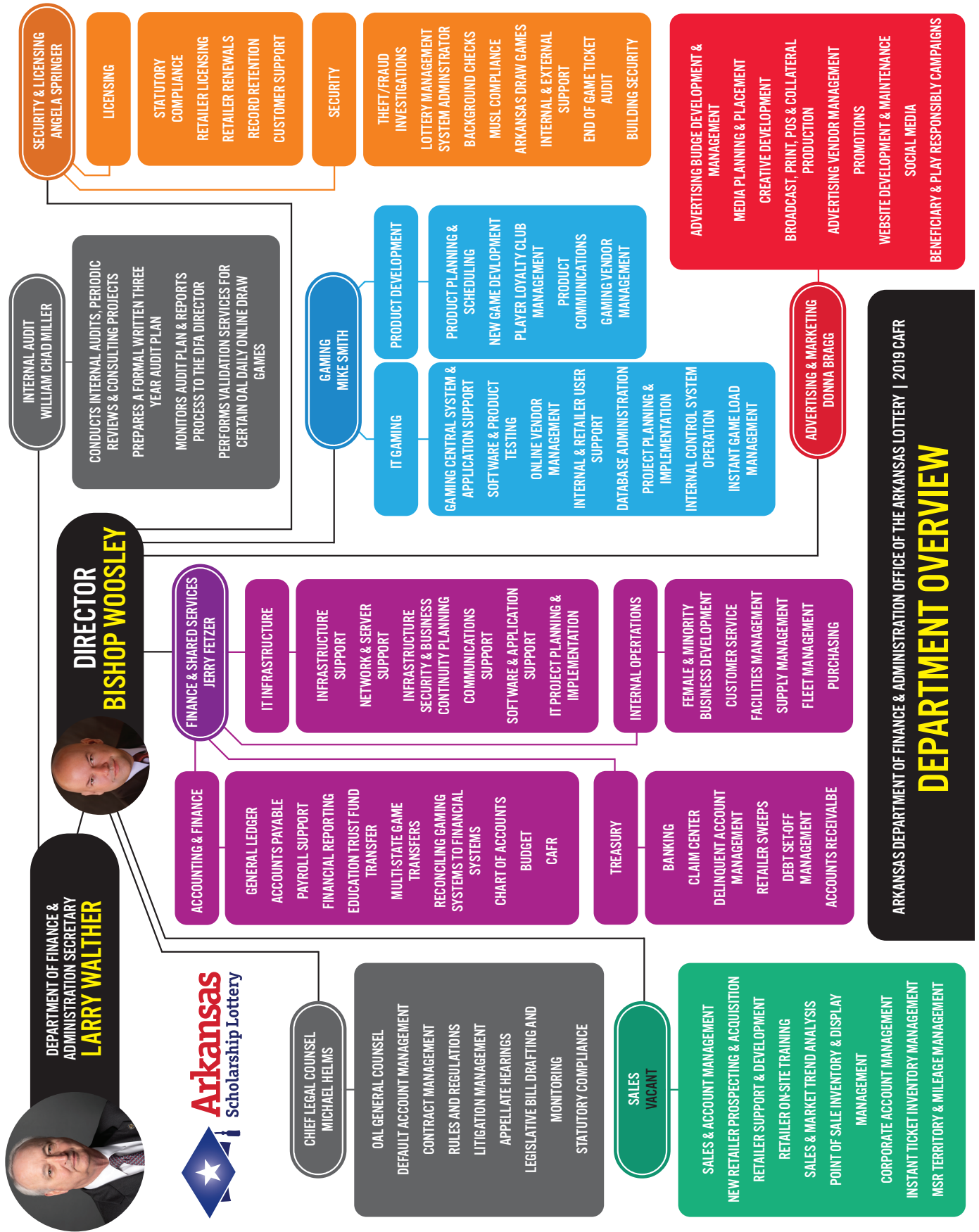
## VALUES

OAL's values include:

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









Government Finance Officers Association

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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, 2018**

*Christopher P. Morill*

Executive Director/CEO





# Financial SECTION



*This is*  
**WINNING!**



A full-page photograph of two men high-fiving. The man on the left is seen in profile, wearing glasses and a dark shirt, with his mouth open in a shout. The man on the right is also in profile, wearing glasses and a light-colored sweater, smiling. Their hands are raised and clapping in the center. The background is a bright yellow with faint, radiating lines. The text 'This is WINNING!' is overlaid in the top right, and a blue banner with the business name is in the bottom left.

*This is*  
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**JOHN  
& BRENDA**  
RETAILER  
Tobacco Superstore



**Sen. Jason Rapert**  
Senate Chair  
**Sen. Eddie Cheatham**  
Senate Vice Chair



**Rep. Richard Womack**  
House Chair  
**Rep. DeAnn Vaught**  
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, 2019, 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, 2019, 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, the 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, 2019, the changes in its financial position, or its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiring 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 22, 2019, 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 effectiveness of the Department of Finance and Administration - Office of the Arkansas Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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 22, 2019  
SA1661319

# Management's DISCUSSION & ANALYSIS



*This is*  
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**SPENCER  
HURLBUT**  
SCHOLARSHIP TO  
Arkansas Tech University

*This is*  
**WINNING**



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2019 (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, 2019. Please read it in conjunction with the OAL's financial statements, which follow this section.

### FINANCIAL AND OPERATING HIGHLIGHTS

- Operating revenues for the OAL increased by \$15.7 million in fiscal year 2019 compared to fiscal year 2018, an increase of 3.2%. Instant ticket sales for fiscal year 2019 increased very slightly over fiscal year 2018 sales. Online ticket sales for fiscal year 2019 increased by \$15.6 million, or 16.9% from fiscal year 2018. For fiscal year 2019, Powerball® sales decreased by \$2.6 million or -7.0% from fiscal year 2018, while sales for Mega Millions® increased by \$14.0 million or 71.2%. The other online games, Fast Play, Cash 3, Cash 4, Natural State Jackpot and Lucky for Life®, had a total sales increase for fiscal year 2019 of \$4.2 million or 11.7%, as compared to fiscal year 2018.
- The OAL's operating expenses increased in fiscal year 2019 compared to the previous fiscal year by \$11.7 million or 2.9%. This increase was primarily related to a \$6.8 million or 13.8% increase in online game prizes expense, a \$1.7 million or 7.9% increase in gaming contract costs and a \$0.9 million or 3.1% increase in retailer commissions. Such expense increases were consistent with the increases in instant and online sales.
- For fiscal year 2019 total transfers of net proceeds to the various Trust Accounts were \$98.6 million, which was \$6.8 million, or 7.4% higher than the prior fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

The statement of net position presents information on all of the OAL's assets and deferred outflows of resources, as compared to its liabilities and deferred inflows of resources, with the difference between the two groupings reported as net position. However, in the opinion of management, the decrease in net position for fiscal year 2019 does not necessarily reflect the true condition of the OAL's financial position, because, by statute, the OAL is required to transfer all accumulated net proceeds, net of unclaimed prizes, to the Education Trust Account, or to the Workforce Challenge Trust Account, as fiduciary accounts to be used only to fund college scholarships. Also, on June 30 of each fiscal year, the OAL is required, by statute, to transfer the accumulated unclaimed prizes reserve, less \$1 million which is held back, to the Education Trust Account.

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

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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2019 (Unaudited)

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

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

### FINANCIAL ANALYSIS

#### Net Position

The OAL's total net position at June 30, 2019 and 2018 were as follows:

<u>Condensed Summary of Assets, Liabilities and Net Position</u>		
	June 30, 2019	June 30, 2018
Current assets	\$ 115,028,947	\$ 87,433,421
Non-current assets	23,396,529	22,831,252
Capital assets	1,249,343	345,095
Total assets	139,674,819	110,609,768
Deferred outflow s of resources	1,138,102	1,671,767
Total assets and deferred outflow s	\$ 140,812,921	\$ 112,281,535
Current liabilities	\$ 121,700,636	\$ 91,765,495
Long term liabilities	7,819,871	8,815,697
Total liabilities	129,520,507	100,581,192
Deferred inflow s of resources	1,055,547	613,568
Total liabilities and deferred inflow s	130,576,054	101,194,760
Net position:		
Invested in capital assets	1,249,343	345,095
Restricted	24,496,529	23,931,252
Unrestricted (Deficit)	(15,509,005)	(13,189,572)
Total net position	10,236,867	11,086,775
Total liabilities, deferred inflow s and net position	\$ 140,812,921	\$ 112,281,535

Assets consisted primarily of cash and cash equivalents which were \$118.8 million and \$83.8 million at June 30, 2019 and 2018 respectively. Accounts receivable were \$13.1 million and \$12.3 million at June 30, 2019 and 2018 respectively. Capital assets, net of depreciation, were \$1.2 million and \$0.3 million at June 30, 2019 and June 30, 2018 respectively.

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2019 (Unaudited)

At June 30, 2019 the OAL's liabilities consist primarily of amounts due to the Arkansas Department of Higher Education (ADHE), accrued prizes payable, other accrued operating expenses, the net pension obligations and other post employment benefits obligations. Total liabilities and deferred inflows of resources were \$130.6 million which was an increase of \$29.4 million or 29% from June 30, 2018.

At June 30, 2019 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 \$10.2 million. This is a decrease in total net position of \$0.8 million or -7.7% from fiscal year 2018. For fiscal year 2019 the restricted net position was approximately \$24.5 million, which is an increase of \$0.6 million, or 2.4%, more than at the prior year end. Unrestricted net position (deficit) for fiscal year 2019 was \$-15.5 million which was an increase in the deficit of \$-2.3 million, or 17.6%, from the prior fiscal year. This deficit relates primarily to timing differences related to the adjusted cash basis accounting method used to calculate net proceeds for transfer to the Arkansas Department of Higher Education and due to the change in liability for the OAL's unfunded portion of its OPEB liability. In the unlikely event that the OAL ever ceases operations, the Arkansas State Legislature may be required to resolve this deficit in unrestricted net position.

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

During fiscal year 2019, the OAL's activities resulted in net proceeds transfers to the various Trust Accounts of \$98.6 million, which was \$6.8 million or 7.4% higher than the prior fiscal year. Also, as previously discussed, the total net position of the OAL decreased by \$0.8 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, 2019, with comparative information for fiscal year 2018 are shown on the following page.



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2019 (Unaudited)

<u>Summary of Revenues, Expenses and Changes in Net Position</u>		
	<u>2019</u>	<u>2018</u>
Operating revenues		
Instant ticket sales	\$ 407,825,514	\$ 407,604,791
Online ticket sales	107,667,993	92,103,185
Retailer fees	728,897	776,503
Other operating revenue	14,439	5,849
Total operating revenues	<u>516,236,843</u>	<u>500,490,328</u>
Operating expenses		
Instant game prizes	293,635,992	292,489,286
Online game prizes	56,240,230	49,406,134
Commissions and contract costs	52,754,402	50,164,810
General and administrative expenses	17,704,213	16,519,092
Services provided by other agencies	559,264	598,932
Depreciation	123,426	104,011
Total operating expenses	<u>421,017,527</u>	<u>409,282,265</u>
Operating income	95,219,316	91,208,063
Non-operating revenue		
Interest Income	<u>2,569,816</u>	<u>1,269,083</u>
Income before transfers	97,789,132	92,477,146
Transfers to		
Trust Accounts	<u>(98,639,040)</u>	<u>(91,844,929)</u>
Increase (Decrease) in net position	(849,908)	632,217
Beginning net position	<u>11,086,775</u>	<u>10,454,558</u>
Ending net position	<u>\$ 10,236,867</u>	<u>\$ 11,086,775</u>

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2019 (Unaudited)

### OPERATING REVENUES

#### Games Sales

The OAL's games revenues are made up of a variety of instant and online lottery products. The OAL is an active member of a joint venture arrangement with the Multi-State Lottery Association (MUSL). Powerball®, Mega Millions® and Lucky for Life® are online games operated under MUSL. The OAL also operates Fast Play, Cash 3, Cash 4, and Natural State Jackpot which are all online games. The table below shows instant ticket sales and sales for online lottery games for the fiscal years ended June 30, 2019 and 2018.

Lottery Games Sales for Years Ended June 30, 2019 and 2018				
Game	2019	2018	Change	% Change
Instant ticket sales	\$ 407,825,514	\$ 407,604,791	\$ 220,723	0.1%
Powerball®	34,162,016	36,745,344	(2,583,328)	-7.0%
Mega Millions®	33,552,661	19,598,073	13,954,588	71.2%
Fast Play	15,329,643	12,731,621	2,598,022	20.4%
Natural State Jackpot	9,303,843	7,918,644	1,385,199	17.5%
Cash 3	7,677,433	7,736,793	(59,360)	-0.8%
Cash 4	4,430,761	4,516,508	(85,747)	-1.9%
Lucky for Life®	3,211,636	2,856,202	355,434	12.4%
Total games sales	<u>\$ 515,493,507</u>	<u>\$ 499,707,976</u>	<u>\$ 15,785,531</u>	3.2%

The OAL experienced an increase in total lottery ticket sales of \$15.8 million or 3.2% for fiscal year 2019 as compared to fiscal year 2018. Instant ticket sales continued to be the OAL's most popular product contributing 79.1% and 81.6% to total fiscal year sales for 2019 and 2018 respectively. However, for fiscal year 2019, instant ticket sales only increased by \$0.2 million, or 0.1%, while online games sales increased by \$15.6 million, or 16.9%. For fiscal year 2019 Mega Millions® had a \$14.0 million, or 71.2%, increase in sales over the prior fiscal year while Powerball® had a \$-2.6 million, or 7.0% decrease in sales from the prior fiscal year. Also, for fiscal year 2019, Fast Play had a \$2.6 million, or 20.4%, increase in sales, Natural State Jackpot had an increase in sales of \$1.4 million, or 17.5%, and Lucky for Life® sales increased by \$0.4 million, or 12.4%. But Cash 3 sales decreased by \$0.1 million, or -0.8% and Cash 4 sales also decreased by \$0.1 million or -1.9%.

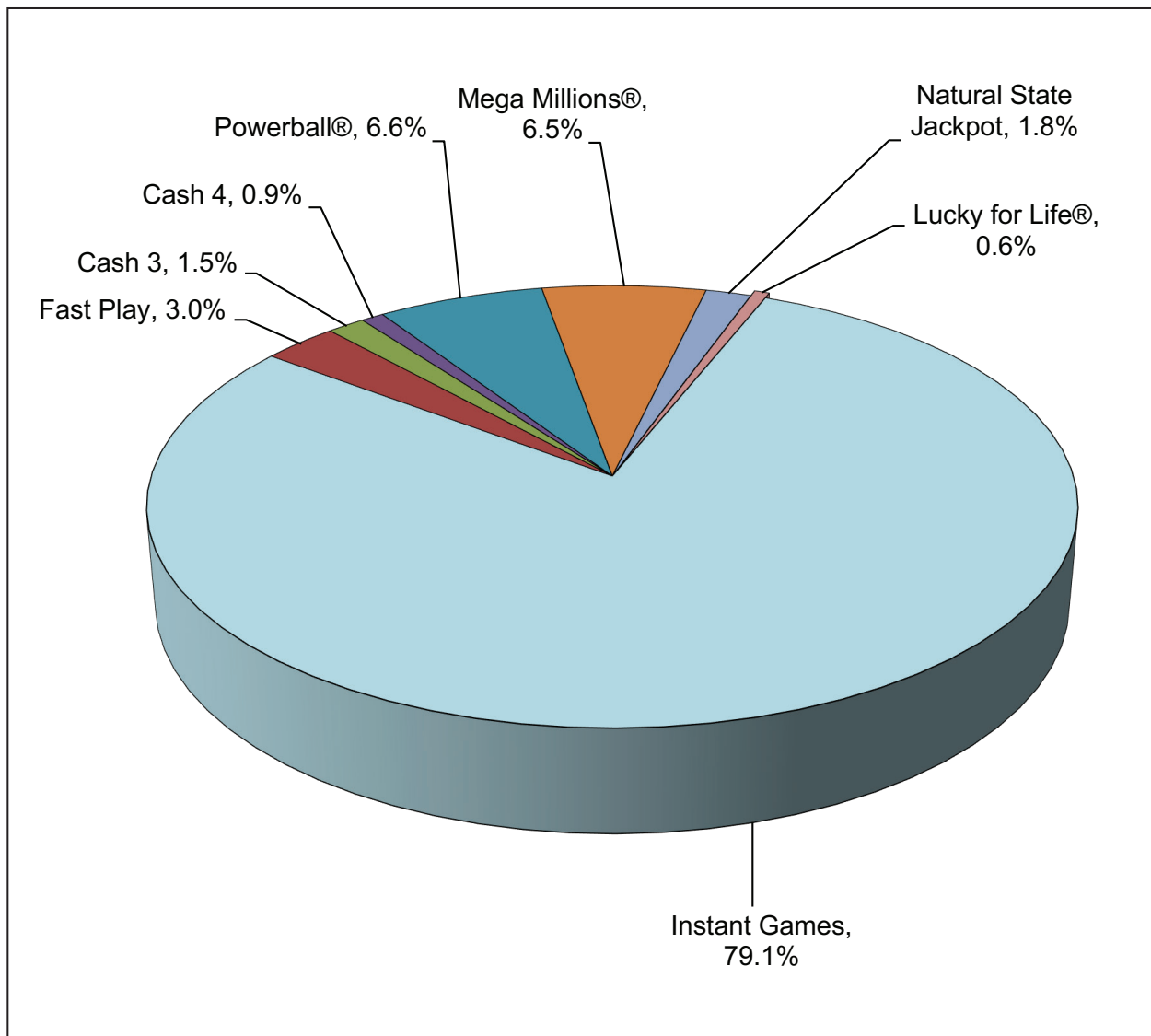
# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2019 (Unaudited)

The graph below summarizes the fiscal year 2019 sales as a percent of total ticket revenues:

**Fiscal Year 2019 Lottery Game Revenues as a Percent of Sales**



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2019 (Unaudited)

### OPERATING EXPENSES

#### Prizes

Prizes are the largest operating expense the OAL incurs. Fiscal year 2019 prizes expense of \$349.9 million reflects an \$8.0 million or 2.3% increase from fiscal year 2018 prizes expense of \$341.9 million. This overall increase in prizes expense relates primarily to the significant increase in online ticket sales experienced in fiscal year 2019.

The following table shows prizes expense by lottery game for the years ended June 30, 2019 and 2018 respectively.

Game Prizes Expense				
Game Prizes Expense	2019	2018	Change	% Change
Instant Game prizes	\$ 293,635,992	\$ 292,489,286	\$ 1,146,706	0.4%
Powerball®	16,302,877	17,403,853	(1,100,976)	-6.3%
Mega Millions®	16,059,601	9,503,264	6,556,337	69.0%
Natural State Jackpot	4,957,513	4,639,928	317,585	6.8%
Lucky for Life®	1,632,505	1,683,896	(51,391)	-3.1%
Fast Play	12,127,184	10,007,343	2,119,841	21.2%
Cash 3	3,415,250	4,107,950	(692,700)	-16.9%
Cash 4	1,745,300	2,059,900	(314,600)	-15.3%
Total game prizes expense	<u>\$ 349,876,222</u>	<u>\$ 341,895,420</u>	<u>\$ 7,980,802</u>	2.3%

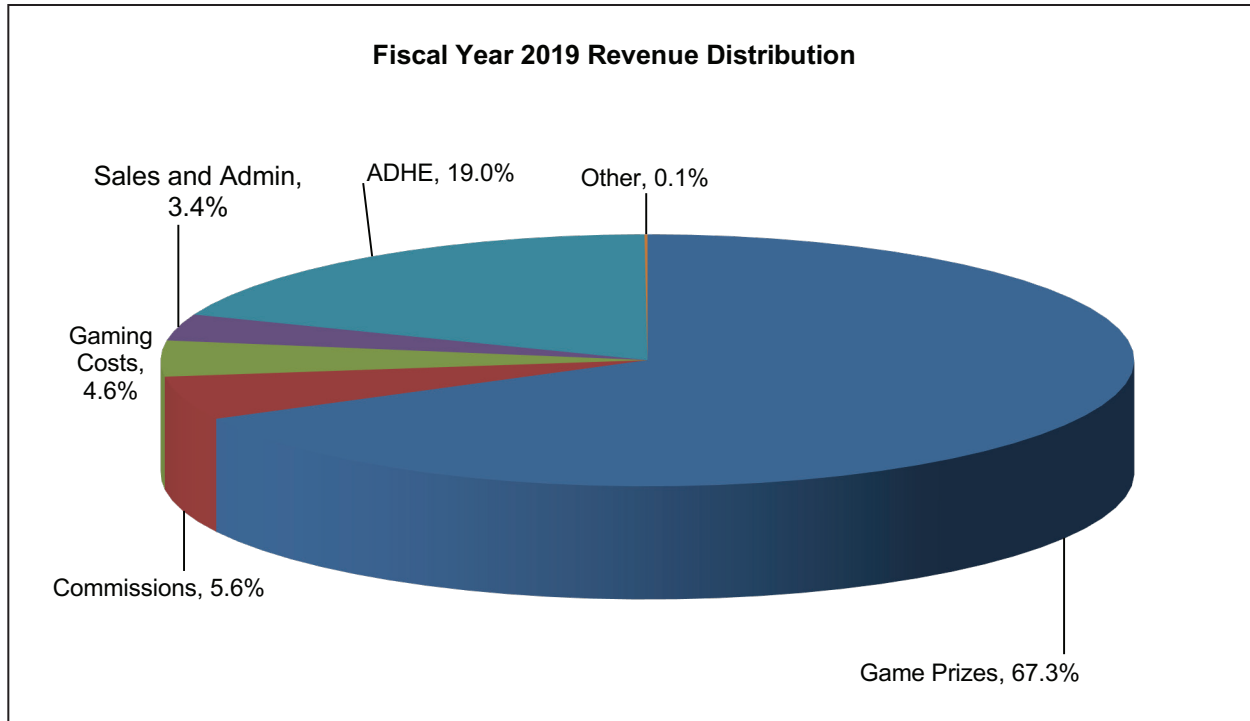


# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2019 (Unaudited)

Distribution of the fiscal year 2019 revenues were as follows:



The following table shows sales profit margin for instant and online games by for the years ended June 30, 2019 and 2018.

<u>Game Profit Margins</u>				
	<u>Instant Tickets</u>		<u>Online Games</u>	
	2019	2018	2019	2018
Game revenues	\$ 407,825,514	\$ 407,604,791	\$107,667,993	\$ 92,103,185
Prize expense	293,635,992	292,489,286	56,240,230	49,406,134
Gross profit after prizes	<u>\$ 114,189,522</u>	<u>\$ 115,115,505</u>	<u>\$ 51,427,763</u>	<u>\$ 42,697,051</u>
Profit margin percentage after prizes	28.0%	28.2%	47.8%	46.4%

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2019 (Unaudited)

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

### **Other Operating Expenses**

In addition to prizes expense, other operating expenses include retailer commissions, gaming contract costs, marketing & advertising costs, general administrative costs and depreciation. These other operating expenses totaled \$71.1 million and \$67.4 million for fiscal years 2019 and 2018 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, 2019 and 2018 respectively.

Operating Profit Margin				
	2019	2018	Change	Percent Change
Operating revenues	\$ 516,236,843	\$ 500,490,328	\$ 15,746,515	3.2%
Operating expenses	421,017,527	409,282,265	11,735,262	2.9%
Operating Income	\$ 95,219,316	\$ 91,208,063	\$ 4,011,253	4.4%
Profit margin	18.4%	18.2%		

### **NON-OPERATING REVENUES AND TRANSFERS**

Non-operating revenues were primarily related to interest income of \$2,569,816 and \$1,269,083 for the years ended June 30, 2019 and 2018 respectively.

In fiscal years 2019 and 2018, net transfers of \$98.6 million and \$91.8 million respectively were made to the Education Trust Fund and Workforce Trust Fund accounts. However, the transfers for scholarships from the Education Trust Fund bank account to ADHE were \$75 million for fiscal year 2019 as compared to \$83.5 million for fiscal year 2018. Also there was a transfer from the Workforce Challenge Trust bank account to ADHE in the amount of \$1 million for fiscal year 2019 as compared to no transfer for fiscal year 2018.

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2019 (Unaudited)

### CAPITAL ASSETS

At June 30, 2019 the OAL had \$1.2 million in net capital assets as compared to \$0.3 million in net capital assets at the prior fiscal year end. Capital assets are primarily composed of equipment and leasehold improvements. These capital assets are depreciating over their estimated useful lives of 5 to 10 years. A summary of the changes in the major capital asset groups is provided in the table below and more detailed information on capital assets may be found in Note 11 of the notes to the financial statements.

	Capital Assets		Total % Change
	2019	2018	
Assets under construction	\$ 786,250	\$ 28,521	2656.7%
Equipment	1,064,439	945,857	12.5%
Leasehold improvements	492,796	492,796	0.0%
Total Capital Assets	2,343,485	1,467,174	59.7%
Less: Accumulated depreciation	(1,094,142)	(1,122,079)	-2.5%
Net Capital Assets	<u>\$ 1,249,343</u>	<u>\$ 345,095</u>	262.0%

### 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



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**WINNING!**

**BECKY  
BLACK**

\$430,000  
Natural State Jackpot  
Winner

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Statement of Net Position, June 30, 2019

<b>Current assets:</b>	<b>ASSETS</b>	
Cash and cash equivalents		\$ 3,919,085
Restricted assets:		
Cash and cash equivalents		94,076,904
Accounts receivable		13,103,158
Receivable from other funds of the State		3,904,308
Prepaid items		25,492
Total current assets		<u>115,028,947</u>
<b>Non-current assets:</b>		
Restricted assets:		
Cash and cash equivalents		20,817,279
Deposits with Multi-State Lottery Association		2,579,250
Capital assets-net		1,249,343
Total non-current assets		<u>24,645,872</u>
Total assets		139,674,819
<b>Deferred outflows of resources:</b>		
Related to pension		1,120,097
Related to other post employment benefits		18,005
Total deferred outflows of resources		<u>1,138,102</u>
Total assets and deferred outflows of resources		<u>\$ 140,812,921</u>
<b>Current liabilities:</b>	<b>LIABILITIES</b>	
Accounts payable		\$ 563,660
Prizes payable		21,219,048
Accrued and other liabilities		2,111,328
Due to other funds of the State		493,459
Due to Education Trust Account		31,238,197
Due to Workforce Challenge Trust Account		65,642,995
Compensated absences		58,736
Net other post employment benefits		107,523
Unearned revenue		265,690
Total current liabilities		<u>121,700,636</u>
<b>Long-Term liabilities:</b>		
Net other post employment benefits		3,217,331
Compensated Absences		301,164
Net pension liability		4,301,376
Total long-term liabilities		<u>7,819,871</u>
Total liabilities		129,520,507
<b>Deferred inflows of resources:</b>		
Related to pension		658,932
Related to other post employment benefits		396,615
Total deferred inflows of resources		<u>1,055,547</u>
Total liabilities and deferred inflows of resources		<u>130,576,054</u>
<b>Net position:</b>	<b>NET POSITION</b>	
Invested in capital assets		1,249,343
Restricted for:		
Scholarship shortfall reserve		20,000,000
Retailer fidelity reserve		207,608
Retailer bond reserve		709,671
Deposits with Multi-State Lottery Association		2,579,250
Unclaimed prizes reserve		1,000,000
Unrestricted (deficit)		<u>(15,509,005)</u>
Total net position		<u>10,236,867</u>
Total liabilities, deferred inflows of resources and net position		<u>\$ 140,812,921</u>

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



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Statement of Revenues, Expenses and Change in Net Position, June 30, 2019

### Operating revenues:

Instant ticket sales	\$ 407,825,514
Online ticket sales	107,667,993
Retailer application, fidelity, bond and service fees	728,897
Other revenue	14,439
	<hr/>
Total operating revenues	516,236,843

### Operating expenses:

Instant game prizes	293,635,992
Online game prizes	56,240,230
Retailer commissions	29,062,835
Gaming contract costs	23,691,567
Compensation and benefits	4,829,725
Marketing, advertising and promotions	7,251,773
General and administrative expenses	5,621,315
Services provided by Arkansas Department of Higher Education	427,384
Services provided by Arkansas Legislative Audit	131,880
Legal and professional services	1,400
Depreciation	123,426
	<hr/>
Total operating expenses	421,017,527

Operating income	95,219,316
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### Non-operating revenue:

Interest income	2,569,816
	<hr/>
Income before transfers	97,789,132

### Transfers to:

Education Trust Account	(75,000,000)
Workforce Challenge Trust Account	(23,639,040)
	<hr/>
Total Transfers	(98,639,040)

Change in net position	(849,908)
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Total net position - beginning	11,086,775
Total net position - ending	<u>\$ 10,236,867</u>

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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Statement of Cash Flows for the Year Ended June 30, 2019

### Cash flows from operating activities:

Cash received from retailers and others	\$ 515,478,097
Cash paid for prizes	(347,546,374)
Cash paid for gaming vendors	(23,731,011)
Cash paid for retailer commissions	(29,062,835)
Cash paid for marketing and advertising	(6,593,736)
Cash paid for employee services	(4,859,829)
Cash paid for other expenses	(5,939,380)
Net cash provided by operating activities	<u>97,744,932</u>

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

Non-operating transfers to Arkansas Department of Higher Education	(76,000,000)
Non-operating transfers from Arkansas Department of Higher Education	11,710,439
Net cash used by non-capital financing activities	<u>(64,289,561)</u>

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

Purchases of capital assets	<u>(1,056,195)</u>
Net cash flows from capital and related financing activities	<u>(1,056,195)</u>

### Cash flows from investing activities:

Interest received	<u>2,569,816</u>
Net increase in cash and cash equivalents	34,968,992

Cash and cash equivalents, beginning	83,844,276
Cash and cash equivalents, ending	<u>\$ 118,813,268</u>

### Reconciliation of operating income to net cash provided

#### by operating activities:

Operating income	\$ 95,219,316
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	123,426
Pension expense	(64,654)
Other post employment benefits expense	42,587

#### Net changes in assets and liabilities:

##### (Increase) decrease in:

Accounts receivable	(785,562)
Receivable from other funds of the State	97
Prepaid items	201,182
Deposits with Multi-State Lottery Association	(413,677)

##### Increase (decrease) in:

Accounts payable	521,412
Prizes payable	2,743,525
Accrued and other liabilities	168,340
Due to other funds of the State	(46,969)
Compensated absences	9,189
Unearned revenue	26,720

Net cash provided by operating activities	<u>\$ 97,744,932</u>
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The notes to the financial statements are an integral part of this statement



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Notes to Financial Statements, June 30, 2019

### 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.

#### 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.

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Notes to Financial Statements, June 30, 2019

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

### **f. Capital Assets**

Capital assets are stated at cost less accumulated depreciation. The OAL follows the policy of the Arkansas Department of Finance and Administration and uses a capitalization threshold of five thousand dollars (\$5,000) and useful life extending beyond one year. Depreciation 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
Signage	10 years
Leasehold improvements:	over the remaining initial term of the lease

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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Notes to Financial Statements, June 30, 2019

### ***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 purchase their own surety bond coverage. The MUSL deposits represent funds set aside to fund Powerball® and Mega Millions® prizes in the event of multiple grand prize winners. The amounts restricted for the Unclaimed Prizes Reserve are, by statute, only to be used to supplement future prizes, to maintain online game reserves at adequate levels or for special prize promotions. At June 30 of each fiscal year, the amount of the Unclaimed Prizes Reserve, less \$1 million, are transferred to the Education Trust Account.

See note 13 for additional information regarding the unrestricted net position (deficit). It is the practice of the OAL to use restricted resources first, then unrestricted resources when both restricted and unrestricted resources are available.

### ***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).

### ***j. Retailer Commissions***

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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Notes to Financial Statements, June 30, 2019

### ***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. Prize expense is also recognized for Play it Again (PIA) amounts from instant games that have ended and where the PIA drawing will occur in the future. Prizes expense for any merchandise prize is recognized when invoiced by the gaming vendor. Any instant game prizes that remain unclaimed 90 days after an instant game ending date are considered unclaimed.

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

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

### ***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 16 for additional information regarding the retirement plan.

### ***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.



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Notes to Financial Statements, June 30, 2019

### ***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 debt expense in the amount of \$31,694 for the fiscal year ended June 30, 2019. 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 OZK to provide primarily all banking services for its operations. On July 19, 2018, the OAL executed a third amendment to the contract for a period of twelve months, with an effective date of September 2, 2018. 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. All of the OAL's cash and equivalents at June 30, 2019 were held in accounts at the Bank OZK. As agreed to in their contract, the Bank OZK has agreed to pledge collateral on all accounts of the OAL in an amount to exceed the State requirement of 105 percent of deposits. As of June 30, 2019, the total collateral pledged to the OAL, was in the form of one irrevocable standby letter of credit and twelve securities. The letter of credit was issued in the OAL's name by the Federal Home Loan Bank of Dallas, for any sum or sums not to exceed \$125,000,000. In addition to the letter of credit, the pledged securities to OAL had a market value of \$21,818,181 on June 30, 2019. The total value of collateral pledged at June 30, 2019 was \$146,818,181. At June 30, 2019 the OAL's total bank balances were \$119,169,565, so the pledged collateral maximum was 123.2% of the OAL's deposits.

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Notes to Financial Statements, June 30, 2019

### ***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 \$119,169,565 were exposed to custodial credit risk as of June 30, 2019.

### **3. ACCOUNTS RECEIVABLE**

Management believes that an allowance for uncollectable accounts is not necessary at June 30, 2019, as subsequent collections, the Retailer Bond Reserve amount is sufficient to cover any past due accounts. Amounts due from retailers and others at June 30, 2019 are summarized as follows:

Amount due for activated instant scratch-off tickets, not settled	\$ 10,247,880
Amount due for partial weeks sales through June 30, 2019	2,821,720
Past due accounts and other receivables	33,558
Total accounts receivable	<u>\$ 13,103,158</u>

### ***Receivable from Other Funds of the State***

The amount listed below as a receivable from the Department of Higher Education is a refund of excess Net Proceeds over scholarships issued. The amount from the Department of Finance and Administration is for proceeds from OAL equipment marketing and redistribution.

Department of Higher Education	\$ 3,904,289
Department of Finance and Administration	20
Total	<u>\$ 3,904,309</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, 2019 was \$31,238,197. Total net proceeds for the fiscal year ended June 30, 2019 were \$98,639,040. During fiscal year 2019 a total of \$75,000,000 were transferred to ADHE for scholarships from the Education Trust Account, which resulted in excess net proceeds of \$23,639,040 which is recognized as a transfer to the Workforce Challenge Trust Account (see note 5).

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Notes to Financial Statements, June 30, 2019

Activity in the Education Trust Account for the fiscal year ended June 30, 2019 consisted of the following activities:

Education Trust Account balance at 7/01/18	\$ 31,238,197
Net Proceeds	98,639,040
Payments to ADHE for scholarships	(75,000,000)
Excess Net Proceeds transferred to Workforce Challenge Trust Account	<u>(23,639,040)</u>
Education Trust Account balance at 6/30/19	<u>\$ 31,238,197</u>

### 5. ARKANSAS WORKFORCE CHALLENGE SCHOLARSHIP PROGRAM

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

Under the provisions of the Program, the OAL was to establish the Workforce Challenge Trust Account for the deposit of any funds received under the Program. The funding for an academic year were to be received from (A) excess funding returned to the OAL by ADHE from the previous academic year, and (B) net proceeds remaining from the previous academic year after the OAL (1) transfers the funds requested by ADHE to fund scholarships, and (2) deposits the amount necessary to maintain the Scholarship Shortfall Reserve Trust Account at twenty million dollars. As of June 30, 2019, the balance in the Workforce Challenge Trust Account is \$65,642,994.

Activity in the Workforce Challenge Trust Account for the fiscal year ended June 30, 2019 consisted of the following activities:

Workforce Challenge Trust Account balance at 7/01/18	\$ 39,099,666
Payments to ADHE for scholarships	(1,000,000)
Returns from ADHE for overfunding of scholarships	3,904,289
Excess Net Proceeds transferred from Education Trust Account	<u>23,639,040</u>
Workforce Challenge Trust Account balance at 6/30/19	<u>\$ 65,642,995</u>

### 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 2019, in addition to the \$1,000,000 beginning balance the unclaimed prizes totaled \$6,794,904 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, 2019, less \$1,000,000, resulted in a deposit of \$6,794,904 to the Education Trust Account for net proceeds. At June 30, 2019, 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.

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Notes to Financial Statements, June 30, 2019

Activity in the Unclaimed Prizes Reserve for the fiscal year ended June 30, 2019 consisted of the following activities:

Unclaimed Prizes Reserve at 7/01/18	\$ 1,000,000
Unclaimed prizes for fiscal year ended 6/30/19	6,794,904
Expended for future prizes, promotions or reserves	0
Transferred to the Education Trust Account at 6/30/19	<u>(6,794,904)</u>
Unclaimed Prizes Reserve at 6/30/19	<u>\$ 1,000,000</u>

### 7. SCHOLARSHIP SHORTFALL RESERVE

The Scholarship Shortfall Reserve account represents monies set aside to fund scholarship payment requests to ADHE, if needed, in case of a shortage of funds in the Education Trust Account. The balance of the Scholarship Shortfall Reserve at June 30, 2019 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, 2019 was \$207,608. 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, 2019. 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, 2019 the balance of the Retailer bond Reserve was \$709,671. The retailer self-bond fees collected are deposited in the OAL operating account and are classified in the current and non-current restricted cash and cash equivalents. The OAL sustained eight losses that were charged to the Retailer Bond Reserve during the fiscal year ended June 30, 2019 in the amount of \$31,694.



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Notes to Financial Statements, June 30, 2019

### 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, 2019 the OAL was an active participant in several joint venture arrangements with the Multi-State Lottery Association (MUSL).

#### **Multi-State Lottery Association**

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

As a member of MUSL, the OAL is required to contribute to various prize reserve funds for Powerball® and Mega Millions® which are maintained by MUSL. The MUSL prize reserve funds serve as a contingency reserve to protect MUSL and its member state lotteries from unforeseen prize payment liabilities. MUSL periodically reallocates the prize reserve funds among the member state lotteries based on relative Powerball® and Mega Millions® sales levels. All remaining funds remitted, and the related interest earnings (net of administrative costs), less any portion of unanticipated prize claims that may have been paid from the fund, would be returned to the OAL if it were to ever leave MUSL. As of June 30, 2019, the OAL had reserve fund deposits with MUSL of \$2,579,250. 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, 2019 is summarized in the table below:

	Operating Revenues	Prizes
Powerball®	\$34,162,016	\$16,302,877
Mega Millions®	33,552,661	16,059,601
Lucky for Life®	3,211,636	1,632,505

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### 11. CAPITAL ASSETS

The activity for capital assets for the fiscal year ended June 30, 2019, was as follows:

Capital Assets	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Assets under construction	\$ 28,521	\$786,250	\$ (28,521)	\$ 786,250
Equipment	945,857	269,944	(151,362)	1,064,439
Leasehold improvements	492,796	-	-	492,796
Total capital assets	1,467,174	1,056,194	(179,883)	2,343,485
Less accum. depreciation				
Equipment	(629,283)	(123,425)	151,362	(601,346)
Leasehold improvements	(492,796)	-	-	(492,796)
Total accum. depreciation	(1,122,079)	(123,425)	151,362	(1,094,142)
Capital assets, net	\$ 345,095	\$ 932,769	\$ (28,521)	\$ 1,249,343

### 12. LIABILITIES

#### a. Prizes Payable

Prizes payable at June 30, 2019 consisted of instant and online game prizes payable, estimated Lucky For Life® game reserve for prizes of future draws and any related state and federal withholdings. Instant ticket prizes payable are estimated based on the end of production prize structure provided by Scientific Games Inc. Estimated prizes payable by category are as follows:

Instant tickets	\$ 18,708,421
Powerball®	955,470
Mega Millions®	441,481
Natural State Jackpot	189,774
Lucky for Life®	574,582
Fast Play	107,576
Cash 3	68,420
Cash 4	56,200
Income tax and other withholding	117,124
Total	<u>\$ 21,219,048</u>

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

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

Arkansas Legislative Audit (ALA) performs an annual audit of the OAL's financial position. The OAL reimburses ALA at an hourly rate set by the Legislative Joint Auditing Committee for work performed. At June 30, 2019 the OAL had \$4,800 payable owed to ALA.

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

Department of Higher Education	\$ 427,384
Department of Information Systems	10,479
Department of Finance and Administration	50,085
Workers Compensation Commission	711
Legislative Audit	4,800
Total	<u>\$ 493,459</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, 2019.

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, 2019 totaled \$359,900. 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, 2019 the current portion of the compensated absences liability increased by \$4,902 to a balance of \$58,736 and the long-term portion increased by \$4,288 to a balance of \$301,164.

<b>Long Term Compensated Absences</b>	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
Annual	\$ 263,772	\$ 377,669	\$(380,398)	\$ 261,043
Sick	33,104	10,766	(3,749)	40,121
Compensatory	0	0	0	0
Total	<u>\$ 296,876</u>	<u>\$ 388,435</u>	<u>\$(384,147)</u>	<u>\$ 301,164</u>

### d. Unearned Revenue

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

Unearned revenue from online game tickets at June 30, 2019 is summarized as follows:

Powerball®	\$ 93,901
Mega Millions®	82,335
Natural State Jackpot	24,109
Lucky for Life®	23,858
Cash 3	3,705
Cash 4	3,627
Total	<u>\$ 231,535</u>

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Additionally, retailer licensing renewal fee collected, cover a two year period. The portion of these fees which pertain to periods beyond the current fiscal year end, are also recognized as unearned revenue. At June 30, 2019 the amount of unearned revenue which related to retailer licensing and renewal fees was \$34,155.

### **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.

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, 2019 the cumulative variance due to the modified cash basis method was a debit balance (deficit) in Unrestricted Net Position of \$(12,184,150).

In addition, the OAL's net OPEB liability at June 30, 2019 (see Note 17) of \$3,324,854, which consists of a current liability of \$107,523 and a long-term liability of \$3,217,331, 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, 2019 of \$(3,324,854). The total debit balance (deficit) in Unrestricted Net Position at June 30, 2019 was \$(15,509,004).



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### 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, 2019 consisted of the following:

Powerball®	\$ 34,162,016
Mega Millions®	33,552,661
Fast Play	15,329,643
Natural State Jackpot	9,303,843
Cash 3	7,677,432
Cash 4	4,430,762
Lucky for Life®	3,211,636
Total	<u>\$ 107,667,993</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, 2019 was \$450,416.

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, 2019 was \$30,563.

Future minimum rental payments on operating leases as of June 30, 2019, are scheduled as follows:

<u>2020</u>	<u>2021</u>	<u>2022</u>
\$480,383	\$467,250	\$79,003

### 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.

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

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

### **b. Benefits Provided**

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

### **c. Contributions**

Arkansas Code Title 24 establishes the contribution requirements of active members and participating employers. Contribution provisions applicable to the participating employers are established by the APERS' Board of Trustees and should be based on an independent actuary's determination of the rate required to fund the plan. The General Assembly and certain agencies employing individuals in public safety positions must also remit additional amounts. For the fiscal year ended June 30, 2019, the employer contribution rates, as a percentage of active member payroll, ranged from 4.00% to 27.3%. 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 15.32% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the OAL are established and may be amended by the APERS Board of Trustees. The OAL's contributions to APERS for the years ended June 30, 2019, 2018, and 2017 were \$563,505, \$538,589, and \$516,803, 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, 2019, the OAL reported a net pension liability of \$4.3 million. The net pension liability was measured as of June 30, 2018, 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 2018 fiscal year of all participating employers. At June 30, 2018, the OAL's proportion was 0.195%.

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## Notes to Financial Statements, June 30, 2019

### 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, 2018
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 2018 to 2027 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, 2018, these best estimates are summarized in the table below:

Asset Class	Current Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	5.97%
International Equity	24%	6.07%
Real Assets	16%	4.59%
Absolute Return	5%	3.15%
Domestic Fixed	18%	0.83%
Total	100%	

### Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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## Notes to Financial Statements, June 30, 2019

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

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

	1% lower than current discount rate	Current discount rate	1% higher than current discount rate
Rate	6.15%	7.15%	8.15%
Net pension liability	\$7,032,535	\$4,301,376	\$2,048,389

### e. Pension Plan Fiduciary Net Position

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

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

For the year ended June 30, 2019, the OAL recognized pension expense of \$500,025. For the year ended June 30, 2019, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	\$489,407	\$266,006
Differences between expected and actual experience	68,408	45,154
Net difference between projected and actual investment earnings on pension plan investments		108,845
Changes in proportion and differences Between employer contributions and share of contributions		238,927
Contributions subsequent to the measurement date	564,678	

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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Total
2019	\$151,721
2020	73,894
2021	(229,998)
2022	(96,734)



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### 17. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

#### a. Plan Description

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

#### b. General Information

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

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

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

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

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

#### Benefits Provided

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

#### ASE

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

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### **Employees Covered by Benefit Terms**

At June 30, 2019, the following state employees were covered by the plan:

Inactive employees or beneficiaries currently receiving benefits	15,925
Inactive employees entitled to but not yet receiving benefits	10,077
Active employees	<u>30,725</u>
Total	<u>56,727</u>

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

### **c. Total OPEB Liability**

At June 30, 2019, the state reported the following liabilities for ASE as determined as of the date listed.

	<u>Measurement Date</u>	<u>Total OPEB Liability</u>
ASE	June 30, 2019	\$ 1,920,824,000
OAL	June 30, 2019	\$ 3,324,854

### **Actuarial Assumptions and Other Inputs**

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

Actuarial valuation date	June 30, 2019
Inflation rate	N/A
Salary increases	3% per year
Discount rate (1)	3.50%
Healthcare cost trend rates	Medical 5.5% increase for 2020 to 2021 then decreasing by 0.20% per year Pharmacy 5.5% increase for 2020 to 2021 then decreasing by 0.20% per year
Retirees' share of benefit-related costs	Varies by age and Medicare versus non-Medicare retirees
Actuarial experience study dates (if applicable)	July 1, 2018 to June 30, 2019

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

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

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### d. Changes in the Total OPEB Liability

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

	ASE	OAL
Balance, June 30, 2018	\$2,019,187,000	\$3,513,666
Changes for the year:		
Service cost	66,720,000	115,489
Interest	78,263,000	135,469
Changes of benefit terms	0	0
Differences between expected and actual experience	13,002,000	22,506
Changes in assumptions or other inputs	(195,938,000)	(357,709)
Benefit payments	(60,410,000)	(104,567)
Net changes	(98,363,000)	(188,812)
Balance, June 30, 2019	\$1,920,824,000	\$3,324,854

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

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

	1% Decrease		Current Discount Rate		1% Increase	
	Rate	Total OPEB Liability	Rate	Total OPEB Liability	Rate	Total OPEB Liability
ASE	2.50%	\$2,260,787,000	3.50%	\$1,920,824,000	4.50%	\$1,650,952,000
OAL	2.50%	\$ 3,913,314	3.50%	\$ 3,324,854	4.50%	\$ 2,857,719

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

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

	1% Decrease		Current Discount Rate		1% Increase	
	Rate	Total OPEB Liability	Rate	Total OPEB Liability	Rate	Total OPEB Liability
ASE	N/A	\$1,624,521,000	N/A	\$1,920,824,000	N/A	\$2,303,027,000
OAL	N/A	\$ 2,811,968	N/A	\$ 3,324,854	N/A	\$ 3,986,429

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

For the year ended June 30, 2019, the State recognized OPEB expense for each plan and in total as follows on the next page.

	Total OPEB Expense
ASE	\$87,246,000
OAL	\$ 147,154

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At June 30, 2019, the State reported deferred outflows of resources and deferred inflows of resources related to OPEB for each plan from the following sources:

	ASE	OAL
Change in net OPEB liability	\$ (98,363,000)	\$ (188,813)
Change in deferred outflows	(10,401,600)	(18,005)
Change in deferred inflows	135,601,000	249,404
Employer contributions	60,410,000	104,567
OPEB expense	\$ 87,246,400	\$ 147,153
OPEB expense as % of payroll	N/A	N/A
Operating expenses		
Service cost	\$ 66,720,000	\$ 115,489
Employee contributions	0	0
Administrative expenses	0	0
Total	\$ 66,720,000	\$ 115,489
Financing expenses		
Interest costs	\$ 78,263,000	\$ 135,469
Expected return on assets	0	0
Total	\$ 78,263,000	\$ 135,469
Changes		
Benefit changes	\$ 0	\$ 0
Recognition of assumption changes	(57,672,600)	(103,694)
Recognition of liability gains and losses	(64,000)	(111)
Total	\$ (57,736,600)	\$ (103,805)
OPEB expense	\$ 87,246,400	\$ 147,153

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

	ASE		OAL	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,401,600	\$ 7,993,200	\$ 18,005	\$ (4,710)
Changes in assumptions	0	212,205,400	0	254,114
Total	\$ 10,401,600	\$ 220,198,600	\$ 18,005	\$ 249,404

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

Year ended June 30:	ASE	OAL
2020	\$ (57,736,600)	\$ (99,939)
2021	(57,736,600)	(99,939)
2022	(57,736,600)	(99,939)
2023	(36,587,200)	(63,331)
2024	0	0
Thereafter	0	0



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Notes to Financial Statements, June 30, 2019

### 18. CONTRACTUAL ARRANGEMENTS AND OTHER COMMITMENTS

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

INTRALOT operates the gaming network that consists of approximately 1,900 instant and online retailer ticket terminals and associated software. In accordance with its contract, INTRALOT receives the negotiated fee on the selling price of online tickets sold and on instant ticket settlements. The OAL had an initial seven-year contract with INTRALOT ending in 2016, which included an option for up to three additional renewals in one-year increments, or a portion thereof. During the fiscal year ended June 30, 2015 the OAL exercised the option to extend the INTRALOT contract for a period of three years. During the fiscal year ended June 30, 2017 the OAL amended its contract with INTRALOT. The amendment had an effective date of August 23, 2017 and granted a seven (7) year extension to the contract commencing on the expiration of the current contract date of August 14, 2019. The current contract extension will expire on August 14, 2026. During the fiscal year ended June 30, 2019, INTRALOT was compensated at the rate of 2.11% on all instant and online sales commencing January 1, 2018. Total fees paid to INTRALOT and others for all gaming network and related services for the fiscal year ended June 30, 2019 were \$10,877,815.

SGI prints, warehouses, and distributes the instant game tickets to retailers. In accordance with its contract with the OAL, SGI receives the negotiated fee on the selling price of all instant ticket settlements. During the fiscal year ended June 30, 2016 the OAL and SGI executed a third amendment to the contract for an additional seven-year period ending with an expiration date of August 18, 2026. The amended contract sets the SGI fees at 1.30% of instant ticket net sales up to \$360 million during a contract year. The contract year is from August 18, 2018 through August 17, 2019. Should the total net sales of instant tickets exceed \$360 million in a contract year, SGI will receive a one-time bonus payment in an amount equivalent to 4.5% of all such incremental sales exceeding \$360 million. Instant ticket sales during the fiscal year ended June 30, did exceed \$360 million during the contract year. During the fiscal year ended June 30, 2019, SGI was compensated \$7,511,813, which represents a rate of 1.84% of instant ticket sales for these services. SGI also maintains the OAL's Points for Prizes program. This program provides merchandise prizes and other awards to participating players based upon tickets registered by the players. In addition, SGI provides other products and services for which the OAL pays various contracted fees. During the fiscal year ended June 30, 2019 these other SGI fees totaled \$5,236,165 or 1.28 % of instant ticket sales. Total fees paid to SGI for all services for the fiscal year ended June 30, 2019 were \$12,747,978.

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, 2020, 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.

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Notes to Financial Statements, June 30, 2019

For FY 2019 the OAL and CGS agreed upon the pricing that CGS was paid as base compensation of \$345,171, paid monthly. The base compensation was paid in twelve monthly payments of \$28,764.25. In addition to the base compensation CGS was reimbursed for travel expenses such as airfare, lodging, meals and other allowed travel costs not to exceed \$100,000 per year. For the fiscal year ended June 30, 2019 the OAL paid CGS \$7,952 for expenses.

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

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

For purposes of the incentive compensation, calculation AOI is defined as Operating Income before any expenses related to (1) services provided by ADHE, (2) services provided by Legislative Audit, (3) legal and professional fees, (4) depreciation, and (5) any incentive compensation payable to CGS. CGS will invoice the OAL after the end of each fiscal year quarter for the amount of incentive compensation owed. The final quarterly incentive payment for each fiscal year is subject to final adjustment upon the completion and release of the OAL's audited financial statements. For the fiscal year ended June 30, 2019 the OAL paid or accrued total incentive compensation to CGS of \$3,793,631.

### **19. CONTINGENCIES**

At June 30, 2019 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 \$1.7 million per loss event for all perils. Losses from earthquake and flood are also subject to an annual aggregate loss for the State of \$1 million. Workers' compensation is provided in compliance with the applicable law. The employee health and dental insurance program provides for payment of medical claims of employees and covered dependents. Claims and settlements incurred for fiscal years ended June 30, 2019, 2018, 2017, 2016 and 2015 did not exceed the OAL's insurance coverage.

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Notes to Financial Statements, June 30, 2019

### **21. SUBSEQUENT EVENTS**

In accordance with GASB 56, the OAL's Management has evaluated subsequent events that occurred after June 30, 2019, but prior to November 22, 2019, the date the financial statements were available to be issued.

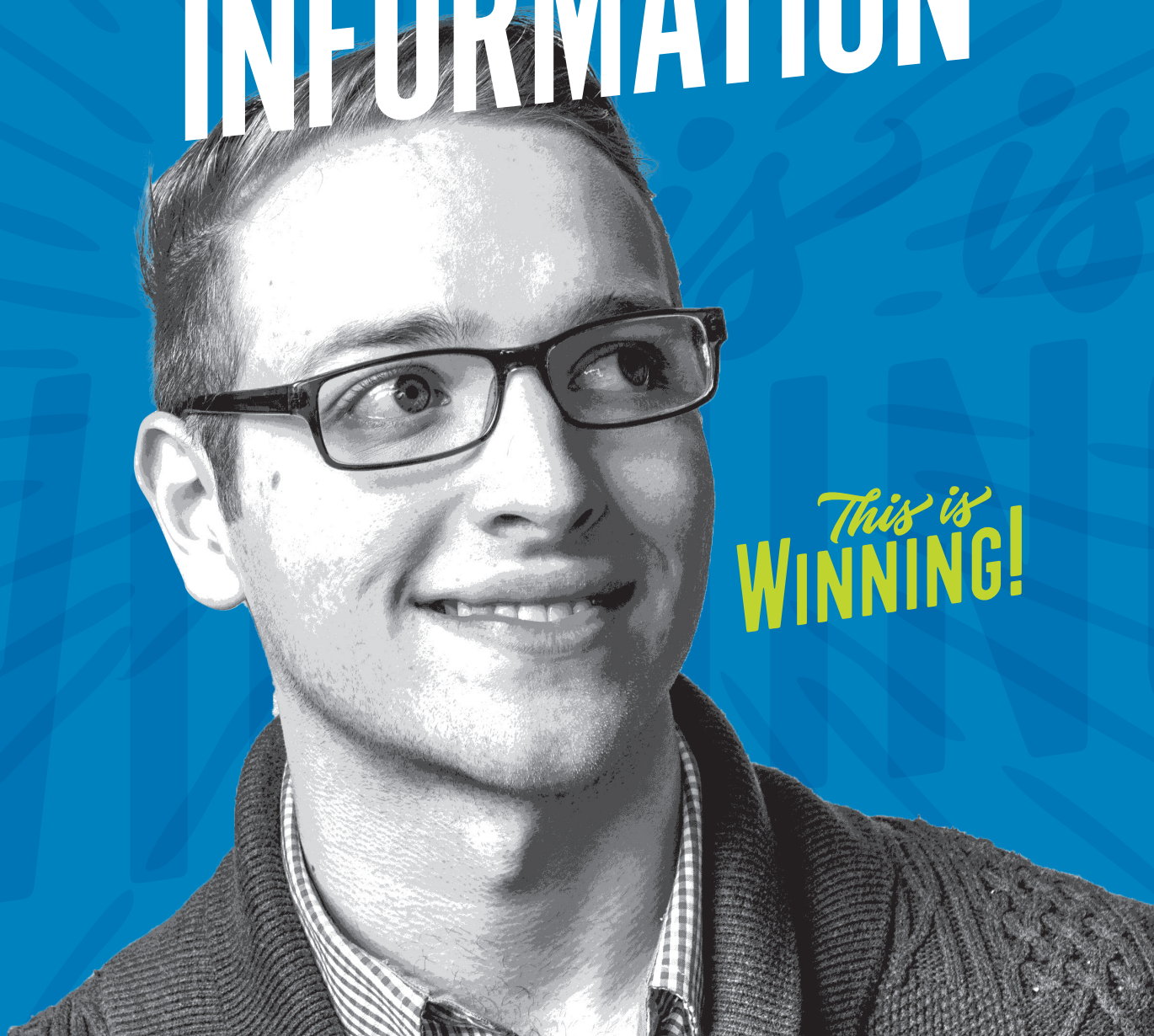
Such evaluation subsequently identified the following transaction related to the Arkansas Department of Higher Education (ADHE). On September 5, 2019, ADHE refunded \$3,904,288 to the OAL for the fiscal year ended June 30, 2019.

Also, at the request of ADHE, on October 16, 2019 a payment of \$35,000,000 was made from the Education Trust Account to ADHE.

Such evaluation also identified that per the amended contract with SGI, upon the completion of the contract year on August 17, 2019, instant games sales totaled \$408,218,215 for the period from August 18, 2018 through the end of the contract year. The amount of sales exceeded the pro-rated bonus calculation base by \$48,218,215 resulting in a bonus amount of \$2,169,820 which was paid to SGI on August 29, 2019.

Such evaluation also identified that on July 10, 2019, The OAL executed a new agreement with Bank OZK for a period of two years, with an effective date of September 2, 2019.

# REQUIRED Supplementary INFORMATION



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**RAEFA  
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SCHOLARSHIP TO  
University of Arkansas  
Fort Smith

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# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Schedule of Employer's Proportionate Share of the Net Pension Liability, Last 10 Fiscal Years<sup>1</sup>

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
OAL proportion of the net pension liability (asset)	0.19%	0.20%	0.20%	0.23%	0.24%
OAL proportionate share of the net pension liability (asset)	\$ 4,301,376	\$ 5,110,275	\$ 4,732,352	\$ 4,415,000	\$ 3,408,000
OAL covered payroll (2)	\$ 3,651,448	\$ 3,564,158	\$ 3,649,566	\$ 3,992,710	4,244,368
OAL proportionate share of the net pension liability (asset) as a percentage of its covered payroll	117.80%	143.38%	129.67%	110.58%	80.29%
Plan fiduciary net position as a percentage of the total pension liability	79.59%	76.65%	75.50%	80.39%	84.15%

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

(2) Restated to comply with GASB Statement No. 68: 46 and 81; Q&A 5.154.2 and 5.192.3

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.

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Schedule of Employer Contributions, Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013-2010
Statutorily determined contribution	\$ 563,505	\$ 538,589	\$ 516,803	\$ 529,187	\$ 589,324	\$ 631,562	N/A
Contributions in relation to the statutorily determined contribution	563,505	538,589	516,803	529,187	589,324	631,562	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered payroll	\$ 3,678,231	\$ 3,651,448	\$ 3,564,158	\$ 3,649,566	\$ 3,992,710	\$ 4,244,368	
Contributions as a percentage of covered payroll	15.32%	14.75%	14.50%	14.50%	14.76%	14.88%	

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

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

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

Source: State of Arkansas CAFR and OAL Finance Division

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Schedule of Changes in Total OPEB Liability, Last 10 Fiscal Years

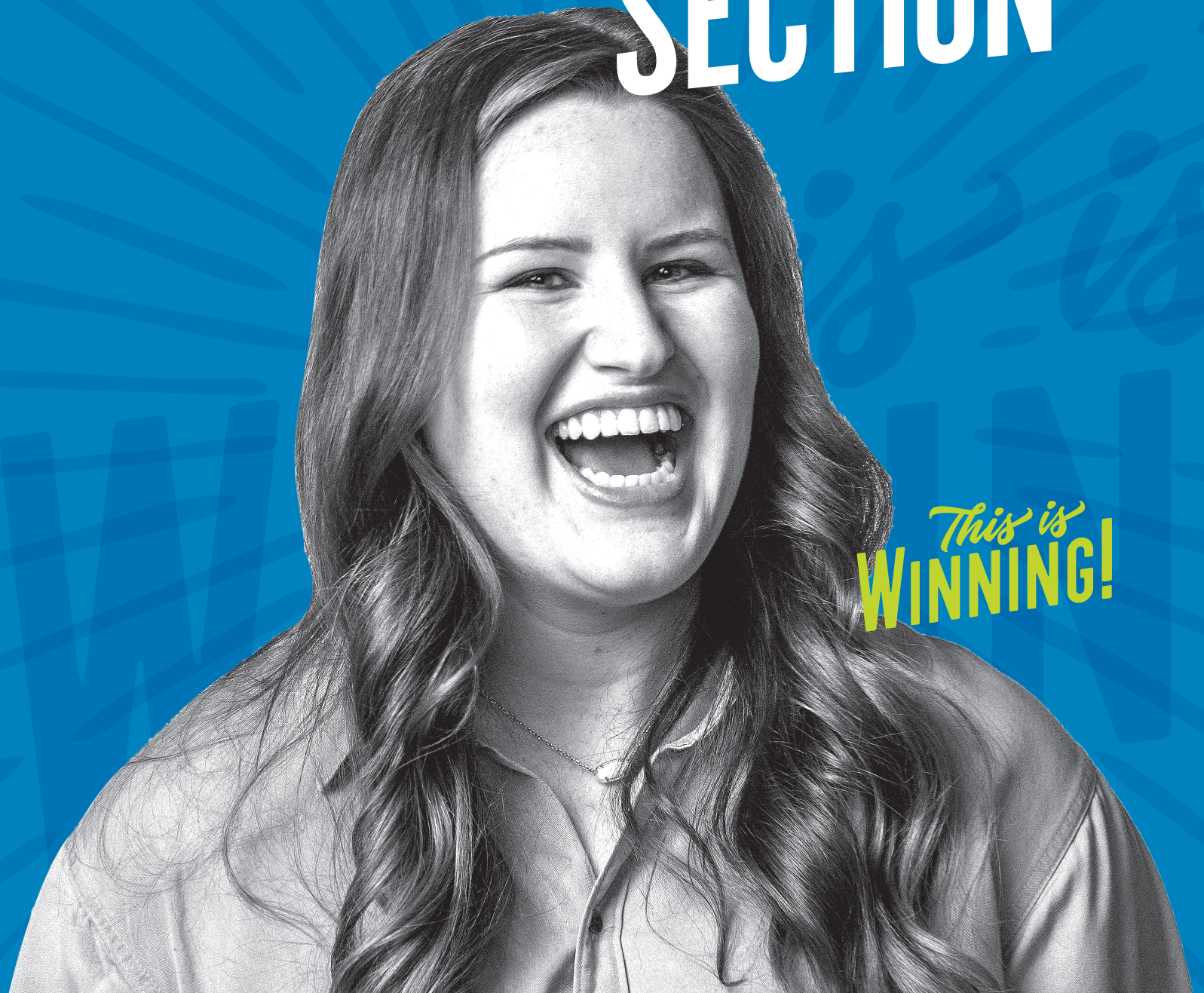
	<u>2019</u>	<u>2018</u>	<u>2017-2010</u>
Service cost	\$ 115,489	\$ 122,032	N/A
Interest cost	135,469	127,429	
Change of benefit terms	-	-	
Difference between expected and actual experience	22,506	(23,182)	
Change in assumptions	(357,709)	(160,833)	
Benefit payments	(104,567)	(100,606)	
Net Change in Total OPEB Liability	<u>\$ (188,812)</u>	<u>\$ (35,160)</u>	
Total OPEB liability beginning	\$ 3,513,666	\$ 3,548,826	
Total OPEB liability ending	\$ 3,324,854	\$ 3,513,666	
Covered payroll	N/A	N/A	
Total as a percentage of covered payroll	N/A	N/A	

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





# Statistical SECTION



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LITTLETON**

\$10,000  
Scratch-Off Winner

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## 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.

**Financial Trends .....43**

These schedules contain trend information to help the reader understand how the OAL’s financial performance and well-being have changed over time.

**Demographics and Operation Information .....51**

These schedules offer demographic and operation indicators to help the reader understand the environment within which the OAL’s financial activities take place.

**Other Information.....57**

These schedules provide the reader with an understanding of lottery sales across the United States by state and other player demographics.



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Principal Revenue Sources (Unaudited), Last 10 Fiscal Years

	2019	2018	2017	2016
<b>Operating revenues:</b>				
Instant ticket sales:				
Instant games sales	\$ 407,825,514	\$ 407,604,791	\$ 368,454,561	\$ 360,007,743
Online ticket sales:				
Powerball®	34,162,016	36,745,344	32,755,119	48,073,339
Mega Millions®	33,552,661	19,598,073	14,313,090	14,632,244
Fast Play	15,329,643	12,731,621	12,313,567	10,993,360
Natural State Jackpot	9,303,843	7,918,644	7,047,543	7,567,005
Cash 3	7,677,432	7,736,793	7,128,685	7,184,616
Cash 4	4,430,762	4,516,508	4,238,553	3,823,987
Decades of Dollars	-	-	-	-
AR Million Dollar Raffle	-	-	-	-
Arkansas 50/50 Raffle	-	-	-	-
Lucky for Life	3,211,636	2,856,202	2,889,910	3,317,108
Monopoly™ Millionaires' Club	-	-	-	-
Total online ticket sales	107,667,993	92,103,185	80,686,467	95,591,659
Retailer application, fidelity, bond & service fees	728,897	776,503	769,959	717,150
Other revenue	14,439	5,849	5,749	9,259
Total operating revenues	516,236,843	500,490,328	449,916,736	456,325,811
<b>Non-operating revenue:</b>				
Interest income	2,569,816	1,269,083	489,046	232,275
Other non-operating income	-	-	-	1,875
Total non-operating revenue	2,569,816	1,269,083	489,046	234,150
Total revenues	\$ 518,806,659	\$ 501,759,411	\$ 450,405,782	\$ 456,559,961

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 2019, 2018, 2017, 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011 and ALC Annual Financial Report for fiscal year 2010

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Principal Revenue Sources (Unaudited), Last 10 Fiscal Years

2015	2014	2013	2012	2011	2010
\$ 335,000,613	\$ 322,415,276	\$ 355,061,785	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156
27,099,705	35,042,460	47,409,700	37,903,399	34,961,543	34,998,429
15,158,385	19,847,674	13,891,465	25,571,602	24,113,365	7,935,615
10,770,484	10,126,554	3,391,691	2,721,436	2,636,383	-
7,035,843	8,863,034	6,994,820	-	-	-
6,712,769	6,255,740	6,161,706	6,178,537	5,805,414	5,277,255
3,832,385	3,606,991	3,324,150	3,325,490	3,091,218	-
612,932	2,345,532	2,927,572	5,237,158	932,820	-
-	1,426,490	-	-	5,000,000	-
38,210	143,375	385,105	857,760	-	-
2,013,064	-	-	-	-	-
388,990	-	-	-	-	-
73,662,767	87,657,850	84,486,209	81,795,382	76,540,743	48,211,299
550,952	554,292	556,792	538,584	1,055,538	867,023
20,346	10,550	4,490	15,038	5,450	5,650
409,234,678	410,637,968	440,109,276	473,639,229	465,080,339	384,571,128
224,546	252,614	322,722	352,431	464,252	181,807
-	461,047	-	2,000,000	-	-
224,546	713,661	322,722	2,352,431	464,252	181,807
\$ 409,459,224	\$ 411,351,629	\$ 440,431,998	\$ 475,991,660	\$ 465,544,591	\$ 384,752,935

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 2019, 2018, 2017, 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011 and ALC Annual Financial Report for fiscal year 2010

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Revenues, Expenses and Change in Net Position (Unaudited), Last 10 Fiscal Years

	2019	2018	2017	2016
<b>Operating revenues:</b>				
Instant ticket sales	\$ 407,825,514	\$ 407,604,791	\$ 368,454,561	\$ 360,007,743
Online ticket sales	107,667,993	92,103,185	80,686,467	95,591,659
Retailer application, fidelity, bond & service fees	728,897	776,503	769,959	717,150
Other revenue	14,439	5,849	5,749	9,259
Total operating revenues	516,236,843	500,490,328	449,916,736	456,325,811
<b>Operating expenses:</b>				
Instant game prizes	293,635,992	292,489,286	263,190,873	258,461,952
Online game prizes	56,240,230	49,406,134	43,238,515	50,485,363
Retailer commissions	29,062,835	28,196,969	25,315,020	25,704,177
Gaming contract costs	23,691,567	21,967,841	19,090,227	19,384,187
Compensation and benefits	4,829,725	5,092,375	5,024,854	5,232,605
Marketing, advertising and promotions	7,251,773	6,477,277	5,861,130	4,798,502
General and administrative expenses	5,621,315	4,947,334	3,799,935	3,380,275
Services provided by other agencies:				
Arkansas Department of Higher Education	427,384	454,932	441,317	396,995
Arkansas Legislative Audit	131,880	144,000	139,760	143,360
Legal and professional services	1,400	2,106	1,864	2,793
Depreciation	123,426	104,011	96,917	95,063
Total operating expenses	421,017,527	409,282,265	366,200,412	368,085,272
Operating income (loss)	95,219,316	91,208,063	83,716,324	88,240,539
<b>Non-operating revenue:</b>				
Interest income	2,569,816	1,269,083	489,046	232,275
Other non-operating income	-	-	-	1,875
Total non-operating revenue	2,569,816	1,269,083	489,046	234,150
Income (loss) before transfers	97,789,132	92,477,146	84,205,370	88,474,689
<b>Transfers to:</b>				
Education Trust Account	(75,000,000)	(83,500,000)	(71,000,000)	(85,274,927)
Workforce Challenge Trust Account	(23,639,040)	(8,344,929)	(14,157,060)	-
Arkansas Department of Human Services	-	-	-	-
Total transfers	(98,639,040)	(91,844,929)	(85,157,060)	(85,274,927)
Change in net position	\$ (849,908)	\$ 632,217	\$ (951,690)	\$ 3,199,762

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

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

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

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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Revenues, Expenses and Change in Net Position (Unaudited), Last 10 Fiscal Years

2015	2014	2013	2012	2011	2010
\$ 335,000,613	\$ 322,415,276	\$ 355,061,785	\$ 391,290,225	\$ 387,478,608	\$ 335,487,156
73,662,767	87,657,850	84,486,209	81,795,382	76,540,743	48,211,299
550,952	554,292	556,792	538,584	1,055,538	867,023
20,346	10,550	4,490	15,038	5,450	5,650
409,234,678	410,637,968	440,109,276	473,639,229	465,080,339	384,571,128
241,758,220	229,462,196	250,246,337	274,203,122	269,898,596	224,341,940
38,708,574	45,487,903	41,877,845	41,115,706	37,556,109	23,381,100
23,253,196	23,046,410	24,986,551	26,526,329	26,217,851	21,578,603
20,622,707	20,511,439	22,116,163	24,308,153	24,111,720	20,448,694
5,382,544	5,990,541	6,049,048	5,954,138	6,226,266	6,118,300
5,032,317	4,472,456	4,414,655	4,466,054	4,631,388	4,352,303
1,274,003	1,414,871	1,231,212	1,270,047	1,434,229	1,841,340
538,487	751,556	794,016	846,109	1,170,710	216,849
129,960	139,080	142,720	159,440	280,728	153,180
12,528	6,457	22,507	107,651	8,484	24,182
158,363	188,270	182,158	182,159	179,750	122,643
336,870,899	331,471,179	352,063,212	379,138,908	371,715,831	302,579,134
72,363,779	79,166,789	88,046,064	94,500,321	93,364,508	81,991,994
224,546	252,614	322,722	352,431	464,252	181,807
-	461,047	-	2,000,000	-	-
224,546	713,661	322,722	2,352,431	464,252	181,807
72,588,325	79,880,450	88,368,786	96,852,752	93,828,760	82,173,801
(72,619,369)	(81,488,844)	(90,257,161)	(97,510,280)	(74,229,349)	(82,799,809)
-	-	-	-	-	-
(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
(72,819,369)	(81,688,844)	(90,457,161)	(97,710,280)	(74,429,349)	(82,999,809)
\$ (231,044)	\$ (1,808,394)	\$ (2,088,375)	\$ (857,528)	\$ 19,399,411	\$ (826,008)

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

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

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

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



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Net Position by Component (Unaudited), Last 10 Fiscal Years

	2019	2018	2017 (4)	2016
<b>Net position:</b>				
Invested in capital assets	\$ 1,249,343	\$ 345,095	\$ 384,288	\$ 376,417
Restricted for:				
Scholarship shortfall reserve	20,000,000	20,000,000	20,000,000	20,000,000
Retailer fidelity reserve	207,608	182,514	158,355	136,900
Retailer bond reserve	709,671	583,166	373,312	163,872
Deposits with Multi-State				
Lottery Association	2,579,250	2,165,572	1,948,071	1,847,611
Unclaimed prizes reserve	1,000,000	1,000,000	1,000,000	1,000,000
Unrestricted (deficit)	(15,509,005)	(13,189,572)	(13,409,468)	(10,752,564)
Total net position (deficit)	<u>\$ 10,236,867</u>	<u>\$ 11,086,775</u>	<u>\$ 10,454,558</u>	<u>\$ 12,772,236</u>

Note: 1) The OAL (ALC) was established in fiscal year 2009 but began operations in fiscal year 2010.  
 2) During the 90th General Assembly, Act 218 of 2015 was enacted which eliminated the Arkansas Lottery Commission (ALC) and established the lottery as the Office of the Arkansas Lottery (OAL) within the Arkansas Department of Finance and Administration  
 3) For fiscal year 2014, Unrestricted (deficit) was restated for pension per GASB Statement 68.  
 4) For fiscal year 2017, Unrestricted (deficit) was restated for OPEB per GASB Statement 75.  
 Source: OAL Comprehensive Annual Financial Report for fiscal years 2019, 2018, 2017, 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011 and ALC Annual Financial report for fiscal year 2010

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Net Position by Component (Unaudited), Last 10 Fiscal Years

2015	2014 (3)	2013	2012	2011	2010
\$ 223,178	\$ 246,113	\$ 358,372	\$ 540,530	\$ 722,689	\$ 867,607
20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	-
113,582	91,133	70,586	49,232	42,205	18,831
-	-	-	-	-	-
1,762,386	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	1,000,000	-
(13,526,672)	(13,327,807)	(7,591,547)	(5,574,162)	(4,346,093)	(2,186,183)
<u>\$ 9,572,474</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>

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

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

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

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

Source: OAL Comprehensive Annual Financial Report for fiscal years 2019, 2018, 2017, 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011 and ALC Annual Financial report for fiscal year 2010

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Changes in Cash and Cash Equivalents (Unaudited), Last 10 Fiscal Years

	2019	2018	2017	2016
<b>Cash flows from operating activities:</b>				
Cash received from retailers and others	\$ 515,478,097	\$ 500,126,133	\$ 448,872,673	\$ 457,634,809
Cash paid for prizes	(347,546,374)	(342,721,524)	(305,141,493)	(310,865,471)
Cash paid for gaming vendors	(23,731,011)	(21,710,991)	(19,154,160)	(19,540,446)
Cash paid for retailer commissions	(29,062,835)	(28,196,969)	(25,400,020)	(25,742,753)
Cash paid for marketing and advertising	(6,593,736)	(6,861,300)	(5,492,302)	(5,413,835)
Cash paid for employee services	(4,859,829)	(4,783,897)	(4,749,058)	(4,834,544)
Cash paid for other expenses	(5,939,380)	(5,526,375)	(5,645,415)	(2,412,905)
Cash received from other non-operating income	-	-	-	1,875
Net cash provided (used) by operating activities	97,744,932	90,325,077	83,290,225	88,826,730
<b>Cash flows from non-capital financing activities:</b>				
Interagency advances	-	-	-	-
Non-operating transfers to Arkansas Department of Higher Education	(76,000,000)	(83,500,000)	(71,000,000)	(77,000,000)
Non-operating transfers from Arkansas Department of Higher Education	11,710,439	4,887,237	542,198	286,177
Non-operating transfers to Arkansas Department of Human Services	-	-	-	-
Net cash provided (used) by non-capital financing activities	(64,289,561)	(78,612,763)	(70,457,802)	(76,713,823)
<b>Cash flows from capital and related financing activities:</b>				
Purchases of capital assets	(1,056,195)	(36,296)	(104,787)	(248,302)
Loss on disposal of fixed assets	-	-	-	-
Net cash flows from capital and related financing activities	(1,056,195)	(36,296)	(104,787)	(248,302)
<b>Cash flows from investing activities:</b>				
Interest received	2,569,816	1,269,083	489,046	232,275
<b>Net increase in cash and cash equivalents</b>	34,968,992	12,945,101	13,216,682	12,096,880
<b>Cash and cash equivalents, beginning</b>	83,844,276	70,899,175	57,682,493	45,585,613
<b>Cash and cash equivalents, ending</b>	<u>\$ 118,813,268</u>	<u>\$ 83,844,276</u>	<u>\$ 70,899,175</u>	<u>\$ 57,682,493</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 95,219,316	\$ 91,208,063	\$ 83,716,324	\$ 88,240,539
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	123,426	104,011	96,917	95,063
Pension Earnings	(64,654)	186,455	11,108	(90,790)
Other post employment benefits expense	42,587	112,052	-	-
Other non-operating income	-	-	-	1,875
Net changes in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(785,562)	(280,305)	(929,311)	1,166,802
Receivable from other Funds of the State	97	(117)	3,579	(3,576)
Prepaid items	201,182	(36,830)	(156,757)	(9,191)
Deposits with Multit-State Lottery Association	(413,677)	(217,501)	(100,460)	(85,225)
Increase (decrease) in liabilities:				
Accounts payable	521,412	(84,155)	118,383	(481,522)
Prizes payable	2,743,525	(608,602)	1,388,353	(1,832,930)
Accrued and other liabilities	168,340	2,212	(973,880)	1,261,440
Due to other funds of the State	(46,969)	20,579	(4,626)	(66,992)
Compensated absences	9,189	2,990	33,716	16,613
Unearned revenue	26,720	(83,775)	(114,751)	142,196
Net other post employment benefits	-	-	201,630	472,428
Net cash provided (used) by operating activities	<u>\$ 97,744,932</u>	<u>\$ 90,325,077</u>	<u>\$ 83,290,225</u>	<u>\$ 88,826,730</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 2019, 2018, 2017, 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011 and ALC Annual Financial Report for fiscal year 2010

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Changes in Cash and Cash Equivalents (Unaudited), Last 10 Fiscal Years

2015	2014	2013	2012	2011	2010
\$ 407,714,967 (279,650,934) (20,638,704) (23,253,196) (4,772,451) (5,432,980) (2,139,793) -	\$ 410,690,974 (275,024,448) (20,308,816) (23,046,410) (4,319,538) (5,725,930) (2,402,273) 461,047	\$ 440,234,069 (289,313,701) (22,410,639) (24,986,551) (4,863,664) (5,691,914) (2,228,385) -	\$ 473,876,584 (315,948,269) (24,588,775) (26,526,329) (4,280,198) (5,848,550) (2,726,247) 2,000,000	\$ 468,220,833 (306,303,849) (24,016,144) (26,217,851) (4,009,445) (6,157,322) (1,897,589) -	\$ 370,120,513 (231,877,356) (22,766,421) (20,594,364) (3,515,419) (5,114,532) (1,914,665) -
71,826,909	80,324,606	90,739,215	95,958,216	99,618,633	84,337,756
-	-	-	-	-	(6,000,000)
(80,000,000)	(95,000,000)	(115,000,000)	(115,000,000)	(115,000,000)	-
2,319,469	2,138,092	6,342,312	12,430,211	20,000,000	-
(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	-
(77,880,531)	(93,061,908)	(108,857,688)	(102,769,789)	(95,200,000)	(6,000,000)
(138,605)	(76,011)	-	-	(34,832)	(990,250)
3,177	-	-	-	0	0
(135,428)	(76,011)	-	-	(34,832)	(990,250)
224,546	252,614	322,722	352,431	464,252	181,807
(5,964,504)	(12,560,699)	(17,795,751)	(6,459,142)	4,848,053	77,529,313
51,550,117	64,110,816	81,906,567	88,365,709	83,517,656	5,988,343
\$ 45,585,613	\$ 51,550,117	\$ 64,110,816	\$ 81,906,567	\$ 88,365,709	\$ 83,517,656
\$ 72,363,779	\$ 79,166,789	\$ 88,046,064	\$ 94,500,321	\$ 93,364,508	\$ 81,991,994
158,363 (201,028) -	188,270 - 461,047	182,158 - -	182,159 - 2,000,000	179,750 - -	122,643 - -
(1,493,924) - 59,650 31,693	33,527 7,020 (51,876) (20,459)	157,254 (7,020) 414 (89,814)	258,522 - 45,174 (545,673)	3,059,565 - (72,138) (680,865)	(14,289,726) - (5,119) (457,268)
(609,762) 784,166 864,662 (248,295) (38,879) (25,787) 182,271	871,837 (53,889) (481,765) (123,695) 5,449 19,479 302,872	(273,839) 2,900,295 (494,883) 16,659 38,032 (32,461) 296,356	(766,472) (83,767) 501,610 (382,971) 1,191 (21,168) 269,290	521,541 1,831,721 338,875 958,107 (191,329) 80,930 227,968	746,237 14,150,175 924,716 396,869 482,927 274,307 -
\$ 71,826,909	\$ 80,324,606	\$ 90,739,215	\$ 95,958,216	\$ 99,618,633	\$ 84,337,756

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 2019, 2018, 2017, 2016, 2015, ALC Comprehensive Annual Financial Report for fiscal years 2014, 2013, 2012, 2011 and ALC Annual Financial Report for fiscal year 2010



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Total Personal and Per Capita Income and Unemployment Rate (Unaudited), Last 10 Years

Calendar year	Total population (in thousands)	Total personal income (in millions)	Per capita personal income	Unemployment rate
2019	3,021	\$ 130,457	43,183	3.7%
2018	3,013	125,715	41,724	3.8%
2017	3,004 *	123,313	41,050	3.7%
2016	2,988 *	118,770	39,749	3.9%
2015	2,976 *	116,249	39,062	5.0%
2014	2,965 *	112,619	37,983	6.0%
2013	2,957 *	106,430	35,993	7.2%
2012	2,949 *	106,537	34,399	7.6%
2011	2,939	99,329	33,713	8.3%
2010	2,922	93,103	32,355	8.2%

\* Estimated Amounts

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

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

Source: IHS Global Insight Inc. (September 2018), derived from data compiled by the U.S. Bureau of Economic Analysis and Census Bureau

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## State of Arkansas Principal Employers (Unaudited), Year 2018 as Compared to 2009

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

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

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. The largest Principal Employers of Arkansas report has not been published for 2019. Therefore, only 2018 information is available.

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Employees by Department and by Function (Unaudited), Last 10 Fiscal Years

Function	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Executive	1	1	1	1	1	1	1	1	2	2
Public Affairs	0	0	0	0	0	0	0	1	1	1
Human Resources	0	0	0	0	0	2	2	2	1	3
Legal Counsel	2	2	2	1	2	2	2	1	2	2
Internal Audit	3	3	2	3	3	2	2	1	2	2
Sales	23	24	24	23	22	23	23	23	23	22
Marketing	3	3	4	4	4	7	7	7	7	7
Security	5	4	4	6	6	6	5	6	4	4
Draw Managers	2	2	2	2	2	2	2	2	1	2
Licensing	4	4	4	4	3	3	3	3	4	3
Gaming	1	1	1	1	1	1	1	1	1	1
IT-Gaming	6	6	6	6	6	6	6	6	7	6
Product Development	3	3	3	3	3	3	3	3	2	2
Finance										
Chief Fiscal Officer	1	1	1	1	1	1	1	1	1	1
Treasurer	2	3	3	3	3	3	3	3	4	4
Claims Center	3	3	3	3	3	9	9	9	9	9
Controller	2	2	2	2	2	5	5	5	4	3
Procurement	1	1	1	1	1	2	2	3	6	6
IT-Admin	1	2	2	1	2	3	3	3	3	4
Financial Analyst	1	1	1	0	0	0	0	0	0	0
<b>Total Employees</b>	<b>64</b>	<b>66</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>Gender:</b>										
Female	30	30	30	30	28	40	39	41	41	41
Male	34	36	36	35	37	41	41	40	43	43
<b>Race:</b>										
Black/Non-Hispanic	17	14	16	16	15	19	19	23	23	24
Caucasian	44	49	45	43	43	53	54	51	57	57
Hispanic	0	0	2	2	2	3	3	2	2	1
Other	3	3	3	4	5	6	4	5	2	2
<b>Age:</b>										
Under 40	14	20	19	20	21	29	31	34	35	36
40+	50	46	47	45	44	52	49	47	49	48

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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Capital Assets by Department (Unaudited), Year Ended June 30, 2019

Function	2019
Executive:	
Furniture and fixtures	\$ 31,432
Computer equipment	23,077
Vehicles	6,922
Buildings/building improvements	46,200
Total executive assets	<u>107,631</u>
Sales and Marketing:	
Furniture and fixtures	141,445
Computer equipment	1,299,272
Vehicles	31,147
Buildings/building improvements	207,898
Total sales and marketing assets	<u>1,679,762</u>
Gaming and Security:	
Furniture and fixtures	99,536
Computer equipment	73,078
Vehicles	21,918
Buildings/building improvements	146,299
Total gaming and security assets	<u>340,831</u>
Finance:	
Furniture and fixtures	62,865
Computer equipment	46,154
Vehicles	13,843
Buildings/building improvements	92,399
Total finance assets	<u>215,261</u>
Total assets	<u>\$ 2,343,485</u>

Source: OAL Finance Division



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## U.S. Lotteries' Sales (Unaudited) for the Fiscal Year Ended June 30, 2019

Lottery Jurisdiction	Population (in millions)	Sales (in millions)	Sales Per Capita	Instant Sales (in millions)	Instant Sales Per Capita
Arizona	7.2	\$ 1,073.0	\$ 150	\$ 750.3	\$ 104
<b>Arkansas</b>	<b>3.0</b>	<b>515.5</b>	<b>171</b>	<b>407.8</b>	<b>136</b>
California	39.6	7,392.1	187	5,174.8	131
Colorado	5.7	679.8	119	443.4	78
Connecticut	3.6	1,333.9	373	736.4	205
D.C.	0.7	213.3	304	52.2	75
Delaware	1.0	354.7	367	79.8	80
Florida	21.3	7,151.2	336	4,937.8	232
Georgia	10.5	4,776.0	454	3,219.4	307
Idaho	1.8	287.9	164	159.0	88
Illinois	12.7	2,977.6	234	1,856.8	146
Indiana	6.7	1,347.8	201	974.9	146
Iowa	3.2	390.9	124	250.6	78
Kansas	2.9	308.2	106	178.0	61
Kentucky	4.5	1,129.7	253	669.2	149
Louisiana	4.7	524.0	112	225.6	48
Maine	1.3	299.5	224	224.6	173
Maryland	6.0	2,187.3	362	812.4	135
Massachusetts	6.9	5,480.1	794	3,673.3	532
Michigan EST (1)	10.0	3,830.8	383	1,654.7	165
Minnesota	5.6	636.8	113	435.3	78
Missouri	6.1	1,352.6	221	914.8	150
Montana	1.1	61.3	58	19.3	18
Nebraska	1.9	192.0	100	104.1	55
N. Hampshire	1.4	375.9	277	250.6	179
New Jersey	8.9	3,479.1	391	1,868.4	210
New Mexico	2.1	143.6	69	74.9	36
New York (1)	19.5	8,227.6	421	4,226.7	217
N. Carolina	10.4	2,859.6	275	1,908.9	184
N. Dakota (2)	0.8	35.4	47	-	-
Ohio	11.7	3,360.8	288	1,663.0	142
Oklahoma	3.9	241.7	61	136.0	35
Oregon	4.2	380.1	91	131.2	31
Pennsylvania	12.8	4,503.3	352	2,989.7	234
Rhode Island	1.1	263.3	249	102.9	94
S. Carolina	5.1	1,980.9	390	1,450.4	284
South Dakota	0.9	63.1	72	32.4	36
Tennessee (2)	6.8	-	-	-	-
Texas EST (1)	28.7	6,247.2	218	4,844.4	169
Vermont	0.6	139.3	223	107.0	178
Virginia	8.5	2,293.6	269	1,221.9	144
Washington	7.5	803.3	107	523.9	70
West Virginia	1.8	201.3	111	115.6	64
Wisconsin	5.8	713.1	123	450.4	78
Wyoming	0.6	37.6	65	-	-
<b>Total</b>	<b>311.1</b>	<b>\$ 80,845.8</b>	<b>\$ 260</b>	<b>\$ 50,052.8</b>	<b>\$ 161</b>

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

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

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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## U.S. Lotteries' Sales (Unaudited) for the Fiscal Year Ended June 30, 2019

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

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

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

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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Demographic Summary (Unaudited) for the Fiscal Year Ended June 30, 2019

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

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

# Supplementary INFORMATION



*This is*  
**WINNING!**





*This is*  
**WINNING!**

**STEPHANIE  
LONG**

SCHOLARSHIPS TO  
Brightwater and University  
of Arkansas Fort Smith

*This is*  
**WINNING**

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Unclaimed Lottery Prizes (Unaudited) for the Fiscal Year Ended June 30, 2019

Month	Unclaimed lottery prizes	Expenditures from unclaimed lottery prizes	Increase (decrease) in unclaimed prize reserve	Deposits to net lottery proceeds from unclaimed lottery prizes
July	\$ 938,398	\$ -	\$ 938,398	\$ -
August	673,614	-	673,614	-
September	197,904	-	197,904	-
October	697,500	-	697,500	-
November	953,041	-	953,041	-
December	80,159	-	80,159	-
January	882,777	-	882,777	-
February	75,496	-	75,496	-
March	778,351	-	778,351	-
April	658,625	-	658,625	-
May	727,543	-	727,543	-
June	131,496	-	(6,663,408)	6,794,904
Total	\$ 6,794,904	\$ -	\$ -	\$ 6,794,904

Source - OAL general ledger

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Scholarship Shortfall Reserve Trust Account (Unaudited) for the Fiscal Year Ended June 30, 2019

	<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>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>

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

Source - OAL general ledger and corresponding bank statements

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Minority- and Female-Owned Business Participation (Unaudited) for the Fiscal Year Ended June 30, 2019

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

<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	\$ 308	Moving/Hauling	Certified Minority Owner
Allegra Print & Imaging	5,075	Advertising/Public Relations	Female-Owned
Goddess Products	2,743	Office Furniture/Supplies	Certified Minority Owner
Government Supply Services	10,304	Office Products	Minority-Owned
Party Prints	1,799	Advertising/Public Relations	Certified Minority Owner
Trivia Marketing	11,990	Advertising/Public Relations	Female-Owned
Total	<u>\$ 32,219</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	\$ 127,068	Call Center/Information Svcs	Minority-Owned
Total	<u>\$ 127,068</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>
Pure Cleaning Services	\$ 5,668	Janitorial Svcs	Minority-Owned
Premier Staffing	9,934	Staffing Svcs	Minority-Owned
Ingage, LLC	757,054	Fulfillment Services and Prizes	Female-Owned
Expedited Transportation Svcs	37,171	Transportation Svcs	Female-Owned
Total	<u>\$ 809,827</u>		

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



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Retail Sales by County (Unaudited) for the Fiscal Year Ended June 30, 2019

COUNTY	Instant*	Powerball ® *	Mega Millions ® *	Fast Play*	Natural State Jackpot*	Cash 3*	Cash 4*	Lucky for Life ® *	Total
Arkansas	5,532,278.00	315,922.00	312,820.00	139,765.00	85,927.00	114,424.00	80,528.50	33,550.00	\$ 6,615,215
Ashley	1,779,148.00	169,706.00	136,537.00	60,887.00	30,285.00	162,115.00	152,685.50	13,174.00	2,504,538
Baxter	4,708,949.00	507,159.00	455,069.00	138,758.00	182,396.00	32,405.50	17,802.00	73,798.00	6,116,337
Benton	14,004,619.00	2,241,458.00	2,249,713.00	264,773.00	358,383.00	87,818.50	42,332.50	167,028.00	19,416,125
Boone	5,763,168.00	376,696.00	341,857.00	382,079.00	78,019.00	27,451.50	22,506.50	26,598.00	7,018,375
Bradley	1,922,941.00	94,430.00	82,247.00	41,152.00	22,521.00	19,653.00	28,916.00	10,862.00	2,222,722
Calhoun	593,212.00	33,485.00	30,545.00	31,715.00	9,228.00	53,245.50	12,956.50	4,786.00	769,173
Carroll	2,828,625.00	237,615.00	218,391.00	79,910.00	51,695.00	3,699.00	5,231.00	18,808.00	3,443,974
Chicot	2,199,307.00	715,943.00	609,962.00	28,127.00	92,636.00	97,872.50	87,976.00	52,994.00	3,884,818
Clark	4,030,332.00	256,421.00	267,812.00	261,237.00	70,084.00	27,566.50	14,981.00	19,158.00	4,947,592
Clay	1,367,374.00	87,577.00	81,748.00	32,971.00	22,401.00	1,885.00	899.00	7,156.00	1,602,011
Cleburne	3,447,387.00	340,438.00	327,916.00	232,425.00	128,512.00	26,311.50	6,152.00	33,028.00	4,542,170
Cleveland	750,616.00	39,022.00	36,392.00	15,562.00	13,000.00	5,331.00	4,793.00	8,174.00	872,890
Columbia	3,604,311.00	185,745.00	167,690.00	156,816.00	47,455.00	176,266.00	83,349.50	27,092.00	4,448,725
Conway	4,754,021.00	307,372.00	291,623.00	143,612.00	97,341.00	58,414.50	26,905.00	22,824.00	5,702,113
Craighead	18,019,560.00	1,060,110.00	1,089,449.00	518,856.00	251,077.00	146,974.50	82,449.50	77,828.00	21,246,304
Crawford	4,168,817.00	595,449.00	583,884.00	100,489.00	202,499.00	20,022.00	7,315.50	43,300.00	5,721,776
Crittenden	6,824,985.00	876,765.00	765,358.00	99,242.00	152,185.00	232,082.00	147,877.50	69,400.00	9,167,895
Cross	2,865,812.00	159,027.00	149,575.00	84,343.00	45,852.00	48,210.00	29,960.00	12,210.00	3,394,989
Dallas	1,885,507.00	93,051.00	88,693.00	53,687.00	28,630.00	19,071.50	12,244.00	9,438.00	2,190,322
Desha	2,363,638.00	190,100.00	181,072.00	38,172.00	52,954.00	27,840.00	23,044.50	14,592.00	2,891,413
Drew	3,026,634.00	218,866.00	211,001.00	102,143.00	47,359.00	31,991.50	20,864.50	34,668.00	3,693,527
Faulkner	14,346,553.00	1,276,176.00	1,266,928.00	698,994.00	409,612.00	131,688.00	63,584.00	111,346.00	18,304,881
Franklin	2,202,559.00	203,183.00	201,086.00	107,957.00	46,155.00	6,530.50	1,497.00	28,754.00	2,797,722
Fulton	888,982.00	60,185.00	49,931.00	39,398.00	18,875.00	3,521.50	2,838.50	8,370.00	1,072,101
Garland	11,851,480.00	1,507,828.00	1,508,523.00	394,272.00	568,747.00	144,009.00	76,541.00	141,064.00	16,192,464
Grant	1,866,641.00	177,178.00	180,130.00	126,656.00	54,247.00	9,906.50	2,625.50	17,364.00	2,434,748
Greene	7,640,452.00	475,388.00	472,446.00	300,190.00	105,001.00	13,106.50	5,062.50	43,248.00	9,054,894
Hempstead	4,035,507.00	184,987.00	183,873.00	146,508.00	40,867.00	504,405.50	153,770.50	18,142.00	5,268,060
Hot Springs	3,934,936.00	302,468.00	307,195.00	171,902.00	103,136.00	13,969.00	5,415.00	33,046.00	4,872,067
Howard	2,646,556.00	119,649.00	122,648.00	107,849.00	34,770.00	252,954.00	90,592.00	17,000.00	3,392,018
Independence	7,179,010.00	430,213.00	426,309.00	564,915.00	143,120.00	34,689.00	15,533.00	32,040.00	8,825,829
Izard	953,321.00	96,911.00	92,759.00	72,094.00	42,634.00	1,399.50	616.00	9,236.00	1,268,971
Jackson	3,716,545.00	189,088.00	188,473.00	252,856.00	75,100.00	179,203.00	84,350.50	21,850.00	4,707,466
Jefferson	18,034,253.00	1,057,681.00	1,021,592.00	515,466.00	338,785.00	573,487.00	394,005.00	117,434.00	22,052,703
Johnson	2,945,165.00	230,710.00	208,614.00	76,187.00	59,907.00	6,492.00	10,709.50	19,404.00	3,557,189
Lafayette	850,086.00	47,442.00	41,984.00	42,776.00	9,510.00	76,057.50	22,893.00	6,488.00	1,097,237
Lawrence	2,962,943.00	170,767.00	163,610.00	111,222.00	37,222.00	14,311.00	5,778.50	13,708.00	3,479,562
Lee	904,665.00	62,965.00	61,603.00	42,527.00	11,018.00	27,288.50	72,638.00	5,472.00	1,188,177
Lincoln	1,251,969.00	91,708.00	89,706.00	58,027.00	34,206.00	2,849.50	6,587.50	10,362.00	1,545,415
Little River	1,181,484.00	99,644.00	106,868.00	40,669.00	19,349.00	59,415.00	35,014.50	8,022.00	1,550,466
Logan	2,379,491.00	219,572.00	207,630.00	109,820.00	54,020.00	14,417.00	2,931.50	16,780.00	3,004,662
Lonoke	10,876,737.00	928,158.00	917,112.00	372,271.00	275,041.00	117,130.00	60,079.50	83,384.00	13,629,913
Madison	919,407.00	117,924.00	108,695.00	13,696.00	23,026.00	1,135.50	687.50	8,446.00	1,193,017
Marion	2,442,804.00	169,338.00	147,547.00	94,296.00	80,944.00	37,770.50	9,510.00	29,992.00	3,012,202
Miller	6,339,261.00	357,940.00	384,451.00	199,475.00	77,757.00	279,021.00	118,567.50	50,060.00	7,806,533
Mississippi	6,856,114.00	387,900.00	374,060.00	144,564.00	63,096.00	488,395.00	198,786.00	22,592.00	8,535,507
Monroe	1,927,593.00	145,724.00	135,069.00	48,742.00	37,669.00	41,877.50	22,809.50	7,750.00	2,367,234
Montgomery	285,657.00	51,928.00	52,964.00	37,649.00	13,980.00	942.00	4,636.50	3,896.00	451,653
Nevada	2,468,538.00	91,392.00	96,894.00	50,207.00	19,864.00	26,382.00	26,233.00	12,318.00	2,791,828
Newton	662,977.00	38,533.00	36,793.00	78,665.00	11,465.00	756.00	246.00	4,068.00	833,503
Ouachita	6,419,676.00	273,310.00	262,444.00	220,297.00	72,532.00	143,435.50	62,381.00	24,710.00	7,478,786

(continued)

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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Retail Sales by County (Unaudited) for the Fiscal Year Ended June 30, 2019

COUNTY	<u>Instant*</u>	<u>Powerball ® *</u>	<u>Mega Millions ® *</u>	<u>Fast Play*</u>	<u>Natural State Jackpot*</u>	<u>Cash 3*</u>	<u>Cash 4*</u>	<u>Lucky for Life ® *</u>	<u>Total</u>
Perry	1,229,492.00	86,923.00	89,732.00	42,233.00	24,217.00	7,328.50	4,656.50	6,428.00	1,491,010
Phillips	2,352,880.00	429,140.00	366,801.00	75,454.00	56,444.00	107,382.00	63,445.00	30,866.00	3,482,412
Pike	1,431,603.00	113,169.00	116,485.00	138,159.00	37,303.00	2,807.50	1,176.50	12,258.00	1,852,961
Poinsett	5,600,708.00	265,118.00	253,870.00	186,783.00	72,121.00	77,621.00	16,847.50	18,066.00	6,491,135
Polk	1,483,741.00	187,448.00	172,235.00	107,384.00	54,538.00	9,004.00	521.50	16,900.00	2,031,772
Pope	9,441,569.00	757,999.00	770,067.00	218,367.00	215,603.00	63,835.00	23,011.00	66,554.00	11,557,005
Prairie	2,174,542.00	113,140.00	110,790.00	77,502.00	25,899.00	30,963.00	19,079.50	5,692.00	2,557,608
Pulaski	76,132,719.00	5,853,539.00	5,952,139.00	2,870,077.00	1,828,830.00	1,319,085.50	1,095,457.00	646,708.00	95,698,555
Randolph	1,733,967.00	141,931.00	134,676.00	84,901.00	33,477.00	3,761.00	6,140.50	18,092.00	2,156,946
Saint Francis	3,770,605.00	280,054.00	249,817.00	73,131.00	59,075.00	199,609.50	125,310.00	25,910.00	4,783,512
Saline	13,124,294.00	1,305,559.00	1,314,296.00	1,329,193.00	438,974.00	153,739.00	73,843.50	141,326.00	17,881,225
Scott	993,541.00	106,739.00	98,457.00	53,793.00	20,021.00	1,106.50	365.50	7,296.00	1,281,319
Searcy	1,019,339.00	76,360.00	68,040.00	21,869.00	20,781.00	1,834.50	6,013.50	8,152.00	1,222,389
Sebastian	9,556,923.00	1,523,260.00	1,502,316.00	222,131.00	384,861.00	153,496.50	63,957.00	128,026.00	13,534,971
Sevier	1,479,824.00	112,111.00	119,892.00	15,767.00	20,608.00	23,206.00	7,938.50	11,392.00	1,790,739
Sharp	2,664,616.00	210,434.00	184,905.00	127,924.00	68,678.00	8,332.00	3,230.50	17,978.00	3,286,098
Stone	1,263,864.00	115,684.00	106,260.00	70,865.00	45,660.00	10,932.00	3,118.50	11,262.00	1,627,646
Union	9,679,214.00	483,557.00	460,648.00	304,534.00	112,188.00	630,712.50	304,132.50	48,906.00	12,023,892
Van Buren	1,808,151.00	174,392.00	161,800.00	58,603.00	51,235.00	11,151.50	7,376.00	12,988.00	2,285,697
Washington	16,596,258.00	2,140,650.00	2,169,495.00	260,624.00	450,312.00	129,336.00	65,012.00	180,670.00	21,992,357
White	11,815,861.00	779,099.00	794,433.00	563,937.00	253,177.00	61,494.50	43,370.50	71,138.00	14,382,510
Woodruff	1,281,434.00	80,499.00	76,322.00	18,386.00	20,112.00	32,059.00	23,811.50	8,158.00	1,540,782
Yell	3,069,503.00	181,954.00	185,976.00	161,158.00	67,465.00	11,764.50	2,702.50	14,700.00	3,695,223
Grand Total	<u>\$ 407,117,251</u>	<u>\$ 34,187,006</u>	<u>\$ 33,556,743</u>	<u>\$ 15,329,643</u>	<u>\$ 9,313,673</u>	<u>\$ 7,677,757</u>	<u>\$ 4,429,206</u>	<u>\$ 3,216,278</u>	<u>\$ 514,827,557</u>

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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Demographic Report from the Arkansas Department of Higher Education (Unaudited) for the Fiscal Year Ended June 30, 2019

Institution	Awards	Scholarships
Arkansas Baptist College	22	\$ 35,625
Arkansas Northeastern College	157	127,375
Arkansas State University Beebe	964	860,375
Arkansas State University Jonesboro	6,655	10,922,250
Arkansas State University Mid South	78	68,375
Arkansas State University Mountain Home	312	259,125
Arkansas State University Newport	360	309,375
Arkansas Tech University	6,044	9,804,701
Arkansas Tech University Ozark Campus	326	280,875
Baptist Health College Little Rock	60	83,250
Black River Technical College	317	253,000
Central Baptist College	419	702,509
Champion Christian College	9	13,000
College of the Ouachitas	105	92,125
Cossatot Community College UA	245	201,750
Crowley's Ridge College	83	137,500
East Arkansas Community College	125	103,875
Ecclesia College	22	32,875
Harding University	1,275	2,160,792
Henderson State University	1,492	2,317,933
Hendrix College	875	1,465,250
Jefferson School of Nursing	13	17,375
John Brown University	604	1,030,292
Lyon College	505	797,000
National Park College	522	464,750
North Arkansas College	458	396,625
Northwest Arkansas Community College	1,136	894,024
Ouachita Baptist University	1,381	2,270,943
Ozarka College	204	181,500
Philander Smith College	164	237,875
Phillips Community College UA	148	131,625
Shorter College	14	13,000
South Arkansas Community College	147	134,125
Southeast Arkansas Community College	194	167,375
Southern Arkansas University	2,411	3,758,584
Southern Arkansas University Tech	186	172,000
University of Arkansas at Monticello College of Technology - Crossett	31	24,375
University of Arkansas at Monticello College of Technology - McGehee	15	13,250
University of Arkansas Community College Batesville	345	304,000
University of Arkansas Community College Hope	262	230,875
University of Arkansas Community College Morrilton	561	463,250
University of Arkansas Community College Rich Mountain	151	128,500
University of Arkansas Fayetteville	11,475	18,482,836
University of Arkansas Medical Sciences	330	718,250
University of Arkansas Fort Smith	3,408	5,274,838
University of Arkansas Little Rock	3,007	5,039,704
University of Arkansas Monticello	1,222	1,958,003
University of Arkansas Pine Bluff	827	1,361,088
University of Arkansas Pulaski Technical College	717	652,563
University of Central Arkansas	8,100	12,692,859
University of the Ozarks	411	610,875
Williams Baptist College	320	496,284
Total	59,214	\$ 89,350,578

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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Expenditures and Projected Obligations from Scholarship and Grant Funding Sources from Arkansas Department of Higher Education (Unaudited) for the Fiscal Year Ended June 30, 2019

Program	FY 19 Expenditures	FY 20 Budget
Academic Challenge Scholarships	\$ 20,000,000	\$ 20,000,000
AR Geographical Critical Needs Program	73,500	150,000
Arkansas Future Grant	1,165,626	8,500,000
Law Enforcement Dependents	391,161	400,000
Governor's Scholars Program	19,181,478	21,000,000
Go! Opportunities Grants	1,776,158	2,500,000
Military Dependents	1,361,711	1,500,000
National Guard Tuition Assistance	656,512	1,400,000
Single Parent Scholarship	175,000	175,000
SREB Minority Doctoral Scholars	175,000	175,000
State Teacher Education Program	64,992	2,000,000
SURF Program	144,260	150,000
Teacher Opportunity Program	233,965	2,000,000
Tuition Adjustment	350,000	350,000
Washington Center Scholarships	95,000	100,000
Arkansas Health Education Grants:		
Dental Aid	2,660,850	2,950,000
Dental Loans	937,500	987,370
Optometry Grants	518,400	650,000
Optometry Loans	115,000	140,000
Veterinary Aid	1,418,888	1,750,000
Veterinary Loan Forgiveness	-	250,000
Chiropractic	110,001	260,000
Podiatry	39,000	130,400
Osteopathy	5,000	-
Total All Financial Aid Programs	<u>\$ 51,649,002</u>	<u>\$ 67,517,770</u>

Source: Arkansas Department of Higher Education



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Academic Challenge Scholarship Program County Report for the Fiscal Year Ended June 30, 2019

<u>County</u>	<u>2018 Population Estimate</u>	<u>% State Population</u>	<u>Awards</u>	<u>Amount</u>
Arkansas	17,769	0.59%	518	\$ 772,337
Ashley	20,046	0.67%	423	670,262
Baxter	41,619	1.38%	691	980,625
Benton	272,608	9.05%	4,750	7,216,113
Boone	37,480	1.24%	691	1,023,304
Bradley	10,897	0.36%	180	263,916
Calhoun	5,277	0.18%	63	85,000
Carroll	28,223	0.94%	379	569,375
Chicot	10,438	0.35%	135	197,887
Clark	22,061	0.73%	425	671,617
Clay	14,847	0.49%	265	381,000
Cleburne	24,965	0.83%	430	680,792
Cleveland	8,018	0.27%	265	389,609
Columbia	23,537	0.78%	500	755,760
Conway	20,891	0.69%	435	639,202
Craighead	108,558	3.60%	2,099	3,136,586
Crawford	63,406	2.10%	1,540	2,310,715
Crittenden	48,342	1.60%	731	1,128,296
Cross	16,676	0.55%	326	469,125
Dallas	7,182	0.24%	133	205,301
Desha	11,512	0.38%	228	356,750
Drew	18,328	0.61%	474	709,580
Faulkner	124,806	4.14%	3,330	5,123,576
Franklin	17,810	0.59%	467	716,500
Fulton	12,269	0.41%	196	264,542
Garland	99,154	3.29%	1,703	2,556,215
Grant	18,188	0.60%	378	555,125
Greene	45,325	1.50%	918	1,328,130
Hempstead	21,741	0.72%	337	481,375
Hot Spring	33,701	1.12%	567	806,129
Howard	13,341	0.44%	288	439,802
Independence	37,678	1.25%	798	1,146,829
Izard	13,593	0.45%	238	334,250
Jackson	16,811	0.56%	214	301,548
Jefferson	68,114	2.26%	1,227	1,905,936
Johnson	26,742	0.89%	618	921,578
Lafayette	6,682	0.22%	77	108,500
Lawrence	16,434	0.55%	341	488,875
Lee	8,985	0.30%	62	89,000
Lincoln	13,383	0.44%	238	352,250
Little River	12,326	0.41%	196	250,879
Logan	21,737	0.72%	540	834,132
Lonoke	73,657	2.44%	1,911	2,870,578
Madison	16,481	0.55%	270	401,200
Marion	16,722	0.55%	203	288,969
Miller	43,592	1.45%	639	902,778
Mississippi	41,239	1.37%	673	961,750
Monroe	6,900	0.23%	102	154,000
Montgomery	8,924	0.30%	142	190,375

(continued)

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Academic Challenge Scholarship Program County Report for the Fiscal Year Ended June 30, 2019

<u>County</u>	<u>2018 Population Estimate</u>	<u>% State Population</u>	<u>Awards</u>	<u>Amount</u>
Nevada	8,326	0.28%	124	165,125
Newton	7,805	0.26%	131	176,243
Ouachita	23,606	0.78%	421	658,376
Perry	10,352	0.34%	250	364,375
Phillips	18,029	0.60%	262	406,129
Pike	10,673	0.35%	237	360,709
Poinsett	23,974	0.80%	382	553,909
Polk	20,049	0.67%	415	606,188
Pope	64,000	2.12%	1,504	2,340,000
Prairie	8,074	0.27%	137	182,000
Pulaski	392,680	13.03%	7,347	11,448,872
Randolph	17,948	0.60%	346	513,625
St. Francis	25,439	0.84%	3,086	4,728,091
Saline	121,421	4.03%	200	309,735
Scott	10,319	0.34%	171	242,134
Searcy	7,958	0.26%	3,043	4,646,674
Sebastian	127,753	4.24%	388	563,711
Sevier	17,139	0.57%	229	341,375
Sharp	17,366	0.58%	199	276,875
Stone	12,457	0.41%	230	320,875
Union	39,126	1.30%	773	1,109,937
Van Buren	16,603	0.55%	330	474,083
Washington	236,961	7.86%	4,160	6,464,634
White	78,727	2.61%	1,734	2,564,821
Woodruff	6,490	0.22%	122	170,875
Yell	21,535	0.71%	476	739,232
Not Reported			163	234,000
Total	<u>3,013,825</u>	<u>100%</u>	<u>59,214</u>	<u>\$ 89,350,576</u>

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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Fund Balance and Other Information from Arkansas Department of Higher Education (Unaudited) for the Fiscal Year Ended June 30, 2019

### Fund Balances

Higher Education Grants Fund	\$	17,657,512
Lottery Net Proceeds Trust Account (1)	\$	3,912,569

### Arkansas Challenge Scholarship Trust Account

Deposits	\$	95,106,335
Disbursements		91,193,765
June 30, 2019 Balance	\$	<u>3,912,570</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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Debt Set-Off Collections (Unaudited) for the Fiscal Year Ended June 30, 2019

Department of Finance and Administration:

Taxes due to the State	\$ 138,879
Delinquent Child Support	<u>45,051</u>
Total	<u><u>\$ 183,930</u></u> (1)

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

Source: OAL Finance Division

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

## Term Contracts for Goods and Services for the Fiscal Year Ended June 30, 2019

1. On July 19, 2018, the Department of Finance and Administration Office of the Arkansas Lottery (“OAL”) and Scientific Games International (“SGI”) entered into a Non-Exclusive Licensing Agreement. The Non-Exclusive Licensing Agreement 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 conducted by OAL and identified as AR-464 “BATTLESHIP™”. The base instant game contract price is 1.30% of net sales. There is a price of \$1.89 per 1,000 tickets for FailSafe Barcode Services and a price of 1.35% of the prize fund for Points for Prizes Rewards/Merchandise Prizes and Fulfillment. These costs are standard for OAL instant games. There are no additional costs for the use of BATTLESHIP™.
2. On July 19, 2018, OAL and Bank OZK entered into a Third Amendment to the Agreement for Contractual Services for Comprehensive Banking Services. The purpose of the Amendment was to extend the Agreement for a period of one (1) year, from September 2, 2018, through September 1, 2019. No changes were made to the value of the Agreement.
3. On August 20, 2018, OAL and 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 conducted by OAL and identified as AR-471 “BETTY BOOP™”. The base instant game contract price is 1.30% of net sales. There is a price of \$1.89 per 1,000 tickets for FailSafe Barcode Services and a price of 1.35% of the prize fund for Points for Prizes Rewards/Merchandise Prizes and Fulfillment. These costs are standard for OAL instant games. There are no additional costs for the use of BETTY BOOP™.
4. On March 4 , 2019, OAL and 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 conducted by OAL and identified as AR-504 “CONNECT 4™”. The base instant game contract price is 1.30% of net sales. There is a price of \$1.89 per 1,000 tickets for FailSafe Barcode Services and a price of 1.35% of the prize fund for Points for Prizes Rewards/Merchandise Prizes and Fulfillment. These costs are standard for OAL instant games. There are no additional costs for the use of CONNECT 4™.
5. On May 29, 2019, OAL and 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 conducted by OAL and identified as AR-520, “RAZORBACKS®”. The base instant game contract price is 1.30% of net sales. There is a price of \$1.89 per 1,000 tickets for FailSafe Barcode Services and a price of 1.35% of the prize fund for Points for Prizes Rewards/Merchandise Prizes and Fulfillment. The preceding costs are standard for OAL instant games. There is an additional fee of one thousand dollars (\$1,000) per unit for Additional Scenes. OAL purchased two (2) units of Additional Scenes, bringing the total amount of the additional fees to two thousand dollars (\$2,000) for this particular instant game. In addition, SGI shall invoice OAL in the amount of one hundred forty-one thousand dollars (\$141,000) for payment of the License Fee for this game.



# Other REPORTS



*This is*  
**WINNING!**



A photograph of two men, Sam and Nick, giving thumbs up. The image is overlaid with a yellow sunburst pattern. The text 'This is WINNING!' is in the top right, and 'This is WINNING' is in large letters at the bottom.

*This is*  
**WINNING!**

**SAM  
& NICK**  
RETAILER  
Bear Creek Grocery



Sen. Jason Rapert  
Senate Chair  
Sen. Eddie Cheatham  
Senate Vice Chair



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

Rep. Richard Womack  
House Chair  
Rep. DeAnn Vaught  
House Vice Chair

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, 2019, 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 22, 2019.

***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 22, 2019





*This is*  
**WINNING!**

*This is*

**EMILY  
TIMMONS**

SCHOLARSHIP TO  
University of Arkansas  
Fayetteville





*This is*  
**WINNING!**