



STATE OF ARKANSAS
ARKANSAS LOTTERY COMMISSION

EXHIBIT D-3

Little Rock, Arkansas 72203-3238
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November 14, 2014

The Honorable Robert Thompson, Co-Chair
The Honorable Mark Perry, Co-Chair
Arkansas Lottery Commission Legislative Oversight Committee
One Capitol Mall, Room R-501
Little Rock, AR 72201

RE: ACA 23-115-302 Reports

Gentlemen:

Pursuant to ACA 23-115-302, I am attaching the following:

1. The total amount of Net Proceeds from the Lottery in FY2014; and
2. The amounts deposited into and disbursed from the Scholarship Shortfall Reserve Trust Account under § 23-115-802 in FY2014; and
3. The Arkansas Lottery Commission's projection for Net Proceeds from the Lottery for FY2015.

Please call me if you have any questions or need additional information.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bishop Woosley".

Bishop Woosley
Director

Enclosures

cc: John C. "Smokey" Campbell III, Chairman, Arkansas Lottery Commission

Arkansas Lottery Commission
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2014
(Unaudited)

Operating revenues:

Instant ticket sales	\$ 322,415,276
Online ticket sales	87,657,850
Retailer application, fidelity and service fees	554,292
Other revenue	<u>10,550</u>
 Total operating revenues	 <u>410,637,968</u>

Operating expenses:

Instant game prizes	229,462,196
Online game prizes	45,487,903
Retailer commissions	23,046,410
Gaming contract costs	20,511,439
Compensation and benefits	5,990,541
Marketing, advertising and promotions	4,472,456
General and administrative expenses	1,414,871
Services provided by Arkansas Department of Higher Education	751,556
Audit Services provided by Arkansas Division of Legislative Audit	139,080
Legal and professional services	6,457
Depreciation	<u>188,270</u>
 Total operating expenses	 <u>331,471,179</u>

Operating income 79,166,789

Non-operating revenue:

Interest income	252,614
Other non-operating income	<u>461,047</u>
Total non-operating income	<u>713,661</u>

Income before transfers 79,880,450

Transfers to:

Education Trust Account	(81,488,844)
Arkansas Department of Human Services	<u>(200,000)</u>

Change in net position (1,808,394)

Total net position - beginning	15,611,031
Total net position - ending	<u>\$ 13,802,637</u>

(UNAUDITED PRELIMINARY DRAFT)

(UNAUDITED PRELIMINARY DRAFT)

Arkansas Lottery Commission
 Scholarship Shortfall Reserve Trust Fund (Unaudited)
 Fiscal Year Ended June 30, 2014

	July	August	September	October	November	December
Beginning Balance	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000
Shortfall 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>

	January	February	March	April	May	June
Beginning Balance	\$ 20,000,000	\$ 20,000,000	\$ 8,000,000	\$ 13,923,925	\$ 20,000,000	\$ 20,000,000
Shortfall Deposits	-	-	5,923,925	6,076,075	-	-
Transfers	-	(12,000,000)	-	-	-	-
Ending Balance	<u>\$ 20,000,000</u>	<u>\$ 8,000,000</u>	<u>\$ 13,923,925</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>

Arkansas Lottery Commission
Budget Detail Schedules
For the Fiscal Year Ending June 30, 2015

	2013 Actual		2014 Budget (Original)		2014 Budget Revised 07/20/14		2015 Budget		Budget 10/01/15		% of Revenue
	% of Revenue		% of Revenue		% of Revenue		% of Revenue		% of Revenue		
Operating Revenues											
Instant Games	80.67%	\$ 375,000,000	81.59%	\$ 334,907,460	77.71%	\$ 331,750,000	77.28%	\$ 331,750,000	79.60%	\$ 331,750,000	79.60%
Online Games	19.19%	\$ 84,486,509	18.37%	\$ 92,838,087	22.21%	\$ 97,206,000	22.64%	\$ 97,206,000	20.32%	\$ 84,200,000	20.32%
Less: Prizes/Dismal	0.00%	\$ (250,000)	0.00%	\$ (250,000)	-0.00%	\$ (250,000)	-0.05%	\$ (250,000)	-0.06%	\$ (250,000)	-0.06%
Retailer application, fidelity											
New Gaming Revenue	0.12%	\$ 350,000	0.11%	\$ 353,383	0.13%	\$ 560,000	0.13%	\$ 560,000	0.13%	\$ 560,000	0.13%
Total Operating Revenues	100.00%	\$ 410,107,376	100.00%	\$ 419,797,000	100.00%	\$ 418,077,130	100.00%	\$ 419,726,000	100.00%	\$ 418,770,000	100.00%
Operating Expenses											
Instant Game Prizes	56.86%	\$ 230,246,437	56.86%	\$ 264,200,000	57.46%	\$ 226,753,686	54.23%	\$ 237,022,500	55.21%	\$ 247,022,500	56.87%
Online Game Prizes	9.31%	\$ 41,877,845	9.31%	\$ 42,461,250	9.23%	\$ 50,490,758	12.07%	\$ 52,000,000	12.14%	\$ 43,835,600	10.51%
Other Game Prizes											
Legal and Professional Services	5.67%	\$ 24,986,551	5.67%	\$ 23,982,000	5.61%	\$ 24,024,637	5.72%	\$ 24,007,600	5.99%	\$ 23,307,262	5.99%
Gaming Contract Costs											
Staff Compensation & Benefits	5.03%	\$ 21,116,163	5.03%	\$ 23,664,250	5.14%	\$ 21,218,085	5.07%	\$ 21,117,000	4.91%	\$ 20,500,985	4.91%
Marketing, Advertising & Promotions	1.37%	\$ 6,040,048	1.37%	\$ 6,390,000	1.38%	\$ 5,780,332	1.38%	\$ 6,450,000	1.50%	\$ 6,450,000	1.50%
General and administrative expenses	1.80%	\$ 4,414,655	1.80%	\$ 4,500,000	0.79%	\$ 4,499,233	1.07%	\$ 5,000,000	1.16%	\$ 5,000,000	1.20%
	0.28%	\$ 1,231,212	0.28%	\$ 1,370,000	0.28%	\$ 1,383,301	0.33%	\$ 1,320,000	0.31%	\$ 1,450,000	0.34%
Services provided by Other Agencies:	0.21%	\$ 916,376	0.21%	\$ 1,590,000	0.33%	\$ 1,117,411	0.26%	\$ 800,000	0.18%	\$ 800,000	0.19%
Legal and Professional Services	0.05%	\$ 22,507	0.05%	\$ 25,000	0.05%	\$ 12,624	0.03%	\$ 10,000	0.03%	\$ 10,000	0.03%
Capital asset depreciation	0.04%	\$ 181,138	0.04%	\$ 185,000	0.04%	\$ 181,413	0.04%	\$ 210,000	0.05%	\$ 210,000	0.05%
Total Operating Expenses	79.92%	\$ 329,294,212	79.92%	\$ 320,292,500	80.54%	\$ 335,568,470	80.21%	\$ 348,037,100	81.07%	\$ 338,546,547	81.21%
Opening Income	20.08%	\$ 88,146,064	20.08%	\$ 81,502,500	19.46%	\$ 82,710,660	19.79%	\$ 81,238,300	18.92%	\$ 78,223,453	18.79%
Non-Operating Revenue (Expense):											
Interest Income	0.07%	\$ 222,722	0.07%	\$ 240,000	0.05%	\$ 270,027	0.06%	\$ 140,000	0.03%	\$ 140,000	0.03%
Other Non-Operating Income	0.00%	\$ -	0.00%	\$ -	0.00%	\$ 0	0.00%	\$ -	0.00%	\$ -	0.00%
Income before Transfers	20.07%	\$ 88,368,786	20.07%	\$ 81,742,500	19.51%	\$ 82,980,687	19.84%	\$ 81,378,300	18.95%	\$ 78,363,453	18.95%
Transfers To:											
Arkansas Department of Health Services	-0.04%	\$ (200,000)	-0.04%	\$ (200,000)	-0.04%	\$ (200,000)	-0.04%	\$ (200,000)	-0.04%	\$ (200,000)	-0.04%
ADJIE Education Trust Account (legislat)	-1.54%	\$ (65,216,747)	-1.54%	\$ (84,241,200)	-18.23%	\$ (77,000,200)	-18.18%	\$ (75,500,000)	-17.88%	\$ (72,500,000)	-17.40%
Unallocated Prizes Reserve-Transferred at June 30 by statute	-1.14%	\$ (5,040,414)	-1.14%	\$ (5,238,800)	-1.14%	\$ (5,172,820)	-1.22%	\$ (5,700,000)	-1.35%	\$ (5,655,000)	-1.35%
Total Transfers to ADJIE Education Trust Account	-2.68%	\$ (90,257,161)	-2.68%	\$ (89,500,000)	-19.37%	\$ (87,273,020)	-19.20%	\$ (81,200,000)	-18.97%	\$ (78,185,000)	-18.70%
Change in Net Assets	-0.47%	\$ (2,088,375)	-0.47%	\$ (4,250)	0.00%	\$ 0	0.00%	\$ (21,700)	-0.00%	\$ (21,347)	-0.00%

Explanation for Change in Budget Amounts

Instant Game sales are forecast approximately \$10 million below the FY2014 budget, but are forecast to increase slightly from the revised FY2014 budget. Online game revenues are forecast to increase due primarily to sales from new games. Prizes/dismal amounts remain at the same level as FY2014. Retailer commission and fidelity fees reflect an increase consistent with the estimated FY2014 level. Other miscellaneous revenues are consistent with estimated FY2014.

Decrease in instant games prizes is proportionate to the decrease in instant games revenues. Online game prizes increase is proportionate to the increase in online games revenues.

No significant change in percentage paid to retailers. Amount also reflects \$250,000 for retailer bonuses which is the same as for FY2014. Increase decrease is consistent with decrease in revenues. No significant change in percentage paid to gaming vendors. Lower FY2015 budget amount is due primarily to decrease in ticket revenues. Increase relates to the forecast to benefit five to seven currently vacant positions and estimating a 3% merit bonus for FY2015. Also a 1% COLA increase is projected. \$500,000 increase is to be used to promote 5 Year Anniversary Plan. Increase for FY2015 is due to expected increases for lease costs and DIS fees.

The ADJIE administrative fees are budgeted for \$650,000, as the actual fees billed for FY2014 were \$615,000. An additional \$150,000 is budgeted for Legislative Audit fees for the annual audit. Decrease in the budget for legal and professional services is due to the hiring of a full time Chief Legal Counsel position. Increase reflects impact of the purchase of approx. \$125,000 of depreciable assets which is expected to occur in FY2015.

Based upon an average balance of approximately \$27 million at 5% lease points. No non-operating income for FY2015 is identified.

This amount is specified by statute. This is the amount of the expected transfer of Net Proceeds to ADJIE for FY2014.