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FY20 ANNUAL REPORT

Henry & Horne LLP has not been engaged to perform and has not performed, since the date of the report included herein, any procedures on the financial statements addressed in that report. Henry & Horne LLP also has not performed any procedures relating to this annual report.

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ARIZONA LOTTERY OVERVIEW

ABOUT

The Arizona Lottery celebrates the people, the vibrant cultures, and the unique and iconic wildlife intrinsic to the Grand Canyon State, and has done so ever since it was established by public initiative and began operations on July 1, 1981. Our mission, from the sales of our first games to our latest product offerings, has remained the same: to support Arizona programs for the public benefit by maximizing net revenue in a responsible manner.

We augmented that mission with Gives Back Sponsorships that infused over \$400,000 into worthy nonprofit organizations, like the Arizona Association of Foster and Adoptive Parents (AZAFAP) and the Central Arizona Shelter System (CASS), that are working hard to meet the needs of our most vulnerable citizens in these difficult and challenging times in the midst of the COVID-19 pandemic. The Arizona Lottery is fully funded through the sale of its products, and its beneficiary transfers fund a variety of vital state programs. Since its inception, the agency has returned more than \$9 billion in prizes to players, generated more than \$4.4 billion for beneficiary programs, and paid more than \$1 billion in commissions to retailers.



ARIZONA LOTTERY COMMISSION CHAIR JEFF WEINTRAUB



You can't win if you don't play™



It is with great pride that I look back on Fiscal Year 2020 (FY20) and recognize the accomplishments of our commission and agency, and the tremendous good that we have done for the people of the great state of Arizona. Through the creation, development and sale of entertaining and rewarding games, the Arizona Lottery has touched millions of Arizonans with the promise of fun and a chance at making their dreams come true with fabulous, life-changing prizes.

The ability of the Lottery to return over \$226 million to more than a dozen state agencies, ranging from those benefiting vulnerable children, to growing our economy, to protecting iconic Arizona wildlife and landscapes, is as unique as it is powerful. In fact, in just the last five years, the Arizona Lottery has transferred in excess of \$1 billion to meet these tremendous needs across our state, needs that would otherwise be met by taxpayers.

But the incredible role that the Arizona Lottery plays in the daily life of our state goes beyond raising money for worthy programs. Over its 38-year history, the Arizona Lottery has paid over \$1 billion in commissions to retailers, who have used that money to make payroll and expand their operations. In FY20 alone, Arizona Lottery players won more than \$1 billion in prizes; money that they saved, invested and spent in our state, further advancing all our economic interests.

I am also proud of the ways in which we've responded to the current COVID-19 pandemic, reaching out to help our retailers, our players and the larger community to get through these difficult times and emerge all the stronger for it.

The Arizona Lottery is a force for good and a massive economic engine for the State of Arizona.

Thank you to our Arizona Lottery employees, who worked tirelessly to make us the premier choice for gaming entertainment in Arizona. Thank you to our retailers, who put so much effort into providing our games to their customers and helping them to play and win. And thanks, most of all, to our players, who spent their hard-earned money to play our games, be entertained by them and maybe even experience the thrill of a big win while having a huge impact for our community. Together, we are all contributing to our quality of life and making our state the best place in the country to live, work and play.

Here's to an amazing FY20 and I can't wait to see all that we will accomplish for Arizona in FY21!

A handwritten signature in black ink that reads "Jeff Weintraub".

Jeff H. Weintraub, Chairman
Arizona Lottery Commission

A MESSAGE
FROM
EXECUTIVE
DIRECTOR
GREGG
EDGAR



The word “unprecedented” has been overused in the COVID era, but it simply is the best word to capture what happened to the Arizona Lottery in FY20. Record sales, near-record transfers to our beneficiaries, record commissions paid to retailers and record prize payouts to our players are the legacy of FY20, a legacy built on a solid foundation of taking action in community service in these difficult times.

The Arizona Lottery began FY20 knowing we would be challenged to overcome record sales in FY19 that were gained largely through a \$1.5 billion Mega Millions® jackpot. With a goal to maintain \$1 billion in gross sales, we focused our efforts on the growth of our instant products through expansion of our Scratchers® and Fast Play™ lines. Over the ensuing months, we worked hard to achieve that goal introducing new games, new promotions, increased winner awareness and outreach to our players and retailers to make our games fun, exciting and attractive to play.

Over the course of the first six months of FY20, the multi-state games failed to produce jackpots on a scale that the lottery industry had become accustomed to and Arizona Lottery saw additional challenges for growth.

We stayed focused on our goals and by January we were seeing 6 percent growth in our Scratchers line.

In March, the COVID-19 pandemic struck Arizona, forcing businesses across the state to close their doors and either fire, furlough, or cut the hours of their workers. Arizonans were hurting and the Arizona Lottery began looking for opportunities where we could positively impact our communities.

So we focused our Gives Back efforts on those organizations and programs that were facing the greatest COVID-19 related resource gaps, as well as marketing campaigns aimed at assisting individuals (through prize giveaways) who had the least amount of expected help from other sources.

As part of the \$500,000 we gave back to Arizona charities and nonprofits in FY20, we were able to direct emergency funding to the Central Arizona Shelter System (CASS) to help them address the pandemic-enhanced needs of the homeless community. We used Gives Back dollars to help the Arizona Association of Foster and Adoptive Parents (AZAFAP) to get bicycles and other recreational items into the hands of vulnerable children locked down at home and unable to get out and go to school. We also used Gives Back Dollars to raise awareness and funds for Local First Arizona’s efforts to keep small businesses in business through micro-loans.

For everyday Arizonans, we were able to develop social media promotions that allowed players to nominate first-responders, educators and restaurant workers—some of the folks most affected by the economic downturn that came at the start of the pandemic—to receive small but significant prizes that helped hundreds to pay their bills and help keep Arizona’s economy going.

All of this was made possible by our players, who put on their masks, socially distanced themselves and spent their hard earned dollars to be entertained and dream of hitting it big. As more of them stayed home, unable to go to the movies, bars, restaurants and other social gatherings, they turned to the Arizona Lottery to fill that entertainment gap and fill it we did, with new and appealing promotional, Players Club and Second Chance opportunities to meet increased player demand for our products during pandemic. Playing Lottery games is one of the more rewarding and exciting entertainment options conducive to social distancing and, with people looking for hope and a thrill, they found both. In FY20, those players won more than \$1 billion in prizes, setting yet another record!

We saw this unprecedented success, in large part, by putting players and retailers first in our response to COVID-19’s new business “normal”. We installed new claims windows in both our Phoenix and Tucson offices and instituted mask requirements and an appointment system. We also temporarily operated curbside claims and are looking at adding a drive-thru at a new Tucson location. We also opened a new redemption location in the Walmart Supercenter in Kingman, making it even more convenient for Northern Arizona Lottery winners to claim their winnings. These changes were designed to mitigate the danger of our players spreading or catching the virus as a result of their good fortune.

Arizona Lottery retailers sat squarely on the frontlines of the COVID response. Many of our smaller retail partners faced challenges just keeping their doors open, much less keeping their financial commitments to the Lottery, so we helped shoulder some of that burden by extending the time they had to pay us for product and easing some of the terms of that repayment. That partnership is paying off for the people of Arizona, as many retailers remained open, keeping Arizonans employed and generating the economic activity vital to our state’s success.

Though there were calls for the agency to stop operations, the Arizona Lottery serves those most affected by the COVID virus. With creative thinking, and working closely with our retail partners, the Arizona Lottery generated over \$226 million for our 18 legislatively mandated beneficiaries, vital programs that would rely on tax dollars were it not for Lottery dollars. These programs administer everything from homeless shelters, to support for needy families, to starting and growing businesses in Arizona. One example is the Court Appointed Special Advocates (CASA), which saw a \$4.38 million increase in funding from the Arizona Lottery as a result of a \$14.6 million unclaimed The Pick™ winning jackpot ticket.

The Arizona Lottery surpassed our FY20 sales goal with \$1.09 billion in revenue (a \$13 million increase over FY19) and surpassed our beneficiary transfer goal, coming in at just over \$226 million.

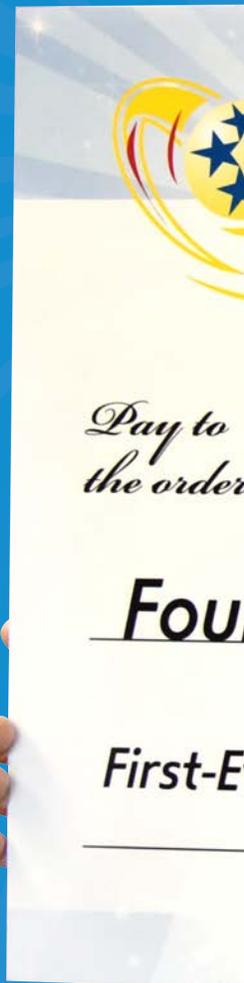
Looking ahead to FY21 and beyond, the Arizona Lottery is positioned to do even more by launching the Quickcard™ Powerball® in-lane purchase option, allowing shoppers to purchase Powerball tickets quickly and easily from store cashiers as they purchase their groceries and other merchandise. Developments and innovations like these will allow us to continue our support for our community through this COVID-19 pandemic and beyond, by providing novel and entertaining games for our players that help to fund a better quality of life for communities across the Grand Canyon State.



Gregory R. Edgar
Executive Director, Arizona Lottery

WINNER STORIES

A married couple in Glendale, Arizona took home close to a quarter of a billion dollars, choosing the lump-sum cash option for their jackpot-winning \$414 million Mega Millions ticket after playing the lottery regularly for the past 38 years. She says that, when she checked her numbers and saw that she had won, she began yelling, "Oh my God, oh my God, oh my God!" and ran through the house to tell her husband, who says he still can't believe they won. "It's an amazing feeling, and this is proof that you can't win if you don't play," he says. "I feel lighter now and it's incredible to know that there will never be another bill that I can't pay." Now that they've won, the couple plans to pay off their mortgage, set aside enough money to provide for their children and grandchildren, and invest and enjoy the rest.



ANONYMOUS – GLENDALE
MEGA MILLIONS®, \$414 MILLION
JUNE 2020



Arizona Lottery

Date 6/9/2020

of Mega Millions Jackpot Winner | \$ 410,000,000

r Hundred Ten Million and ⁰⁰/₁₀₀ Dolla

ver Arizona Mega Millions
Jackpot Winner!

Arizona Lottery





**DEXTER & LOUISE B. - DEER VALLEY - \$250,000 -
SCRATCHERS - OCTOBER 2019**

Dexter and Louise are thrilled at their good fortune. They say they are excited to buy a house and a new truck for their family business.



**DERJUAN JONES - GLENDALE - \$250,000 -
SCRATCHERS - SEPTEMBER 2019**

Derjuan was so excited after his big quarter-million dollar Scratchers win that the first thing he did was call his mom.



**TAMARA KELLEY - MESA - \$100,000 -
Scratchers - JUNE, 2020**

Tamara is looking forward to doing something positive for her community.



**KIMBERLY CLARK - CASA GRANDE - \$100,000 -
SCRATCHERS - JULY 2019**

Kimberly is thrilled to be able to pay off debts, landscape her backyard, and invest the rest!



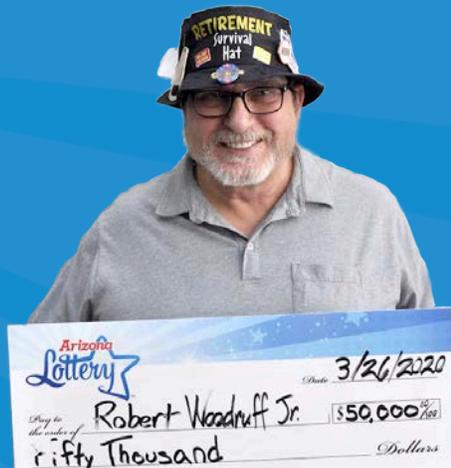
**TAYLOR SIMS - MESA - \$100,000 -
SCRATCHERS - JULY 2020**

Going to use his win for the down payment on a house and to pay off his debts.



**CHRISTMAS PARTY PAYOUT - APACHE JUNCTION
- \$50,000 SCRATCHERS - DECEMBER 2019**

These coworkers all received the winning ticket from their manager as a gift at their office's holiday party!



**ROBERT WOODRUFF - GLENDALE - \$50,000 -
SCRATCHERS - MARCH 2020**

With so much time on his hands at home, Robert says he definitely plans to change some things for the better!

TICKET FEATURE | \$20 MILLION BLOWOUT



Players were blown away in FY20 by the Arizona Lottery's \$20 Million Blowout Scratchers® ticket. More than \$20 million in cash prizes, including 24 top prizes of \$50,000, gave players the best odds of winning \$50,000 out of any of the year's Arizona Lottery Scratchers games. Loaded exclusively with prizes \$30 and above, every winner was guaranteed to win their money back. The \$20 Million Blowout Scratchers kicked off in December 2019 and sold more than \$26.5 million!

RETAIL PARTNERS

The Arizona Lottery is proud to have a network of more than 3,000 retailers across the state. These accessible locations create an exciting experience and lasting relationship for their loyal customers.

To find the nearest retailer, visit ArizonaLottery.com/Retailers

RETAILER COMMISSION & BONUS

As an Arizona Lottery retail partner, every store receives a 6.5 percent commission on all Lottery sales, one of the highest commission rates in the country. Retailers also have the opportunity to earn an additional 0.5 percent performance incentive, as well as a variety of additional incentives through Lottery promotions.

In FY20, the Arizona Lottery paid more than \$74.5 million in commissions to retailers across the state.



Players benefit while shopping at an Arizona Lottery retailer, and the retailer benefits through increased traffic to their store, selling more products and building lasting relationships with their customers. Since its inception, the Arizona Lottery has paid over \$1 billion in commissions to its retail partners.

In addition, retailers who sell higher-tier prize winning tickets (\$1 million or more Powerball® & Mega Millions®, The Pick™ jackpot winner, select Scratchers tickets) win bonuses of up to \$50,000. In FY20, retailers earned bonuses totaling close to \$2.2 million. One of these bonuses was the \$50,000 paid to Circle-K as the retailer that sold the \$414 million Mega Millions jackpot winner. Circle-K generously donated that money to their featured charity, United Cerebral Palsy of Central Arizona, benefiting children suffering from a variety of physical and mental disabilities.

For licensing and licensing renewal information, please contact **480.921.4486** or visit ArizonaLottery.com

ARIZONA LOTTERY GIVES BACK

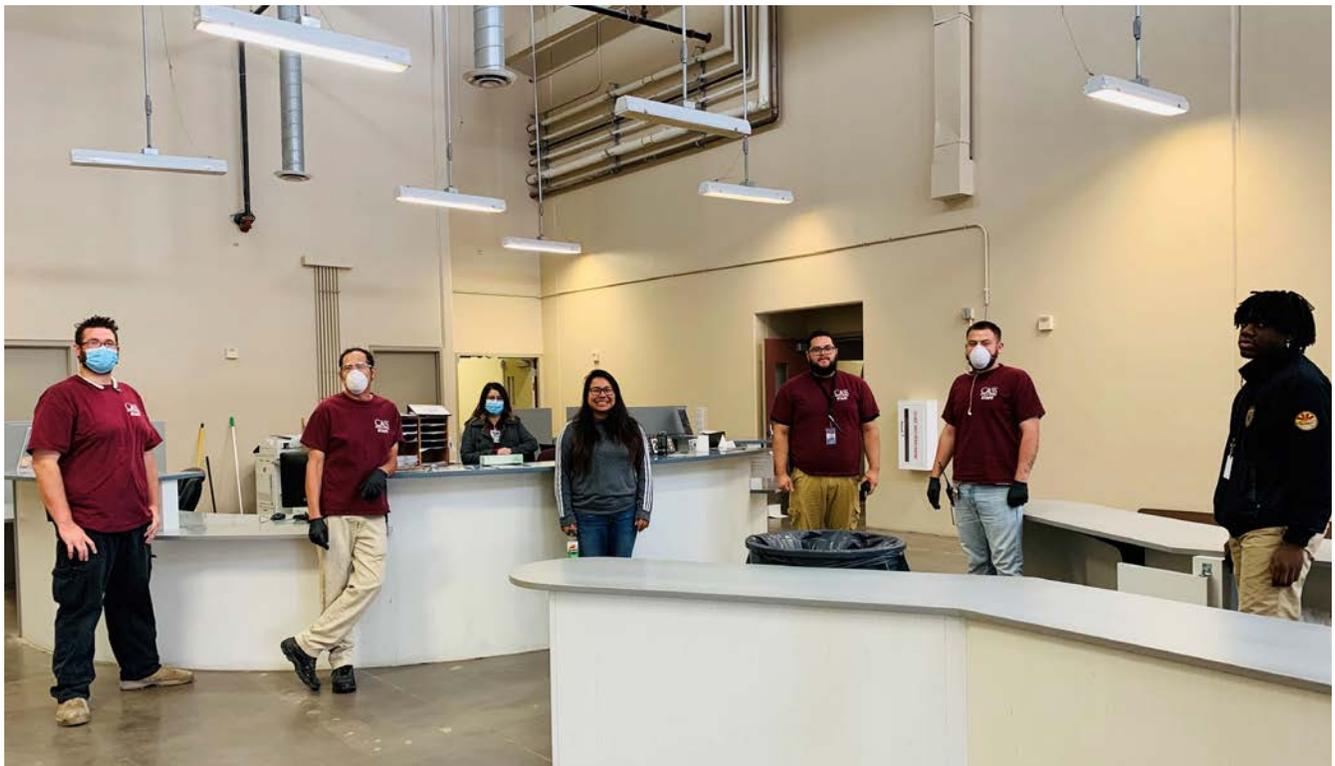
The Arizona Lottery exists to do good in our community, and one way in which the agency fulfills that mission is through sponsorship of various nonprofit organizations. These organizations are all dedicated to support the needs of our most vulnerable citizens, grow our economy, protect and preserve our iconic wildlife and landscapes, and to build and maintain our public universities' facilities and infrastructure. Two examples of these sponsorships from FY20 are the Arizona Association of Foster and Adoptive Parents and Central Arizona Shelter Services.

The **Arizona Association of Foster and Adoptive Parents (AZAFAP)** has been serving the foster, adoptive and kinship families who care for Arizona's most vulnerable children since 2003. Their Recycle Your Bicycle (RYB) program delivers hundreds of new and refurbished bicycles to foster families, every year, for the exercise and enjoyment of foster children, an expense that is not included in the state's payments to foster families. Over the ten-year history of the program, RYB has provided more than 10,000 bicycles for foster and adoptive families. For children and youth in foster care, bikes provide freedom, exercise, transportation to work and school, and a chance to have fun. The Arizona Lottery partnered with RYB to build and deliver 300 new bicycles, complete with helmets, to foster children in Maricopa County. This was especially meaningful for these families, as the COVID-19 pandemic had limited their recreational options and made bicycles difficult for them to obtain due to increased nationwide demand. "Thanks to the support of the Arizona Lottery, we gave hundreds of bikes to children in foster care with no other way to receive a bike," said Joe Jacober, Bike Coordinator for Recycle Your Bicycle. "We are grateful to the Arizona Lottery and all Arizonans for their support of children in foster care." The event not only improved the health and wellbeing of these children and their families, it also resulted in extensive media coverage, an uplifting story for many at a time when everyone is looking for some good news.

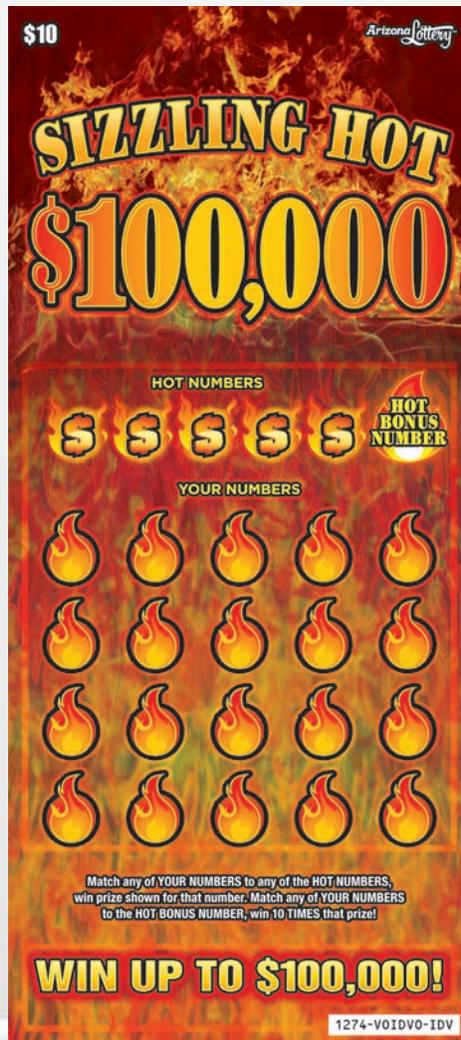


Central Arizona Shelter Services (CASS) works towards ending homelessness in our community. CASS is the largest and longest serving homeless emergency shelter provider in Arizona, and both adult and family shelters are operating at full capacity 24/7, 365 days of the year to provide something to eat and a place to sleep for thousands who all too often remain hidden in society and whose chronic needs are often unmet.

When the COVID-19 pandemic struck, this population has proven to be especially vulnerable to the virus, presenting a real health emergency to themselves and those around them. Considering the already difficult conditions that CASS works in, and the added strain that social distancing and enhanced hygiene concerns were placing on the system, CASS issued a blanket call to the community for help and the Arizona Lottery answered. Money from the Lottery purchased cleaning supplies and protective gear, educated all shelter clients on proper cleanliness procedures, ensured daily and weekly professional deep cleaning for the shelter and provided additional support for front line shelter staff and facilities teams. "During this uncertain time, CASS has taken on a heavy financial toll on top of an already tight budget and this donation is life-saving for our staff and clients," said Lisa Glow, Chief Executive Officer of CASS. "We are incredibly appreciative to have the Arizona Lottery join us to keep our community's most vulnerable neighbors safely sheltered." These funds not only made a significant difference in mitigating COVID-19's spread through Arizona's homeless population and safeguarded the health of shelter workers and the general public coming into contact with them, they also attracted significant press attention, resulting in another excellent opportunity to tell the Arizona Lottery's story to the broader public.



TICKET FEATURE | SIZZLING HOT \$100,000



The heat was turned way up for players FY20 with the Arizona Lottery's Sizzling Hot \$100,000 Scratchers® ticket. Players matched their numbers to the hot numbers to win up to \$100,000. This game sizzled for the Arizona Lottery, as well, with over \$12.5 million in sales!

TICKET FEATURE | LOTERIA GRANDE



Arizona Lottery players spiced up their game and won up to \$50,000 with the Loteria Grande ticket. Loteria Grande is the latest in a series of Scratchers games that the Arizona Lottery has developed to showcase the Grand Canyon State's art and culture in ways that celebrate our Hispanic heritage, with artwork that reflects our diversity, while giving players a fun opportunity to win big and do good in their communities.

PRODUCT INNOVATION

The Arizona Lottery gives players a wide array of entertaining games specifically created to enhance the play experience by exciting their senses, rewarding their play and introducing new players to Lottery products. These include:

DRAW GAMES

Arizona Lottery draw games continued to be popular with players in FY20. In a first for Arizona, one lucky player bought a Mega Millions® jackpot winner worth \$414 million! This helped offset steep sales declines in both Powerball® and Mega Millions, as both games reduced their beginning jackpots and jackpot rollover rates as a result of declining sales due to the COVID-19 pandemic. Arizona's own draw game, The Pick™, saw similarly steep declines. Even so, players were well rewarded for their play, including one Arizonan who hit the game's highest jackpot in FY20, \$4.8 million on February 8. Fantasy 5™ held its own in the face of this downward sales trend, totaling over \$19.7 million with multiple half-million dollar jackpots won by lucky players. Two draw games not only dodged losses in FY20, but actually saw big sales increases. Pick 3™ sales totaled almost \$14.4 million in FY20, an increase of 17.1 percent over FY19. The big winner was Triple Twist™, with over \$20 million in sales for an increase of more than 132 percent from FY19. Triple Twist also had its highest jackpot winner ever, \$3.7 million won on April 18.



INSTANT

In FY20, Instant Tabs were a strong, if a mixed bag, as charitable and non-charitable retailers faced the challenges presented by the COVID-19 pandemic and its related closures. Charitable retailers, consisting of veterans and fraternal organizations, earn a 20 percent commission on every sale, helping contribute to causes important to them and their community. Approximately 150 charitable organizations sold over \$5.4 million in Instant Tab tickets, a decrease of 26.5 percent over FY19. A total of 120 non-charitable retailers, consisting primarily of bars and restaurants, saw a healthy increase in sales, up 3.9 percent over FY19, with more than \$2.6 million in sales.



Scratchers sales soared, reaching a record \$848.4 million in FY20, a 13.1 percent increase over the previous fiscal year! A total of 51 new Scratchers games were introduced in FY20, with the most popular continuing to be Crossword and Bingo style games. These amounted to almost \$219 million in sales and represented over a quarter of all FY20 Scratchers sales. In fact, four of the top ten grossing Scratchers games of FY20 are Crossword and Bingo style games, representing seven of the top ten games in number of tickets sold. The \$20 “\$215 Million Cash Explosion” game accounted for more than 13 percent of total Scratchers sales for FY20.

The Arizona Lottery also joined Texas, New Mexico and Illinois in introducing the “Route 66 Road to \$1,000,000” Scratchers game and Second Chance promotion, with gorgeous photography of Arizona sights along the “Mother Road” and chances to win \$500 cash prizes, staycations throughout the Grand Canyon State, or a VIP trip to Los Angeles in 2021 with a chance to win up to \$1 million. Other notable introductions in FY20 included one Hispanic-themed game, “Loteria Grande,” featuring the artwork of Arizona-based artist Emily Costello.



FAST PLAY™

The Arizona Lottery saw big sales gains with Fast Play, introduced in FY18, which combines the best of a draw game and the best of an instant-win scratch ticket. By building on previous years’ successes with six new games, including the first holiday ticket and the first \$20 ticket (expanding the portfolio to 18 with five progressive jackpots), FY20 Fast Play sales totaled close to \$28.6 million, outpacing FY19 by a weekly average of 59 percent. Since the introduction of Fast Play to the Arizona market, over 15 million Fast Play tickets have been sold, generating more than \$54 million in total gross sales through June 30, 2020.



MARKETING ACHIEVEMENTS

The Arizona Lottery Marketing team brought forward a number of innovative and effective promotions, online player tools and advertising campaigns that directly contributed to FY20's record sales and our returns to beneficiaries.

The Arizona Lottery is a recognized thought leader and center of excellence in the Lottery Industry. In FY20, the Arizona Lottery published a major white paper on our Triple Twist™ game, offering invaluable research and guidance to other lottery jurisdictions, informing them on best practices when introducing this game to their players. The Arizona Lottery also published multiple industry articles and blogs, and participated in numerous webinars. All of these worked to inform industry and business professionals about our efforts to fulfill our state-mandated mission. The Arizona Lottery was also celebrated by several professional lottery and marketing organizations in FY20, receiving more than a dozen awards, including:

- Southwest Chapter of the National Academy of Television Arts and Sciences **Rocky Mountain Emmy Awards**
- American Advertising Federation **Gold, Silver & Bronze ADDY Awards** for numerous commercial and public relations campaigns ranging from television commercials, to billboards, to an exhibit at the State Capitol Museum
- Arizona Innovation Marketing Association (AZIMA) - **TIM Award**
- Public Relations Society of America - **Copper Anvil Award**
- LaFleur's magazine **Fleurry Award** - excellence in lottery television advertising, Triple Twist
- NASPL - **Batchy and Hickey Awards**



These awards recognized our industry-leading creativity and innovation, having brought originality and trailblazing creative through OH Partners (Arizona Lottery's advertising agency of record) to our campaigns and products.

As amazing as this recognition is, it represents only one half of the marketing equation. Earned media (publicity that is not paid advertising) is vital to the Arizona Lottery's ability to tell its story and reach out to all Arizonans to inform them of the good that the Lottery does for them and our community. In FY20, the Arizona Lottery's efforts to give back to nonprofit organizations across the state, news of multiple initiatives and promotions, and our outreach on the unclaimed \$14.6 million The Pick™ jackpot and Arizona's \$414 million Mega Millions® jackpot winner garnered \$6.2 million in earned media in FY20. These efforts augmented our paid advertising budget and helped the Lottery set new sales records.

ArizonaLottery.com, relaunched in FY19, saw numerous updates and improvements to enhance the user experience in FY20. These were recognized by both the North American Association of State and Provincial Lotteries (NASPL) as Best Website for excellence in offering players valuable Internet information for improved player behavior and for enhancing the lottery's image and player loyalty, and with the Center for Digital Government's 2020 Government Experience Award for our website and mobile advancements to better serve citizens. ArizonaLottery.com continues to be a wealth of information for players and the general public, with all the information anyone needs to understand and play Arizona Lottery draw and instant games available to an internet audience that is also equipped with smartphones and other online devices. ArizonaLottery.com is optimized for mobile use and sees more than one million visits every month.



The Arizona Lottery's Players Club website was home to several successful Second Chance promotions, tied to our draw, Scratchers® and Fast Play™ games, in FY20, including "Million Dollar Giveaway" and "Beat the Heat." In "Million Dollar Giveaway," 360 lucky players each won \$500 and two people took home a cool \$1 million (annuity) grand prize. In "Beat the Heat," three winners in each of the weekly drawings won 10X, 100X and 1,000X the hottest recorded temperature. Second Chance promotions also proved popular with draw game players, including 25 Arizona winners jetting off to New York City to be a part of Dick Clark Productions' New Years' Rockin' EveSM and a chance to win big by becoming the First Powerball Millionaire of the YearSM in 2020.



Finally, the Arizona Lottery's partnership with the Arizona Diamondbacks saw continued success in FY20. The Arizona Lottery sponsors their 50/50 raffle, where one lucky ticket holder wins half of the money from raffle sales during every home game and the other half is donated to a Diamondbacks beneficiary charity. That has, over the years, resulted in hundreds of thousands of dollars for fans and for these charities, some of which are also Arizona Lottery beneficiaries.

Effective, high quality, marketing and public relations efforts maximize the Arizona Lottery's growth and brand awareness, boost ticket sales and increase the returns to our beneficiaries, which raise the level of service and protection that can be provided to all Arizonans.

ARIZONA FAST FORTUNE

WIN UP TO \$50,000

Match any of YOUR SYMBOLS to any of the WINNING SYMBOLS to win PRIZE shown directly below that symbol. Find a symbol, win DOUBLE the PRIZE shown directly below that symbol.

WINNING SYMBOLS

WOLF

AGAVE

LIZARD

SAGUARO

YOUR SYMBOLS

 WHEEL \$50.00 FTYDOL	 CATCHER \$50,000 FTYTHOU	 RATTLER \$15.00 FTNDOL	 QUAIL \$40 FRYD
 SUN \$100 ONEHUND	 JAVELINA \$20.00 TWYDOL	 JALAPENO \$400 FORHUND	 BOO \$10 TEND
 CANYON \$10.00 TENDOL	 CACTUS \$5,000 FIVTHOU	 SOMBRERO \$5.00 FIVDOL	 HORSE \$15 FTND
 FULL SUN \$500 FIVHUND	 SALOON \$5.00 FIVDOL	 DREAMCATCHER \$1,000 ONETHOU	 COWBOY \$10 TEND

Overall odds of winning 1 in 3.40
Visit ArizonaLottery.com for complete game rules.
Prizes subject to prior sales.
Prizes expire 180 days from purchase date.

Cherry Twist

PROGRESSIVE

PROGRESSIVE JACKPOT STARTS AT \$5,000
CURRENT JACKPOT: \$XX,XXX

GAME INSTRUCTIONS:
Get 3 identical symbols in the same SPIN, win PRIZE for that SPIN. Find a symbol, win PRIZE shown for that SPIN automatically. Each SPIN is played separately.

SPIN 1				\$100 ONEHUND
SPIN 2				\$50.00 FTYDOL
SPIN 3				\$5.00 FIVDOL
SPIN 4				Progressive Jackpot!
SPIN 5				\$10.00 TENDOL
SPIN 6				\$200 TWOHUND
SPIN 7				\$20.00 TWYDOL
SPIN 8				\$10.00 TENDOL
SPIN 9				\$5.00 FIVDOL
SPIN 10				\$1,000 ONETHOU

Overall odds of winning 1 in 3.39
Visit ArizonaLottery.com for complete game rules.
Prizes subject to prior sales.
Prizes expire 180 days from purchase date.

Arizona Fast Fortune and Cherry Twist Progressive were just two games in a long lineup of Fast Play tickets that had Arizona Lottery players winning fast and big in FY20. Fast Play combines the best of draw and instant tickets, offering players all of the speed of an instant game, often with the progressive jackpots of a draw game. Fast Play was a big winner for the Arizona Lottery too, exceeding \$28.5 million in sales!

BENEFICIARY TRANSFERS

State law mandates exactly how Arizona Lottery ticket sales directly fund agencies and programs that work to make our state a better place to live, work and play. Lottery transfer dollars go to 13 funds, reaching 18 different programs. These beneficiaries include:

FY20 BENEFICIARY TRANSFERS		
	General Fund	\$129,250,804
	University Bond Fund	\$39,436,675
	Healthy Arizona	\$21,882,600
	Mass Transit (LTAF)	\$11,473,200
	Heritage Fund	\$10,000,000
	Commerce Authority Arizona Competes Fund	\$3,500,000
	Court Appointed Special Advocates (CASA)	\$8,050,385
	Economic Security Homeless Services	\$1,000,000
	Internet Crimes Against Children/ Victims' Rights Enforcement Fund	\$1,000,000
	Department of Gaming	\$300,000
	Tribal College Dual Enrollment Fund	\$250,000
Total Beneficiary Transfers		\$226,143,664

OUR BENEFICIARIES

UNIVERSITY BOND FUND

Used for the University Capital Improvement Lease-to-Own and Bond (UCI) Fund, these dollars to date have provided valuable debt service for almost \$225 million in financing. This money has allowed the university system to build out critical research and academic expansions while also addressing deferred maintenance on older buildings.

HEALTHY ARIZONA

This unique fund, administered by the Department of Health Services, impacts five different programs across Arizona that assist individuals and families with health-related needs. The various programs that benefit from this fund include Women, Infants and Children (WIC), Arizona Area Health Educational Centers, HealthyStart, Pregnancy Prevention and the Arizona Biomedical Research Commission.

LOCAL TRANSPORTATION ASSISTANCE FUND

The Local Transportation Assistance Fund was established in 1981 and is supported by the Arizona Lottery. Money from Arizona Lottery ticket sales goes to cities and towns in Maricopa County for public transportation. This fund is expanding neighborhood bus routes and light rail for everyone, especially older adults, people with disabilities and low-income residents who are most affected by limited transportation options.



HERITAGE FUND

The Heritage Fund is used to protect endangered species, acquire habitat for the benefit of sensitive species, provide access to outdoor recreational opportunities and educate children and adults about wildlife. The Heritage Fund is critical to recovering and sustaining Arizona's unique native wildlife and to managing more than 800 species. For nearly 30 years, the fund has contributed to significant and nationally-recognized wildlife conservation success stories, including the Bald Eagle Nestwatch Program, acquiring 18,000 acres of land for wildlife conservation and public enjoyment, the reintroduction of critical species to Arizona and much more.

COMMERCE AUTHORITY ARIZONA COMPETES FUND

The Arizona Lottery contributes to the Arizona Competes Fund, which awards grants for attracting, expanding or retaining Arizona's core enterprises. These vital funds also support and advance programs for rural businesses, small businesses and business development projects that enhance Arizona's economic development.

COURT APPOINTED SPECIAL ADVOCATES OF ARIZONA

Court Appointed Special Advocates (CASA) volunteers are everyday people appointed by a judge to speak for abused and neglected children in court. CASA trains and supports these qualified and compassionate adults to fight for a child's right to be safe, to be treated with dignity and respect, and to learn and grow in the security of a loving family. CASA of Arizona and its volunteers have been advocating for abused and neglected children in Arizona for over 30 years and have served more than 25,369 children. CASA strives to ensure that society is fulfilling its most fundamental obligation to children in need.



HOMELESS SERVICES

Administered by the Department of Economic Security, this fund is used to provide grants to nonprofit organizations for homeless emergency programs, transitional shelters, rapid re-housing and rental assistance. These programs focus on placing Arizona's homeless in permanent housing and advocate for homelessness prevention education across Arizona.

INTERNET CRIMES AGAINST CHILDREN TASK FORCE

The Internet Crimes Against Children Task Force program helps state and local law enforcement agencies develop an effective response to cyber enticement and child pornography cases. Funds support forensic and investigative components, training and technical assistance, victim services, and community education. The Arizona Internet Crimes Against Children Task Force is composed of investigators from city, county, state and federal agencies. Special emphasis is placed on locating, prosecuting, and imprisoning people who intentionally exploit children. Led by the Phoenix Police Department's Internet Crimes Against Children Unit, the AZICAC Task Force diligently pushes to fulfill this goal with highly trained and professional investigators and cutting edge forensics and technology.

VICTIMS' RIGHTS ENFORCEMENT FUND

The fund, administered by the Department of Public Safety, benefits the Arizona Attorney General's Office of Victim Services. Primary focuses of the fund are providing legal representation to enforce the rights of crime victims as counsel of record in criminal cases, as well as providing social services to assist crime victims during the course of legal representation.

DIVISION OF PROBLEM GAMBLING

Through the Arizona Department of Gaming, the Office of Problem Gambling provides and supports effective problem gambling prevention, treatment and education programs throughout Arizona. The Arizona Lottery helps support a sustainable continuum of services that reduces the impact of problem gambling in Arizona. These include the Arizona Gaming Department's annual Problem Gambling Symposium, which helps train professionals to identify and treat the issues that can lead to irresponsible gaming. The Division of Problem Gambling strives to accomplish its mission by being culturally sensitive and responsive to the needs of partners and those it serves. They focus on being professional, collaborative, equitable and innovative in their solutions to address problem gambling.

TRIBAL COLLEGE DUAL ENROLLMENT PROGRAM FUND

Administered by the Department of Education, the Tribal College Dual Enrollment program provides choice and access to higher education for Native American high school students. The program gives students the opportunity to take a college course for both high school and college credit.

HEALTHY FAMILIES ARIZONA

The Department of Child Safety's Healthy Families Arizona is a voluntary home visitation program that serves pregnant women and families of newborns. Program services are designed to strengthen families during the critical first years of a child's life. Through its efforts to support and educate families, the program has shown to reduce incidences of child abuse and neglect, provide stability for at-risk families and has grown a new generation of healthy families in the state.



OUR LEADERSHIP

The people who direct the Arizona Lottery through ongoing strategic planning and continued process improvement are guided by its core values: Integrity, Transparency, Teamwork, Customer Service, Mutual Respect, Accountability, Innovation, Commitment and Passion. These are more than words: They are a roadmap to continued success, creating a culture of teamwork and professional staff development. Abiding by these values has allowed us to realize incremental sales growth and subsequent monetary transfers to fund significant programs across Arizona.



Gregory Edgar
Executive
Director



Sherri Zendri
Deputy Director:
Legal Services



Chris Rogers
Deputy Director:
Marketing and
Products



Russ Harben
Deputy Director:
Operations



Raynie Hosto
Deputy Director:
Customer Service
and Sales

COMMISSION

The Arizona Lottery's Board of Commissioners works alongside the Lottery's leadership team to manage the agency. The five members are appointed by the Governor and serve for a term of five years. Each commissioner brings their own life and professional experiences and expertise to their roles and each is responsible for a unique aspect crucial to conducting, administering and regulating the Arizona Lottery. The Commission also ensures the Lottery makes decisions that maximize sales, providing increased funding for important programs that serve every corner of our state.



Jeff Weintraub
Chair
Represents: CPA



Chad Wilson
Vice-Chair
Represents:
Marketing



Trent Crump
Commissioner
Represents: Law
Enforcement



Debbie Roth
Commissioner
Represents:
Retail



Julie Katsel
Commissioner
Represents:
The Public at Large

*REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS*

FOR

**Arizona State Lottery
A Proprietary Fund of the State of Arizona**

June 30, 2020

Independent Auditors' Report

To the Commissioners of
Arizona State Lottery
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Arizona State Lottery (the Lottery) (a proprietary fund of the State of Arizona), as of and for the year ended June 30, 2020, and the related notes to the 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.

Auditors' 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 auditors' 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 accounting 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 business-type activities of the Arizona State Lottery as of June 30, 2020, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Annual Report

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Lottery's annual report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2020, on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Lottery's internal control over financial reporting and compliance.

Henry + Horne, LLP

Tempe, Arizona
November 5, 2020

**ARIZONA STATE LOTTERY
A PROPRIETARY FUND OF THE STATE OF ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

This discussion and analysis of the Lottery's financial statements is a required component of financial reporting under *Governmental Accounting Standards* and was prepared by Arizona Lottery Management. It provides an overview of financial activities as of and for the year ended June 30, 2020 and should be read in conjunction with the Lottery's financial statements and notes to the financial statements.

This annual report consists of three types of financial statements and accompanying notes that provide explanations and details of accounting policies, account balances and activities. Account balances and activities are shown as of and for the year ended June 30, 2020. The statement of net position; the statement of revenues, expenses, and changes in net position; and the notes are presented using the accrual method of accounting. Under this method, financial transactions are recorded when earned or incurred regardless of when cash is received or disbursed. The statement of cash flows reflects cash receipts and disbursements during the same 12-month period.

The statement of net position provides information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Lottery. Assets consist of cash, substantially all held by the State Treasurer, amounts owed to the Lottery from licensed Lottery retailers and other State agencies, ticket inventory, and property. Liabilities represent amounts owed by the Lottery to vendors, to employees for wages and benefits, to prize winners, and to other State funds. Fund net position represents the portion of the Lottery's assets that are not encumbered by liabilities. It serves as an indicator of the net worth of the Lottery.

A summary of the financial results of operations for the 12-month period is presented in the statement of revenues, expenses, and changes in net position. Operating revenues include sales of Lottery tickets, and commissions earned on the sales of Lottery tickets at Lottery offices and special events. Direct costs and administrative expenses comprise the operating expenses section of this statement. Direct costs are variable expenses that fluctuate with the level of sales. Marketing and overhead costs are included in the administrative expenses category.

Non-operating revenues consist of interest earned on prize fund cash investments from the State Treasurer and interest credited to the Lottery's Multistate Lottery Association (MUSL) unreserved account for interest earned on prize reserves at MUSL. The transfers category includes transfers to other state funds as required by Lottery statutes.

The statement of cash flows includes cash receipts and disbursements from operating, noncapital financing, and investment earnings. This statement also includes a reconciliation of operating income presented on the accrual basis of accounting to net cash provided by operating activities. The notes to the financial statements present information on accounting policies, transfers and statutory requirements, commitments, contingencies, and retirement benefits. These notes are an integral part of the financial statements.

**ARIZONA STATE LOTTERY
A PROPRIETARY FUND OF THE STATE OF ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

FINANCIAL HIGHLIGHTS

- Despite the uncertain economic environment due to COVID-19, the Arizona Lottery (Lottery) surpassed the \$1 billion threshold for the second time, achieving record sales of approximately \$1.098 billion in fiscal year 2020. This was an increase of approximately 2% over the prior fiscal year, equating to over \$21 million in additional sales.
- The Lottery returned over \$226 million to designated state programs in fiscal year 2020, with all beneficiaries receiving full funding. Since its inception in July 1981, the Lottery has generated \$4.4 billion for Arizona programs.
- Scratchers game sales were exceptionally strong with record sales of \$848.4 million in fiscal year 2020. This reflects an increase of \$98.1 million over the prior year and a growth rate of 13%. Demand for tickets at the \$10, \$20, and \$30 price points helped drive this sales increase.
- Overall draw game sales declined by 23.7% from the previous year. These games are primarily jackpot-driven, and the jackpot levels reached in FY 2020 did not match the record-breaking levels attained in FY 2019. However, the first full year of Triple Twist and the introduction of new price points for Fast Play together generated an impressive 84% increase over the prior year and served to partially mitigate the decline of other games.
- The instant tab product line suffered in the latter part of FY 2020 as a result of COVID-19 and the corresponding closure of age-restricted establishments, charitable groups and fraternal organizations, the primary sales venues for these games. Sales decreased by over \$1.8 million from the prior fiscal year, representing a decline of almost 19%.
- The Lottery's retail partners earned over \$74.5 million in commissions and incentives in fiscal year 2020.

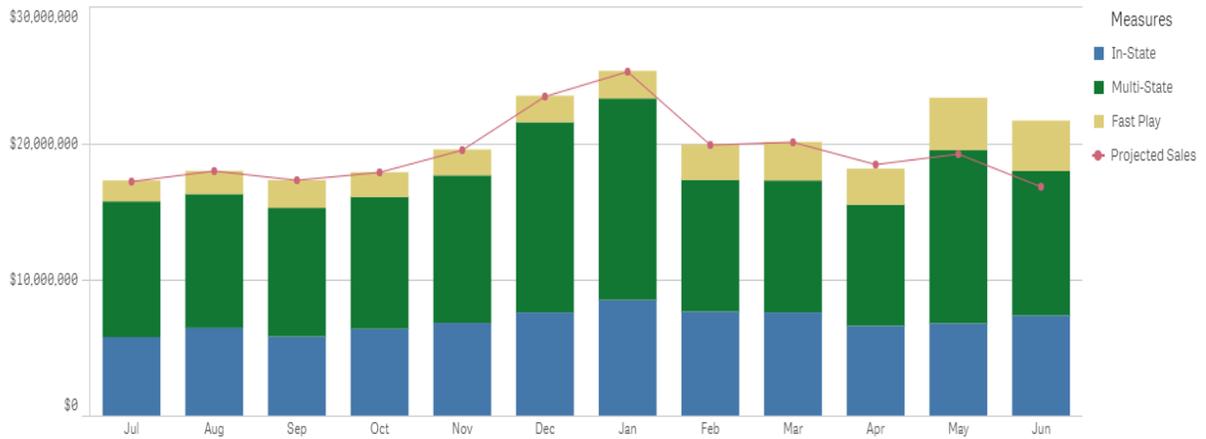
REVENUES

Total game sales were approximately \$1.10 billion for fiscal year ended June 30, 2020 as compared to \$1.08 billion in fiscal year ended June 30, 2019, reflecting a large increase in the instant product line and a decrease for draw game products.

**ARIZONA STATE LOTTERY
A PROPRIETARY FUND OF THE STATE OF ARIZONA
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**

In general, draw game sales are largely jackpot-driven, impacting sales increases or decreases in any given year. Jackpots for both Powerball and Mega Millions in FY 2020 did not reach the levels attained in FY 2019, thereby driving the overall draw game sales decrease of \$75 million from the prior year. This decline was partially offset by impressive increases for Fast Play and Triple Twist of 61.0% and 132.5% respectively. Draw game sales for FY 2020 broken down by multi-state, in-state, and Fast Play are depicted in the following chart.

FY 2020 Draw Sales by Multi-State & In-State

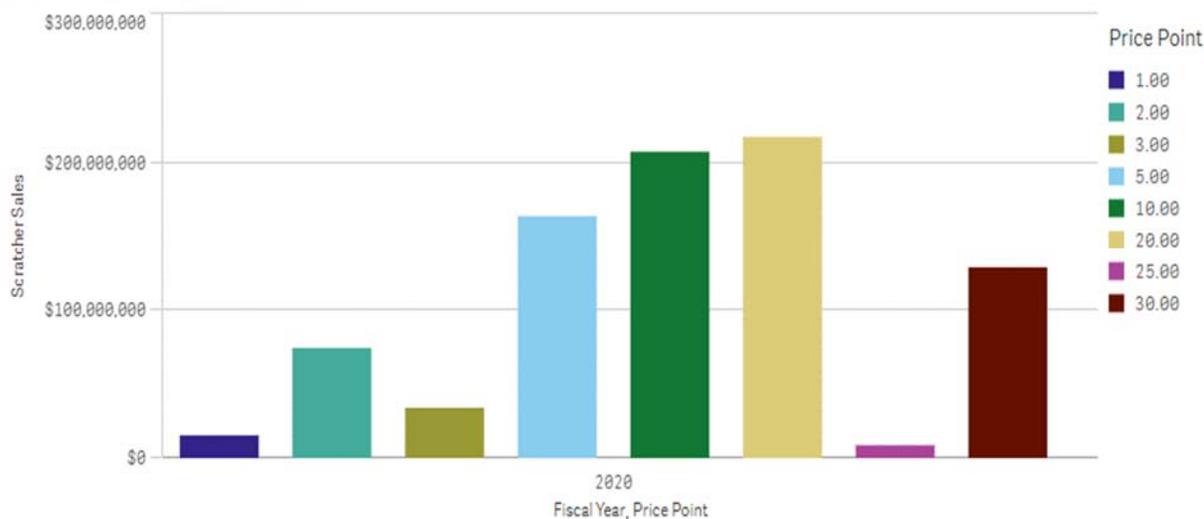


The Lottery closed the year with an overall sales increase of \$21 million, equating to a 2.0% increase over the prior year. The instant ticket product line was the largest contributor to this gain, with sales growth of \$96.3 million over the prior year (\$98.1 million from the Scratchers product line, less a decline of \$1.8 million from instant tab tickets). Continued sales growth in the \$10, \$20, and \$30 price points helped to generate the Scratchers increase, while unexpected establishment closures due to COVID-19 resulted in decreased instant tab sales.

The chart below displays Scratchers sales by price point for FY 2020 and the subsequent table summarizes Lottery total product sales and the incremental change between fiscal years.

**ARIZONA STATE LOTTERY
A PROPRIETARY FUND OF THE STATE OF ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

FY20 Instant Sales by Price Point



Product Sales (in millions)	FY 2020	FY 2019	Change	Percentage
Scratchers	\$ 848.4	\$ 750.3	\$ 98.1	13.1%
Instant Tabs	8.0	9.9	(1.9)	-19.2%
Powerball	72.7	111.2	(38.5)	-34.6%
Mega Millions	57.2	103.0	(45.8)	-44.5%
The Pick	28.9	44.1	(15.2)	-34.5%
Fantasy 5	19.7	19.7	-	0.0%
Pick 3	14.4	12.3	2.1	17.1%
Triple Twist	20.1	8.6	11.5	133.7%
Fast Play	28.6	17.7	10.9	61.6%
Total	\$ 1,098.0	\$ 1,076.8	\$ 21.2	2.0%

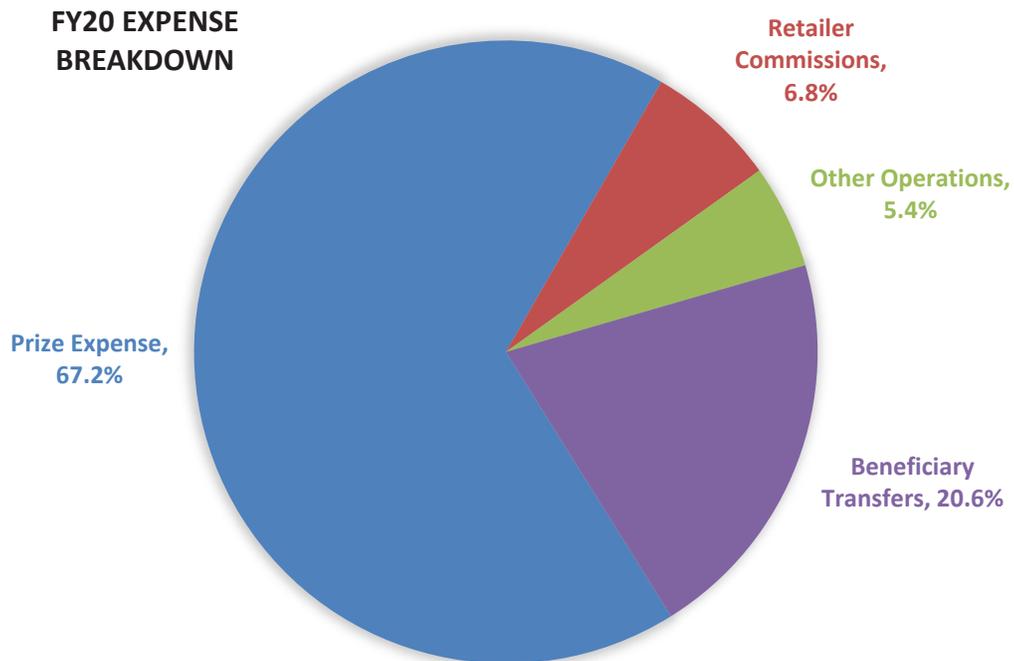
Other operating revenues were \$309,994 for FY 2020, which is primarily composed of commissions earned on the sales of Lottery tickets at Lottery offices and special events, and other miscellaneous revenue. Sales returns and allowances, comprised of damaged tickets and promotional tickets were (\$511,447) for FY 2020. Total operating revenues, the sum of game sales and other operating revenues, less sales returns and allowances were \$1.098 billion for the year ended June 30, 2020, as compared to \$1.077 billion for the year ended June 30, 2019. This increase was a direct reflection of higher overall game sales.

Non-operating revenues (investment income) for the year ended June 30, 2020, were \$635,486 as compared to \$747,094 for the year ended June 30, 2019. Non-operating revenue is comprised of interest earned on invested cash. Extended retailer settlement dates put in place due to COVID-19 created a delay in revenue recognition, which impacted investment income compared to the prior year.

**ARIZONA STATE LOTTERY
A PROPRIETARY FUND OF THE STATE OF ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

EXPENSES

By statute, the Lottery is required to return no less than 50% of annual revenues as prizes and to spend no more than 18.5% of annual revenues on Lottery operations (including retailer commissions). Remaining funds are statutorily dedicated and transferred to various state beneficiaries. The following chart provides a high-level breakdown of Lottery expenses for FY 2020:



Lottery total operating expenses were \$866.6 million for fiscal year ended June 30, 2020 as compared to \$837.5 million for fiscal year ended June 30, 2019. Of this amount, \$839.6 million were incurred in direct support of Lottery games in FY 2020. In comparison, \$809.3 million of total operating expenses for FY 2019 were direct game-related expenses. These expenses include instant and online prize expense, retailer commissions and incentives, instant ticket printing and distribution costs, and vendor compensation for maintaining and supporting the online system.

Other operating expenses not directly related to Lottery game sales include items such as marketing, personnel expenses, depreciation/amortization, and other administrative costs. These expenses totaled \$27.1 million in FY 2020 as compared to \$28.2 million in FY 2019.

**ARIZONA STATE LOTTERY
A PROPRIETARY FUND OF THE STATE OF ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The following table compares Lottery total operating expenses between fiscal years. All expenses are presented in millions of dollars.

Operating Expenses (in millions)	FY 2020	FY 2019	Change	Percentage
Instant & Online Prizes	\$ 737.9	\$ 706.5	\$ 31.4	4.4%
Retailer Commissions & Incentives	74.6	73.1	1.5	2.1%
On-Line System Expense	10.3	13.5	(3.2)	-23.7%
Instant Ticket Distribution Expenses	6.7	6.2	0.5	8.1%
Instant Ticket Printing Expenses	10.1	10.0	0.1	1.0%
Total Direct Costs	839.6	809.3	30.3	3.7%
Other Operating Expenses	27.1	28.2	(1.1)	-3.9%
Total	\$ 866.7	\$ 837.5	\$ 29.2	3.5%

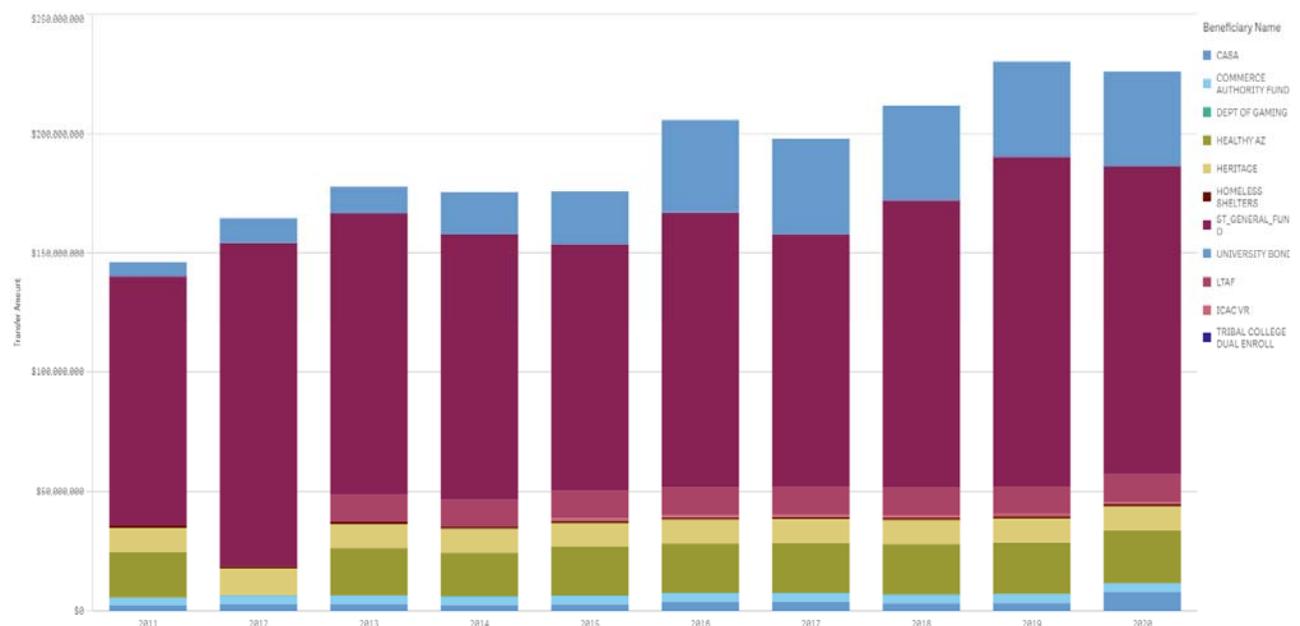
Increases in prize expense, retailer commissions, and ticket printing/distribution are reflective of higher overall sales, while the decrease in online system expenses correlates with lower sales for that product line. Aggregate prize expense represented 67.2% of product sales in FY 2020 as compared to 65.6% of product sales in FY 2019. Prize expense is largely driven by the higher market share of the Scratchers product line, especially the \$20 and \$30 price points, as well as by Fast Play games. These games carry a higher associated prize expense, driving up the cumulative prize percentage.

Of the \$27.1 million for other operating expenses in FY 2020, \$14.3 million was used for advertising and promotion, \$6.6 million was used to compensate Lottery employees, \$3.2 million was depreciation, and \$2.9 million was used for other administrative expenses. In comparison, of the \$28.2 million in other operating expenses for FY 2019, \$15.5 million was used for advertising and promotion, \$5.9 million was used to compensate Lottery employees, \$9 million was depreciation, and \$5.9 million was for other administrative expenses. Lower administrative expenses due to the elimination of one-time system costs, plus reduced advertising/promotional expenses as a result of COVID-19 contributed to the overall decrease for FY 2020.

**ARIZONA STATE LOTTERY
A PROPRIETARY FUND OF THE STATE OF ARIZONA
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**

TRANSFERS TO OTHER STATE FUNDS

Lottery proceeds are statutorily directed to various benefiting funds. Note 3 to the financial statements details the amounts transferred to other State Funds. The Lottery transferred \$226.1 million in FY 2020, as compared to \$230.4 million transferred in FY 2019. The overall year-over-year sales increase was primarily driven by instant games, which have a lower profit margin. As a result, there was a decrease in transferable revenues of \$4.3 million; however, all designated beneficiary programs still received full funding. The total transfer rate as a percentage of sales was 20.6% in FY 2020 and 21.4% in FY 2019. The following chart outlines transfers to Lottery beneficiaries over the last 10 years:



OTHER FINANCIAL INFORMATION

Net Position. The Lottery’s total net position was \$21.0 million at June 30, 2020 as compared to \$15.4 million for June 30, 2019.

The Lottery’s total assets at June 30, 2020 were \$123.4 million, as compared to \$137.5 million the previous year. Assets consisted primarily of cash held by the State Treasurer, net receivables from Lottery retailers for the sale of Lottery products, Scratchers ticket and instant tab inventory, net investment in capital assets, and deposits with MUSL (Multi-State Lottery). The difference was primarily driven by a reduced cash balance - a result of extending the retailer settlement time frame in an effort to assist with hardships created by COVID-19.

Total liabilities at June 30, 2020, were \$103.2 million, as compared to \$122.3 million the previous year. Liabilities consisted of accounts payable and accrued expenses, prize liabilities, amounts due to other state funds, net pension, and deferred inflows related to pensions. This difference was also driven by the settlement date extension as well as prize liabilities.

**ARIZONA STATE LOTTERY
A PROPRIETARY FUND OF THE STATE OF ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The following table summarizes the statement of net position:

Statement of Net Position (in millions)	FY 2020	FY 2019
Current assets	\$ 88.1	\$ 111.4
Capital assets	21.0	15.4
Other assets	14.3	10.7
Total assets	123.4	137.5
Deferred outflows of resources	1.3	1.2
Total assets and deferred outflows of resources	<u>124.7</u>	<u>138.7</u>
Current liabilities	95.7	115.7
Net pension and OPEB liability	7.4	6.6
Total liabilities	103.1	122.3
Deferred inflows of resources	0.6	1.0
Net position	<u>21.0</u>	<u>15.4</u>
Total Liabilities and Net Position	<u>\$ 124.7</u>	<u>\$ 138.7</u>

Revenue Bonds. Laws 2010, Sixth Special Session of the State Legislature, amended Lottery statutes to allow the State to issue Lottery Revenue Bonds. These bonds provide additional working capital to pay appropriated expenditures of the State's General Fund. The bonds are payable solely from and secured by pledged revenues consisting of, until July 1, 2012, amounts distributable to the State General Fund from the Lottery pursuant to Lottery law, and from and after July 1, 2012 all Lottery revenues deposited to the Lottery fund net of Lottery operating expenses. (See Note 3 to the financial statements.)

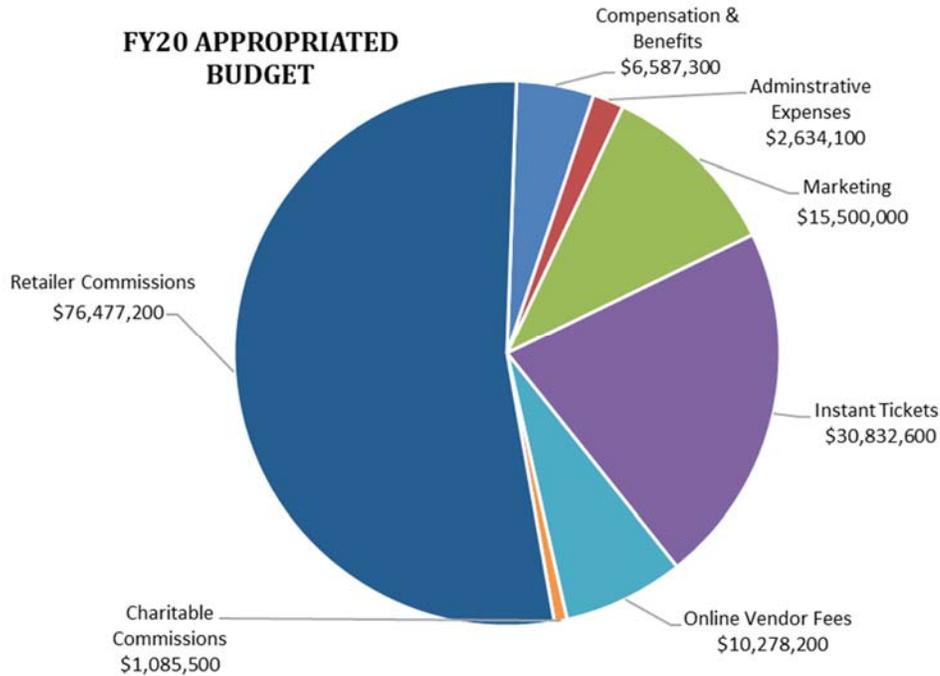
BUDGETARY HIGHLIGHTS

The Lottery's budget is set by legislative appropriation process on an annual basis. The budget for fiscal year 2020 was approved in the regular legislative session of 2019. The Lottery's appropriation for sales-related expenditures is based on approved percentages of projected revenues and is allowed to adjust without a supplemental appropriation request if actual revenues exceed projected revenues. The appropriation does not include an amount for prizes because Lottery statute sets this amount at "not less than 50% of the total annual revenues accruing from the sale of Lottery tickets or shares."

The Lottery's approved appropriation was \$146.8 million for Fiscal Year 2020 based on an estimated \$1.12 billion in total sales, but the spending authority was adjusted to \$143.4 million as a result of actual revenues falling short of original estimates.

**ARIZONA STATE LOTTERY
A PROPRIETARY FUND OF THE STATE OF ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The following chart depicts the fiscal year 2020 appropriated budget based on actual sales:



CONTACTING THE LOTTERY'S FINANCIAL MANAGEMENT

This management's discussion and analysis (MD&A) is designed to provide Arizona citizens, Arizona government officials, our players, retailers, and other interested parties with an overview of the Lottery's financial activity for Fiscal Year 2020 and to demonstrate the Lottery's accountability for the money received from the sale of Lottery products.

If you have questions about the MD&A or need additional information, contact the Arizona Lottery's Deputy Director: Operations, 4740 East University, Phoenix, Arizona 85034.

BASIC FINANCIAL STATEMENTS

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Statement of Net Position
June 30, 2020

ASSETS		
CURRENT ASSETS		
Cash - substantially all held by the State Treasurer	\$ 57,530,788	
Accounts receivable - net of allowance for doubtful accounts of \$192,000	25,262,365	
Scratch ticket inventory	5,066,528	
Pull tab inventory	<u>262,527</u>	
TOTAL CURRENT ASSETS	<u>88,122,208</u>	
CAPITAL ASSETS		
Land and land improvements	1,268,695	
Buildings	4,309,192	
Furniture, fixtures and equipment	24,808,865	
Intangible assets	599,324	
Leashold improvements	328,341	
Less accumulated depreciation and amortization	<u>(10,346,781)</u>	
TOTAL CAPITAL ASSETS	<u>20,967,636</u>	
OTHER ASSETS		
ADOA asset pre-paid	3,847,727	
Deposit - MUSL	<u>10,486,176</u>	
TOTAL OTHER ASSETS	<u>14,333,903</u>	
TOTAL ASSETS	<u>123,423,747</u>	
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions - ASRS	786,160	
Related to OPEB - ADOA	<u>556,271</u>	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,342,431</u>	
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	6,034,686	
Accrued expenses	384,946	
Prize liability	59,705,811	
Due to other state funds	<u>29,610,199</u>	
TOTAL CURRENT LIABILITIES	95,735,642	
NONCURRENT LIABILITIES		
Net pension liability - ASRS	5,654,582	
Net OPEB liability - ADOA	<u>1,781,561</u>	
TOTAL NONCURRENT LIABILITIES	7,436,143	
TOTAL LIABILITIES	<u>103,171,785</u>	
DEFERRED INFLOWS OF RESOURCES		
Related to pensions - ASRS	407,310	
Related to OPEB - ADOA	<u>219,447</u>	
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>626,757</u>	
NET POSITION		
Net investment in capital assets	20,967,636	
Unrestricted	<u>-</u>	
TOTAL NET POSITION	<u>\$ 20,967,636</u>	

See accompanying notes.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2020

OPERATING REVENUES	
Ticket sales:	
Scratchers	\$ 848,409,616
Powerball	72,674,827
The Pick	28,877,182
Fantasy 5	19,734,776
Pick 3	14,380,588
Mega Millions	57,185,604
Triple Twist	20,067,658
Instant tab	8,052,108
Fast Play	28,577,278
	<u>TOTAL TICKET SALES</u>
	1,097,959,637
Sales Returns and Allowances	(511,447)
	<u>NET TICKET SALES</u>
	1,097,448,190
Other operating revenues	309,994
	<u>TOTAL OPERATING REVENUES</u>
	1,097,758,184
OPERATING EXPENSES	
Direct costs:	
Prize expense	737,910,188
Retailer commissions and incentives	74,554,141
Online system expense	10,256,961
Scratcher system and distribution expenses	6,743,820
Tickets purchased	10,098,197
	<u>TOTAL DIRECT COSTS</u>
	839,563,307
Advertising and promotion	14,317,538
Wages and related expenses	6,643,873
Depreciation	3,177,193
Administrative expenses	2,938,154
	<u>TOTAL OPERATING EXPENSES</u>
	866,640,065
OPERATING INCOME	231,118,119
NONOPERATING REVENUES - Investment income	635,486
INCOME BEFORE TRANSFERS	231,753,605
TRANSFERS TO OTHER STATE FUNDS	226,143,664
	<u>CHANGE IN NET POSITION</u>
	5,609,941
	<u>NET POSITION - BEGINNING OF YEAR</u>
	15,357,695
	<u>NET POSITION - END OF YEAR</u>
	\$ 20,967,636

See accompanying notes.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Statement of Cash Flows
Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from retailers-net of validations, commissions and incentives	\$ 384,458,777
Cash received from other sources	327,789,789
Cash payments for prizes and related taxes	(450,684,742)
Cash payments to suppliers of goods or services	(47,051,752)
Cash payments to employees	<u>(6,260,008)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>208,252,064</u>
 CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES	
Payments to beneficiaries per Arizona Statutes	<u>(238,847,811)</u>
 CASH FLOWS USED BY CAPITAL FINANCING ACTIVITIES	
Payments for acquisition of capital assets	<u>(8,787,134)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Receipts of interest	<u>607,624</u>
NET DECREASE IN CASH	(38,775,257)
CASH AT BEGINNING OF YEAR	<u>96,306,045</u>
CASH AT END OF YEAR	<u><u>\$ 57,530,788</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 231,118,119
 Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	3,177,193
(Increase) decrease in:	
Accounts receivable	(16,628,980)
MUSL interest	27,862
Ticket inventory	1,167,001
Deposit - MUSL	210,824
Deferred outflows of resources related to pensions and other postemployment benefits	(170,666)
Increase (decrease) in:	
Accounts payable and accrued expenses	(3,318,069)
Prize liability	(7,856,176)
Net Pension Liability	880,986
Deferred inflows of resources related to pensions and other postemployment benefits	<u>(356,030)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 208,252,064</u></u>

See accompanying notes.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

The Arizona State Lottery ("Lottery") was created by enactment of Title 5, Chapter 5 to the Arizona Revised Statutes (A.R.S.), which was an initiative measure approved by the voters of the State of Arizona ("State") in 1980. The Lottery commenced operations in 1981. The accompanying financial statements present information as to the transactions of the Lottery.

For the period July 1, 2019 through June 30, 2020, the Lottery held 122 instant games of which 23 games expired during the fiscal year. During 2020, the Lottery continued the "The Pick," "Fantasy 5," "Pick 3," "Powerball," "Mega Millions", "FastPlay", and "Triple Twist" on-line games. As required, the Lottery has deposits with "Powerball," and "Mega Millions," multistate on-line lottery games, of \$10.5 million at June 30, 2020. The Lottery also sold instant tab lottery tickets to non-profit organizations, age-restricted outlets, and some approved retailers. These games are printed and sold by the Lottery, though are administered and paid out by the purchasing non-profit organizations, age-restricted outlets and approved retailers. The Lottery prepares its financial statements in accordance with accounting principles generally accepted in the United States of America.

State Lottery Fund – The State Lottery Fund ("Fund"), which is a proprietary fund of the State, accounts for revenues received from the sale of lottery tickets. The Fund is operated in a manner similar to a private business enterprise where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, management control, accountability, or other purposes. Activities accounted for in the proprietary fund follows all applicable Governmental Accounting Standards Board pronouncements. The Fund accounts for prize payments, operational expenses (including consulting), promotional, advertising expenses, and transfers of monies to other State funds. Receipts from each type of lottery game are allocated as follows:

- Not less than 50% of the total annual revenue from Lottery ticket sales is apportioned for the payment of prizes to the holders of winning tickets for the period July 1, 2019 to June 30, 2020.
- Not more than 18.5% is apportioned for payment of Lottery operating expenditures as defined by Arizona Revised Statute 5-555. Legislation enacted in 2008 set this limit and also removed a 4% cap on advertising expenditures.

Cash and investments – Substantially all the Lottery's cash is held by the State Treasurer for pooled investment purposes. Statutes require the State Treasurer to invest these pooled funds in obligations of the U.S. government and are recorded at fair value.

Accounts receivable – Retailers are billed weekly for tickets sold. Payments from retailers are mainly received through electronic withdrawals from retailer accounts one week after the amounts are billed. Accounts receivable represents amounts that have been billed but not yet collected. An allowance for doubtful accounts is recorded in the amount of any balances that are not paid by retailers, generally one week after amounts are billed.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (continued)

Ticket inventory – Ticket inventory is stated at cost, which represents the amount incurred by the Lottery for purchasing the tickets located in the vendor's warehouses or held by retailers. The cost of tickets is charged to agency operations upon the recognition of revenue under the procedures described above.

Capital assets – Capital assets of the Fund, which consists principally of buildings, land, land improvements, and office furniture and equipment are stated at historical cost. The Lottery defines capital assets as assets with an individual cost of more than \$5,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Expenditures for normal repairs and maintenance are charged to operations as incurred, whereas expenditures for major renewals, replacements, and betterments are capitalized and depreciated. Depreciation is computed using the straight-line method. Capital assets are depreciated on the following basis:

Buildings	40 years
Improvements	40 years
Fixtures and equipment	3–10 years
Intangible assets	6 years

Investments and investment income – The provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, have been implemented in the Lottery as of June 30, 2016. This standard addresses the Lottery's reporting related to fair value measurements and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The Lottery reports investments at fair value on the statement of net position as determined by quoted market prices with any realized or unrealized gains and losses reported in the statement of revenues, expenses, and changes in net position. Investment income from all investments is recognized by the Lottery in the period it is earned and gains and losses are recognized as revenue in the period in which they occur. Investment income also includes earnings on invested cash held by the State Treasurer and invested prize reserves held by the Multistate Lottery Association (MUSL).

Sales and revenue recognition – Revenue is recognized and the related direct expenses of ticket sales, including prize expense, are accrued based upon the known relationship of the amount of ticket sales to the amount of prizes for each game. This method of measuring revenue is necessary in order to properly match revenues and expenses. The Lottery's operating revenues result from exchange transactions associated with the principle activity of the fund. Non-operating revenues result from non-exchange transactions or from ancillary activities of the fund.

**Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020**

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (continued)

Prize expense and prize liability – Instant ticket prize expense is estimated and recognized when ticket packs are settled and is based on the design of the game. Game designs include certain guaranteed prizes in each pack of tickets and prizes placed randomly by the gaming vendor. When validations for the game have ended, differences between estimated and actual prizes awarded for the randomly placed tickets are adjusted to prize expense and prize liability. Prize expense for draw games is recognized as drawings are held, based on the estimated or known cost of the prize payments. Prize expense is adjusted as prizes are claimed and the actual cost of the prize is known. Prize liabilities for prizes are recorded when the prize expense is recognized. The prize liability represents a liability for prizes which are unclaimed for games in progress. Prizes unclaimed for 180 days after the drawing date are forfeited by the ticket holder. The Lottery retains 70% of all forfeited unclaimed prizes, under State statute, for use as additional prizes in future games. State statute also requires that 30% of all forfeited unclaimed prizes be transferred to the Court Appointed Special Advocate Account, a fund within the State's General Fund. In April 2015, Senate Bill (SB) 1477 was signed by the Governor of Arizona which requires that 15% of all forfeited unclaimed prizes be transferred to the tribal college dual enrollment program fund but not to exceed \$250,000 in any fiscal year. SB 1477 adjusted the 70% retained for additional prizes in future games to 55%. SB 1477 was effective starting in FY16.

In April 2015, House Bill (HB) 2517 was signed by the Governor of Arizona which requires that if the monies transferred to the Internet Crimes Against Children Enforcement is less than \$900,000 each fiscal year, and if the monies transferred to Victim's Rights Enforcement Fund is less than \$100,000 each fiscal year, the difference shall be transferred from forfeited unclaimed prizes but not exceed \$1,000,000 in any fiscal year. HB2517 was effective immediately in April 2015. FY20 transfers from forfeited unclaimed prizes to the Internet Crimes Against Children Fund and Victims' Rights Enforcement Fund were \$605,800. All remaining forfeited unclaimed prizes offset prize expense.

Prize liability activity for the year ended June 30, 2020 was follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Prize Liability	67,561,985	1,409,998,469	(1,417,854,643)	59,705,811

Compensated absences – Vacation leave vests with the employee as it is earned. Employees may carry forward only the amount of vacation benefits equal to the maximum allowable accumulated credits for the preceding calendar year. Accordingly, at June 30, 2020, the Fund's accounts payable and accrued expenses balance includes an accrual of vacation pay and related benefits of \$384,946. Upon termination or retirement, an employee will be compensated for accumulated leave dependent upon accumulated time. Payment will be based on the individual's rate of pay at termination or retirement. Upon death, the same benefits shall be paid to the employee's beneficiary.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (continued)

Pensions – 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 pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred outflows and inflows of resources – The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as revenue in future periods.

Commissions – Retailers receive a commission of 6.5% on gross ticket sales. Charitable instant tab retailers receive a commission of 20% on gross ticket sales.

Advertising costs – Advertising costs are expensed as incurred.

Income taxes – The Lottery is exempt from Federal and Arizona income taxes. Accordingly, no provision for income taxes has been made.

Net position – Net position of the Lottery are classified and displayed as two components:

- a. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Unrestricted net position – All other net funds that do not meet the definition of "net investment in capital assets" or "restricted."

Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Cash and Investments Held by the State Treasurer

All cash is deposited or invested with the Arizona State Treasurer (Treasurer). The Treasurer is part of the State's financial reporting entity and issues a separately published Annual Financial Report. A copy of the Treasurer's Annual Financial Report can be obtained from its website at www.aztreasury.gov or by contacting the Treasurer's Office at 1700 West Washington St., 1st Floor, Phoenix, AZ, 85007-2812.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020

Note 2 – Cash and Investments Held by the State Treasurer (continued)

A.R.S. requires state agencies' monies to be deposited with the Treasurer, and further requires those deposits to be invested in various pooled funds. Cash and investments held by the Treasurer represent the State Board of Investment's (Board) portion of those monies. The Treasurer invests idle monies of the state agencies in an internal investment pool (Pool 3) and distributes interest to the participants. Interest earned from these invested monies is allocated monthly based on the average daily balance. Participant shares in the pool are purchased and sold based on the net asset value of the shares, and a participant's portion of the pool is not identified with specific investments. Accordingly, the Board's portion of these deposits and investments approximates the Board's value of pool shares. The Treasurer's internal investment Pool 3 is not required to be registered (and is not registered) with the Securities and Exchange Commission under the Investment Company Act of 1940. In accordance with A.R.S. §35-311, the Board reviews the activities and performance of the pool monthly.

At June 30, 2020, the Lottery's deposits with the Treasurer were as follows:

	<u>2020</u>
Cash	33,929,687
Prize fund cash	<u>23,601,101</u>
Total cash and investments held by State Treasurer	<u><u>\$ 57,530,788</u></u>

Custodial credit risk – For cash and investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Lottery will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2020, all of the Lottery's securities are held by the State of Arizona in the Lottery's name. The Lottery manages custodial credit risk in accordance with A.R.S. and its investment policy. The A.R.S. require collateral for deposits at 102 percent of all deposits that federal depository insurance does not cover.

Concentration of credit risk – Statutes do not include any requirements for concentration of credit risk.

Interest rate risk – Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020

Note 3 – Transfers and Statutory Requirements

As required by A.R.S. Section 5-505, the Lottery recorded transfers during the year ended June 30, 2020, as follows:

	2020
General Fund	\$ 129,250,804
University Bond Fund	39,436,675
Healthy Arizona	21,882,600
Local Transportation Assistance Fund - Mass Transit	11,473,200
Heritage Fund	10,000,000
Commerce Authority Arizona Competes Fund	3,500,000
Court-appointed Special Advocate Fund	8,050,385
Economic Security Homeless Services	1,000,000
Internet Crimes Against Children Fund	900,000
Department of Gaming	300,000
Tribal College Dual Enrollment Fund	250,000
Victims Right Enforcement Fund	100,000
Total transfers to other State funds	\$ 226,143,664

These transactions met the minimum percentage requirements imposed upon the Lottery by statute.

Of the transfer balances above, the following was included in due to other State funds as of June 30, 2020:

	2020
State General Fund	(29,610,199)
Total due to other state funds	\$ (29,610,199)

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020

Note 4 – Capital Assets

Capital asset activity for the year ended June 30, 2020 is as follows:

	2020				Ending Balance
	Beginning Balance	Increases	Decreases	Transfers	
Capital assets, not being depreciated:					
Land	\$ 937,830	\$ -	\$ -	\$ -	\$ 937,830
Capital assets, being depreciated:					
Land improvements	330,865	-	-	-	330,865
Buildings & Leasehold Improvements	4,637,533	-	-	-	4,637,533
Furniture, fixtures, and equipment	16,021,730	8,787,135	-	-	24,808,865
Intangible assets	599,324	-	-	-	599,324
Total capital assets	<u>22,527,282</u>	<u>8,787,135</u>	<u>-</u>	<u>-</u>	<u>31,314,417</u>
Less accumulated depreciation for:					
Land improvements	(330,865)	-	-	-	(330,865)
Buildings & Leasehold Improvements	(3,319,304)	(180,687)	-	-	(3,499,991)
Furniture, fixtures, and equipment	(2,920,095)	(2,996,506)	-	-	(5,916,601)
Intangible assets	<u>(599,324)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(599,324)</u>
Total accumulated depreciation	<u>(7,169,588)</u>	<u>(3,177,193)</u>	<u>-</u>	<u>-</u>	<u>(10,346,781)</u>
Total capital assets, net	<u>\$ 15,357,694</u>	<u>\$ 5,609,942</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,967,636</u>

Note 5 – Pledged Revenues

The Lottery has pledged portions of its gross revenues towards the payment of debt service on the State Lottery Revenue Bonds Series 2019 issued by the State. These bonds provide additional working capital to the State to pay appropriated expenditures of the State's General Fund. The bonds are payable solely from and secured by pledged revenues consisting of, until July 1, 2012, amounts distributable to the State General Fund from the Lottery pursuant to Lottery law, and from and after July 1, 2012, all Lottery revenues deposited to the Fund net of operating expenses of the Lottery. At June 30, 2020, pledged revenues totaled approximately \$217,237,479, of which \$34,511,881 was required to be transferred to cover debt service. Future pledged revenues required to be transferred to pay all remaining debt service for the bonds through final maturity of July 1, 2029 is approximately \$246,355,000.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020

Note 6 – Commitments

The Lottery enters into various contracts for goods and services during the normal course of its business. All procurement activity is subject to the Arizona State Procurement Code (A.R.S 41-2501 et. Seq.), unless it is procurement relating to the design and operation of the Lottery or purchase of lottery equipment, tickets and related materials, in which case the Lottery procurement rules apply (A.A.C R193-6-501 et. Seq.).

In accordance with ARS § 35-154, every payment obligation of the State under a Contract is conditioned upon the availability of funds appropriated or allocated for payment of such obligation. If funds are not allocated and available for the continuance of a Contract, a Contract may be terminated by the State at the end of the period for which funds are available. No liability shall accrue to the State in the event this provision is exercised, and the State shall not be obligated or liable for any future payments or for any damages as a result of termination under this statute.

The Lottery initially entered into a five-year contract with Scientific Games, Inc. for Draw Game services at a base contract rate of 4.256% of on-line sales in August 2016 which was extended in February 2018 for additional 2 years with an option to extend until August 2026

The Lottery entered a commercial rental agreement effective December 1, 2014 to lease a facility in Tucson, Arizona for approximately \$5,947 per month, and payment of certain additional expenses relating to the leased premises to November 30, 2020. Rent expense for the facilities was approximately \$71,364 for the year ended June 30, 2020.

In 2015, the Lottery entered into a three-year lease agreement for retail space at the Phoenix Sky Harbor Airport. The lease agreement was extended in December 2018 for one additional year with an option to extend for three years until December 2022. Rent expense for the facilities was approximately \$64,300 for the year ended June 30, 2020.

In 2020, the Lottery entered into a three-year lease agreement for retail space at the Walmart in Kingman, AZ effective April 12, 2020 for approximately \$1,500 per month with the option to extend the lease term for two additional three year period. Rent expenses for the facilities was approximately \$4,500 for the year ended June 30, 2020.

Future minimum rental payments due under the lease agreements are as follow:

Year ending June 30,		
2021	\$	113,320
2022		84,897
Total	\$	198,217

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020

Note 7 – Contingencies

Jackpot winners are offered the option of cash or 30-year annuity for The Pick online game and a select number of Scratcher games. The annuities are purchased from qualifying insurance companies, which have the highest ratings from among A.M. Best Company, Standard & Poor's, Moody's, Duff & Phelps, or Weiss. Purchases of annuities transfer liabilities for prizes to the insurance company. However, the Lottery may incur liabilities for prizes in the event of a default of an insurance company. Aggregate future payments to prize winners on existing annuities totaled \$50,264,692 at June 30, 2020. Approximately \$48,143,666 of the total aggregate future payments at June 30, 2020 relate to annuities purchased from five separate insurance companies, of which \$19,078,190 relates to a single insurance company.

Tort claims against the Lottery, its agents, officers, and employees who are acting in the scope and course of their employment with the Lottery are covered pursuant to the State Risk Management statute, A.R.S. § 41-621. There is no limit to that coverage. Therefore, as to any claims based on tort, there is no contingent liability to the budget of the Lottery. The Lottery is involved in various legal proceedings, which arise in the normal course of business. Management of the Lottery does not believe that the ultimate resolution of these matters will have a material effect on the financial position, results of operations, or cash flows of the Lottery.

Note 8 – Pensions and Other Postemployment Benefits

The Lottery contributes to the Arizona State Retirement Plan ("Plan"), a retirement plan administered by the Arizona State Retirement System (ASRS) and a health insurance premium benefit plan administered by the Arizona Department of Administration ("ADOA OPEB"). The ASRS plan is a component of the State of Arizona. The Lottery reported \$676,676 of pension expenditure related to the pension plan to which it contributes. In addition, the Lottery reported \$191,250 of other post-employment benefit expenses related to the health insurance premium benefit ADOA OPEB plan. At June 30, 2020, the Lottery reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

Statement of net position and statement of activities	Pension	ADOA OPEB	Total
Net pension and OPEB liability	5,654,582	1,781,561	7,436,143
Deferred outflows of resources related to pensions and OPEB	786,160	556,271	1,342,431
Deferred inflows of resources related to pensions and OPEB	407,310	219,447	626,757
Pension and OPEB expense	676,676	191,250	867,926

Note 8 – Pensions and Other Postemployment Benefits – ASRS (continued)

Arizona State Retirement Plan

Plan description – The ASRS administers a cost-sharing multi-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. Although the ASRS pension plan has been recorded at June 30, 2020, the ASRS health insurance premium (OPEB) plan and long-term disability (OPEB) plan have not been recorded due to the relative insignificance to the Lottery’s financial statements, however they have been further disclosed in the notes to the financial statements and required supplementary information below. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. The health insurance premium supplement, long-term disability, and survivor benefits included in the ASRS plan are considered other post employment benefits (OPEB) as defined by GASB Statement 75, however these ASRS OPEB plans have not been recorded or further disclosed in accordance with GASB Statement 75 due to the relative insignificance to the Lottery’s financial statements.

State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement	
	Initial membership date:	
	Before July 1, 2011 (Tier 1)	On or After July 1, 2011 (Tier 2)
Years of service	Sum of years and age equals 80	30 years, age 55
and age required	10 years, age 62	25 years, age 60
to achieve benefit	5 years, age 50*	10 years, age 62
	any years, age 65+	5 years, age 50*
		any years, age 65+
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

* with actuarially reduced benefits

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020

Note 8 – Pensions and Other Postemployment Benefits – ASRS (continued)

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

Contributions – In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2020, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.11 percent (11.94 percent for retirement and 0.17 percent for long-term disability) of the members' annual covered payroll, and the Lottery was required by statute to contribute at the actuarially determined rate of 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium benefit, and 0.17 percent for long-term disability) of the active members' annual covered payroll. In addition, the Lottery was required by statute to contribute at the actuarially determined rate of 10.41 percent (10.29 percent for retirement, 0.05 percent for health insurance benefit, and 0.07 percent for long-term disability) of annual covered payroll of retired members who worked for the Lottery in positions that would typically be filled by an employee who contributes to the ASRS. The Lottery's contributions to the pension plan for the year ended June 30, 2020, were \$493,886. The Lottery's contributions for the current and 3 preceding years for pension benefits, all of which were equal to the required contributions, were as follows:

<u>Years ended June 30,</u>	<u>Pension</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2020	\$ 466,969	\$ 19,984	\$ 6,933
2019	458,172	18,641	6,501
2018	426,967	16,993	6,129
2017	377,587	18,600	4,650

Note 8 – Pensions and Other Postemployment Benefits – ASRS (continued)

Pension liability – At June 30, 2020, the Lottery reported \$5,654,582 as net pension liability for its proportionate share of the ASRS’ net pension liability.

The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined using updated procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2018, to the measurement date of June 30, 2019. The total liabilities as of June 30, 2019, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the discount rate from 8 percent to 7.5 percent, changing the projected salary increases from 3.0-6.75 percent to 2.7-7.2 percent, decreasing the inflation rate from 3 percent to 2.3 percent, and changing the mortality rates.

The Lottery's proportion of the net pension liability was based on fiscal year employer contributions. The Lottery's proportion measured as of June 30, 2019, and the change from its proportions measure as of June 30, 2018 were:

ASRS	Proportion June 30, 2019	Increase (decrease) from June 30, 2018
Pension	0.03886%	-0.00055%

Pension expense – For the year ended June 30, 2020, the Lottery recognized \$676,676 as pension expense for ASRS.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020

Note 8 – Pensions and Other Postemployment Benefits – ASRS (continued)

Pension expense and deferred outflows/inflows of resources – At June 30, 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Pension	
	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 102,152	\$ 1,063
Changes of assumptions or other inputs	23,902	225,177
Net difference between projected and actual earning on pension plan investments	-	127,095
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	186,021	53,975
Lottery contributions subsequent to the measurement date	474,085	-
Total	<u>\$ 786,160</u>	<u>\$ 407,310</u>

The \$474,085 reported as deferred outflows of resources related to ASRS pensions resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension
2020	\$ 71,334
2021	(176,201)
2022	(24,408)
2023	34,040
2024	-
Thereafter	-

Note 8 – Pensions and Other Postemployment Benefits – ASRS (continued)

Actuarial assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

ASRS

Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Asset valuation	Fair Value
Discount rate	7.5%
Projected salary increases	2.7 - 7.2% for pensions
Inflation	2.3%
Permanent benefit increase	Included for pensions
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The ASRS Board adopted the experience study which recommended changes and those changes were effective as of the June 30, 2017 actuarial valuation.

The long-term expected rate of return on ASRS pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) 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. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target allocation	Long-term expected geometric real rate of return
Equity	50%	3.05%
Credit	20%	1.07%
Interest rate sensitive bonds	10%	0.16%
Real estate	20%	1.17%
Total	<u>100%</u>	

Actual returns may be different due to volatility of returns.

**Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020**

Note 8 – Pensions and Other Postemployment Benefits – ASRS (continued)

Discount rate – The discount rate used to measure the ASRS total pension liability was 7.5 percent. The projection of cash flow used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the Retirement Fund's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Lottery's proportionate share of the ASRS net pension liability to changes in the discount rate – The following table presents the Lottery's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Lottery's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	June 30, 2020		
	1% Decrease (6.5% Discount Rate)	Current (7.5% Discount Rate)	1% Increase (8.5% Discount Rate)
Retirement	\$ 8,047,780	\$ 5,654,582	\$ 3,654,485

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

Note 9 - Other Postemployment Benefits (OPEB) – ADOA

In addition to the ASRS pension described in Note 8, the Arizona Department of Administration (ADOA) administers a single employer defined benefit postemployment benefits for qualifying employees. The ADOA provides medical and accident benefits to retired State employees and their dependents. Title 38 Chapter 4 of the A.R.S assigns the authority to establish and amend the benefit provisions to the Arizona State Legislature.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020

Note 9 - Other Postemployment Benefits (OPEB) – ADOA (continued)

The ADOA pays the medical costs incurred by retired employees minus a specified premium amount, which is paid for entirely by the retiree or on behalf of the retiree. Premium rates are based on a blend of active employee and retiree experience, resulting in a contribution basis which is lower than the expected claim costs for retirees only, which results in an implicit subsidization of retirees by the State. Dental and vision benefits are also available but are not valued as there is no implicit subsidization in the retiree rates. Health insurance premium supplements payable through the ASRS are included in the valuation of pension liabilities and are not considered OPEB.

Other Postemployment Benefits (OPEB) Liability - At June 30, 2020, the Lottery reported a OPEB liability of \$1,781,561 for its proportionate share. The liability was measured as of June 30, 2019 to be reported as of June 30, 2020 under GASB 75.

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at 6/30/2019	\$ 1,058,849	\$ -	\$ 1,058,849
Changes for the year:			
Service Cost	114,257	-	114,257
Interest	44,758	-	44,758
Difference between expected and actual experience of the total OPEB liability	57,481	-	57,481
Difference between expected and actual experience from change in Proportionate Share	162,177	-	162,177
Changes of assumptions	377,204	-	377,204
Expected benefit payments	(33,165)	-	(33,165)
Net changes	722,712	-	722,712
Balances at 6/30/2020	\$ 1,781,561	\$ -	\$ 1,781,561

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020

Note 9 - Other Postemployment Benefits (OPEB) – ADOA (continued)

OPEB deferred outflows/inflows of resources – At June 30, 2020, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 49,734	\$ 29,463
Changes of assumptions or other inputs	326,368	189,984
Changes in proportion	140,320	-
Deferred outflows	39,849	-
Total	<u>\$ 556,271</u>	<u>\$ 219,447</u>

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

Year ended June 30,	
2021	\$ 32,235
2022	32,235
2023	32,235
2024	32,235
2025	56,496
Thereafter	111,539

OPEB Expenses - At June 30, 2020, the Lottery reported OPEB expenses as follow:

Reporting Date for Employer under GASB 75	June 30, 2020
Measurement Date for Employer under GASB 75	June 30, 2019
<hr/>	
Components of OPEB Expenses	
Service Cost	\$ 114,257
Interest on the total OPEB liability	44,758
Recognition of current year outflow (inflow) due to liabilities	80,440
Amortization of prior year outflow (inflow) due to liabilities	(48,205)
Total OPEB expenses	<u>\$ 191,250</u>

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020

Note 9 - Other Postemployment Benefits (OPEB) – ADOA (continued)

Actuarial assumptions – The total OPEB liability was measured by using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial valuation date	June 30, 2019	
Actuarial cost method	Entry age normal	
Salary increases	2.7% to 7.2% varying by years of service	
Discount rate	3.13% as of June 30, 2019	
Health cost trend rates:		
Medical (pre-65)	7.2% graded to 4.5% over 4 years as of June 30, 2019	
Medical (post-65)	6.25%	
Prescription drug	8.5% graded to 4.5% over 4 years as of June 30, 2019	
Administrative costs	3.00%	
Contribution trend rates	6.5% graded to 4.5% over 4 years as of June 30, 2019	
Mortality rates	Employees	RP-2014 Employee Mortality Tables projected generationally from 2014 with 1% improvement per year
	Healthy Retirees and Spouses	2017 State Retirees of Arizona Mortality Tables projected generationally from 2017 with 1% improvement per year
	Disabled Retirees	RP-2014 Disabled Retiree Mortality Tables projected generationally from 2014 with 1% improvement per year

Development of Discount rate – The discount rate for OPEB funded entirely on a pay-as-you-go basis is the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). For this purpose, we used the Bond Buyer 20-Bond General Obligation Municipal Bond Index. The index value as of the June 30, 2019 measurement date is 3.13%. The index value as of the prior measurement date (June 30, 2018) was 3.87%.

Sensitivity – The following table presents the Lottery's total OPEB liability calculated using the discount rate of 3.13 percent, as well as what the Lottery's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.13 percent) or 1 percentage point higher (4.13 percent) than the current rate. Also shown is the OPEB liability using the healthcare cost and contribution trend rates that are 1 percentage point lower or 1 percent point higher than the current rates

	June 30, 2020		
	1% Decrease (2.13% Discount Rate)	Current (3.13% Discount Rate)	1% Increase (4.13% Discount Rate)
Lottery's Total OPEB Liability	\$ 2,139,524	\$ 1,781,561	\$ 1,504,199
	1% Decrease Trend Rates	Current Trend Rates	1% Increase Trend Rates
Lottery's Total OPEB Liability	\$ 1,468,345	\$ 1,781,561	\$ 2,195,602

**Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2020**

Note 10 – Major Vendors

The Lottery has three vendors that represent approximately 89% of its purchases for the year ended June 30, 2020.

Note 11 – Risk Management

The Lottery is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery is covered pursuant to the State Risk Management statute, A.R.S. § 41-621 which provides a combination of self-insurance and private excess insurance to cover these risks. There is no limit to the coverage.

REQUIRED SUPPLEMENTARY INFORMATION

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Required Supplementary Information
Schedule of the Agency's Proportionate Share of the Net Pension/OPEB Liability Cost-Sharing Pension Plan
June 30, 2020

ASRS - Pension	Reporting Fiscal Year (Measurement Date)						2014 through 2010
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Lottery's proportion of the net pension liability	0.038858%	0.039409%	0.035910%	0.035630%	0.041980%	0.042442%	Information not available
Lottery's proportionate share of the net pension liability	\$ 5,654,582	\$ 5,496,308	\$ 5,594,078	\$ 5,751,040	\$ 6,538,813	\$ 6,279,956	
Lottery's covered payroll	4,104,533	4,098,140	3,762,046	3,358,108	3,527,088	4,081,287	
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	137.76%	134.12%	148.70%	171.26%	185.39%	153.87%	
Plan fiduciary net position as a percentage of the total pension liability	73.24%	73.00%	69.92%	67.05%	68.35%	69.49%	

ADOA - OPEB	Reporting Fiscal Year (Measurement Date)				2016 through 2010
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	
Lottery's proportion of the total OPEB liability	0.120000%	0.120000%	0.120000%	0.120000%	Information not available
Lottery's proportionate share of the total OPEB liability	\$ 1,781,561	\$ 1,058,849	\$ 1,011,909	\$ 1,302,971	
Lottery's covered-employee payroll	3,860,011	3,360,126	3,271,788	3,592,604	
Lottery's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	46.15%	31.51%	30.93%	36.27%	

There are no dedicated assets at this time to offset the total OPEB liability

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Required Supplementary Information
Schedule of the Agency Pension/OPEB Contributions (continued)
June 30, 2020

ASRS - Pension	Fiscal Year							2013 through 2010
	2020	2019	2018	2017	2016	2015	2014	Information not available
Statutorily required contribution	\$ 469,969	\$ 458,172	\$ 410,063	\$ 362,004	\$ 382,689	\$ 444,044	\$ 432,185	
Lottery's contributions in relation to the statutorily required contribution	469,969	458,172	410,063	362,004	382,689	444,044	432,185	
Lottery's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Lottery's covered payroll	\$ 4,104,533	\$4,098,140	\$3,762,046	\$3,358,108	\$3,527,088	\$4,081,287	\$3,745,104	
Lottery's contributions as a percentage of covered payroll	11.45%	11.18%	10.90%	10.78%	10.85%	10.88%	11.54%	

Arizona State Lottery
Required Supplementary Information
Schedule of the Agency Pension/OPEB Contributions
June 30, 2020

ADOA - OPEB	Fiscal Year				2016 through 2010 Information not available
	2020	2019	2018	2017	
Required contribution	\$ 39,849	\$ 33,165	\$ 30,879	\$ 32,938	
Lottery's contributions in relation to the required contribution	39,849	33,165	30,879	32,938	
Lottery's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	
Lottery's covered payroll	\$ 3,860,011	\$3,360,126	\$3,271,788	\$3,592,604	
Lottery's contributions as a percentage of covered payroll	1.03%	0.99%	0.94%	0.92%	

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Required Supplementary Information
Schedule of the Agency Pension/OPEB Contributions (continued)
June 30, 2020

	2020	2019	2018	2017 through 2010
Total OPEB Liability				
Service Cost	114,257	86,395	115,725	Information not available
Interest	44,758	38,767	36,665	
Change of benefit terms	-	-	(100,175)	
Difference between expected and actual experience of the total OPEB liability	57,481	-	-	
Difference between expected and actual experience from change in Proportionate Share	162,177	-	(49,461)	
Changes of assumptions	377,204	(47,343)	(260,878)	
Expected benefit payments*	(33,165)	(30,879)	(32,938)	
Net change in Total OPEB Liability	722,712	46,940	(291,062)	
Total OPEB Liability -- beginning	1,058,849	1,011,909	1,302,971	
Total OPEB Liability -- ending	1,781,561	1,058,849	1,011,909	
Covered employee payroll**	3,860,011	3,360,126	3,271,788	
Plan total OPEB liability as a percentage of covered employee payroll	46.2%	31.5%	30.9%	

* Benefit payments of \$39,849 projected for the year ended June 30, 2020

** Annualized pay of active employees not waiving coverage as of June 30, 2018 valuation date.

Assumed to increase by the wage inflation rate of 2.70% for the June 30, 2019 measurement date.

**Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Required Supplementary Information
June 30, 2020**

Note 1 – Changes of Assumptions

The Arizona State Retirement System (ASRS) annual actuarial valuation as of June 30, 2020 report is available at:

https://www.azasrs.gov/sites/default/files/FINAL%20063019%20GASB%2068_75%20Report.pdf

For details about actuarial assumptions, see section IV. Actuarial Section.

**Independent Auditors' 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**

To the Commissioners of
Arizona State Lottery
Phoenix, Arizona

We have audited, in accordance with the 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 business-type activities of the Arizona State Lottery, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated .

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance 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.

Tempe, Arizona



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