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**FY21
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

At the time of this report's publication, the Arizona Lottery is celebrating 40 years of serving the people, the vibrant cultures, and the unique and iconic wildlife intrinsic to the Grand Canyon state. Ever since the Arizona Lottery was established by public initiative and began operations on July 1, 1981, its mission has remained the same: to support Arizona programs for the public benefit by maximizing net revenue in a responsible manner. The Arizona Lottery augmented that mission in Fiscal Year 2021 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. The Arizona Lottery is fully funded through the sale of its products; its beneficiary transfers, generated from Lottery sales, fund a variety of vital state programs. Since its inception, the agency has returned more than \$10.4 billion in prizes to players, generated over \$4.6 billion for beneficiary programs, and paid nearly \$1.2 billion in commissions to retailers.



ARIZONA LOTTERY COMMISSION CHAIR JEFF WEINTRAUB



You can't win if you don't play™



What a year FY2021 was! Twelve months of hard work, creative thinking, and an intense focus on our community resulted in dozens of entertaining and rewarding games that allowed the Arizona Lottery to fulfill its promise of fun and a chance at life-changing prizes to millions of Arizonans. It is with great excitement, pride, and joy that I think about the past year and note the difference that our commission and agency have made for the people of the great state of Arizona.

I am still astonished to think that the Lottery has returned over \$287 million to more than a dozen state agencies, a figure far surpassing all of our expectations when the year began. In fact, in just the last six years, the Arizona Lottery has transferred close to \$1.3 billion to benefit vulnerable children, grow our economy, and protect iconic Arizona wildlife and landscapes. Without the Lottery, these tremendous needs would have to be met through tax dollars.

But the Arizona Lottery is about so much more than raising money for worthy programs. Over its 40-year history, the Arizona Lottery has been an enormous economic driver for our state, paying over \$1.2 billion in commissions to retailers who have used that money to pay their workers and grow their small businesses. In FY2021 alone, Arizona Lottery players won more than \$977 million in prizes; money that they infused back into Arizona through their day-to-day spending and investments, building a brighter future for our state.

It's difficult to find the words to express how proud I am of the ways in which we continue to help Arizonans in all walks of life—from players, to retailers, to the larger community—to endure and even overcome in these difficult times as we all continue to struggle with COVID-19. Because of the mutual sacrifices we all have made, we all realize that we are in this together and can afford to dream of better times and greater prosperity. With those hopes in mind, our players dreamed big and reached for that brass ring in FY2021, knowing that their play was benefiting their community in ways they might never know, and rewarding Arizona with record sales and record returns to Lottery beneficiaries.

These are also times for thanks: Thanks to our Arizona Lottery employees who repeatedly showed our state that we are the ultimate gaming entertainment choice in Arizona. Thanks to each and every one of our retailers who dependably provide our games to their customers, assisting them to play and win. And a very special "thank you," to our players who find fun and entertainment in our games. They make it all happen by enjoying our games and maybe even winning big, while knowing all of the good their play is doing every day. The Arizona Lottery exists to benefit our community and, together, we are all adding to the Arizona that our children will inherit from us in the years to come.

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

Jeff Weintraub, Chairman
Arizona Lottery Commission



A MESSAGE FROM EXECUTIVE DIRECTOR GREGG EDGAR

ARIZONA LOTTERY

The Pick

Arizona Lottery

3 TRIPLE TWIST

Game A. 02 06 10 29 30
 B. 06 10 22 30 38
 C. 03 07 14 22

1 DR. \$1

ARIZONALOTTERY.COM

SCRATCHERS

ARIZONA LOTTERY

CROSSWORD

WIN UP TO \$10,000

SCRATCH HERE FIRST

SCRATCH WIN	SCRATCH WIN
10 WORDS \$10,000	6 WORDS \$50
9 WORDS \$2,500	5 WORDS \$10
8 WORDS \$500	4 WORDS \$5
7 WORDS \$100	3 WORDS \$2

CALL LETTERS

Scratch the CALL LETTERS, then scratch the corresponding letters found in the CROSSWORD "words". If you have scratched at least 3 complete corresponding prizes found in the PRIZE LEGEND, only one prize may be claimed per ticket. Words within words are not eligible. See back for additional details.

1281-VOIDVD-IDV

BLOC ASSUME F D
 WARN ASSUME F D
 G I N E R A E
 POSSIBLE P L L
 A T U I D
 L TELEGRAPH I
 OLD R P B O R
 C I O R
 KNEAD CANVAS E E

Gregory R. Edgar

The oldest lottery west of the Mississippi, the Arizona Lottery turned 40 at the close of Fiscal Year 2021 and marked the occasion in record fashion, having generated more than \$4.6 billion over the past four decades for vital programs and services benefitting Arizonans from across the Grand Canyon State. These returns are the result of the hard work and dedication of hundreds of Arizona Lottery employees over the years, several of whom have been with the agency 30 or more years. Their longevity is a testimony to our shared dedication to the long-term well-being of our community and to the satisfaction that comes with working within an organization dedicated to service and integrity.

If success is the meeting and exceeding of the goals we set for ourselves and the expectations others set for us, by that definition, the Arizona Lottery succeeded on every level in FY2021, accomplishing our perennial mission of raising the maximum amount of revenue for vital state programs and services through responsible play. On every front - Sales Transfers to Beneficiaries, and Commissions Paid to Retailers - the Arizona Lottery reached dizzying new heights in FY2021 that come at the most advantageous time possible for our state.

The numbers speak for themselves:

- \$1.47 Billion in sales
- \$287.47 Million in beneficiary transfers
- \$98.26 Million in retailer commissions
- \$977.8 Million in prizes for our players

In fact, under Governor Doug Ducey's Administration, the Arizona Lottery has seen over \$5.4 billion in sales and almost \$1.2 billion in transfers to our beneficiaries.

These are numbers only dreamt of by Arizona Lottery officials just a few short years ago, but they are also results that were achieved through hard work, research-driven game development and marketing, and dedicated retailers helping their customers (our players) have fun during these difficult times.

The COVID-19 pandemic continued throughout the whole of FY2021, challenging everyone in Arizona, including us here at the Lottery. We rose to that challenge, on behalf of all Arizonans, by taking the lessons we learned in the record-breaking FY2020 to soar even higher, focusing on the importance of community and reaching out to everyone who is working to make a difference.

The Arizona Lottery began FY2021 knowing that it would be challenged to surpass record sales from FY2020 that were driven by Lottery's unique entertainment position during the COVID-19 pandemic. As businesses began to rebound, people began enjoying more entertainment choices. The Arizona Lottery welcomed these developments and worked to augment them through our support of the Department of Health Services' continuing efforts to protect our state's residents through education and vaccination. We

supported Governor Doug Ducey's messaging combatting COVID-19 and encouraging vaccination, while funding Department of Health Services' advertising and incorporating their messaging at our retail video monitors.

It was this return to normalcy, while observing COVID-19 guidelines, that helped our retailers bounce back and ticket sales increased along with them. Arizona Lottery marketing strategies focused on community, not the hard sell, and that message of us all being in this together resonated with audiences across our great state and pushed our performance even higher. As players returned to retailers, we worked hard to expand offerings of our Scratchers® and Fast Play™ instant products lines. New games, new promotions, increased winner awareness, and outreach to our players and retailers all worked together to make our games more exciting, fun, and attractive to play than ever before. The Arizona Lottery also introduced new ways to play player favorites, like Quickcard, an in-lane purchase option allowing shoppers to purchase Powerball® tickets quickly and easily from store cashiers as they purchase their groceries and other merchandise. Promotions like our Phoenix Raceway Fast Play promotion, Beat the Heat, Hispanic Heritage month, Million Dollar Giveaway, Holiday Family, Summer Jackpot and so many others helped players think beyond the pandemic and dream of winning again.

As part of our ongoing efforts to support our community, we focused our Gives Back efforts on organizations meeting real needs in Arizona. Our Gives Back Sponsorships totaled \$410,000 for Arizona charities and nonprofits in FY2021. Through these efforts, we were able to use a \$100,000 sponsorship to attract another \$100,000 in federal matching monies to the Grand Canyon Conservancy's Desert View project to restore the watchtower and the surrounding area into an intercultural tribal center, where visitors will learn about Native American lifeways from the very people who inhabit the Grand Canyon today. We allocated another \$100,000 to help the Central Arizona Shelter System (CASS) house elderly clients and lift them out of homelessness through Project Haven, an effort combining case workers and safe shelter for elderly clients who are especially vulnerable to COVID-19. We funded A New Leaf to expand and enhance their programs that are fighting domestic violence and getting these abused men, women and children away from their abusers and into safe and secure shelters. We also put thousands of infant CPR training kits into the hands of first responders and new parents in Southern Arizona, through the American Heart Association, helping to save the lives of prematurely born children. We invested tens of thousands more in the Kingman Area Food Bank, The Centers for Habilitation, a medical school scholarship at the University of Arizona College of Medicine-Phoenix, refurbished and new bicycles for foster and adopted children, mobility solutions for older Arizonans, and so much more. These Gives Back efforts also gave back to Arizona, with almost \$1 million dollars in news media coverage that helped to tell the Lottery's story to Arizonans and help players understand the enormous good they are doing for the state through their play.

These record-breaking results came, in large part, from our continuing effort to put our players and retailers first in everything we do at the Arizona Lottery. We opened a new office in Tucson which includes our first-ever drive-thru window. We celebrated our one-year anniversary in Kingman at our

office in the Walmart Supercenter with a Gives Back sponsorship for the local food bank serving Northern Arizona.

Our Arizona Lottery retailers showed amazing resilience throughout FY2021, surviving and even thriving as they served their customers and helped our players. They truly earned the \$96.6 million in commissions they were paid in FY2021. Our symbiotic relationship with retailers is a win-win for Arizona's economy, helping them to remain open and even expand, serving their communities and maintaining and creating jobs.

Looking ahead, the Arizona Lottery is poised to bring even more fun and excitement to players with the launch of our Quick Draw games, a fast-paced, fun to play line of new games that will be drawn 20 times every day, giving players so many more chances to play and win! These and other games and promotions brought forward by the Arizona Lottery in FY2021 will drive us to new heights in FY2022, giving us the opportunity to do even more to support our community by providing new and engaging games and gameplay to our players. Beyond that, though, our players are doing now what they've been doing for the past 40 years: having fun, dreaming big, and helping to make Arizona a better place to live, work, and play. We thank them all and we are proud to be a part of that great endeavor.



A handwritten signature in black ink, appearing to read 'Gregory R. Edgar', with a long horizontal flourish extending to the right.

Gregory R. Edgar
Executive Director, Arizona Lottery

WINNER STORIES

“YOU CAN WIN TOO!” – SURPRISE
THE PICK[®], \$1.9 MILLION
DECEMBER, 2020

- This couple says they’ve been playing the Lottery for 30 years and are buying a house with their big win!

Arizona
Lottery

Date 12/24/20

Pay to the order of YOU CAN WIN TOO! \$1,900,000.00

One Million Nine Hundred Thousand Dollars

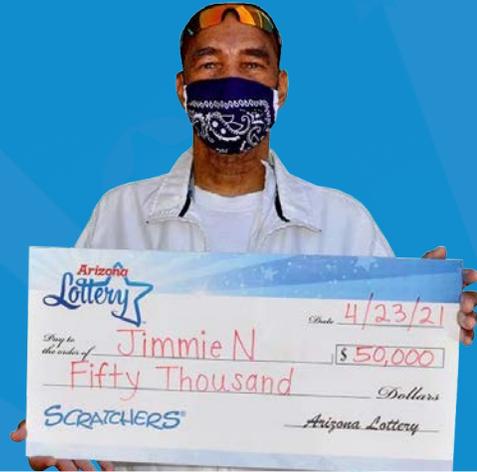
The
Pick

Arizona Lottery



**JEFFREY METCALF - MESA - SCRATCH & MATCH -
\$10,000 - JANUARY, 2021**

Jeffrey was thrilled to win, so thrilled that he says he'll buy his wife a jacuzzi!



**JIMMIE N. - CHANDLER - BINGO BLOCKBUSTER -
\$50,000 - APRIL, 2021**

Jimmie bought a Bingo Blockbuster Scratchers ticket in Chandler and says he was shocked when he rubbed away the last of the symbols and saw that he had won \$50,000!



**LILY GOES TO SCHOOL - COOLIDGE - SANTA'S
GIFT BAG - \$50,000 - OCTOBER, 2020**

Domingo says he couldn't believe his good fortune and plans to buy blankets for the homeless during the holidays and do some work on his house



**PATRICIA - GOLD CANYON - CA\$H BASH
PROGRESSIVE - \$66,381 - OCTOBER, 2020**

Patricia says she was shocked when she redeemed her coupon for a free Fast Play ticket and won! Patricia says she kept wondering if it was real and will use her winnings to pay off debt and take an Alaskan cruise.



**JESSE BUSTILLOS - GLENDALE - ROCK PAPER
SCISSORS - \$50,000 - JANUARY, 2021**

Jessie says that, when he revealed the final symbol on his Scratchers ticket, he was speechless for a second then it seemed like the room got small and he could feel his heart pounding. Jessie says that this came at an especially good time because of bad news and this big win was, "a complete 360!"



**HANNAH & BRYAN - SCOTTSDALE -
CROSSWORD - \$10,000 - OCTOBER, 2020**

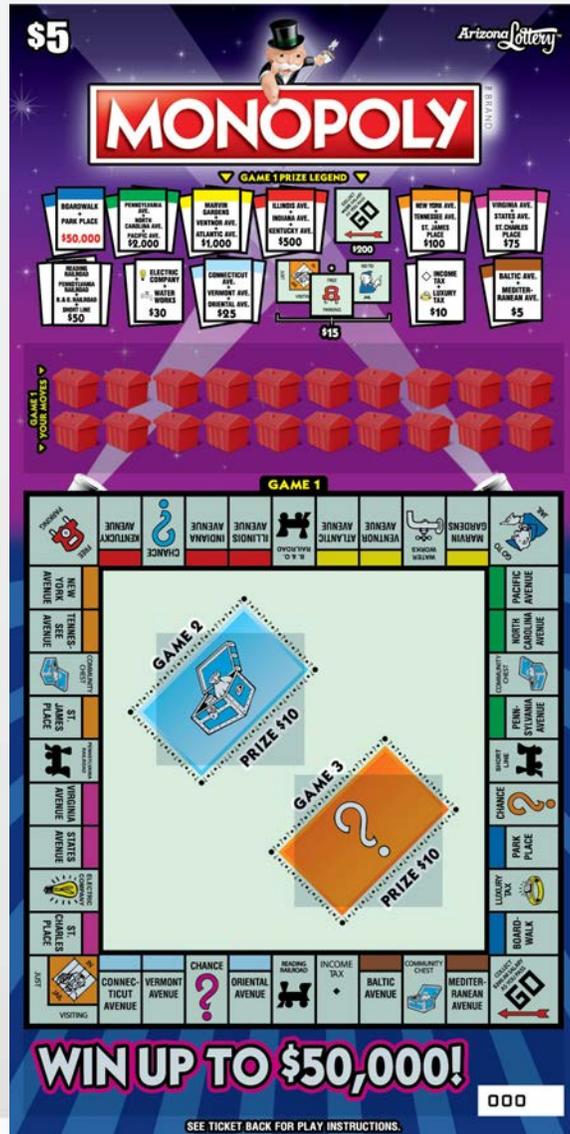
Brian was shocked and excited to win on his very first Scratchers ticket in Arizona. He says he will use his winnings to buy land and an RV!



**PETER NALESKI - CHANDLER - THE PICK -
\$2,000 - DECEMBER, 2020**

Peter says he was shocked to win with his lucky The Pick numbers that he plays every week!

TICKET FEATURE | MONOPOLY™



Licensed games represent an ever-popular segment of Scratchers games, as many players already know and love the brands, like MONOPOLY™ (pictured) and enjoy reliving those magical game moments through their Lottery play. These licensed games contributed to unprecedented Arizona Lottery Scratchers sales success in Fiscal Year 2021, reaching a record \$1.1 billion, almost 31% more than in the previous fiscal year!



The MONOPOLY name and logo, the distinctive design of the game board, the four corner squares, the MR. MONOPOLY name and character, as well as each of the distinctive elements of the board and playing pieces are trademarks of Hasbro for its property trading game and game equipment. © 1935, 2021 Hasbro. All Rights Reserved. Licensed by Hasbro.

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/Where-to-Play](https://arizonalottery.com/Where-to-Play)

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 Fiscal Year 2021, the Arizona Lottery paid almost \$98.3 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 generated close to \$1.2 billion in commissions to its retail partners.

In addition, retailers who sell higher-tier prize winning tickets (\$1 million or more Powerball® and Mega Millions®, The Pick™ jackpot winner, select Scratchers tickets) win bonuses of up to \$50,000. In FY2021, those bonuses totaled \$708,000.

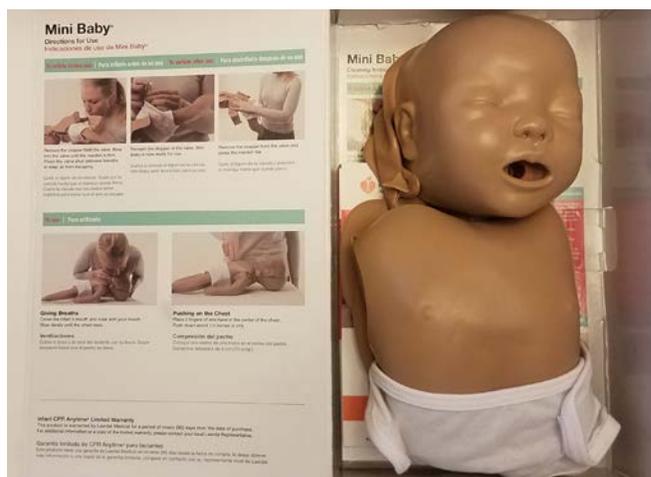
For licensing and licensing renewal information, please contact [480.921.4486](tel:480.921.4486) or visit [ArizonaLottery.com/For-Retailers](https://arizonalottery.com/For-Retailers)

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 by sponsoring various nonprofit organizations. These organizations are all dedicated to supporting the needs of our most vulnerable citizens, growing our economy, protecting and preserving our iconic wildlife and landscapes, and to building and maintaining our public universities' facilities and infrastructure. Three examples of these sponsorships from FY2021 are the American Heart Association (Tucson Chapter), Fiesta Bowl Charities, and the Grand Canyon Conservancy.

The American Heart Association's (Tucson Chapter) Infant CPR Training Program

The Arizona Lottery worked with the American Heart Association, in Tucson, on a \$25,000 Gives Back sponsorship to provide almost 1,000 CPR instruction kits to first responders and the parents of premature newborns. This was at the height of the COVID-19 pandemic and these babies are especially vulnerable to this and other life-threatening respiratory conditions.



At the time, Arizona hospitals had to cease offering their face-to-face CPR and choking relief training classes to families, and each of these kits teaches the core skills of infant CPR and choking relief by providing bilingual (English and Spanish) instructional videos and a personal inflatable mini baby CPR manikin that can be used anywhere, teaching an entire family these lifesaving skills.

Fiesta Bowl "Mask-up, Drive-up" and "Wishes for Teachers" events

As Arizonans coped with the upheaval that COVID-19 represented to their daily lives, no change was more jarring than that to the public schools and the switch to online learning. As schools transitioned back to in-class instruction in the fall of 2021, the Arizona Lottery teamed up with the Fiesta Bowl to purchase and distribute 50,000 face masks to educators across Arizona through three Arizona Teacher Mask-Up Drive-Up events, and for the Wishes for Teachers draft day event.

During October's "Arizona Teacher Mask-Up Drive-Up" events, teachers in Phoenix, Flagstaff and Tucson were able to drive to a designated school and drive through a festive and exciting event, where they could pick up free PPE for their schools and even be randomly chosen to win hundreds of dollars to purchase school supplies. Teachers unable to participate, and those from other areas of Arizona, could coordinate pick-up and delivery options in bulk.

During the November “Wishes for Teachers” draft day event, the Arizona Lottery helped present \$2,500 grants to 200 teachers across the state as part of a program that has awarded \$3.2 million to nearly 650 Arizona teachers, impacting over 300,000 students at 400 schools.

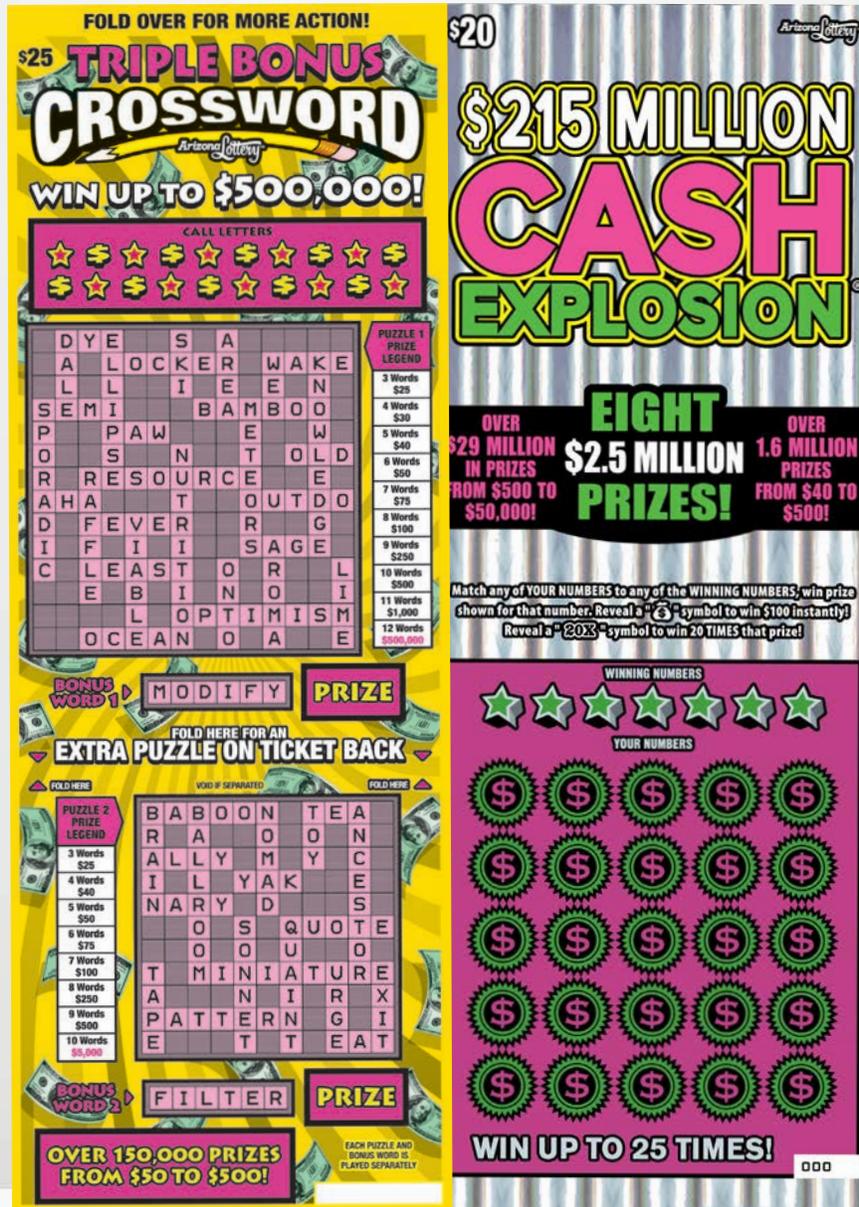


The Grand Canyon Conservancy's Desert View Watchtower restoration and Inter-Tribal Cultural Center

As part of the agency's efforts to support historic preservation and the heritage of our state's indigenous peoples, The Arizona Lottery supported the Grand Canyon Conservancy (Grand Canyon National Park's official nonprofit partner) in their effort to reimagine the iconic Desert View Watchtower site, leveraging a \$100,000 Gives Back Sponsorship to secure \$100,000 in federal matching funds to help transform Desert View into an inter-tribal cultural heritage site. Eleven American Indian tribes call the Grand Canyon home and Desert View represents the physical and cultural gateway from Grand Canyon National Park to tribal lands that surround it. Visitors to the historic 70' pueblo-style tower and the adjacent area will have opportunities to learn about past and present indigenous life and culture in and around Grand Canyon, interact directly with tribal members, listen to their stories, and observe a variety of cultural demonstrations. The tower itself offers an amazing interior adorned with historic Native American art and awe-inspiring views of the Colorado River turning west, and the Painted Desert extending towards tribal lands.



TICKET FEATURE | TRIPLE BONUS CROSSWORD & \$215 MILLION CASH EXPLOSION



Crossword and Bingo style games continued to prove popular with players, amounting to almost \$290 million in sales - over a quarter of all Fiscal Year 2021 Scratchers sales! Our new \$25 Triple Bonus Crossword game (pictured) replaced the long-running \$20 Quarter Million Crossword game, adding another \$25 million in sales! The \$20 \$215 Million Cash Explosion game (pictured) represented over 10% of total Scratchers sales for Fiscal Year 2021.

TICKET FEATURE | CELEBRANDO



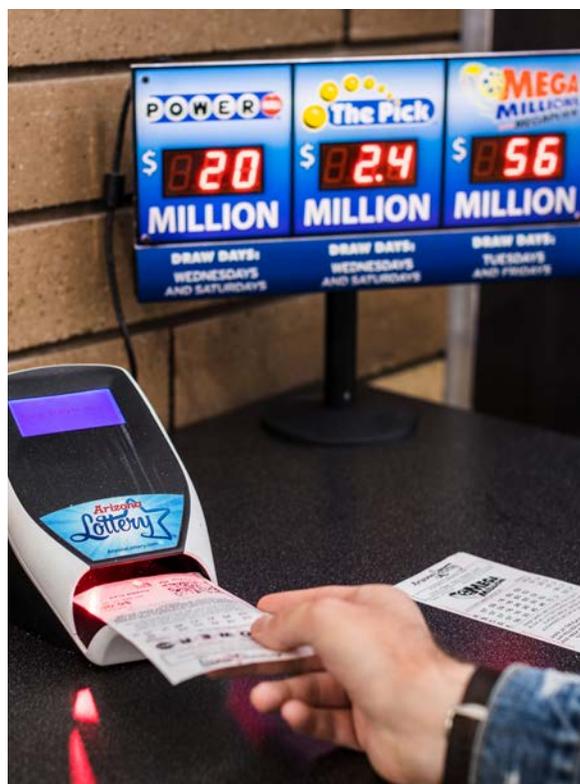
The Arizona Lottery continued to celebrate the diversity and cultures of Arizona through our Instant game tickets. The \$5 Celebrando game (pictured), which featured artwork by famed Arizona-based artist Lalo Cota, spotlights the unique and stylized imagery of Hispanic art by incorporating visual motifs referencing traditional Mexican dress and music, and holidays, like Dia De Los Muertos (Day of the Dead)!

PRODUCT INNOVATION

The Arizona Lottery offers players many entertaining games that are aimed at improving their experience by exciting their senses, rewarding their play, and introducing new players to the wide array of Lottery products. These include:

DRAW GAMES

Arizona Lottery draw games continued to be popular with players in FY2021. Total draw game sales for the year reached \$272,413,626, an increase of 27.9% over the previous year. Arizona Lottery players flocked to both Mega Millions™ and Powerball® throughout FY2021, as rolling jackpots continued to climb into the hundreds of millions of dollars multiple times. In particular, two rolling jackpots in January, 2021, totalling \$1.7 billion, drove excitement and sales. Over the course of FY2021, Powerball sales totaled over \$98.9 million, an increase of 36.1% over the previous year. Its highest jackpot for the fiscal year was \$730 million, won on January 20, 2021. Mega Millions saw even greater sales growth, totalling more than \$90.1 million, an increase of 57.6% over FY2020. Its highest jackpot for the fiscal year was \$970 million, won on January 22, 2021. Draw games with smaller jackpots and payouts saw slight sales declines in FY2021. Triple Twist™ sales totaled almost \$18.7 million, down 6.9% from the previous year, while Arizona's own draw game, The Pick™, saw sales slip 4.2% to just under \$27.7 million. Fantasy 5™ held steady, with sales off less than 1% from FY2020 while Pick 3™ sales soared for the year, totaling close to \$17.4 million, an increase of 20.7% over the previous year.

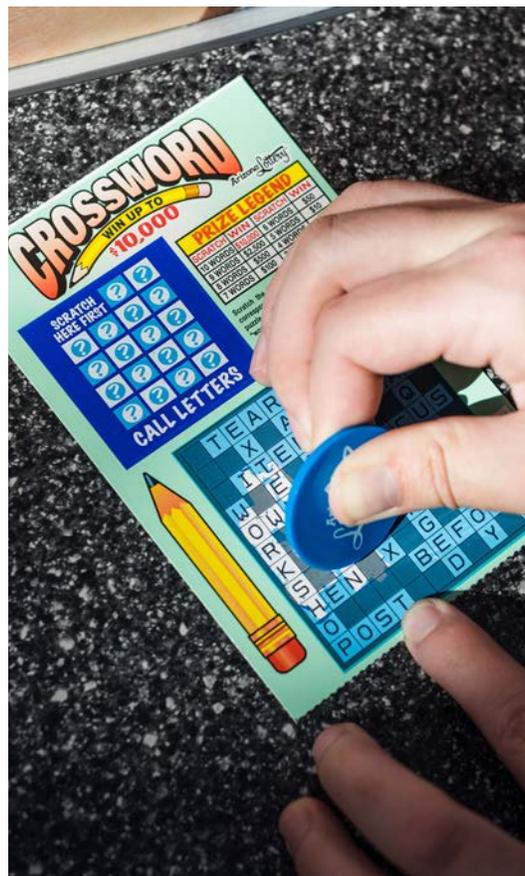


INSTANT TABS

In FY2021, Instant Tab sales rebounded as people came back to VFW halls, and local bars and restaurants with the easing of certain COVID-19 pandemic restrictions. Charitable retailers, consisting of veterans and fraternal organizations, earn a 20% commission on every sale, helping contribute to causes important to them and their community. Approximately 145 charitable organizations sold almost \$8 million in Instant Tab tickets, an increase of more than 47% over FY2020. A total of 111 regular Instant Tab retailers, consisting primarily of bars and restaurants, also saw a healthy increase in sales of over \$4 million, up almost 53% over FY2020.

SCRATCHERS®

Scratchers sales exceeded all expectations, reaching a record \$1.1 billion in FY2021, a 30.81% increase over the previous fiscal year! A total of 52 new Scratchers games were introduced in FY2021, with the most popular continuing to be Crossword and Bingo style games. These amounted to almost \$290 million in sales and represented over a quarter of all FY2021 Scratchers sales. In fact, two of the top ten grossing Scratchers games of FY2021 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 10% of total Scratchers sales for FY2021. Due to the popularity of the Crossword line in Arizona, the Lottery replaced the long-running \$20 Quarter Million Crossword game with a new \$25 Triple Bonus Crossword game. This resulted in an additional \$25 million in sales for that product line. Other notable introductions in FY2021 included the \$5 Celebrando game which featured artwork by Arizona-based artist, Lalo Cota.



FAST PLAY™

The Arizona Lottery saw big sales gains with Fast Play™, introduced in FY2018, which combines the best of a draw game and the best of an instant-win scratch ticket. Ten new games were launched, including the first \$20 progressive ticket. After the launch of the \$20 progressive game, we saw total Fast Play sales increase to over \$1M. FY2021 Fast Play sales totaled \$45,132,479, outpacing FY2020 by a weekly average of 63%. Since its introduction to the Arizona market, the Fast Play category has generated more than \$100 million in total gross sales through June 30, 2021.

MARKETING ACHIEVEMENTS

The Arizona Lottery Marketing team designed and implemented numerous creative and rewarding promotions, online player tools, and marketing campaigns that directly contributed to FY2021's record sales and our returns to beneficiaries.

The Arizona Lottery is recognized throughout the lottery industry as a thought leader and source of excellence and integrity. In FY2021, the Arizona Lottery published multiple industry articles and blogs, and participated in numerous webinars that have become the new normal in the current times. All of these contributed to our ongoing efforts to fulfill our state-mandated mission, while at the same time making the Arizona Lottery a more effective and efficient business model for others to follow. These efforts were well rewarded in FY2021 as multiple professional lottery and marketing organizations and others recognized the excellence that was the Arizona Lottery in FY2021, including:

- Multiple **Rocky Mountain Emmy nominations** from the National Academy of Television Arts and Sciences. Awards to be announced in Fiscal Year 2022.
- **Gold, Silver and Bronze ADDYs**, presented by American Advertising Federation, for numerous commercial and public relations campaigns ranging from television commercials, to billboards, to our annual Holiday Charitable Livestream.
- **2020 Government Experience Awards**, State Government Experience, presented by The Center for Digital Government for Website and Mobile Advancements to Better Serve Citizens.



These awards honored the Arizona Lottery's industry-leading efforts to bring originality and thought-provoking creative through OH Partners (Arizona Lottery's advertising agency of record) to its advertising campaigns and games.

The Arizona Lottery also excelled at generating Earned Media that added even more to the story in FY2021. Earned media, publicity that is not paid advertising, is essential to the Arizona Lottery's efforts to reach out and tell its story to all Arizonans, educating and informing them about all of the good that the Lottery is doing for them and for our community. In FY2021, the Arizona Lottery's efforts to give back to nonprofit organizations across the state, our news of multiple Lottery-funded sponsorships and promotions, and our extensive winner awareness messaging garnered almost \$5 million in earned media. These efforts supported our paid advertising budget and helped Lottery sales soar.



The Arizona Lottery’s Players Club continued to be a valued resource for players across the state. Players Club is home to several successful loyalty promotions tied to our draw, Scratchers and Fast Play games, including the fan favorite “Million Dollar Giveaway”. During the two-month “Million Dollar Giveaway” promotion, 1,000 lucky players each won \$500.00, and one person took home a cool \$1 million (annuity) Grand Prize.

Loyalty promotions offer a unique opportunity for state-wide strategic partnerships that align with player interests. The 2020 NASCAR® Championship Promotion encouraged players to enter eligible Fast Play tickets for a chance to win up to \$10,000 in cash and a NASCAR® VIP Experience during Championship weekend at Phoenix Raceway.

Arizona Lottery

WIN A VIP NASCAR® EXPERIENCE

Enter eligible Fast Play™ tickets

ENTER NOW

PLAYERS CLUB 2ND CHANCE

NASCAR

\$2 FAST PLAY

NASCAR CHAMPIONSHIP WEEKEND PHOENIX

PROGRESSIVE

PROGRESSIVE JACKPOT STARTS AT \$3,000
CURRENT JACKPOT: \$XX,XXX

When you match any WINNING SYMBOLS to ALL 4 symbols in the same LANE, win PRIZE shown for that LANE. Each LANE is played separately.

WINNING SYMBOLS

LANE 1	LANE 2	LANE 3	LANE 4
TROPHY	HELMET	SPEEDOMETER	CAR
TROPHY	FUEL	TRACK	TROPHY
SPEEDOMETER	STOPWATCH	STEERING WHEEL	HELMET
SPARK PLUG	CHECKERD FLAG	FLAGSTAND	SPEEDOMETER
TOOLS	VICTORY LANE	TILES	CAR
\$200	\$100	\$50	Progressive Jackpot

Finally, the Arizona Lottery’s partnership with the Arizona Diamondbacks saw continued success, even if limited in FY2020 due to attendance restrictions imposed on fans during the COVID-19 pandemic. The Arizona Lottery sponsors the Diamondbacks 50/50 raffle, where one lucky player 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.



Arizona Lottery™

Term: 41111-01 20171115 10:45
0001-100121-000-076590629-11-792 f73bba81



PRIZES MULTIPLYING UP TO 50 TIMES!
PROGRESSIVE JACKPOT STARTS AT \$100,000
CURRENT JACKPOT: \$XXX,XXX

Match any of YOUR NUMBERS to any of the WINNING NUMBERS for that ROW, multiply the PRIZE shown directly below that number by the MULTIPLIER BONUS amount shown for that ROW. Each ROW is played separately. MULTIPLIER BONUS feature does not apply to progressive jackpot.

WINNING NUMBERS

9 15 34 24 2 12 21 14 5
NINE FIFTEEN THIRTYFOUR TWENTYFOUR TWO TWELVE TWENTYONE FORTY FIVE

MULTIPLIER BONUS	YOUR NUMBERS				
ROW 1 50X	3 THREE \$50.00 FIFTY	18 EGTTH \$100 ONEHUND	26 TWSIX \$40.00 FORTY	6 SIX \$20.00 TWYDOL	28 TWEGT \$50.00 FIFTY
ROW 2 1X	24 TWFOR \$50.00 FIFTY	35 THFV \$1,000 ONEHOU	16 SXTN \$40.00 FORTY	4 FOUR \$100 ONEHUND	22 TWTWO \$50.00 FIFTY
ROW 3 10X	36 THSIX \$500 FIFHUND	7 SEVEN \$200 TWOHUND	13 THRTN \$100 ONEHUND	8 EIGHT \$50.00 FIFTY	20 TWNTY \$500 FIFHUND
ROW 4 5X	32 THTWO \$50.00 FIFTY	17 SVNTN \$500 FIFHUND	23 TWTHR \$20.00 TWYDOL	38 THEGT \$50.00 FIFTY	1 ONE \$100 ONEHUND
ROW 5 20X	11 ELVN \$20.00 TWYDOL	29 TWNIN \$50.00 FIFTY	10 TEN \$100 ONEHUND	25 TWFTV \$200 TWOHUND	39 THNIN \$50.00 FIFTY

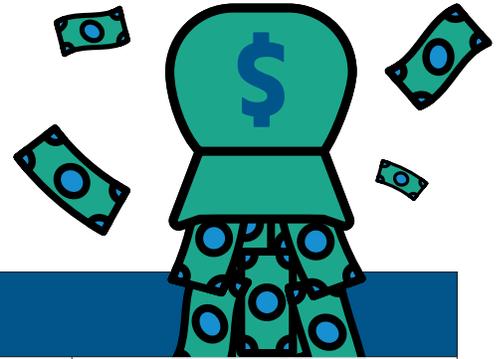
Overall odds of winning 1 in 2.86
Visit ArizonaLottery.com for complete game rules.
Prizes subject to prior sales. Prizes expire 180 days from purchase date.


Scan to Check Prize →


The Arizona Lottery saw big sales gains with Fast Play™, which combines the best of a draw game and the best of an instant-win scratch ticket. Ten new games were launched, including the first \$20 progressive ticket, Mega Multiplier (pictured), driving Fast Play sales totaling over \$45.1 million, outpacing the previous year by a weekly average of 63%. Since its introduction, the Fast Play category has generated more than \$100 million in total Arizona Lottery sales through June 30, 2021!

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.



FY20 BENEFICIARY TRANSFERS

	General Fund	\$195.2 million
	University Bond Fund	\$37.9 million
	Healthy Arizona	\$22.2 million
	Mass Transit (LTAF)	\$11.5 million
	Heritage Fund	\$10 million
	Court Appointed Special Advocates (CASA)	\$4.9 million
	Arizona Competes Fund	\$3.5 million
	Economic Security Homeless Services	\$1 million
	Internet Crimes Against Children/ Victims' Rights Enforcement Fund	\$1 million
	Department of Gaming	\$300,000
	Tribal College Dual Enrollment Fund	\$250,000
Total Beneficiary Transfers		\$287.8 million

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 more than \$652 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 (LTAF) 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 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 26,500 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, the Homeless Services 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.

ARIZONA INTERNET CRIMES AGAINST CHILDREN TASK FORCE

The Arizona Internet Crimes Against Children (AZICAC) Task Force 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 AZICAC 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 Victim's Rights Enforcement 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 Division 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 its 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 the Lottery 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:
Sales



Todd Terrell
Deputy Director:
Security and
Regulatory Division

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, 2021

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, 2021, 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, 2021, 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 / total OPEB liability, the schedule of contributions, and the schedule of changes in total 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 October 22, 2021, 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.



Tempe, Arizona
October 22, 2021

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, 2021, 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, 2021. 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

- The Arizona Lottery (Lottery) achieved record sales of approximately \$1.4 billion in fiscal year 2021, even with the uncertain economic environment due to COVID-19. This reflects an increase of approximately 31% over the prior fiscal year, equating to over \$341 million in additional sales.
- The Lottery returned \$287.8 million to designated state programs in fiscal year 2021, with all beneficiaries receiving full funding. Since its inception in July 1981, the Lottery has generated over \$4.7 billion for Arizona programs.
- Scratchers game sales continued to dominate the market share with record sales of \$1.1 billion in fiscal year 2021. This reflects an increase of \$261 million over the prior year and a growth rate of 30.8%. Demand for tickets at the \$10, \$20, and \$30 price points largely drove this sales increase.
- Draw game sales were also impressive in fiscal year 2021. Sales of \$317.5 million represented an increase of 31.5% over the previous year. Powerball/Mega Millions jackpots and continued growth of Fast Play contributed to this increase.
- Sales for the instant tab product line began to recover as establishments re-opened after closures due to COVID-19 (primarily age-restricted establishments, charitable groups, and fraternal organizations). Sales increased by over \$3.9 million from the prior fiscal year, representing a growth rate of almost 49%.
- The Lottery's retail partners earned over \$98 million in commissions and incentives in fiscal year 2021.

REVENUES

Total game sales were approximately \$1.4 billion for fiscal year ended June 30, 2021 as compared to \$1.1 billion in fiscal year ended June 30, 2020, reflecting increases in both instant and draw game products. The overall sales growth of \$341 million represented a 31.1% increase over the prior year

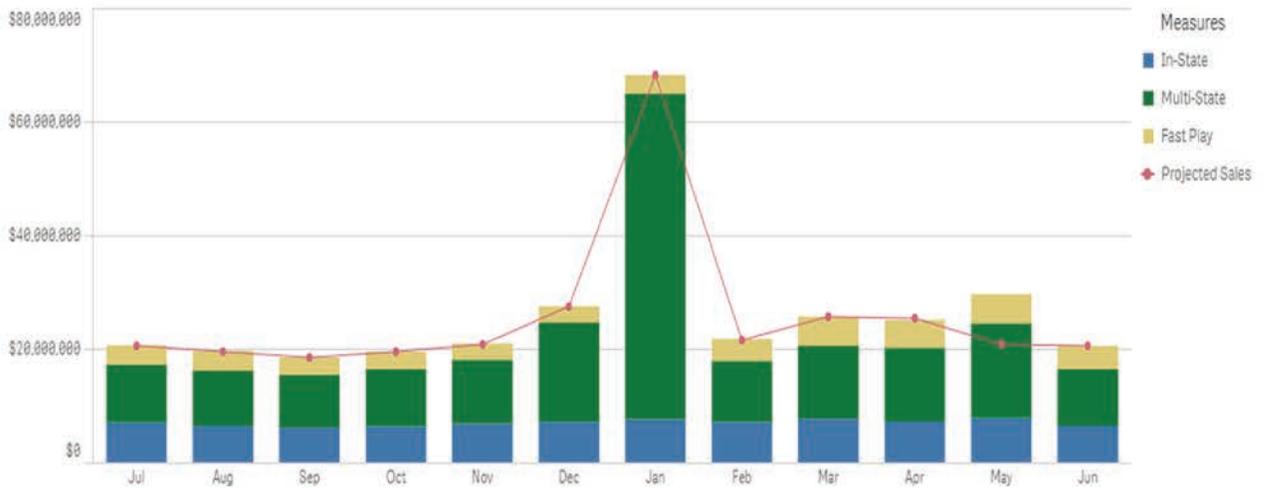
The instant ticket product line (Scratchers/Instant Tabs) was the largest contributor to this gain, with sales growth of over \$265 million over the prior year (\$261.4 million from Scratchers games and \$3.9 million from instant tab tickets). Continued sales growth in the \$10, \$20, and \$30 price points helped to generate the Scratchers increase, while COVID-19 business recovery generated increased instant tab sales.

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 January helped drive the overall draw game sales increase of \$76 million over the prior year. Fast Play also exhibited an impressive increase

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

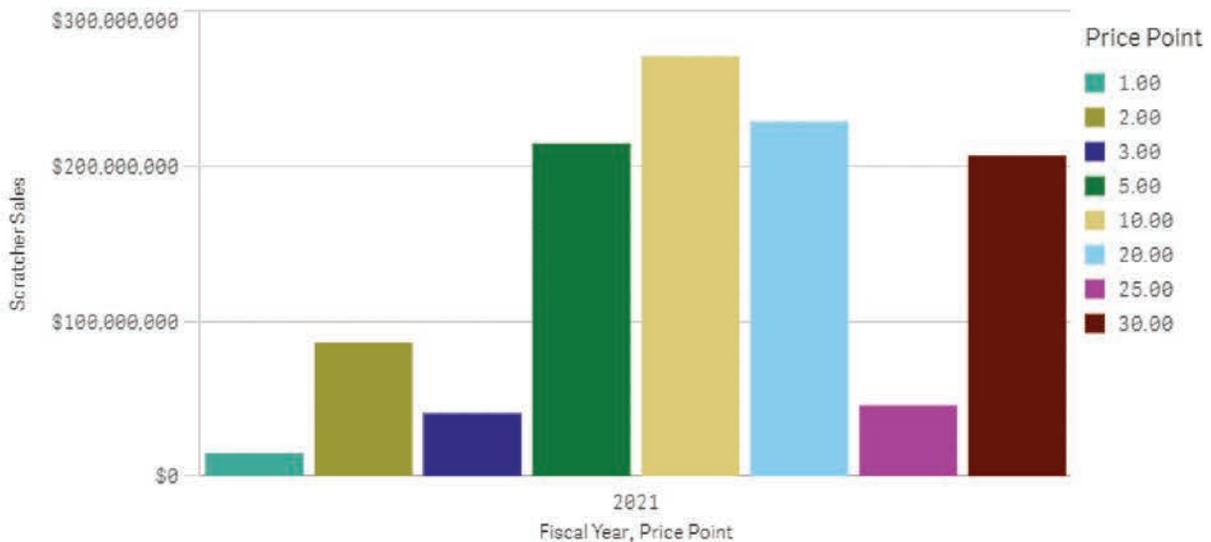
of 57.9% over FY 2020, with sales of \$45.1 million. Draw game sales for FY 2021 broken down by multi-state, in-state, and Fast Play are depicted in the following chart.

FY 2021 Draw Sales by Multi-State & In-State



The chart below displays Scratchers sales by price point for FY 2021 and the subsequent table summarizes Lottery total sales by game and the incremental change between fiscal years.

FY21 Instant Sales by Price Point



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

Product Sales (in millions)	FY 2021	FY 2020	Change	Percentage
Scratchers	\$ 1,109.8	\$ 848.4	\$ 261.4	30.8%
Instant Tabs	12.0	8.0	4.0	50.0%
Powerball	98.9	72.7	26.2	36.0%
Mega Millions	90.1	57.2	32.9	57.5%
The Pick	27.7	28.9	(1.2)	-4.2%
Fantasy 5	19.7	19.7	-	0.0%
Pick 3	17.4	14.4	3.0	20.8%
Triple Twist	18.7	20.1	(1.4)	-7.0%
Fast Play	45.1	28.6	16.5	57.7%
TOTAL:	\$ 1,439.4	\$ 1,098.0	\$ 341.4	31.1%

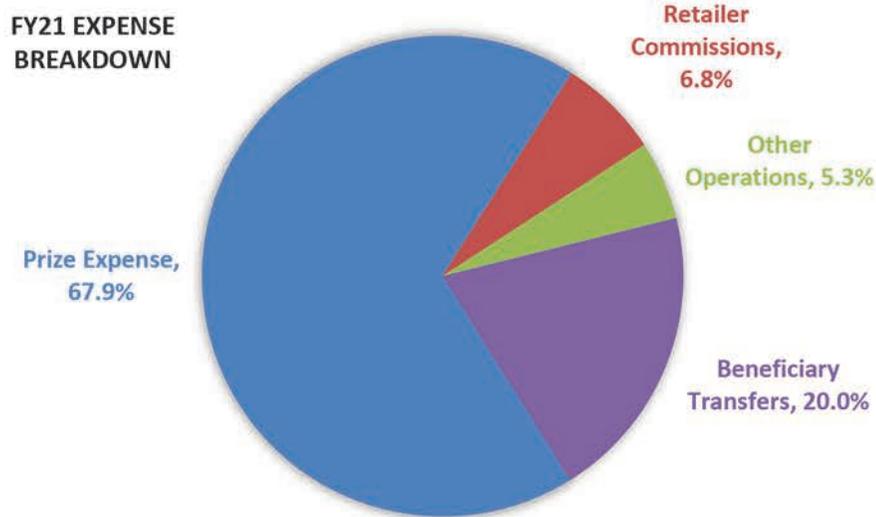
Product sales are the primary driver of operating revenues, but this category also includes other operating revenues and sales returns, which offset product sales. Other operating revenues were \$283,773 for FY 2021, which is primarily composed of commissions earned on Lottery ticket sales at Lottery offices and special events, and other miscellaneous revenue. Sales returns and allowances, comprised of damaged tickets and promotional tickets were (\$421,414) for FY 2021. Total operating revenues, the sum of game sales and other operating revenues, less sales returns and allowances were \$1.439 billion for the year ended June 30, 2021, as compared to \$1.098 billion for the year ended June 30, 2020. This increase was a direct reflection of higher overall game sales.

Non-operating revenues (investment income) for the year ended June 30, 2021, were \$125,990 as compared to \$635,486 for the year ended June 30, 2020. Non-operating revenue is comprised of interest earned on invested cash. Investment income will fluctuate from year-to-year based on interest rates.

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 percentage breakdown of Lottery expenses for FY 2021:

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



Lottery total operating expenses were \$1.142 billion for fiscal year ended June 30, 2021 as compared to \$866.6 million for fiscal year ended June 30, 2020. Of this amount, \$1.112 billion (77.2%) were incurred in direct support of Lottery games in FY 2021. In comparison, \$839.6 million (76.5%) of total operating expenses for FY 2020 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 \$30.0 million in FY 2021 as compared to \$27.1 million in FY 2020.

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

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

Operating Expenses (in millions)	FY 2021	FY 2020	Change	Percentage
Instant & Online Prizes	\$ 977.8	\$ 737.9	\$ 239.9	32.5%
Retailer Commissions & Incentives	98.3	74.6	23.7	31.8%
Online System Expense	13.5	10.3	3.2	31.1%
Instant Ticket Distribution Expenses	9.9	6.7	3.2	47.8%
Instant Ticket Printing Expenses	12.1	10.1	2.0	19.8%
Total Direct Costs	1,111.6	839.6	272.0	32.4%
Other Operating Expenses	30.0	27.1	2.9	10.7%
TOTAL:	\$ 1,141.6	\$ 866.7	\$ 274.9	31.7%

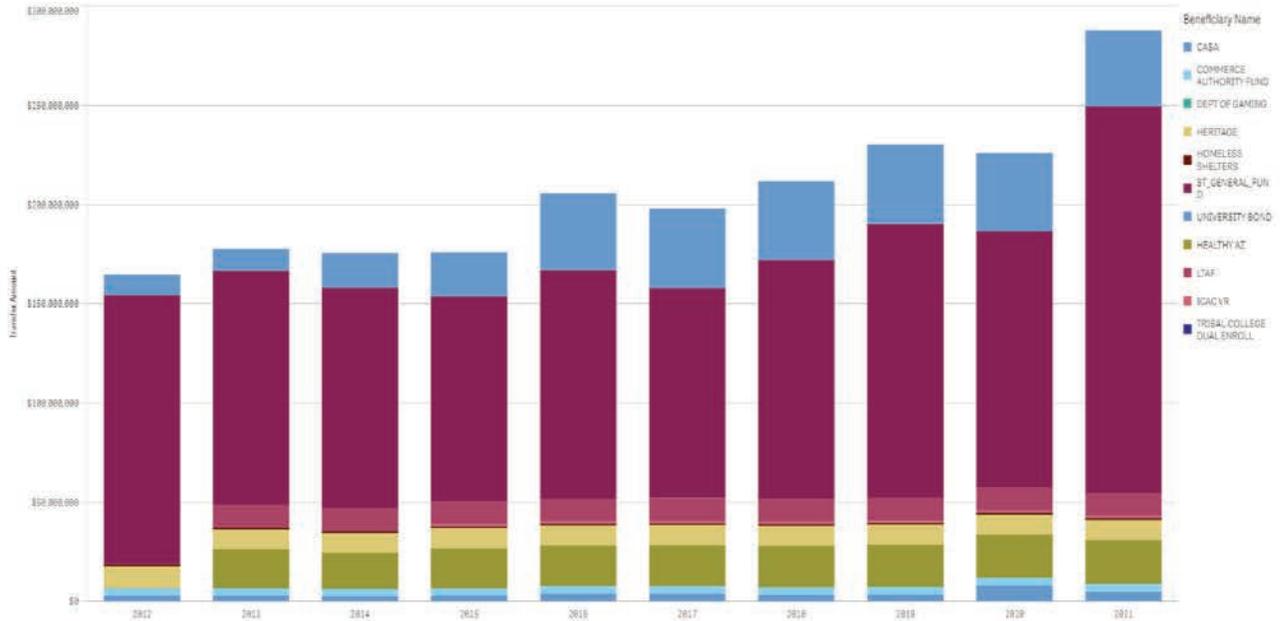
Increases in prize expense, retailer commissions, online system expenses, and ticket printing/distribution correlate with the increase in product sales. Aggregate prize expense represented 67.9% of product sales in FY 2021 as compared to 67.2% of product sales in FY 2020. Prize expense is largely driven 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 \$30.0 million for other operating expenses in FY 2021, \$15.2 million was used for advertising and promotion, \$7.1 million was used to compensate Lottery employees, \$4.7 million was depreciation, and \$3.0 million was used for other administrative expenses. In comparison, of the \$27.1 million in other operating expenses for FY 2020, \$14.3 million was used for advertising and promotion, \$6.7 million was used to compensate Lottery employees, \$3.2 million was depreciation, and \$2.9 million was for other administrative expenses. Higher other operating expenses for FY 2021 were primarily driven by increased depreciation/amortization expenses and a larger advertising presence post-COVID.

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 \$287.8 million in FY 2021, as compared to \$226.1 million transferred in FY 2020. The increase in product sales resulted in a corresponding increase in transferable revenues of \$61.7 million, with all designated beneficiary programs receiving full funding. The total transfer rate as a percentage of sales was 20% in FY 2021 and 20.6% in FY 2020. The following chart outlines transfers to Lottery beneficiaries over the last 10 years:

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



OTHER FINANCIAL INFORMATION

Net Position. The Lottery’s total net position was \$30.9 million at June 30, 2021 as compared to \$21.0 million for June 30, 2020.

The Lottery’s total assets at June 30, 2021 were \$201.4 million, as compared to \$123.4million 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 higher cash balance in FY 2021, resulting from higher product sales compared to FY 2020. The value of capital assets also increased due to purchases of Lottery vending machines completed in FY 2021.

Total liabilities at June 30, 2021, were \$172.1 million, as compared to \$103.2 million the previous year. Liabilities consisted of accounts payable and accrued expenses, prize liability, amounts due to other state funds, and net pension liability. The difference was due to an increase in the amounts due to other state funds and an increase in prize liability, both of which resulted from higher product sales in FY 2021 compared to FY 2020.

The following table summarizes the statement of net position.

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

Statement of Net Position (in millions)	FY 2021	FY 2020
Current assets	\$ 160.6	\$ 88.1
Capital assets	30.9	21.0
Other assets	9.9	14.3
Total assets	201.4	123.4
Deferred outflows related to pensions	1.9	1.3
Total assets and deferred outflows of resources	203.3	124.7
Current liabilities	163.3	95.7
Net pension and OPEB liability	8.8	7.4
Total liabilities	172.1	103.1
Deferred inflows related to pensions	0.3	0.6
Net position	30.9	21.0
Total Liabilities and Net Position	\$ 203.3	\$ 124.7

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 provided 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 5 to the financial statements.)

Laws 2021, First Regular Session of the State Legislature subsequently provided for the defeasance of the Lottery Revenue Bonds to allow the State General Fund to receive savings from the bond retirement. This eliminated remaining Lottery debt service payments beginning in fiscal year 2022, with the final monthly payment occurring in July 2021.

BUDGETARY/APPROPRIATION HIGHLIGHTS

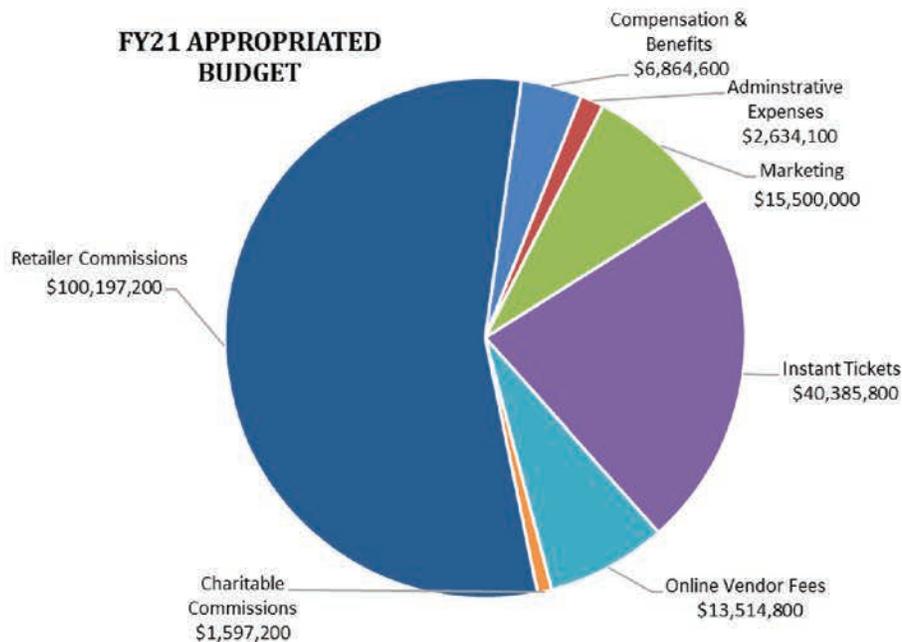
The Lottery's budget is set by legislative appropriation on an annual basis. The budget for FY 2021 was approved in the regular legislative session of 2020. The Lottery's appropriation for sales-related expenditures is based on approved percentages of projected revenues and is allowed to adjust without 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 \$148.2 million for FY 2021 based on an estimated \$1.13 billion in total sales; however, the spending authority was adjusted to \$180.7 million as a result of

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

actual revenues exceeding original estimates. Expenditures against the adjusted budget were approximately \$162 million in FY 2021 (prior to adjustments processed after the close of the fiscal year).

The following chart depicts the breakdown of the FY 2021 revised appropriated budget:



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 2021 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

See accompanying notes.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Statement of Net Position
June 30, 2021

ASSETS		
CURRENT ASSETS		
Cash - substantially all held by the State Treasurer	\$	139,594,982
Accounts receivable - net of allowance for doubtful accounts of \$186,000		13,671,753
Scratch ticket inventory		6,493,596
Pull tab inventory		279,438
Quick card inventory		561,315
TOTAL CURRENT ASSETS		<u>160,601,084</u>
CAPITAL ASSETS		
Land and land improvements		1,268,695
Buildings		4,309,192
Furniture, fixtures and equipment		39,454,352
Intangible assets		599,324
Leashold improvements		328,341
Less accumulated depreciation and amortization		(15,042,789)
TOTAL CAPITAL ASSETS		<u>30,917,115</u>
OTHER ASSETS		
Deposit - MUSL		9,862,444
TOTAL OTHER ASSETS		<u>9,862,444</u>
TOTAL ASSETS		<u>201,380,643</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions - ASRS		1,235,599
Related to OPEB - ADOA		700,915
TOTAL DEFERRED OUTFLOWS OF RESOURCES		<u>1,936,514</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable		5,051,155
Accrued expenses		455,054
Prize liability		70,322,980
Due to other state funds		87,491,484
TOTAL CURRENT LIABILITIES		<u>163,320,673</u>
NONCURRENT LIABILITIES		
Net pension liability - ASRS		6,587,543
Total OPEB liability - ADOA		2,210,913
TOTAL NONCURRENT LIABILITIES		<u>8,798,456</u>
TOTAL LIABILITIES		<u>172,119,129</u>
DEFERRED INFLOWS OF RESOURCES		
Related to pensions - ASRS		109,671
Related to OPEB - ADOA		171,242
TOTAL DEFERRED INFLOWS OF RESOURCES		<u>280,913</u>
NET POSITION		
Net investment in capital assets		30,917,115
Unrestricted		-
TOTAL NET POSITION	\$	<u><u>30,917,115</u></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, 2021

OPERATING REVENUES		
Ticket sales:		
Scratchers	\$	1,109,833,567
Powerball		98,917,963
The Pick		27,670,859
Fantasy 5		19,667,292
Pick 3		17,360,803
Mega Millions		90,114,543
Triple Twist		18,682,166
Instant tab		11,994,834
Fast Play		45,132,479
		<hr/>
	TOTAL TICKET SALES	1,439,374,506
Sales Returns and Allowances		(421,414)
		<hr/>
	NET TICKET SALES	1,438,953,092
Other operating revenues		283,773
		<hr/>
	TOTAL OPERATING REVENUES	1,439,236,865
<hr/>		
OPERATING EXPENSES		
Direct costs:		
Prize expense		977,813,848
Retailer commissions and incentives		98,261,964
Online system expense		13,514,592
Scratcher system and distribution expenses		9,873,587
Tickets purchased		12,124,487
		<hr/>
	TOTAL DIRECT COSTS	1,111,588,478
Advertising and promotion		15,167,511
Wages and related expenses		7,067,849
Depreciation		4,696,008
Administrative expenses		3,060,547
		<hr/>
	TOTAL OPERATING EXPENSES	1,141,580,393
OPERATING INCOME		297,656,472
NONOPERATING REVENUES - Investment income		125,990
		<hr/>
INCOME BEFORE TRANSFERS		297,782,462
TRANSFERS TO OTHER STATE FUNDS		287,832,983
		<hr/>
	CHANGE IN NET POSITION	9,949,479
NET POSITION - BEGINNING OF YEAR		20,967,636
		<hr/>
	NET POSITION - END OF YEAR	\$ 30,917,115
		<hr/> <hr/>

See accompanying notes.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Statement of Cash Flows
Year Ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from retailers-net of validations, commissions and incentives	\$ 544,935,251
Cash received from other sources	3,610,736
Cash payments for prizes and related taxes	(162,360,585)
Cash payments to suppliers of goods or services	(56,685,348)
Cash payments to employees	<u>(6,801,601)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>322,698,453</u>
CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES	
Payments to beneficiaries per Arizona Statutes	<u>(226,103,971)</u>
CASH FLOWS USED BY CAPITAL FINANCING ACTIVITIES	
Payments for acquisition of capital assets	<u>(14,645,486)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipts of interest	<u>115,198</u>
NET INCREASE (DECREASE) IN CASH	82,064,194
CASH AT BEGINNING OF YEAR	<u>57,530,788</u>
CASH AT END OF YEAR	<u><u>\$ 139,594,982</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 297,656,472
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	4,696,008
(Increase) decrease in:	
Accounts receivable	11,590,612
MUSL interest	10,792
Ticket inventory	(2,005,294)
Deposit - MUSL	623,732
Deferred outflows of resources related to pensions and other postemployment benefits	(594,083)
Increase (decrease) in:	
Accounts payable and accrued expenses	(913,423)
Prize liability	10,617,168
Net Pension and OPEB Liability	1,362,313
Deferred inflows of resources related to pensions and other postemployment benefits	<u>(345,844)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 322,698,453</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, 2021**

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, 2020 through June 30, 2021, the Lottery held 123 instant games of which 57 games expired during the fiscal year. During 2021, 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 \$9.8 million at June 30, 2021. 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, 2020 to June 30, 2021.
- 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 consist 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, 2021**

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. FY21 transfers from forfeited unclaimed prizes to the Internet Crimes Against Children Fund and Victims' Rights Enforcement Fund were \$399,000. All remaining forfeited unclaimed prizes offset prize expense.

Prize liability activity for the year ended June 30, 2021 was follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Prize Liability	\$ 59,705,811	\$ 1,797,880,065	\$ (1,787,262,896)	\$ 70,322,980

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, 2021, the Fund's accounts payable and accrued expenses balance includes an accrual of vacation pay and related benefits of \$455,054. 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, 2021

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, 2021, the Lottery's deposits with the Treasurer were as follows:

Cash	\$ 99,162,634
Prize fund cash	<u>40,432,348</u>
Total cash and investments held by State Treasurer	<u>\$ 139,594,982</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, 2021, 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, 2021

Note 3 – Transfers and Statutory Requirements

As required by A.R.S. Section 5-572, the Lottery recorded transfers during the year ended June 30, 2021, as follows:

General Fund	\$ 195,203,819
University Bond Fund	37,927,723
Healthy Arizona	22,232,700
Local Transportation Assistance Fund - Mass Transit	11,476,800
Heritage Fund	10,000,000
Commerce Authority Arizona Competes Fund	3,500,000
Court-appointed Special Advocate Fund	4,941,941
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
	<hr/>
Total transfers to other State funds	\$ 287,832,983

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

Included in the above transfer, \$87,491,484 was due to the State General Fund as of June 30, 2021.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2021

Note 4 – Capital Assets

Capital asset activity for the year ended June 30, 2021 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
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	24,808,865	14,645,487	-	39,454,352
Intangible assets	599,324	-	-	599,324
Total capital assets	<u>31,314,417</u>	<u>14,645,487</u>	<u>-</u>	<u>45,959,904</u>
Less accumulated depreciation for:				
Land improvements	(330,865)	-	-	(330,865)
Buildings & Leasehold Improvements	(3,499,991)	(175,358)	-	(3,675,349)
Furniture, fixtures, and equipment	(5,916,601)	(4,520,650)	-	(10,437,251)
Intangible assets	(599,324)	-	-	(599,324)
Total accumulated depreciation	<u>(10,346,781)</u>	<u>(4,696,008)</u>	<u>-</u>	<u>(15,042,789)</u>
Total capital assets, net	<u>\$ 20,967,636</u>	<u>\$ 9,949,479</u>	<u>\$ -</u>	<u>\$ 30,917,115</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, 2021, pledged revenues totaled approximately \$282,242,042, of which \$34,509,750 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 \$223,050,000. In August 2021, the State General Fund defeased the Bonds, per S.B. 1823, thus eliminating the underlying pledged revenues of the Lottery.

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. In February 2018, the Lottery extended the contract for an additional two years. In January 2019, the Lottery fully extended the contract for the remaining three year option, through 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. The Lottery did month-to-month lease from December 2020 through March 2021. The Lottery entered a new commercial rental agreement to lease a facility in Tucson, AZ for 10 years effective April 1, 2021 and expiring on March 31, 2031. Rent expense for the facilities was approximately \$72,723 for the year ended June 30, 2021.

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. The lease agreement was amended in January 2020 to extend the agreement and expire on December 2024. Rent expense for the facilities was approximately \$65,153 for the year ended June 30, 2021.

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 \$18,000 for the year ended June 30, 2021.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2021

Note 6 – Commitments (continued)

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

<u>Year ending June 30,</u>		
2022	\$	160,280
2023		162,212
2024		146,192
2025		115,720
2026		85,299
2027-2031		<u>435,021</u>
Total	<u>\$</u>	<u>1,104,724</u>

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 \$47,827,275 at June 30, 2021. Approximately \$45,897,028 of the total aggregate future payments at June 30, 2021 relate to annuities purchased from five separate insurance companies, of which \$17,968,209 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 \$726,510 of pension expenditure related to the pension plan to which it contributes. In addition, the Lottery reported \$280,331 of other post-employment benefit expenses related to the health insurance premium benefit ADOA OPEB plan. At June 30, 2021, 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 total OPEB liability	\$ 6,587,543	\$ 2,210,913	\$ 8,798,456
Deferred outflows of resources related to pensions and OPEB	1,235,599	700,915	1,936,514
Deferred inflows of resources related to pensions and OPEB	109,671	171,242	280,913
Pension and OPEB expense	726,510	280,331	1,006,841

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, 2021, 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.

**Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2021**

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

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 and age required to achieve benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65+	30 years, age 55 25 years, age 60 10 years, age 62 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

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.

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

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, 2021, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.22 percent (12.04 percent for retirement and 0.18 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 12.22 percent (11.65 percent for retirement, 0.39 percent for health insurance premium benefit, and 0.18 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 10.21 percent (10.14 percent for retirement, 0.00 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, 2021, were \$532,506. 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:

Years ended June 30,	Pension
2021	\$ 540,560
2020	475,790
2019	458,172
2018	426,967

Pension liability – At June 30, 2021, the Lottery reported \$6,587,543 as net pension liability for its proportionate share of the ASRS' net pension liability.

The net pension liability was measured as of June 30, 2020. 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, 2019, to the measurement date of June 30, 2020. 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.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2021

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

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, 2020, and the change from its proportions measure as of June 30, 2019 were:

ASRS	Proportion June 30, 2020	Increase (decrease) from June 30, 2019
Pension	0.03802%	-0.00084%

Pension expense – For the year ended June 30, 2021, the Lottery recognized \$726,510 as pension expense for ASRS.

Pension expense and deferred outflows/inflows of resources – At June 30, 2021, 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	\$ 59,596	\$ -
Net difference between projected and actual earning on pension plan investments	635,376	-
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	-	109,671
Lottery contributions subsequent to the measurement date	540,627	-
Total	\$ 1,235,599	\$ 109,671

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2021

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

The \$540,627 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, 2022. 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
2021	\$ 3,967
2022	154,993
2023	229,822
2024	196,519
2025	-
Thereafter	-

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

ASRS

Actuarial valuation date	June 30, 2019
Actuarial roll forward date	June 30, 2020
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.

Arizona State Lottery
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Notes to Basic Financial Statements
Year Ended June 30, 2021

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

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	2021	
	Target allocation	Long-term expected geometric real rate of return
Equity	50%	6.39%
Fixed income - credit	20%	5.44%
Fixed income - interest rate sensitive	10%	0.22%
Real estate	20%	5.85%
Total	<u>100%</u>	

Actual returns may be different due to volatility of returns.

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, 2021		
	1% Decrease (6.5% Discount Rate)	Current (7.5% Discount Rate)	1% Increase (8.5% Discount Rate)
Retirement	\$ 9,008,376	\$ 6,587,543	\$ 4,563,851

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

Arizona State Lottery
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Notes to Basic Financial Statements
Year Ended June 30, 2021

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.

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, 2021, the Lottery reported a OPEB liability of \$2,210,913 for its proportionate share. The liability was measured as of June 30, 2020 to be reported as of June 30, 2021 under GASB 75.

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at 6/30/2020	\$ 1,781,561	\$ -	\$ 1,781,561
Changes for the year:			
Service Cost	154,475	-	154,475
Interest	59,975	-	59,975
Changes of assumptions	254,752	-	254,752
Expected benefit payments	(39,850)	-	(39,850)
Net changes	429,352	-	429,352
Balances at 6/30/2021	<u>\$ 2,210,913</u>	<u>\$ -</u>	<u>\$ 2,210,913</u>

**Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2021**

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

OPEB deferred outflows/inflows of resources – At June 30, 2021, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 41,987	\$ 22,797
Changes of assumptions or other inputs	496,638	148,445
Changes in proportion	118,463	-
Deferred outflows of contributions	43,827	-
Total	<u>\$ 700,915</u>	<u>\$ 171,242</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,	
2022	\$ 65,881
2023	65,881
2024	65,881
2025	90,142
2026	111,403
Thereafter	86,658

OPEB Expenses - At June 30, 2021, the Lottery reported OPEB expenses as follow:

Reporting Date for Employer under GASB 75	June 30, 2021
Measurement Date for Employer under GASB 75	June 30, 2020
<hr/>	
Components of OPEB Expenses	
Service Cost	\$ 154,475
Interest on the total OPEB liability	59,975
Recognition of current year outflow (inflow) due to liabilities	33,646
Amortization of prior year outflow (inflow) due to liabilities	32,235
Total OPEB expenses	<u>\$ 280,331</u>

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2021

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	2.45% as of June 30, 2020	
Health cost trend rates:		
Medical (pre-65)	7.2% graded to 4.25% over 4 years as of June 30, 2020	
Medical (post-65)	6.50%	
Prescription drug	8.5% graded to 4.5% over 4 years as of June 30, 2020	
Administrative costs	3.00%	
Contribution trend rates	6.5% graded to 4.5% over 4 years as of June 30, 2020	
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, 2020 measurement date is 2.45%. The index value as of the prior measurement date (June 30, 2019) was 3.13%.

Sensitivity – The following table presents the Lottery's total OPEB liability calculated using the discount rate of 2.45 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 (1.45 percent) or 1 percentage point higher (3.45 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, 2021		
	1% Decrease (1.45% Discount Rate)	Current (2.45% Discount Rate)	1% Increase (3.45% Discount Rate)
Lottery's Total OPEB Liability	\$ 2,681,257	\$ 2,210,913	\$ 1,850,090
	1% Decrease Trend Rates	Current Trend Rates	1% Increase Trend Rates
Lottery's Total OPEB Liability	\$ 1,788,719	\$ 2,210,913	\$ 2,778,418

**Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2021**

Note 10 – Major Vendors

The Lottery has three vendors that represent approximately 93% of its purchases for the year ended June 30, 2021.

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 / Total OPEB Liability Cost-Sharing Pension Plan
June 30, 2021

ASRS - Pension	Reporting Fiscal Year (Measurement Date)							
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2011
Lottery's proportion of the net pension liability	0.038018%	0.038858%	0.039409%	0.035910%	0.035630%	0.041980%	0.042442%	Information not available
Lottery's proportionate share of the net pension liability	\$ 6,587,543	\$ 5,654,582	\$ 5,496,308	\$ 5,594,078	\$ 5,751,040	\$ 6,538,813	\$ 6,279,956	Information not available
Lottery's covered payroll	4,640,575	4,104,533	4,098,140	3,762,046	3,358,108	3,527,088	3,745,104	
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	141.96%	137.76%	134.12%	148.70%	171.26%	185.39%	167.68%	
Plan fiduciary net position as a percentage of the total pension liability	69.33%	73.24%	73.00%	69.92%	67.05%	68.35%	69.49%	

ADOA - OPEB	Reporting Fiscal Year (Measurement Date)					
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 through 2012
Lottery's proportion of the total OPEB liability	0.120000%	0.120000%	0.120000%	0.120000%	0.120000%	Information not available
Lottery's proportionate share of the total OPEB liability	\$ 2,210,913	\$ 1,781,561	\$ 1,058,849	\$ 1,011,909	\$ 1,302,971	Information not available
Lottery's covered-employee payroll	3,964,231	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	55.77%	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 Changes in the Agency Total OPEB Liability and Related Ratios
June 30, 2021

ASRS - Pension	Fiscal Year								2013 through 2012
	2021	2020	2019	2018	2017	2016	2015	2014	
Statorily required contribution	\$ 540,627	\$ 469,969	\$ 458,172	\$ 410,063	\$ 362,004	\$ 382,689	\$ 444,044	\$ 432,185	Information not available
Lottery's contributions in relation to the statorily required contribution	<u>540,627</u>	<u>469,969</u>	<u>458,172</u>	<u>410,063</u>	<u>362,004</u>	<u>382,689</u>	<u>444,044</u>	<u>432,185</u>	
Lottery's contribution deficiency (excess)	<u>\$ -</u>								
Lottery's covered payroll	\$ 4,640,575	\$ 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	11.65%	11.45%	11.18%	10.90%	10.78%	10.85%	10.88%	11.54%	

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Required Supplementary Information
Schedule of the Agency Pension / Total OPEB Contributions (Concluded)
June 30, 2021

ADOA - OPEB	Fiscal Year					2016 through 2012
	2021	2020	2019	2018	2017	
Required contribution	\$ 43,827	\$ 39,849	\$ 33,165	\$ 30,879	\$ 32,938	Information not available
Lottery's contributions in relation to the required contribution	43,827	39,849	33,165	30,879	32,938	
Lottery's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	
Lottery's covered payroll	\$ 3,961,231	\$ 3,860,011	\$ 3,360,126	\$ 3,271,788	\$ 3,592,604	
Lottery's contributions as a percentage of covered payroll	1.11%	1.03%	0.99%	0.94%	0.92%	

Arizona State Lottery
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Required Supplementary Information
Schedule of Changes in the Agency Total OPEB Liability and Related Ratios
June 30, 2021

	2021	2020	2019	2018	2017 through 2012
Total OPEB Liability					
Service Cost	154,475	114,257	86,395	115,725	Information not available
Interest	59,975	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	254,752	377,204	(47,343)	(260,878)	
Expected benefit payments*	(39,850)	(33,165)	(30,879)	(32,938)	
Net change in Total OPEB Liability	429,352	722,712	46,940	(291,062)	
Total OPEB Liability -- beginning	1,781,561	1,058,849	1,011,909	1,302,971	
Total OPEB Liability -- ending	<u>2,210,913</u>	<u>1,781,561</u>	<u>1,058,849</u>	<u>1,011,909</u>	
Covered employee payroll**	3,964,231	3,860,011	3,360,126	3,271,788	
Plan total OPEB liability as a percentage of covered employee payroll	55.8%	46.2%	31.5%	30.9%	

* Benefit payments of \$39,850 projected for the year ended June 30, 2021

** Annualized pay of active employees not waiving coverage as of June 30, 2019 valuation date.

Assumed to increase by the wage inflation rate of 2.70% for the June 30, 2020 measurement date.

Arizona State Lottery
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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, 2021 report is available at:

<https://www.azasrs.gov/sites/default/files/2020%20GASB%2068%20%26%2075%20OPEB%20Reports.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, 2021, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated October 22, 2021.

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.



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