

Arizona Lottery



FY22 ANNUAL REPORT JULY 2021 - JUNE 2022

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ARIZONA LOTTERY OVERVIEW

ABOUT

Since selling our first ticket over four decades ago, the Arizona Lottery is proud to have benefitted the people, the vibrant cultures, the unique landscapes and iconic wildlife intrinsic to the Grand Canyon state. Ever since a public initiative established the Arizona Lottery and we began operations on July 1, 1981, our mission has remained the same: to support Arizona programs for the public benefit by maximizing net revenue in a responsible manner. Product sales fully fund the Arizona Lottery and our beneficiary transfers, which fund a variety of vital state programs. Since our inception, the agency has returned more than \$11.3 billion in prizes to players, generated almost \$5 billion for beneficiary programs and paid over \$1.25 billion in commissions to retailers.



ARIZONA LOTTERY COMMISSION CHAIR, JEFF WEINTRAUB



You can't win if you don't play



This is my 12th year serving on the Arizona Lottery Commission and it is with an enormous sense of pride that I look back on Fiscal Year 2022 and think of the strides we made in serving the people of the great state of Arizona! We again exceeded a billion dollars in sales, allowing us to deliver over a quarter-billion dollars to the 17 legislatively mandated beneficiary programs that the Arizona Lottery funds.

As a commission, my fellow commissioners and I worked hard: listening to the public and working with Arizona Lottery administrators to develop games that were exciting to play and rewarding to both players and the vital programs and services that would otherwise rely on tax dollars for funding. These programs serve vulnerable children, grow our economy, facilitate higher education and protect iconic Arizona wildlife and landscapes. We worked especially hard on making the new \$50 Scratchers[®] ticket a success, celebrating its first \$5 million winner and the popularity our largest-ever instant game has seen across Arizona. We also approved and implemented the new Quick Draw series of games, bringing players fast-paced, hourly draw games with play styles that have engaged a loyal audience.

These new games, and our commitment to continue player favorites, have allowed the Arizona Lottery to entertain millions of people and award many life-changing cash prizes. In fact, Arizona Lottery players won more than \$925 million in prizes over the past fiscal year.

Our commission and agency have made a real difference for the people of Arizona. In more than four decades of existence as a state agency, the Arizona Lottery has worked to drive our state's economy forward in ways felt in every corner of Arizona. The Arizona Lottery paid its network of 3,300+ retailers almost \$93 million in commissions this fiscal year. Those retailers used these earnings to grow their businesses, raise their employees' pay or maybe just to continue to keep their doors open on trying economic times.

With these advancements and successes in mind, I want to thank everyone who has helped to make this another outstanding year for the Arizona Lottery. Thank you to my fellow commissioners for their hard work and valuable time spent overseeing this amazing agency; thank you to our Arizona Lottery employees, who are making us the ultimate gaming entertainment choice in Arizona; thank you to our retailers who are providing outstanding Arizona Lottery experiences to their customers; and above all, I offer a very special "thank you," to our players. Your choice to play the Arizona Lottery is having a positive impact across the state. The Arizona Lottery exists to benefit our communities and, together, we are all accomplishing that mission.

Jeff Weintraub, Chairman
Arizona Lottery Commission



A MESSAGE FROM EXECUTIVE DIRECTOR GREGG EDGAR

The Arizona Lottery entered Fiscal Year 2022 celebrating our 40th birthday and being uniquely positioned for growth, while also facing unprecedented challenges and changes to Arizona's gaming landscape due to the implementation of new tribal compacts and the debut of legalized sports betting.

The close of FY22 also brings us into the final six months of Governor Doug Ducey's administration, which for the Lottery, has been the most significant era for growth in the agency's history. During the eight years of the Ducey Administration, the Lottery will have returned nearly \$1.79 billion to its beneficiary programs, which is over 35% of the total return the agency has generated in its operating history. These dollars are benefitting Arizona's most vulnerable residents, funding affordable public higher education, protecting our environment and growing our economy.

This success was generated by empowering the agency's frontline to bring systemic change to the process of generating revenue for the public good. Through the Arizona Management System and the concepts of continuous improvement we have more than doubled the agency's product offerings, stepping away from games that were not producing and expanding with innovative draw products and profitable instant lines.

We have embraced a cultural mindset that centers our efforts on service to our beneficiary mission. The Arizona Lottery does not sell tickets, it sells an opportunity for people to dream big and have fun, while doing good for our community.

We succeeded because we are committed to the business function of our operations. Yes we are a state agency, but it is imperative that we step outside traditional state agency models and commit to operating the business of lottery to better serve Arizona.

FY22 may be the capstone to those efforts under the Ducey administration, but it also was the launchpad for new innovation and opportunity to expand the beneficiary impact of Lottery's effort. Arizona Lottery sales topped \$1.37 billion, a success by any understanding of the word, and a true testament to the creativity and hard work of our Arizona Lottery employees, who met and exceeded the goals we set for ourselves and the expectations others set for us. We did this despite expanded casino gaming options and increased competition from sports betting. We developed new and exciting games that fired players' imaginations and gave back much more to our state (per dollar played) than all other forms of gaming entertainment combined!

These efforts, and the hard work of our massive network of over 3,200 active retailers, returned results that are truly remarkable, including: \$269 million in beneficiary transfers, nearly \$93 million paid to retailers in commissions and, most impressively, \$924 million in prizes paid to our players.

We saw two massive multi-state jackpots won in Arizona, a \$108 million Mega Millions jackpot won in Lake Havasu City and a \$473.1 million Powerball jackpot won in Gilbert. These, in combination with a \$4.3 million The Pick jackpot sold in Mesa, have inspired players to dream and play, funding vital programs and services that are benefitting millions of people across the Grand Canyon State.

The Arizona Lottery upped the ante for players, introducing our first ever \$50 Scratchers ticket with our biggest prize ever offered in an instant game: \$5 million! Players responded in an overwhelmingly positive fashion and sales soared. We introduced Quick Draw, a unique game platform that allows players the fun and excitement of enjoying draw games every hour to win big!

The Arizona Lottery innovated our customer service and cashing options, making it possible for our winners to claim prizes through our Tucson drive thru window and increasing the redemption limits at branch offices in Kingman and Phoenix Sky Harbor International Airport to \$49,999. Now, someone who lives far from the Lottery's main offices in Phoenix and Tucson, or who is only passing through Phoenix when deciding to take a chance and dream big, can cash their big winning tickets.

Through FY22 and its 40 years of operation, the story of the Arizona Lottery is impactful.

- More than \$11.3 billion in prizes paid to players
- More than \$1.25 billion in retail commissions
- And, most importantly, nearly \$5 billion in beneficiary return to fund programs in higher education, economic development, environmental conservation and health and human services.

As we move forward into FY23, the Arizona Lottery is preparing to wow players with unprecedented new promotions and play options that promise to reward them like never before. These include Ultimate Playlist, a marriage of Lottery and music; and the Lucky Lounge, designed to make playing Arizona Lottery games a more social and emotionally rewarding experience. These and other planned promotions will bring the Arizona Lottery to a new generation of players in order to accomplish our ongoing mission to support Arizona programs for the public benefit by maximizing net revenue in a responsible manner.

We thank our employees, our retailers and our players for an amazing FY22 and we are proud to serve them into a new fiscal year as we all make Arizona a better place to live, work and play.



Gregory R. Edgar
Executive Director, Arizona Lottery

WINNERS

In FY22, the Arizona Lottery paid out \$925 Million in Prizes.



\$726,001
Phoenix, AZ



\$100,000
Gilbert, AZ



\$1,006,431
Sedona, AZ



\$433,764
Peoria, AZ



\$528,910
Ahwatukee, AZ



\$108,000,000
Lake Havasu City, AZ



\$5,000,000
Surprise, AZ



\$2,149,879
Sun City West, AZ



\$500,000
Maryvale Village, AZ

RETAIL PARTNERS

The Arizona Lottery is proud to have a network of more than 3,300 retailers across the state. These accessible locations create an exciting experience and lasting relationship for their loyal customers.

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

RETAILER COMMISSION & BONUS

As an Arizona Lottery retail partner, every store receives a 6.5 percent commission on all Lottery sales, one of the highest commission rates in the country. Retailers also have the opportunity to earn an additional .5 percent performance incentive, as well as a variety of additional incentives through Lottery promotions.



In FY22, the Arizona Lottery paid \$92.9 million in commissions to retailers across the state.

Players benefit while shopping at an Arizona Lottery retailer, and the retailer benefits through increased traffic to their store, selling more products and building lasting relationships with their customers. Since its inception, the Arizona Lottery has paid over \$1.25 billion in commissions to its retail partners.

In addition, retailers who sell higher-tier prize winning tickets (\$1 million or more Powerball & Mega Millions, The Pick jackpot winner, select Scratchers tickets) win bonuses of up to \$50,000. In FY22, retailers earned sales growth incentives and high-tier winning ticket sales bonuses totaling close to \$2.8 million.

For licensing and licensing renewal information, please contact **480.921.4486** or visit <http://www.ArizonaLottery.com>.

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:

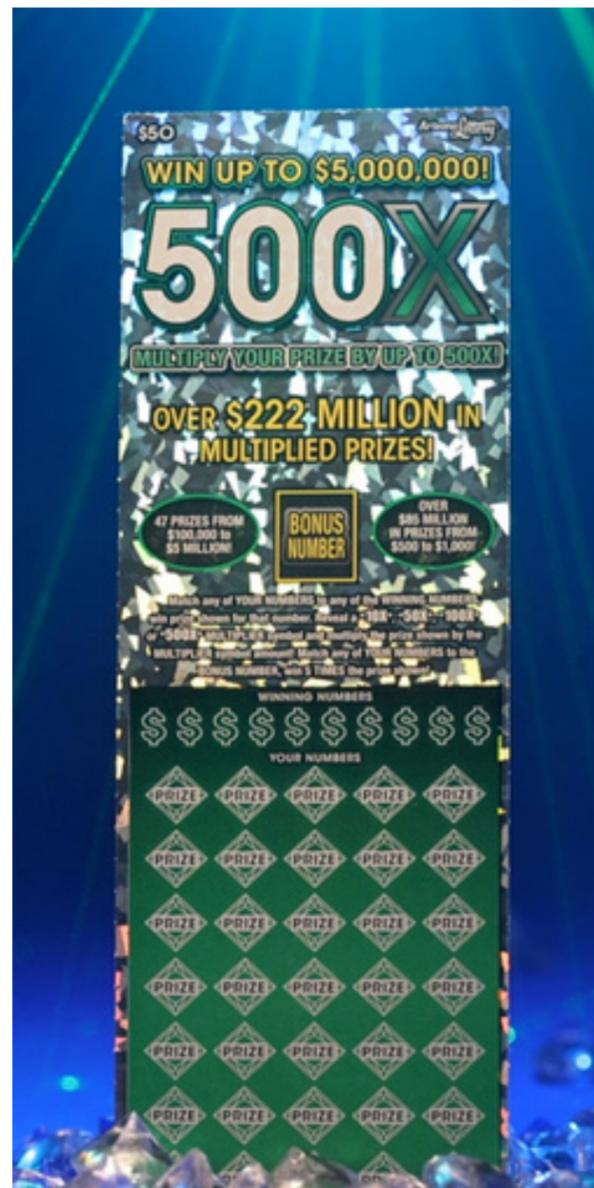
500X

In February 2022, the Arizona Lottery became one of only a few states in the U.S. to offer a \$50 Scratchers ticket. The “500X” game, available at participating retailers across the state, offered nine top prizes of \$5 million and over \$310 million in prizes, with each win worth at least \$50.

“Our players really enjoy the \$20 and \$30 Scratchers tickets, but our market research consistently shows that players are looking for even bigger and better games,” said Arizona Lottery Executive Director Gregg Edgar. “This new \$50 ticket is ideal for those who want the added excitement of playing games that offer the biggest prizes.”

Sales from the new \$50 Scratchers ticket, like all other games, fund vital programs and services that would otherwise rely on tax dollars.

“The financial impact for community programs across the state will be even more significant in the years to come, thanks to this new game,” said Edgar. “In addition to the exciting chance to win the state’s largest-ever payout from a Scratchers ticket, with every ticket purchased players know their money is also helping our most vulnerable residents.”

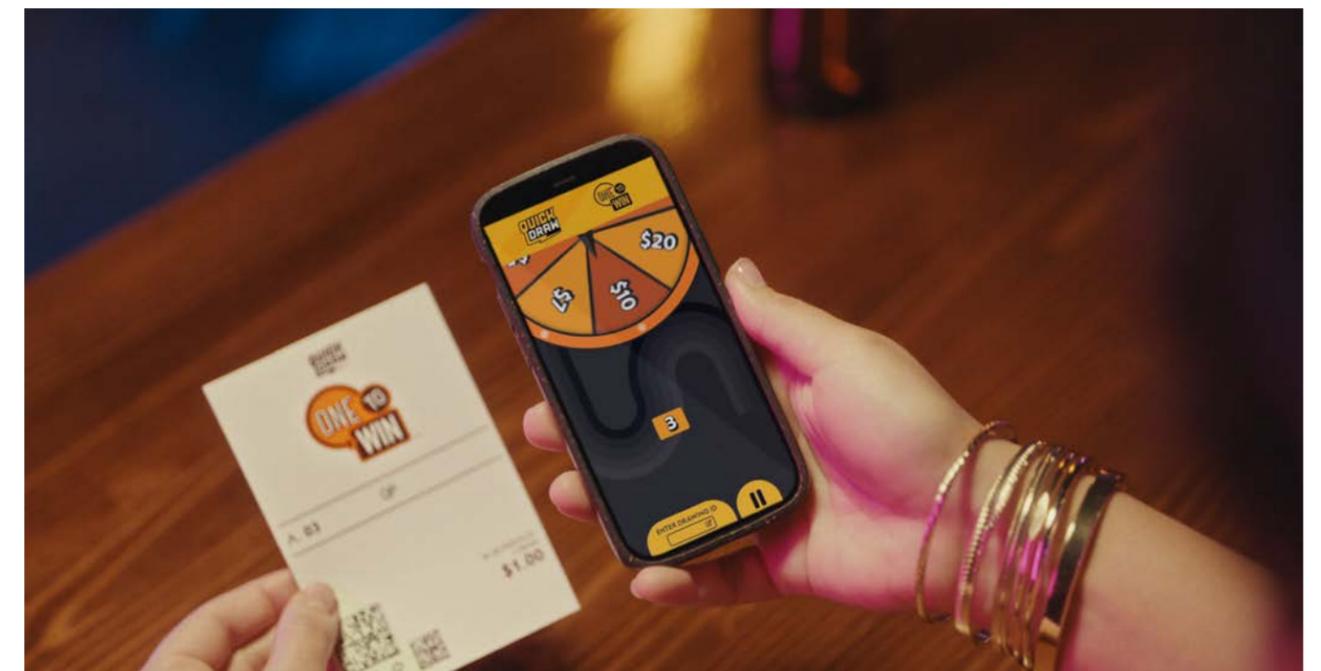


Quick Draw™

In November 2021, the Arizona Lottery introduced Quick Draw, a new platform offering several hourly draw games. The product line launched with two games, One to Win™ and 5/10/45, followed by a second launch in May 2022 with two additional games, Lucky Links™ and 5 In-A-Line™. Each Quick Draw game offers a unique play style starting at just \$1 per play.

“We’re very encouraged by the success we’ve seen with the Quick Draw product line, and we think players and retailers, alike, will welcome these two new games and all the fun and winning opportunities that come with them,” said Arizona Lottery Executive Director Gregg Edgar. “Players can choose from a total of four games with drawings every 15 minutes, offering more ways to play and win! Retailers also win with even more opportunities to earn added commissions with these two new games.”

Players can stay up to date with drawings by watching them live on the Arizona Lottery’s Players Club app, downloadable on the Apple App Store, Google Play, or by visiting AZPlayersClub.com or ArizonaLottery.com.



MARKETING ACHIEVEMENTS

The Arizona Lottery is recognized throughout the industry as a thought leader and source of excellence and integrity. In FY22, the Arizona Lottery contributed to our ongoing efforts to fulfill our state-mandated mission, while at the same time making a more effective and efficient business model for others to follow. These efforts were well rewarded in FY22 as multiple professional lottery and marketing organizations and others recognized the excellence that was the Arizona Lottery in FY22, including:

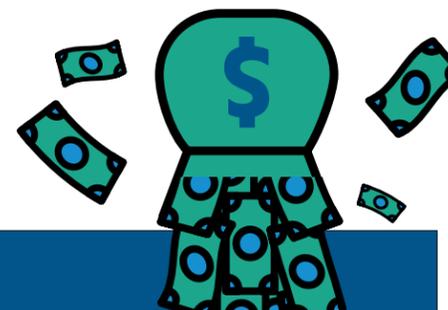
- Gold, Silver and Bronze **ADDYS** presented by **American Advertising Federation**, for numerous commercial and integrated campaigns
- Multiple **Rocky Mountain Emmys Awards** from the **National Academy of Television Arts and Sciences**.
- Multiple **AZIMA Awards** dedicated to honoring and recognizing digital marketing campaigns and innovation.
- Multiple **Copper Anvil Awards** recognizing excellence in public relations in the community.
- Multiple **NASPL** Finalists honoring the most creative, innovative and inspiring work produced across the **North American Lottery Industry**.

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.



BENEFICIARY TRANSFERS

State law mandates exactly how Arizona Lottery ticket sales directly fund programs that work to make our state a better place to live, work and play. Lottery transfer dollars fund 17 different state mandated programs.



FY22 BENEFICIARY TRANSFERS

	General Fund	\$175,811,972
	University Bond Fund	\$37,780,180
	Healthy Arizona	\$22,548,500
	Mass Transit (LTAF)	\$11,160,000
	Heritage Fund	\$10,000,000
	Court Appointed Special Advocates (CASA)	\$6,090,835
	Arizona Competes Fund	\$3,500,000
	Economic Security Homeless Services	\$1,000,000
	Internet Crimes Against Children	\$900,000
	Victims' Rights Enforcement Fund	\$100,000
	Department of Gaming	\$300,000
	Tribal College Dual Enrollment Fund	\$325,000
Total Beneficiary Transfers		\$269,516,487

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 \$689 million in financing. This money has allowed the state's three universities 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 supports public transportation in cities and towns in Maricopa County. 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 protects endangered species, acquires habitat for the benefit of sensitive species, provides access to outdoor recreational opportunities, and educates 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 over 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 and 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

The Arizona Lottery is the sole funding source for Court Appointed Special Advocates (CASA) - everyday court appointed volunteers who speak on behalf of abused and neglected children. 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 more than 30 years and have served more than 27,000 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 the state. The Arizona Lottery helps support a sustainable continuum of services to effectively reduce 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 practices cultural sensitivity and responsiveness while also 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 to simultaneously earn 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 expecting parents 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 reduces incidences of child abuse and neglect; provides stability for at-risk families; and has helped to grow new generations of healthy families across the state.



OUR LEADERSHIP



Gregory Edgar
Executive Director

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.



Sherri Zendri
Deputy Director:
Legal Services



Chris Rogers
Deputy Director:
Marketing and Products



Russ Harben
Deputy Director:
Operations



Raynie Hosto
Deputy Director:
Customer Service
and Sales



Todd Terrell
Deputy Director:
Security and
Regulatory Division



Greg Chmielewski
Deputy Director
Performance and
Strategic Initiatives

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:
Certified Public
Accountant



Todd E. Newman
Represents:
Retail



Trent Crump
Represents: Law
Enforcement



Alec Esteban Thomson
Represents:
Marketing and
Advertising



Julie Katsel
Represents:
Public at Large

REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS

FOR

Arizona State Lottery
A Proprietary Fund of the State of Arizona

June 30, 2022

Independent Auditors' Report

To the Commissioners of
Arizona State Lottery
Phoenix, Arizona

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Arizona State Lottery (Lottery), a proprietary fund of the State of Arizona, as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

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, 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Arizona Lottery and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Arizona State Lottery, a proprietary fund of the State of Arizona, are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of Arizona, as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arizona Lottery's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arizona Lottery's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arizona Lottery's ability to continue as a going concern for a reasonable period of time

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

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 20, 2022, on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.

Henry + Horne, LLP

Tempe, Arizona
October 20, 2022

**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, 2022, 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, 2022. 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) again surpassed the \$1 billion threshold, achieving sales of approximately \$1.37 billion in fiscal year 2022. This reflects a decrease of approximately 5% from the prior fiscal year. COVID-related stimulus impacts likely contributed to higher fiscal year 2021 sales levels.
- The Lottery returned \$269.5 million to designated state programs in fiscal year 2022, with all beneficiaries receiving full funding. Since its inception in July 1981, the Lottery has generated almost \$5 billion for Arizona programs.
- Scratchers game sales continued to be strong performers with sales of \$1.04 billion in fiscal year 2022. Although this represents a decrease of 6.0% from prior year record sales, increased demand for tickets at the \$25 price point, as well as the successful launch of the first \$50 game helped to mitigate the decline.
- Draw game sales were also lower in fiscal year 2022. Sales of \$311.2 million represented a decrease of approximately 2% from the previous year. The decline was mostly attributable to lower jackpots in the Powerball and Mega Millions multi-state draw games. Although there were two \$600+ million Powerball jackpots that occurred in fiscal year 2022, multi-state draw game sales were nearly 6% lower, due to jackpots of \$730 million for Powerball and \$1.0 billion for Mega Millions in fiscal year 2021.
- Sales for the instant tab product line exhibited considerable growth in its niche market (primarily age-restricted establishments, charitable groups, and fraternal organizations). Sales increased by over \$2 million from the prior fiscal year, representing an impressive growth rate of 17%.
- The Lottery's retail partners earned almost \$93 million in commissions and incentives in fiscal year 2022.

REVENUES

Total game sales were approximately \$1.37 billion for fiscal year ended June 30, 2022 as compared to \$1.44 billion for fiscal year ended June 30, 2021, reflecting decreases in both instant and draw game products. The overall sales decline of \$71 million represented a 4.9% decrease over the prior year. The Lottery had record sales in FY 2021, in large part due to the impacts of COVID policies and high multi-state draw game jackpots, which made it unlikely that same threshold would be attained in FY 2022.

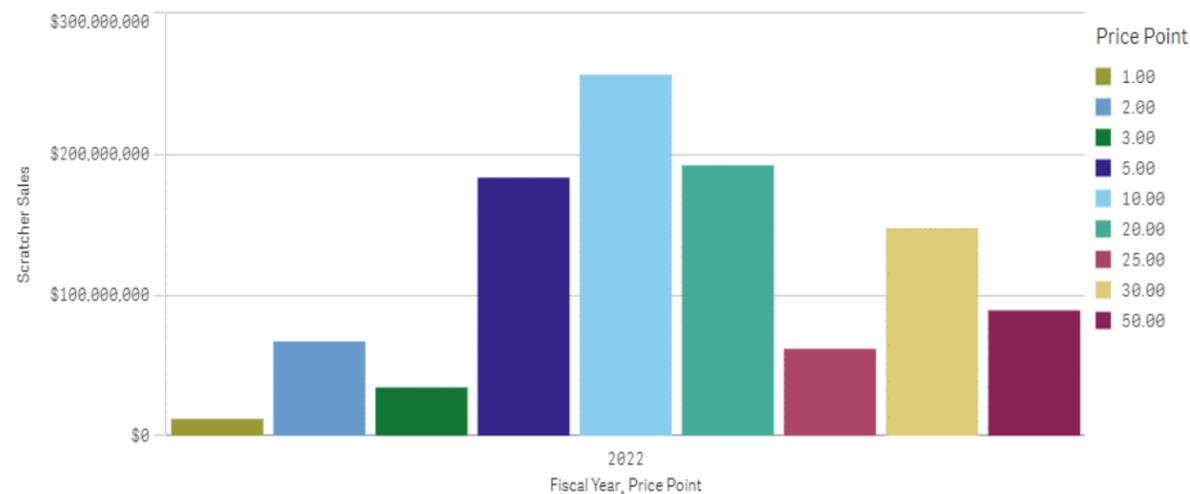
The following table summarizes Lottery total sales by game and the incremental change between fiscal years.

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

Product Sales (in millions)	FY 2022	FY 2021	Change	Percentage
Scratchers	\$ 1,043.2	\$ 1,109.8	\$ (66.6)	-6.0%
Instant Tabs	14.1	12.0	2.1	17.5%
Powerball	117.5	98.9	18.6	18.8%
Mega Millions	60.2	90.1	(29.9)	-33.2%
The Pick	33.2	27.7	5.5	19.9%
Fantasy 5	17.6	19.7	(2.1)	-10.7%
Pick 3	16.8	17.4	(0.6)	-3.4%
Triple Twist	18.1	18.7	(0.6)	-3.2%
Fast Play	46.0	45.1	0.9	2.0%
Quick Draw	1.7	-	1.7	NA
TOTAL:	\$ 1,368.4	\$ 1,439.4	\$ (71.0)	-4.9%

The instant ticket product line (Scratchers/Instant Tabs) had a sales decline of \$64.5 million from the prior year (\$66.6 million from Scratchers games, partially offset by a \$2.1 million increase for instant tab tickets). Higher sales at the \$25 price point, plus the introduction of the first \$50 instant game helped to generate sales of over \$1 billion for this product line. The chart below displays Scratchers sales by price point for FY 2022:

FY22 Instant Sales by Price Point



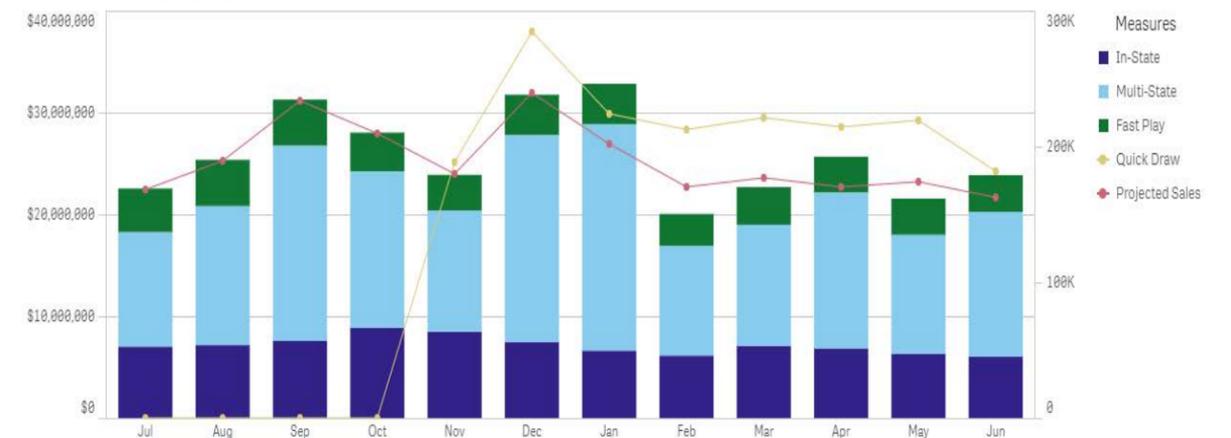
In general, draw game sales are largely jackpot-driven, impacting sales increases or decreases in any given year. Powerball jackpots resulted in increased sales of \$18.6 million for that game and helped to mitigate the overall draw games decrease of \$6.5 million from the prior year. The Pick game also had growth of almost \$5.5 million and the newly introduced Quick Draw game contributed \$1.7 million to overall draw

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

game sales. However, these increases could not completely compensate for the enormous Mega Millions and Powerball jackpots that helped drive sales last fiscal year.

The following chart depicts draw game sales for FY 2022 broken down by multi-state, in-state, Fast Play, and Quick Draw.

FY 2022 Draw Sales by Game Type



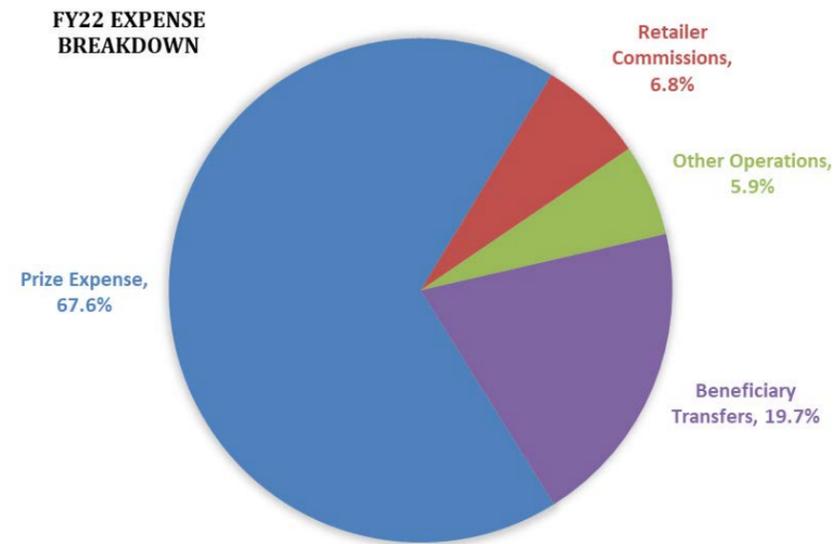
Product sales are the primary driver of operating revenues, but other operating revenues and sales returns are also included in this category. Other operating revenues were \$452,907 for FY 2022, which is primarily composed of commissions earned on Lottery ticket sales at Lottery offices and special events, plus other miscellaneous revenue. Sales returns and allowances, comprised of damaged tickets and promotional tickets were (\$442,982) for FY 2022. Total operating revenues, the sum of game sales and other operating revenues, less sales returns and allowances were \$1.368 billion for the year ended June 30, 2022, as compared to \$1.439 billion for the year ended June 30, 2021. This decrease was a direct reflection of lower overall game sales.

Non-operating revenue (investment income) for the year ended June 30, 2022, was \$81,666 as compared to \$125,991 for the year ended June 30, 2021. 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. Remaining funds are transferred to various state beneficiaries based on statutory requirements. The following chart provides a high-level percentage breakdown of Lottery expenses for FY 2022:

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



Lottery total operating expenses were \$1.093 billion for fiscal year ended June 30, 2022 as compared to \$1.142 billion for fiscal year ended June 30, 2021. Of this amount, \$1.063 billion (77.7%) was incurred in direct support of Lottery games in FY 2022. In comparison, \$1.112 billion (77.2%) of total operating expenses for FY 2021 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 \$29.6 million in FY 2022 as compared to \$30.0 million in FY 2021.

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 2022	FY 2021	Change	Percentage
Instant & Online Prizes	\$ 925.4	\$ 977.8	\$ (52.4)	-5.4%
Retailer Commissions & Incentives	93.0	98.3	(5.3)	-5.4%
Online System Expense	13.2	13.5	(0.3)	-2.2%
Instant Ticket Distribution Expenses	21.5	9.9	11.6	117.2%
Instant Ticket Printing Expenses	10.2	12.1	(1.9)	-15.7%
Total Direct Costs	1,063.3	1,111.6	(48.3)	-4.3%
Other Operating Expenses	29.6	30.0	(0.4)	-1.3%
TOTAL:	\$ 1,092.9	\$ 1,141.6	\$ (48.7)	-4.3%

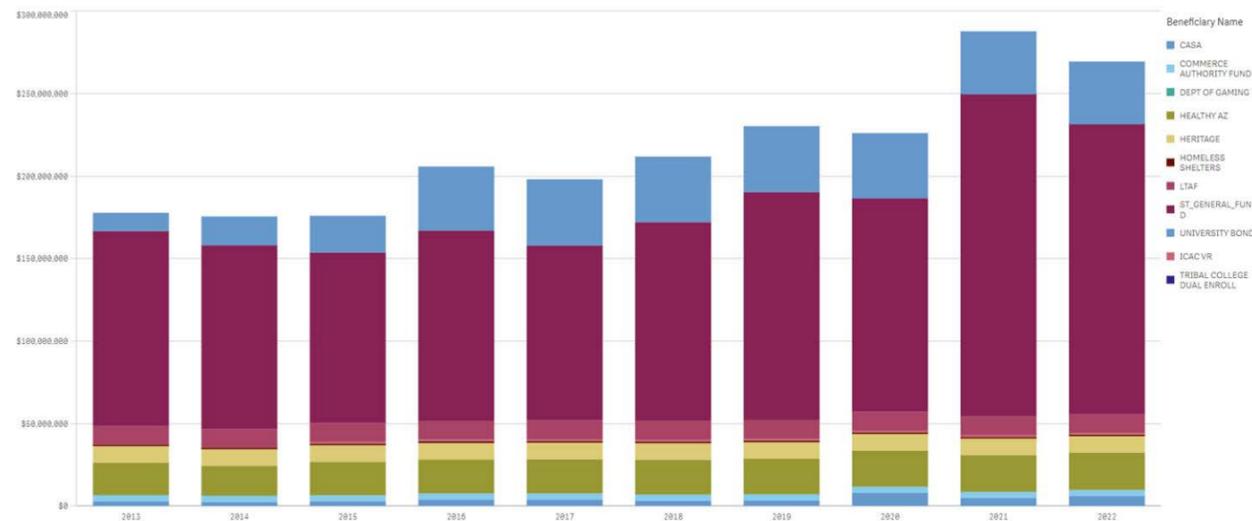
Decreases in prize expense, retailer commissions, and online system expenses correlate with the decrease in product sales. The net increase in the ticket printing/distribution categories is primarily due to a shift in spending from capital expense for the purchase of new vending machines in FY 2021 to operating expense for vending machine maintenance services in FY 2022. Aggregate prize expense represented 67.6% of product sales in FY 2022 as compared to 67.9% of product sales in FY 2021. Prize expense is largely driven by the higher market share of the Scratchers product line, as well as by Fast Play games. These games carry a higher associated prize expense, driving up the cumulative prize percentage.

Of the \$29.6 million for other operating expenses in FY 2022, \$15.3 million was used for advertising and promotion, \$6.6 million was used to compensate Lottery employees, \$4.7 million was depreciation, and \$2.8 million was used for other administrative expenses. In comparison, of the \$30.0 million in other operating expenses for 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 for other administrative expenses.

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 \$269.5 million in FY 2022, as compared to \$287.8 million transferred in FY 2021. The decrease in product sales resulted in a corresponding decrease in transferable revenues of \$18.3 million; however, all designated beneficiary programs still received full funding. The total transfer rate as a percentage of sales was 19.7% in FY 2022 and 20.0% in FY 2021. 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 \$36.9 million at June 30, 2022 as compared to \$30.9 million for June 30, 2021.

The Lottery's total assets at June 30, 2022 were \$200.4 million, as compared to \$201.4 million the previous year. Assets consisted primarily of cash held by the State Treasurer, net receivables from Lottery retailers for the sale of Lottery products, Scratchers ticket and instant tab inventory, net investment in capital assets, and deposits with MUSL (Multi-State Lottery). The difference was primarily driven by a reduced cash balance due to lower sales in FY 2022 as well as depreciation offsets related to Lottery vending machines.

Total liabilities at June 30, 2022, were \$163.2 million, as compared to \$172.1 million the previous year. Liabilities consisted of accounts payable and accrued expenses, prize liability, amounts due to other state funds, lease liability, and net pension liability.

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 2022	FY 2021
Current Assets	\$ 162.5	\$ 160.6
Capital Assets	27.9	30.9
Other Assets	9.9	9.9
Total Assets	200.3	201.4
Deferred Outflows of Resources	2.2	1.9
Total Assets and Deferred Outflows of Resources	202.5	203.3
Current Liabilities	154.6	163.3
Non Current Liabilities	8.5	8.8
Total Liabilities	163.1	172.1
Deferred Inflows of Resources	2.5	0.3
Total Liabilities and Deferred Inflows of Resources	165.6	172.4
Net Position	36.9	30.9
TOTAL LIABILITIES AND NET POSITION:	\$ 202.5	\$ 203.3

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 were 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, Chapter 408 (SB 1823), 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.

In August 2021, the Lottery Revenue Bonds were defeased per SB 1823, thus eliminating the underlying pledged revenues of the Lottery. The State placed cash in an escrow account to defease the bonds. The escrow agent will pay the debt service requirements of the defeased bonds on each scheduled payment date through July 1, 2029. The defeased bonds are not subject to optional redemption prior to maturity.

BUDGETARY/APPROPRIATION HIGHLIGHTS

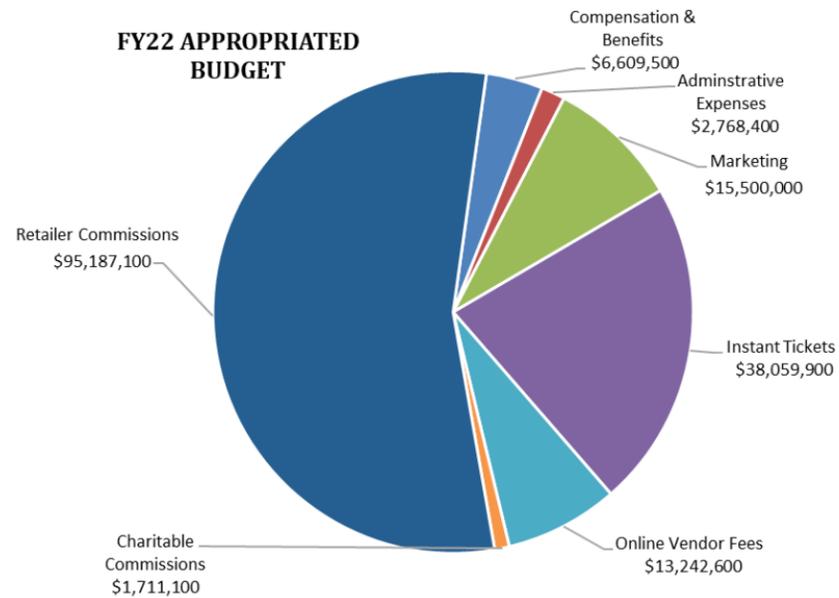
The Lottery's budget is determined by legislative appropriation on an annual basis, and by statute cannot exceed 18.5% of annual revenues. The budget for FY 2022 was approved in the regular legislative session of 2021. The Lottery's appropriation for sales-related expenditures is allowed to adjust without a

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

supplemental appropriation request if actual revenues exceed projected revenues outlined in the annual General Appropriations legislation. 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 \$152.1 million for FY 2022 based on an estimated \$1.21 billion in total sales; however, the spending authority was adjusted to \$173.1 million due to actual revenues exceeding original estimates.

The following chart depicts the breakdown of the revised FY 2022 appropriated budget of \$173.1 million:



BASIC FINANCIAL STATEMENTS

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 2022 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 of Operations, 4740 East University, Phoenix, Arizona 85034.

See accompanying notes.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Statement of Net Position
June 30, 2022

ASSETS	
CURRENT ASSETS	
Cash - substantially all held by the State Treasurer	\$ 136,388,239
Accounts receivable - net of allowance for doubtful accounts of \$172,000	17,833,063
Scratch ticket inventory	7,531,402
Pull tab inventory	377,319
Quick card inventory	403,529
TOTAL CURRENT ASSETS	<u>162,533,552</u>
CAPITAL ASSETS	
Land and land improvements	1,268,695
Buildings	4,309,192
Furniture, fixtures and equipment	39,686,020
Intangible assets	599,324
Leashold improvements	328,341
Right to use - lease	1,546,787
Less accumulated depreciation and amortization	(19,793,065)
TOTAL CAPITAL ASSETS	<u>27,945,294</u>
OTHER ASSETS	
Deposit - MUSL	9,911,383
TOTAL ASSETS	<u>200,390,229</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions - ASRS	1,473,377
Related to OPEB - ADOA	719,953
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,193,330</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	4,681,059
Accrued expenses	441,164
Prize liability	73,110,180
Due to other state funds	76,396,972
TOTAL CURRENT LIABILITIES	<u>154,629,375</u>
NONCURRENT LIABILITIES	
Lease liability	1,492,559
Net pension liability - ASRS	5,233,485
Total OPEB liability - ADOA	1,797,693
TOTAL NONCURRENT LIABILITIES	<u>8,523,737</u>
TOTAL LIABILITIES	<u>163,153,112</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pensions - ASRS	1,697,990
Related to OPEB - ADOA	792,955
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,490,945</u>
NET POSITION	
Net investment in capital assets	27,945,294
Restricted for additional prizes in future games	8,994,208
Unrestricted	-
TOTAL NET POSITION	<u>\$ 36,939,502</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, 2022

OPERATING REVENUES	
Ticket sales:	
Scratchers	\$ 1,043,163,134
Powerball	117,499,953
The Pick	33,154,035
Fantasy 5	17,588,706
Pick 3	16,782,279
Mega Millions	60,245,415
Quick Draw	1,750,650
Triple Twist	18,108,076
Instant tab	14,055,474
Fast Play	46,023,213
TOTAL TICKET SALES	<u>1,368,370,935</u>
Sales Returns and Allowances	(442,982)
NET TICKET SALES	<u>1,367,927,953</u>
Other operating revenues	452,907
TOTAL OPERATING REVENUES	<u>1,368,380,860</u>
OPERATING EXPENSES	
Direct costs:	
Prize expense	925,422,473
Retailer commissions and incentives	92,959,409
Online system expense	13,239,697
Scratcher system and distribution expenses	21,506,990
Tickets purchased	10,238,194
TOTAL DIRECT COSTS	<u>1,063,366,763</u>
Advertising and promotion	15,347,222
Wages and related expenses	6,625,018
Depreciation	4,750,275
Administrative expenses	2,834,374
TOTAL OPERATING EXPENSES	<u>1,092,923,652</u>
OPERATING INCOME	<u>275,457,208</u>
NONOPERATING REVENUES/(EXPENSES)	
Investment income	104,718
Interest expenses	(23,052)
NONOPERATING REVENUES/(EXPENSES)	<u>81,666</u>
INCOME BEFORE TRANSFERS	<u>275,538,874</u>
TRANSFERS TO OTHER STATE FUNDS	<u>269,516,487</u>
CHANGE IN NET POSITION	<u>6,022,387</u>
NET POSITION - BEGINNING OF YEAR	<u>30,917,115</u>
NET POSITION - END OF YEAR	<u>\$ 36,939,502</u>

See accompanying notes.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Statement of Cash Flows
Year Ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from retailers-net of validations, commissions and incentives	\$ 504,368,881
Cash received from other sources	363,177,218
Cash payments for prizes and related taxes	(519,910,396)
Cash payments to suppliers of goods or services	(63,630,188)
Cash payments to employees	<u>(6,468,869)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>277,536,646</u>
CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES	
Payments to beneficiaries per Arizona Statutes	<u>(280,610,998)</u>
CASH FLOWS USED BY CAPITAL FINANCING ACTIVITIES	
Payments for acquisition of capital assets	<u>(231,668)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipts of interest	<u>99,277</u>
NET INCREASE (DECREASE) IN CASH	(3,206,743)
CASH AT BEGINNING OF YEAR	<u>139,594,982</u>
CASH AT END OF YEAR	<u>\$ 136,388,239</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 275,457,208
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	4,750,275
(Increase) decrease in:	
Accounts receivable	(4,161,311)
MUSL interest	5,443
Interest expense	(23,052)
Ticket inventory	(977,902)
Deposit - MUSL	(48,939)
Deferred outflows of resources related to pensions and other postemployment benefits	(256,816)
Increase (decrease) in:	
Accounts payable and accrued expenses	(383,986)
Prize liability	2,787,200
Leases	(54,228)
Net Pension and OPEB Liability	(1,767,278)
Deferred inflows of resources related to pensions and other postemployment benefits	<u>2,210,032</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 277,536,646</u>

See accompanying notes.

Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Basic Financial Statements
Year Ended June 30, 2022

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, 2021 through June 30, 2022, the Lottery held 106 instant games of which 43 games expired during the fiscal year. During 2022, the Lottery continued the "The Pick," "Fantasy 5," "Pick 3," "Powerball," "Mega Millions", "FastPlay", "Triple Twist" and "Quick Draw" on-line games. As required, the Lottery has deposits with "Powerball," and "Mega Millions," multistate on-line lottery games, of \$9.9 million at June 30, 2022. 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, 2021 to June 30, 2022.
- 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.

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

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.

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.

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 \$325,000 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. FY22 transfers from forfeited unclaimed prizes to the Internet Crimes Against Children Fund and Victims' Rights Enforcement Fund were \$191,100. All remaining forfeited unclaimed prizes offset prize expense.

Prize liability activity for the year ended June 30, 2022 was follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Prize Liability	\$ 70,322,980	\$ 1,496,116,760	\$ (1,493,329,560)	\$ 73,110,180

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, 2022, the Fund's accounts payable and accrued expenses balance includes an accrual of vacation pay and related benefits of \$441,164. 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 three 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. Restricted net position – Consists of prize revenues restricted by Arizona State Statute for the use of future games.
- c. 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.

Leases – As lessee, the Lottery recognizes lease liabilities with an initial, individual value of \$500,000 or more. The Lottery uses its estimated incremental borrowing rate to measure lease liabilities unless it can readily determine the interest rate implicit in the lease. The Lottery's estimated incremental borrowing rate is based on the state-wide determined incremental borrowing rate.

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.

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, 2022, the Lottery's deposits with the Treasurer were as follows:

Cash	\$ 94,715,137
Prize fund cash	<u>41,673,102</u>
Total cash and investments held by State Treasurer	<u>\$ 136,388,239</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, 2022, 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.

Note 3 – Transfers and Statutory Requirements

As required by A.R.S. Section 5-572, the Lottery recorded transfers to the State funds below during the year ended June 30, 2022, as follows:

General Fund	\$ 175,811,972
University Bond Fund	37,780,180
Healthy Arizona	22,548,500
Local Transportation Assistance Fund - Mass Transit	11,160,000
Heritage Fund	10,000,000
Commerce Authority Arizona Competes Fund	3,500,000
Court-appointed Special Advocate Fund	6,090,835
Economic Security Homeless Services	1,000,000
Internet Crimes Against Children Fund	900,000
Department of Gaming	300,000
Tribal College Dual Enrollment Fund	325,000
Victims Right Enforcement Fund	100,000
	<u>269,516,487</u>
Total transfers to other State funds	<u>\$ 269,516,487</u>

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

Included in the above transfer, \$76,396,972 was due to the State General Fund as of June 30, 2022.

Note 4 – Capital Assets

Capital asset activity for the year ended June 30, 2022 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	39,454,352	231,668	-	39,686,020
Intangible assets	599,324	-	-	599,324
Right to use assets - leases				
Buildings	-	1,546,787	-	1,546,787
Total capital assets	<u>45,959,904</u>	<u>1,778,455</u>	<u>-</u>	<u>47,738,359</u>
Less accumulated depreciation for:				
Land improvements	(330,865)	-	-	(330,865)
Buildings & Leasehold Improvements	(3,675,349)	(175,359)	-	(3,850,708)
Furniture, fixtures, and equipment	(10,437,251)	(4,496,599)	-	(14,933,850)
Intangible assets	(599,324)	-	-	(599,324)
Right to use assets - Building Leases	-	(78,318)	-	(78,318)
Total accumulated depreciation	<u>(15,042,789)</u>	<u>(4,750,276)</u>	<u>-</u>	<u>(19,793,065)</u>
Total capital assets, net	<u>\$ 30,917,115</u>	<u>\$ (2,971,821)</u>	<u>\$ -</u>	<u>\$ 27,945,294</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. In August 2021, the State Lottery Revenue Bonds Series 2019 issued by the State was defeased, per S.B. 1823, thus eliminating the underlying pledged revenues of the Lottery. The State placed cash in an escrow account to defease the bonds. The escrow agent will pay the debt service requirements of the defeased bonds on each scheduled payment date through July 1, 2029. The defeased bonds are not subject to optional redemption prior to maturity.

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.

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 \$65,000 for the year ended June 30, 2022.

The Lottery entered a commercial lease agreement to lease a facility in Tucson, AZ for 10 years effective April 1, 2021 and expiring on March 31, 2031. Lease expense for the facilities was approximately \$77,280 for the year ended June 30, 2022.

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, 2022.

The Lottery had contractual commitments related to leases for which the lease term had not yet commenced at June 30, 2022, for the retail space in Tucson. At June 30, 2022, the Lottery had made payments of \$77,280 to the lessor and had remaining contractual commitments with lessors of \$1,492,559, including the lease liabilities that will be recognized at the commencement of the lease terms.

Note 6 – Commitments (continued)

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

Year ending June 30,	
2023	\$ 162,212
2024	146,192
2025	115,720
2026	85,299
2027	87,435
2028-2031	<u>347,586</u>
Total	<u>\$ 944,444</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 \$50,682,350 at June 30, 2022. Approximately \$46,526,215 of the total aggregate future payments at June 30, 2022 relate to annuities purchased from five separate insurance companies, of which \$16,858,228 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 \$525,541 of pension expenditure related to the pension plan to which it contributes. In addition, the Lottery reported \$229,114 of other post-employment benefit expenses related to the health insurance premium benefit ADOA OPEB plan. At June 30, 2022, 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	\$ 5,233,485	\$ 1,797,693	\$ 7,031,178
Deferred outflows of resources related to pensions and OPEB	1,473,377	719,953	2,193,330
Deferred inflows of resources related to pensions and OPEB	1,697,990	792,955	2,490,945
Pension and OPEB expense	525,541	229,114	754,655

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, 2022, 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.

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, 2022, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.41 percent (12.22 percent for retirement and 0.19 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 12.41 percent (12.01 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.19 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 10.22 percent (10.13 percent for retirement, 0.00 percent for health insurance benefit, and 0.09 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, 2022, were \$529,058. 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
2022	\$ 529,058
2021	540,560
2020	475,790
2019	458,172

Pension liability – At June 30, 2022, the Lottery reported \$5,233,485 as net pension liability for its proportionate share of the ASRS' net pension liability.

The net pension liability was measured as of June 30, 2021. 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, 2020, to the measurement date of June 30, 2021. The total liabilities as of June 30, 2020, 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 7.5 percent to 7.0 percent, changing the projected salary increases from 2.7-7.2 percent to 2.9-8.4 percent, the inflation rate remains the same at 2.3 percent, and changing the mortality rates.

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, 2021, and the change from its proportions measure as of June 30, 2020 were:

ASRS	Proportion June 30, 2021	Increase (decrease) from June 30, 2020
Pension	0.039832%	0.001814%

Pension expense – For the year ended June 30, 2022, the Lottery recognized \$525,541 as pension expense for ASRS.

Pension expense and deferred outflows/inflows of resources – At June 30, 2022, 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	\$ 79,780	\$ -
Net difference between projected and actual earning on pension plan investments	681,180	-
Difference between projected and actual investment earnings	-	1,658,152
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	183,359	39,838
Lottery contributions subsequent to the measurement date	529,058	-
Total	\$ 1,473,377	\$ 1,697,990

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

The \$529,058 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
2022	\$ 77,631
2023	105,648
2024	(365,538)
2025	(571,412)
2026	-
Thereafter	-

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

ASRS	
Actuarial valuation date	June 30, 2020
Actuarial roll forward date	June 30, 2021
Actuarial cost method	Entry age normal
Asset valuation	Fair Value
Discount rate	7.0%
Projected salary increases	2.9 - 8.4% 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, 2020 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.

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	2022	
	Target allocation	Long-term expected geometric real rate of return
Equity	50%	2.45%
Fixed income - credit	20%	1.04%
Fixed income - interest rate sensitive	10%	0.07%
Real estate	20%	1.14%
Total	100%	4.70%

Actual returns may be different due to volatility of returns.

Discount rate – The discount rate used to measure the ASRS total pension liability was 7.0 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 7.0 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 (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	June 30, 2022		
	1% Decrease (6.5% Discount Rate)	Current (7.5% Discount Rate)	1% Increase (8.5% Discount Rate)
Retirement	\$ 8,231,834	\$ 5,233,485	\$ 2,733,692

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

Note 9 - Other Postemployment Benefits (OPEB) – ADOA

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

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, 2022, the Lottery reported a OPEB liability of \$1,797,693 for its proportionate share. The liability was measured as of June 30, 2021 to be reported as of June 30, 2022 under GASB 75.

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at 6/30/2021	\$ 2,210,913	\$ -	\$ 2,210,913
Changes for the year:			
Service Cost	185,668	-	185,668
Interest	58,141	-	58,141
Difference between expected and actual experience of the total OPEB liability	(731,229)	-	(731,229)
Difference between expected and actual experience from change in Proportionate Share	161,791	-	161,791
Changes of assumptions	(40,633)	-	(40,633)
Expected benefit payments	(46,958)	-	(46,958)
Net changes	(413,220)	-	(413,220)
Balances at 6/30/2022	\$ 1,797,693	\$ -	\$ 1,797,693

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

OPEB deferred outflows/inflows of resources – At June 30, 2022, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 34,240	\$ 650,783
Changes of assumptions or other inputs	412,156	142,172
Changes in proportion	237,029	-
Deferred outflows of contributions	36,528	-
Total	\$ 719,953	\$ 792,955

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,	
2023	\$ (14,695)
2024	(14,695)
2025	9,566
2026	30,827
2027	(13,148)
Thereafter	(107,385)

OPEB Expenses - At June 30, 2022, the Lottery reported OPEB expenses as follow:

Reporting Date for Employer under GASB 75	June 30, 2022
Measurement Date for Employer under GASB 75	June 30, 2021
Components of OPEB Expenses	
Service Cost	\$ 185,668
Interest on the total OPEB liability	58,141
Recognition of current year outflow (inflow) due to liabilities	(80,576)
Amortization of prior year outflow (inflow) due to liabilities	65,881
Total OPEB expenses	\$ 229,114

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, 2021
Actuarial cost method	Individual Entry age normal
Discount rate	1.92% as of June 30, 2020
Inflation	2.30%
Salary increase	0.00% to 5.50%, not including wage inflation of 2.90%
Demographic Assumptions	The assumptions used in the valuation are the same as those used in the Arizona State Retirement System Annual Actuarial Valuation as of June 30, 2021.
Mortality	Healthy Employee: Pub-2010 General Employee Mortality table. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2017. Healthy Retirees and Spouses: 2017 State Retirees of Arizona (SRA) mortality table. Generational mortality improvements in accordance with the Ultimate MP scales (through 2020) and projected from the year 2017. Disabled: Pub-2010 Disabled Retiree Mortality. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2017.
Healthcare Cost Trends Rates:	Initial rate of 7.00% declining to an ultimate rate of 4.15% after 13 years.
Participation Rates	35% of employees not currently waiving medical coverage eligible to retire and receive subsidized postretirement welfare coverage were assume to elect medical coverage. Active members currently declining coverage were assumed to decline coverage at retirement. 30% of retirees are assumed to also have a spouse that elects coverage.
Other Information Notes	The discount rate changed from 2.45% as of June 30, 2021 to 1.92% as of June 30, 2021. Additionally, the health care trend rates were updated to the reflect the plan's anticipated experience.

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, 2021 measurement date is 1.92%. The index value as of the prior measurement date (June 30, 2019) was 2.45%.

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

Sensitivity – The following table presents the Lottery's total OPEB liability calculated using the discount rate of 1.92 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 (0.92 percent) or 1 percentage point higher (2.92 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, 2022		
	1% Decrease (0.92% Discount Rate)	Current (1.92% Discount Rate)	1% Increase (2.92% Discount Rate)
Lottery's Total OPEB Liability	\$ 2,164,873	\$ 1,797,693	\$ 1,513,325
	1% Decrease Trend Rates	Current Trend Rates	1% Increase Trend Rates
Lottery's Total OPEB Liability	\$ 1,462,358	\$ 1,797,693	\$ 2,246,371

Note 10 – Major Vendors

The Lottery has three vendors that represent approximately 91% of its purchases for the year ended June 30, 2022.

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.

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, 2022

ASRS - Pension	Reporting Fiscal Year (Measurement Date)								2014 through 2013
	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Lottery's proportion of the net pension liability	0.039830%	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	\$ 5,233,485	\$ 6,587,543	\$ 5,654,582	\$ 5,496,308	\$ 5,594,078	\$ 5,751,040	\$ 6,538,813	\$ 6,279,956	
Lottery's covered payroll	4,405,146	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	118.80%	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	78.58%	69.33%	73.24%	73.00%	69.92%	67.05%	68.35%	69.49%	

ADOA - OPEB	Reporting Fiscal Year (Measurement Date)						2016 through 2013
	2021 (2020)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	
Lottery's proportion of the total OPEB liability	0.150001%	0.120000%	0.120000%	0.120000%	0.120000%	0.120000%	Information not available
Lottery's proportionate share of the total OPEB liability	\$ 1,797,693	\$ 2,210,913	\$ 1,781,561	\$ 1,058,849	\$ 1,011,909	\$ 1,302,971	
Lottery's covered-employee payroll	4,359,448	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	41.24%	55.77%	46.15%	31.51%	30.93%	36.27%	

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

REQUIRED SUPPLEMENTARY INFORMATION

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, 2022

ASRS - Pension	Fiscal Year									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 529,058	\$ 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 statutorily required contribution	529,058	540,627	469,969	458,172	410,063	362,004	382,689	444,044	432,185	
Lottery's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Lottery's covered payroll	\$ 4,405,146	\$ 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	12.01%	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, 2022

ADOA - OPEB	Fiscal Year						2016 through 2013
	2022	2021	2020	2019	2018	2017	
Required contribution	\$ 36,528	\$ 46,958	\$ 39,849	\$ 33,165	\$ 30,879	\$ 32,938	Information not available
Lottery's contributions in relation to the required contribution	36,528	46,958	39,849	33,165	30,879	32,938	
Lottery's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Lottery's covered payroll	\$ 4,359,448	\$ 3,964,231	\$ 3,860,011	\$ 3,360,126	\$ 3,271,788	\$ 3,592,604	
Lottery's contributions as a percentage of covered payroll	0.84%	1.18%	1.03%	0.99%	0.94%	0.92%	

**Arizona State Lottery
A Proprietary Fund of the State of Arizona
Notes to Required Supplementary Information
June 30, 2022**

**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, 2022**

	2022	2021	2020	2019	2018	2017 through 2013
Total OPEB Liability						
Service Cost	185,668	154,475	114,257	86,395	115,725	Information not available
Interest	58,141	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	(731,229)	-	57,481	-	-	
Difference between expected and actual experience from change in Proportionate Share	161,791	-	162,177	-	(49,461)	
Changes of assumptions	(40,633)	254,752	377,204	(47,343)	(260,878)	
Expected benefit payments*	(46,958)	(39,850)	(33,165)	(30,879)	(32,938)	
Net change in Total OPEB Liability	(413,220)	429,352	722,712	46,940	(291,062)	
Total OPEB Liability -- beginning	2,210,913	1,781,561	1,058,849	1,011,909	1,302,971	
Total OPEB Liability -- ending	1,797,693	2,210,913	1,781,561	1,058,849	1,011,909	
Covered employee payroll**	4,359,448	3,964,231	3,860,011	3,360,126	3,271,788	
Plan total OPEB liability as a percentage of covered employee payroll	41.2%	55.8%	46.2%	31.5%	30.9%	

* Benefit payments of \$46,958 projected for the year ended June 30, 2022

** Annualized pay of active employees not waiving coverage as of June 30, 2020 valuation date.
Assumed to increase by the wage inflation rate of 2.30% for the June 30, 2021 measurement date.

Note 1 – Changes of Assumptions

The Arizona State Retirement System (ASRS) annual actuarial valuation as of June 30, 2022 report is available at:

https://www.azasrs.gov/sites/default/files/pdf/2021%20ASRS%20GASB%2068_75%20REPORT%20FIN%20AL.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, 2022, 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 20, 2022.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Henry + Horne, LLP

Tempe, Arizona
October 20, 2022



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