

Arizona State Lottery, A Component Unit of the State of Arizona

Financial Statements as of and for the
Year Ended June 30, 2009, Supplemental
Schedule for the Year Ended June 30, 2009,
and Independent Auditors' Report

**ARIZONA STATE LOTTERY,
A COMPONENT UNIT OF THE STATE OF ARIZONA**

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Janice K. Brewer
Governor



Jeff Hatch-Miller
Executive Director

January 15, 2010

Dear Arizona Lottery Commissioners:

The Arizona Lottery is pleased to submit its audited financial statements as of and for the year ended June 30, 2009, as prepared by the Lottery Accounting Department and audited by Deloitte & Touche LLP. The Lottery is responsible for the accuracy and completeness of all data and disclosures in this report. To the best of our knowledge, the information presented is accurate and complete in all material respects and fairly depicts the financial position of the Arizona Lottery. This report includes a statement of net assets of the Arizona Lottery, the related statement of revenues, expenses, and changes in fund net assets; the statement of cash flows; footnotes related to the financial reports; and the supplemental schedule of gross profit by game.

The audit of the Arizona Lottery was performed under the authority of A.R.S. § 5-505 and A.R.S. § 5-524, which require an annual audit of the Lottery.

The Arizona Lottery was created in 1980 when Arizona voters approved a ballot initiative adding Title 5, Chapter 5 to the Arizona Revised Statutes. The Lottery began selling instant “scratch-off” tickets in July 1981 and during its 28 years of operation has offered a variety of instant and online products. The Lottery operates as an agency of the State of Arizona and is reported as an enterprise fund within the state’s Comprehensive Annual Financial Report. The fund is operated in a manner similar to a private business enterprise.

In fiscal year 2009, the Arizona Lottery had revenues of \$484.5 million from Lottery ticket sales, 2.5% more than last fiscal year, and an income before transfers of \$128.0 million, 11.5% less than last fiscal year. More than \$282 million was paid to our players in prizes and our retail partners received \$32.5 million for sales commissions. In its 28 years of operation, the Lottery has produced nearly \$7.4 billion in Lottery ticket sales.

In fiscal year 2009, the Arizona Lottery made transfers to other State Funds of \$30.9 million for the Local Transportation Assistance Fund, \$7.3 million for the County Assistance Fund, \$20.0 million for the Heritage Fund, \$3.8 million for the Economic Development Fund, \$0.3 million

Janice K. Brewer
Governor



Jeff Hatch-Miller
Executive Director

Arizona Lottery Commissioners
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for the Department of Gaming, \$20.9 million for the Healthy Arizona Fund, and \$43.2 million was transferred to the State General Fund for allocation by the state legislature. In addition, from the Lottery Prize Fund, over \$2.7 million was transferred to the Court Appointed Special Advocate (CASA). In total, \$129.1 million was transferred to other State Funds for fiscal year 2009. In its 28 years of operation, the Lottery has returned over \$2.3 billion to its beneficiaries.

Further financial results for fiscal year 2009 are detailed in Management's Discussion and Analysis, included in this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Hatch-Miller". The signature is fluid and cursive.

Jeff Hatch – Miller
Executive Director

INDEPENDENT AUDITORS' REPORT

To the Commissioners of
Arizona State Lottery
Phoenix, Arizona

We have audited the accompanying statement of net assets of Arizona State Lottery (the "Lottery"), a component unit of the state of Arizona, as of June 30, 2009 (with comparative totals as of June 30, 2008), and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the year then ended (with comparative totals for the year ended June 30, 2008). These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year comparative totals information has been derived from the Lottery's 2008 financial statements and, in our report dated January 23, 2009, we expressed an unqualified opinion on those financial statements.

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Lottery as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying transmittal letter is not part of the required basic financial statements. Such information is the responsibility of the Lottery's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the transmittal letter. However, we did not audit the information and we do not express an opinion on it.

The accompanying required supplementary information, management's discussion and analysis, is presented on pages 3 through 6 and is not a required part of the basic financial statements, but is supplementary accounting information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Lottery's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Lottery's basic financial statements. The accompanying supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplemental schedule is the responsibility of the Lottery's management. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2010, on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte + Touche LLP

January 15, 2010

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

This discussion and analysis of the Lottery's financial statements is a required component of financial reporting under *Government 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, 2009, and should be read in conjunction with the Lottery's financial statements and notes to the financial statements.

This annual report consists 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, 2009, with comparative totals for June 30, 2008. The statement of net assets; the statement of revenues, expenses, and changes in Fund net assets; 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 periods.

The statement of net assets provides information about the assets and liabilities 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 assets represent 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 periods is presented in the statement of revenues, expenses, and changes in Fund net assets. Operating revenues include sales of Lottery tickets, retailer licensing fees, 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.

Nonoperating 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.

Sales Activities

Revenues from the sale of Lottery products for the fiscal year ended June 30, 2009 were higher than Fiscal Year 2008. As shown in the financial statements, sales increased 2.5% from the prior year, from \$472.9 million in Fiscal Year 2008 to \$484.5 million in the current year. The increases in ScratchersSM, Pick 5TM, and Fast PlayTM sales, and the introduction of the Cash 4TM game more than offset the decrease in Powerball[®], The Pick, Pick 3TM, and Arizona RaffleTM sales.

The following table compares Lottery product sales between fiscal years. Sales are presented in millions of dollars.

Product Sales	FY 2009	FY 2008	Difference	Percentage
Scratchers (including economic development)	\$278.9	\$252.0	\$26.9	10.7 %
Powerball	117.3	130.4	(13.1)	(10.0)%
The Pick	45.5	52.6	(7.1)	(13.5)%
Pick 5	17.0	14.2	2.8	19.7 %
Arizona Raffle	11.2	11.9	(0.7)	(5.9)%
Pick 3	9.4	9.5	(0.1)	(0.1)%
Cash 4	3.0	-	3.0	100.0 %
Fast Play	2.2	1.8	0.4	22.2 %
Total	\$484.5	\$472.9	\$11.6	2.5 %

Total Revenues

Nonoperating revenues for the year ended June 30, 2009, were approximately \$752,100 as compared to approximately \$1,135,100 for the year ended June 30, 2008. Nonoperating revenue is comprised of interest earned on invested cash and periodic recognition of commissions earned by the Lottery.

Total revenues were \$485.8 million for the year ended June 30, 2009, as compared to \$474.2 million for the year ended June 30, 2008. As mentioned above, most of the increase was due to an increase in sales revenues.

Major Expenses

\$332.1 million of the Lottery's total operating expenses of \$357.8 million for the year ended June 30, 2009 were incurred in direct support of the sales of Lottery games. These expenses include prize expense, retailer commissions and incentives, purchases of Scratchers tickets, compensation to the vendor for Scratchers ticket distribution, and compensation to the vendor who maintains and supports the online gaming system.

In comparison, \$309.6 million of the Lottery's total operating expenses of \$329.6 million for the year ended June 30, 2008, were game-related expenses.

The following table compares the game-related expenses between fiscal years. All expenses are presented in millions of dollars.

Game Related Expenses	FY 2009	FY 2008	Difference	Percentage
Prize Expense	\$282.5	\$262.5	\$20.0	7.6 %
Retailer Commissions	32.5	31.3	1.2	3.8 %
Online System Expenses	7.8	8.9	(1.1)	(12.4)%
Scratchers System and Distribution Expenses	2.3	2.1	0.2	9.5 %
Tickets Purchased	7.0	4.8	2.2	47.9 %
Total	\$332.1	\$309.6	\$22.5	7.3%

The increase in prize expense and retailer commissions is reflective of the increase in product sales. See the product sales schedule above. The increase in tickets purchased is related to the higher number of Scratchers games ended during the period and the inclusion of higher price point tickets that are costlier to print into the sales mix.

The pricing in the Lottery's contract with an outside vendor for online system expenses resulted in decreased costs of approximately \$1.1 million over last fiscal year.

Of the \$25.7 million in Fiscal Year 2009 in other operating expenses, \$15.7 million was used for advertising and promotion and \$6.1 million was used to compensate Lottery employees. In comparison, of the \$20.0 million in Fiscal Year 2008 other operating expenses, \$10.8 million was used for advertising and promotion and \$6.1 million was used to compensate Lottery employees.

Transfers to Other State Funds

Note 3 to the financial statements details the amounts transferred to other State Funds. The Lottery transferred \$129.1 million to other State Funds. Although product sales increased by \$11.6 million in this fiscal year, the increase in advertising expenses and amounts paid to prize winners resulted in a decrease of \$15.4 million in the amount transferred to other State Funds. This year's transfers were nearly \$1.4 million above the minimum transfers required in Lottery Statutes.

Other Financial Information

Statement of Net Assets	FY 2009	FY 2008
Current Assets	\$43.7	\$64.5
Capital Assets	3.8	4.0
Other Assets — Deposit	8.3	7.8
Total Assets	55.8	76.3
Current Liabilities	45.4	64.8
Net Assets	\$10.4	\$11.5

The Lottery's total assets at June 30, 2009 were \$55.8 million. Assets consisted of cash held substantially by the State Treasurer of \$35.5 million, receivables from Lottery retailers for the sale of Lottery products of \$5.8 million, Scratchers ticket inventory of \$2.4 million, net investment in fixed assets of \$3.8 million, and a deposit with MUSL of \$8.3 million.

Comparable figures at June 30, 2008, were \$76.3 million in total assets, including \$55.8 million in cash held by the State Treasurer, \$5.2 million in receivables from retailers, \$3.5 million in Scratchers ticket inventory, net investment in fixed assets of \$4.0 million, and a MUSL deposit of \$7.8 million.

Total liabilities at June 30, 2009, were \$45.4 million, consisting of \$4.8 million in accounts payable and accrued expenses, prize liabilities of \$31.9 million, and amounts due to other State Funds of \$8.6 million. All of the Lottery's liabilities were current liabilities.

The Lottery's total liabilities at June 30, 2008, were \$64.8 million, which consisted of \$3.6 million of accounts payable and accrued expenses, prize liabilities of \$34.3 million, and amounts due to other State Funds of \$26.9 million. All liabilities were current liabilities.

Total net assets at June 30, 2009, were \$10.4 million, which is \$1.1 million less than the amount of total net assets at June 30, 2008. \$6.6 million of the Lottery's total net assets are unrestricted.

BUDGETARY HIGHLIGHTS

The Lottery's budget is set by the legislative appropriations process on a biennial basis. The budgets for Fiscal Years 2008 and 2009 were set in the regular legislative session of 2007. The Lottery's Fiscal Year 2009 budget was amended in the regular legislative session of 2008 and again in the first special session of 2009. The Lottery's appropriation for sales-related expenditures is based on approved percentages of projected revenues and is allowed to increase for these items without a supplemental appropriations request if actual revenues exceed projected revenues. The appropriation does not include an amount for prizes because Lottery statutes set this amount at "not less than 50% of the total annual revenues accruing from the sale of Lottery tickets or shares."

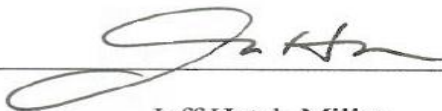
In the second regular legislative session of 2008 Lottery statutes were amended so that distributions to beneficiaries are no longer derived from specific Lottery products. The legislation also removed the 4% cap for advertising expenditures, limiting total expenditures to not more than 18.5% of revenues.

The Lottery's appropriation was \$80.3 million at the beginning of the year and increased to \$80.5 million, as actual revenues exceeded budgeted projections

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 2009 and to demonstrate the Lottery's accountability for the money it received from the sale of Lottery products.

If you have questions about the MD&A or need additional information, contact the Arizona Lottery's Director of Audit and Accounting, 4740 East University, Phoenix, Arizona 85034.



Jeff Hatch-Miller
Executive Director



William B. Kaehler
Director of Accounting and Audit

**ARIZONA STATE LOTTERY,
A COMPONENT UNIT OF THE STATE OF ARIZONA**

STATEMENT OF NET ASSETS

AS OF JUNE 30, 2009

(With comparative totals for June 30, 2008)

	2009	2008
ASSETS:		
Current assets:		
Cash — substantially all held by the State Treasurer	\$ 35,537,819	\$ 55,850,443
Accounts receivable — net of allowance for doubtful accounts of \$145,000 and \$145,000 in 2009 and 2008, respectively	5,783,197	5,172,990
Scratch ticket inventory	<u>2,367,733</u>	<u>3,514,250</u>
Total current assets	<u>43,688,749</u>	<u>64,537,683</u>
Capital assets:		
Land	937,830	937,830
Land improvements	330,865	330,865
Buildings	3,648,272	3,602,783
Furniture, fixtures, and equipment	2,466,217	2,376,841
Construction in progress	52,680	45,489
Less accumulated depreciation	<u>(3,647,979)</u>	<u>(3,292,008)</u>
Total capital assets	<u>3,787,885</u>	<u>4,001,800</u>
Other assets — deposit — Powerball	<u>8,329,576</u>	<u>7,747,729</u>
Total assets	<u>55,806,210</u>	<u>76,287,212</u>
LIABILITIES — Current liabilities:		
Accounts payable and accrued expenses	4,839,693	3,644,267
Prize liability	31,930,197	34,273,436
Due to other state funds	<u>8,645,397</u>	<u>26,879,603</u>
Total liabilities	<u>45,415,287</u>	<u>64,797,306</u>
NET ASSETS	<u><u>\$ 10,390,923</u></u>	<u><u>\$ 11,489,906</u></u>
ANALYSIS OF NET ASSETS:		
Invested in capital assets	3,787,885	4,001,800
Unrestricted	<u>6,603,038</u>	<u>7,488,106</u>
NET ASSETS	<u><u>\$ 10,390,923</u></u>	<u><u>\$ 11,489,906</u></u>

See notes to financial statements.

**ARIZONA STATE LOTTERY,
A COMPONENT UNIT OF THE STATE OF ARIZONA**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

(With comparative totals for the year ended June 30, 2008)

	2009	2008
OPERATING REVENUES:		
Ticket sales:		
Scratchers	\$262,695,972	\$239,227,853
Economic development	16,228,385	13,220,586
Powerball	117,238,451	130,424,083
The Pick	45,489,149	52,552,416
Pick 5	16,996,584	14,191,389
Arizona Raffle	11,184,560	11,943,120
Pick 3	9,409,924	9,530,550
Cash 4	3,036,194	
Fast Play	<u>2,206,885</u>	<u>1,847,281</u>
Total ticket sales	484,486,104	472,937,278
Other operating revenues	<u>550,905</u>	<u>114,916</u>
Total operating revenues	<u>485,037,009</u>	<u>473,052,194</u>
OPERATING EXPENSES:		
Direct costs:		
Prize expense	282,482,645	262,486,159
Retailer commissions and incentives	32,472,390	31,312,957
Online system expense	7,813,813	8,890,551
Scratcher system and distribution expenses	2,329,018	2,107,944
Tickets purchased	<u>7,037,109</u>	<u>4,756,628</u>
Total direct costs	332,134,975	309,554,239
Advertising and promotion	15,687,024	10,816,867
Wages and related expenses	6,107,037	6,095,428
Contract services	393,838	348,976
Depreciation	355,971	316,099
Administrative expenses	<u>3,129,245</u>	<u>2,447,080</u>
Total operating expenses	<u>357,808,090</u>	<u>329,578,689</u>
OPERATING INCOME	127,228,919	143,473,505
NONOPERATING REVENUES — Interest earnings	<u>752,101</u>	<u>1,135,098</u>
INCOME BEFORE TRANSFERS	127,981,020	144,608,603
TRANSFERS TO OTHER STATE FUNDS	<u>129,080,003</u>	<u>144,500,971</u>
CHANGE IN FUND NET ASSETS	(1,098,983)	107,632
FUND NET ASSETS — Beginning of year	<u>11,489,906</u>	<u>11,382,274</u>
FUND NET ASSETS — End of year	<u>\$ 10,390,923</u>	<u>\$ 11,489,906</u>

See notes to financial statements.

**ARIZONA STATE LOTTERY,
A COMPONENT UNIT OF THE STATE OF ARIZONA**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009
(With comparative totals for the year ended June 30, 2008)**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from retailers — net of commissions and incentives	\$ 249,897,690	\$ 262,696,646
Cash received from other sources	10,541,931	10,412,785
Cash payments for prizes and related taxes	(93,272,517)	(93,863,066)
Cash payments to suppliers of goods or services	(34,056,699)	(29,955,778)
Cash payments to employees	<u>(6,128,575)</u>	<u>(6,087,607)</u>
Net cash provided by operating activities	126,981,830	143,202,980
CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES — Cash payments to beneficiaries per Arizona Statutes		
	(147,314,209)	(147,626,398)
CASH FLOWS USED BY CAPITAL FINANCING ACTIVITIES — Payments for acquisition of capital assets		
	(142,056)	(163,161)
CASH FLOWS FROM INVESTING ACTIVITIES — Receipts of interest		
	<u>161,811</u>	<u>586,441</u>
NET DECREASE IN CASH	(20,312,624)	(4,000,138)
CASH — Beginning of year	<u>55,850,443</u>	<u>59,850,581</u>
CASH — End of year	<u>\$ 35,537,819</u>	<u>\$ 55,850,443</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	<u>\$ 127,228,919</u>	<u>\$ 143,473,505</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	355,971	316,099
Loss on disposal of equipment		43,589
Changes in assets and liabilities:		
Accounts receivable and due from other State agencies	(19,917)	(402,748)
Ticket inventory	1,146,517	431,924
Deposit — Powerball	(581,847)	(619,580)
Accounts payable and accrued expenses	1,195,426	(828,629)
Prizes and withholdings payable	<u>(2,343,239)</u>	<u>788,820</u>
Total adjustments	<u>(247,089)</u>	<u>(270,525)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 126,981,830</u>	<u>\$ 143,202,980</u>

See notes to financial statements.

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

1. DESCRIPTION OF OPERATIONS

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

The financial statements include prior-year comparative information, but the notes to the financial statements omit prior-year information required for a presentation in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). Accordingly, such prior-year information should be read in conjunction with the Lottery's financial statements for the year ended June 30, 2008, from which the information was derived.

For the period July 1, 2008 through June 30, 2009, the Lottery held 118 instant games (games 453, 480, 490, 510, 515, 519, 522, 524-526, 530-531, 538, 540-542, 544-545, 548-635, 637-639, 642-644, 647-648, 651, 653, 660-661, and 673), four of which were Economic Development games (games 553, 572, 592, and 619). During 2009, the Lottery continued the "Pick 3," "Pick 5," "The Pick," "Powerball," and "Fast Play" online games, continued the "Arizona Raffle" game, which was held two times in the fiscal year, and introduced the "Cash 4" online game. As required, the Lottery has a deposit with "Powerball," a multistate online lottery game, of \$8,329,576 at June 30, 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

The Lottery prepares its financial statements in accordance with generally accepted accounting principles.

State Lottery Fund — The State Lottery Fund (the "Fund"), which is a component unit of the State, accounts for revenues received from the sale of lottery tickets and the receipt of license fees. 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 follow all applicable Governmental Accounting Standards Board pronouncements, as well as applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989. The Fund accounts for prize payments, operational expenses, including consulting, promotional, and advertising expenses, and transfers of monies to other State funds. Receipts from each type of lottery game are to be 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, 2008 to June 30, 2009.
- Not more than 18.5% is apportioned for payment of Lottery operating expenditures. Legislation enacted in 2008 set this limit and also removed a 4% cap on advertising expenditures.

In addition, State statute requires that 30% of all unclaimed prizes be transferred to the Court-Appointed Special Advocate Account, a fund within the State’s General Fund.

Ticket Sales and Revenue Recognition — Revenue is recognized and the related direct expenses of ticket sales 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.

Property and Equipment — Property and equipment of the Fund, which consists principally of buildings, land, land improvements, and office furniture and equipment are stated at historical cost. 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 provided for as follows:

	Method	Estimated Useful Life
Buildings	Straight-line	40 years
Land improvements	Straight-line	20 years
Furniture, fixtures, and computer equipment	Straight-line	5–7 years

Investment Income — Investment income from all investments is recognized in the Fund, which includes invested cash held by the State Treasurer and invested prize reserves held by the Multistate Lottery Association.

Ticket Inventory — Ticket inventory is stated at cost, which represents the amount incurred by the Lottery for purchasing the tickets.

Cash — 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.

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, 2009, the Fund’s accounts payable and accrued expenses balance includes an accrual of vacation pay and related benefits of \$308,411. Upon termination or retirement, an employee will be compensated for accumulated leave up to a maximum of 240 hours, dependent upon accumulated time and the individual’s benefits associated with their rank as defined by State personnel rule #R2-5-403. 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.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles 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.

3. TRANSFERS AND STATUTORY REQUIREMENTS

As required by ARS Section 5-505, the Lottery made transfers during the year ended June 30, 2009, as follows:

County assistance fund	\$ 7,267,500
Court-appointed special advocate account	2,722,803
Department of gaming	300,000
Economic development commission fund	3,792,900
General fund	43,225,100
Healthy Arizona fund	20,897,400
Heritage fund	20,000,000
Local transportation assistance fund	<u>30,874,300</u>
 Total transfers to other State funds	 <u>\$ 129,080,003</u>

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

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets:					
Land	\$ 937,830	\$ -	\$ -	\$ -	\$ 937,830
Land improvements	330,865				330,865
Buildings	3,602,783			45,489	3,648,272
Furniture, fixtures, and equipments	2,376,841	89,376			2,466,217
Construction in progress	<u>45,489</u>	<u>52,680</u>		<u>(45,489)</u>	<u>52,680</u>
 Total capital assets	 <u>7,293,808</u>	 <u>142,056</u>	 <u>-</u>	 <u>-</u>	 <u>7,435,864</u>
Less accumulated depreciation for:					
Land improvements	(330,379)	(486)			(330,865)
Buildings	(1,479,707)	(110,718)			(1,590,425)
Furniture, fixtures, and equipments	<u>(1,481,922)</u>	<u>(244,767)</u>			<u>(1,726,689)</u>
 Total accumulated depreciation	 <u>(3,292,008)</u>	 <u>(355,971)</u>	 <u>-</u>	 <u>-</u>	 <u>(3,647,979)</u>
 Capital assets — net	 <u>\$ 4,001,800</u>	 <u>\$ (213,915)</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 3,787,885</u>

5. PRIZE LIABILITY

Prize liability activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Prize liability	<u>\$ 34,273,436</u>	<u>\$ 285,390,568</u>	<u>\$ (287,733,807)</u>	<u>\$ 31,930,197</u>

6. COMMITMENTS

The Lottery enters into various contracts for goods and services during the normal course of its business. All contacts and purchasing activity are subject to the Arizona State Procurement Code and the rules of the Arizona State Procurement Office. All contracts have incorporated into them the “Standard Terms and Conditions” as required by the Arizona State Procurement Office. These terms and conditions in all the contracts allow for cancellation for lack of funding in the current fiscal year or next fiscal year. The contract may also be terminated for the Lottery’s convenience at any time with no penalty when it is in the best interest of the State.

Net rental expense for the year ended June 30, 2009, was \$62,803.

Effective September 1, 2006, the Lottery entered into a five-year contract with G-Tech Services, Inc. for computer processing services at a base contract rate of 3.8012% of online sales.

7. CONTINGENCIES

Annuities are purchased for all prizes over \$400,000 for which winners will receive the jackpot in annual installments for The Pick online game. These 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. The Lottery may incur future liabilities on these annuities. Aggregate future payments to prize winners on existing annuities totaled approximately \$76,105,470 at June 30, 2009. Approximately \$56,651,880 of the total aggregate future payments at June 30, 2009, relate to annuities purchased from five separate insurance companies, of which approximately \$13,025,987 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, ARS § 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 arose 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.

8. RETIREMENT PLAN

Permanent, full-time employees of the Lottery are covered by the Arizona State Retirement Plan (the “Plan”), a retirement plan administered by the Arizona State Retirement System (ASRS), which is a multiple-employer, cost-sharing pension plan. The Comprehensive Annual Financial Report of the ASRS can be obtained by accessing www.azasrs.gov. The Plan was established by the State to provide benefits for employees of the State and employees of participating political subdivisions and school districts. The Plan became effective on July 1, 1971. By actuarial computation, employee member contributions to the Plan were fixed at 8.95%, 9.10%, and 8.60% of their compensation for the years ended June 30, 2009, 2008, and 2007, respectively, with the contributions made through payroll deduction. Employee contributions vest immediately. Total contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, by the Lottery’s covered employees were \$384,476, \$397,693, and \$382,129, respectively.

Matching employer member contributions were actuarially determined and fixed at 8.95 %, 9.10%, and 8.60% of the compensation of all employee members for the years ended June 30, 2009, 2008, and 2007, respectively. Total matching contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, by the Lottery were \$384,476, \$397,693, and \$382,129, respectively. In the event the Plan's actuary determines that additional contributions are needed in order to amortize an unfunded accrued liability, every employer member will be required to contribute the revised contribution percentage that is set by the Plan.

All full-time employees of the Lottery are required to become members of the Plan. The Lottery's total payroll for employees covered by this Plan for the years ended June 30, 2009, 2008, and 2007, was \$4,410,518. Contributions to the Plan by the Lottery for its covered employees become fully vested immediately after membership in the Plan. All required employer contributions were made to the Plan within 30 days after June 30, 2009.

* * * * *

SUPPLEMENTAL SCHEDULE

**ARIZONA STATE LOTTERY,
A COMPONENT UNIT OF THE STATE OF ARIZONA**

**SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Bingo Game 480</u>		<u>Super 7s Bingo Game 490</u>		<u>\$50,000 Casino Action Game 510</u>	
TICKET SALES	<u>\$42,259,686</u>	100.00 %	<u>\$ 9,547,125</u>	100.00 %	<u>\$ 5,422,920</u>	100.00 %
DIRECT EXPENSES:						
Commissions	<u>2,746,880</u>	6.50	<u>620,565</u>	6.50	<u>352,490</u>	6.50
Prizes — low tier	21,848,256	51.70	4,709,915	49.33	2,304,742	42.50
Prizes — high tier	<u>3,012,300</u>	7.13	<u>1,233,710</u>	12.92	<u>1,198,450</u>	22.10
Total prizes	<u>24,860,556</u>	58.83	<u>5,943,625</u>	62.26	<u>3,503,192</u>	64.60
Ticket purchases	<u>767,825</u>	1.82	<u>162,071</u>	1.70	<u>170,524</u>	3.14
Total direct expenses	<u>28,375,261</u>	67.15	<u>6,726,261</u>	70.45	<u>4,026,206</u>	74.24
GROSS PROFIT BY GAME	<u>\$13,884,425</u>	32.86	<u>\$ 2,820,864</u>	29.55	<u>\$ 1,396,714</u>	25.76
	<u>Naughty/Nice Crossword Game 519</u>		<u>Arizona Bingo Game 522</u>		<u>Fire'n'Ice Game 524</u>	
TICKET SALES	<u>\$ 3,606,430</u>	100.00 %	<u>\$ 9,843,050</u>	100.00 %	<u>\$ 2,019,726</u>	100.00 %
DIRECT EXPENSES:						
Commissions	<u>234,418</u>	6.50	<u>639,799</u>	6.50	<u>131,282</u>	6.50
Prizes — low tier	1,803,215	50.00	4,429,373	45.00	979,567	48.50
Prizes — high tier	<u>363,100</u>	10.07	<u>1,890,725</u>	19.21	<u>229,600</u>	11.37
Total prizes	<u>2,166,315</u>	60.07	<u>6,320,098</u>	64.21	<u>1,209,167</u>	59.87
Ticket purchases	<u>98,958</u>	2.74	<u>132,829</u>	1.35	<u>39,896</u>	1.98
Advertising	<u>90,308</u>	2.50				
Total direct expenses	<u>2,589,999</u>	71.82	<u>7,092,726</u>	72.06	<u>1,380,345</u>	68.34
GROSS PROFIT BY GAME	<u>\$ 1,016,431</u>	28.18	<u>\$ 2,750,324</u>	27.94	<u>\$ 639,381</u>	31.66
	<u>Aztec Gold Game 525</u>		<u>Cash Cards Game 526</u>		<u>Cherub Slingo Game 530</u>	
TICKET SALES	<u>\$ 3,279,780</u>	100.00 %	<u>\$10,280,410</u>	100.00 %	<u>\$10,116,168</u>	100.00 %
DIRECT EXPENSES:						
Commissions	<u>213,187</u>	6.50	<u>668,227</u>	6.50	<u>657,553</u>	6.50
Prizes — low tier	1,618,025	49.33	2,748,982	26.74	5,462,731	54.00
Prizes — high tier	<u>390,150</u>	11.90	<u>3,329,575</u>	32.39	<u>905,300</u>	8.95
Total prizes	<u>2,008,175</u>	61.23	<u>6,078,557</u>	59.13	<u>6,368,031</u>	62.95
Ticket purchases	<u>58,217</u>	1.78	<u>73,782</u>	0.72	<u>154,745</u>	1.53
Total direct expenses	<u>2,279,579</u>	69.50	<u>6,820,566</u>	66.35	<u>7,180,329</u>	70.98
GROSS PROFIT BY GAME	<u>\$ 1,000,201</u>	30.50	<u>\$ 3,459,844</u>	33.65	<u>\$ 2,935,839</u>	29.02

(Continued)

**ARIZONA STATE LOTTERY,
A COMPONENT UNIT OF THE STATE OF ARIZONA**

**SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Two Much Fun Game 531</u>		<u>Win For Life Game 538</u>		<u>Crown Jewel 7s Game 540</u>	
TICKET SALES	\$ 1,177,818	100.00 %	\$ 4,639,752	100.00 %	\$ 11,351,835	100.00 %
DIRECT EXPENSES:						
Commissions	<u>76,558</u>	6.50	<u>301,584</u>	6.50	<u>737,871</u>	6.50
Prizes — low tier	618,354	52.50	1,995,093	43.00	5,335,362	47.00
Prizes — high tier	<u>72,280</u>	6.14	<u>613,433</u>	13.22	<u>1,972,869</u>	17.38
Total prizes	<u>690,634</u>	58.64	<u>2,608,526</u>	56.22	<u>7,308,231</u>	64.38
Ticket purchases	<u>44,418</u>	3.77	<u>73,211</u>	1.58	<u>175,032</u>	1.54
Total direct expenses	<u>811,610</u>	68.91	<u>2,983,321</u>	64.30	<u>8,221,134</u>	72.42
GROSS PROFIT BY GAME	<u>\$ 366,208</u>	31.09	<u>\$ 1,656,431</u>	35.70	<u>\$ 3,130,701</u>	27.58
	<u>Boot Loot Game 541</u>		<u>One Word Crossword Game 542</u>		<u>\$5,000 Spin Game 544</u>	
TICKET SALES	\$ 722,700	100.00 %	\$ 12,934,752	100.00 %	\$ 1,295,291	100.00 %
DIRECT EXPENSES:						
Commissions	<u>46,977</u>	6.50	<u>840,760</u>	6.50	<u>84,194</u>	6.50
Prizes—low tier	361,350	50.00	6,036,218	46.67	634,693	49.00
Prizes—high tier	<u>47,300</u>	6.54	<u>2,049,750</u>	15.85	<u>107,300</u>	8.28
Total prizes	<u>408,650</u>	56.54	<u>8,085,968</u>	62.52	<u>741,993</u>	57.28
Ticket purchases	<u>42,212</u>	5.84	<u>132,900</u>	1.03	<u>42,999</u>	3.32
Total direct expenses	<u>497,839</u>	68.88	<u>9,059,628</u>	70.05	<u>869,186</u>	67.10
GROSS PROFIT BY GAME	<u>\$ 224,861</u>	31.11	<u>\$ 3,875,124</u>	29.96	<u>\$ 426,105</u>	32.90
	<u>Quick 7's Game 549</u>		<u>Line 'Em Up Game 550</u>		<u>Black Jack Game 551</u>	
TICKET SALES	\$ 1,231,905	100.00 %	\$ 677,269	100.00 %	\$ 1,651,308	100.00 %
DIRECT EXPENSES:						
Commissions	<u>80,075</u>	6.50	<u>44,023</u>	6.50	<u>107,336</u>	6.50
Prizes—low tier	609,756	49.50	331,862	49.00	825,654	50.00
Prizes—high tier	<u>92,785</u>	7.53	<u>55,550</u>	8.20	<u>116,640</u>	7.06
Total prizes	<u>702,541</u>	57.03	<u>387,412</u>	57.20	<u>942,294</u>	57.06
Ticket purchases	<u>54,601</u>	4.43	<u>41,875</u>	6.18	<u>42,958</u>	2.61
Total direct expenses	<u>837,217</u>	67.96	<u>473,310</u>	69.88	<u>1,092,588</u>	66.17
GROSS PROFIT BY GAME	<u>\$ 394,688</u>	32.04	<u>\$ 203,959</u>	30.11	<u>\$ 558,720</u>	33.83

(Continued)

**ARIZONA STATE LOTTERY,
A COMPONENT UNIT OF THE STATE OF ARIZONA**

**SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
FOR THE YEAR ENDED JUNE 30, 2009**

	Fabulous 5's Game 553 *		Hot Streak Game 555		Gold Rush Game 556	
TICKET SALES	\$ 5,276,465	100.00 %	\$ 7,125,830	100.00 %	\$ 4,577,235	100.00 %
DIRECT EXPENSES:						
Commissions	342,972	6.50	463,179	6.50	297,521	6.50
Prizes — low tier	2,384,435	45.19	1,871,956	26.27	2,061,587	45.04
Prizes — high tier	742,050	14.06	2,423,640	34.01	677,900	14.81
Total prizes	3,126,485	59.25	4,295,596	60.28	2,739,487	59.85
Ticket purchases	71,321	1.35	78,936	1.10	71,456	1.56
Total direct expenses	3,540,778	67.10	4,837,711	67.88	3,108,464	67.91
GROSS PROFIT BY GAME	\$ 1,735,687	32.89	\$ 2,288,119	32.11	\$ 1,468,771	32.09
	Sudoku Game 557		Deal or No Deal Game 558		\$100,000 Taxes Paid Game 562	
TICKET SALES	\$ 1,479,318	100.00 %	\$ 5,973,690	100.00 %	\$ 9,337,270	100.00 %
DIRECT EXPENSES:						
Commissions	96,159	6.50	388,293	6.50	606,923	6.50
Prizes — low tier	759,383	51.33	2,402,021	40.21	2,502,388	26.80
Prizes — high tier	169,900	11.49	1,176,895	19.70	3,080,002	32.99
Total prizes	929,283	62.82	3,578,916	59.91	5,582,390	59.79
Ticket purchases	138,409	9.36	219,561	3.68	87,175	0.93
Total direct expenses	1,163,851	78.68	4,186,770	70.09	6,276,488	67.22
GROSS PROFIT BY GAME	\$ 315,467	21.33	\$ 1,786,920	29.91	\$ 3,060,782	32.78
	Double Wild 7's Game 564		Double It! Game 565		Money Game Game 567	
TICKET SALES	\$ 1,477,979	100.00 %	\$ 1,002,803	100.00 %	\$ 975,815	100.00 %
DIRECT EXPENSES:						
Commissions	96,070	6.50	65,183	6.50	63,429	6.50
Prizes — low tier	679,870	46.00	491,373	49.00	492,788	50.50
Prizes — high tier	168,525	11.40	83,250	8.30	65,500	6.71
Total prizes	848,395	57.40	574,623	57.30	558,288	57.21
Ticket purchases	72,683	4.92	58,386	5.82	45,645	4.68
Total direct expenses	1,017,148	68.82	698,192	69.62	667,362	68.39
GROSS PROFIT BY GAME	\$ 460,831	31.18	\$ 304,611	30.38	\$ 308,453	31.61

* Portion of game designated for economic development

(Continued)

**ARIZONA STATE LOTTERY,
A COMPONENT UNIT OF THE STATE OF ARIZONA**

**SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
FOR THE YEAR ENDED JUNE 30, 2009**

	Ho Ho Dough Game 568		Holiday Fun Game 569		Jingle Bells Game 570	
TICKET SALES	\$ 1,483,581	100.00 %	\$ 1,268,802	100.00 %	\$ 2,882,035	100.00 %
DIRECT EXPENSES:						
Commissions	96,435	6.50	82,472	6.50	187,335	6.50
Prizes — low tier	771,462	52.00	647,089	51.00	1,222,086	42.40
Prizes — high tier	116,660	7.86	132,040	10.41	474,200	16.45
Total prizes	888,122	59.86	779,129	61.41	1,696,286	58.85
Ticket purchases	55,292	3.73	59,247	4.67	68,797	2.39
Total direct expenses	1,039,849	70.09	920,848	72.58	1,952,418	67.74
GROSS PROFIT BY GAME	\$ 443,732	29.91	\$ 347,954	27.42	\$ 929,617	32.26
	Loteria Arizona Game 571		Diamond Dazzler Game 573		Diamond Dazzler 2X Game 574	
TICKET SALES	\$ 1,330,944	100.00 %	\$ 2,245,555	100.00 %	\$ 3,671,618	100.00 %
DIRECT EXPENSES:						
Commissions	86,511	6.50	145,962	6.50	238,655	6.50
Prizes — low tier	638,853	48.00	1,100,322	49.00	1,762,377	48.00
Prizes — high tier	165,512	12.44	187,870	8.36	427,420	11.64
Total prizes	804,365	60.44	1,288,192	57.36	2,189,797	59.64
Ticket purchases	75,726	5.69	158,608	7.06	170,413	4.64
Total direct expenses	966,602	72.63	1,592,762	70.92	2,598,865	70.78
GROSS PROFIT BY GAME	\$ 364,342	27.37	\$ 652,793	29.07	\$ 1,072,753	29.22
	Diamond Dazzler 2X Game 575		5 Times Lucky Game 576		Super Deuces Game 578	
TICKET SALES	\$ 6,990,380	100.00 %	\$ 2,673,042	100.00 %	\$ 1,706,134	100.00 %
DIRECT EXPENSES:						
Commissions	454,376	6.50	173,748	6.50	110,899	6.50
Prizes — low tier	2,642,132	37.80	1,149,408	43.00	801,883	47.00
Prizes — high tier	1,522,950	21.79	447,150	16.73	224,740	13.17
Total prizes	4,165,082	59.59	1,596,558	59.73	1,026,623	60.17
Ticket purchases	272,605	3.90	47,247	1.77	67,230	3.95
Total direct expenses	4,892,063	69.99	1,817,553	68.00	1,204,752	70.62
GROSS PROFIT BY GAME	\$ 2,098,317	30.02	\$ 855,489	32.00	\$ 501,382	29.39

(Continued)

**ARIZONA STATE LOTTERY,
A COMPONENT UNIT OF THE STATE OF ARIZONA**

**SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
FOR THE YEAR ENDED JUNE 30, 2009**

	Double Down Game 579		3s a Charm Game 580		Cash to Go Game 581	
TICKET SALES	\$ 1,001,019	100.00 %	\$ 1,149,637	100.00 %	\$ 1,067,933	100.00 %
DIRECT EXPENSES:						
Commissions	65,067	6.50	74,728	6.50	69,417	6.50
Prizes — low tier	500,510	50.00	528,833	46.00	539,308	50.50
Prizes — high tier	66,850	6.68	125,190	10.89	74,150	6.94
Total prizes	567,360	56.68	654,023	56.89	613,458	57.44
Ticket purchases	35,780	3.57	35,947	3.12	35,214	3.30
Total direct expenses	668,207	66.75	764,698	66.51	718,089	67.24
GROSS PROFIT BY GAME	\$ 332,812	33.25	\$ 384,939	33.48	\$ 349,844	32.76
	Lucky Cash Game 582		Super Score Game 584		Wild Willie Slingo Game 585	
TICKET SALES	\$ 1,910,140	100.00 %	\$ 792,968	100.00 %	\$ 3,512,649	100.00 %
DIRECT EXPENSES:						
Commissions	124,159	6.50	51,543	6.50	228,325	6.50
Prizes — low tier	897,766	47.00	356,836	45.00	1,896,830	54.00
Prizes — high tier	245,200	12.84	106,210	13.39	316,350	9.01
Total prizes	1,142,966	59.84	463,046	58.39	2,213,180	63.01
Ticket purchases	43,785	2.29	24,427	3.08	78,291	2.23
Total direct expenses	1,310,910	68.63	539,016	67.97	2,519,796	71.74
GROSS PROFIT BY GAME	\$ 599,230	31.37	\$ 253,952	32.03	\$ 992,853	28.27
	Red White and Blue Game 586		Solid Gold Game 587		Beat the Heat Game 588	
TICKET SALES	\$ 1,437,464	100.00 %	\$ 921,955	100.00 %	\$ 1,022,223	100.00 %
DIRECT EXPENSES:						
Commissions	93,435	6.50	59,928	6.50	66,446	6.50
Prizes — low tier	639,671	44.50	460,978	50.00	511,112	50.00
Prizes — high tier	232,020	16.14	66,700	7.23	67,840	6.64
Total prizes	871,691	60.64	527,678	57.23	578,952	56.64
Ticket purchases	54,317	3.78	37,912	4.12	37,363	3.66
Total direct expenses	1,019,443	70.92	625,518	67.85	682,761	66.80
GROSS PROFIT BY GAME	\$ 418,021	29.08	\$ 296,437	32.15	\$ 339,462	33.21

(Continued)

**ARIZONA STATE LOTTERY,
A COMPONENT UNIT OF THE STATE OF ARIZONA**

**SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
FOR THE YEAR ENDED JUNE 30, 2009**

	10K Payday Game 589					
TICKET SALES	\$ 1,621,052	100.00 %				
DIRECT EXPENSES:						
Commissions	105,368	6.50				
Prizes — low tier	697,052	43.00				
Prizes — high tier	266,500	16.44				
Total prizes	963,552	59.44				
Ticket purchases	43,355	2.67				
Total direct expenses	1,112,275	68.61				
GROSS PROFIT BY GAME	\$ 508,777	31.39				
			Pick/Pick Extra Drawings January 1, 2008 to December 31, 2008	Pick 5/Pick 5 Extra Drawings January 1, 2008 to December 31, 2008	Powerball Drawings January 1, 2008 to December 31, 2008	
TICKET SALES	\$52,305,175	100.00 %	\$14,892,468	100.00 %	\$123,151,314	100.00 %
DIRECT EXPENSES:						
Commissions	3,399,809	6.50	967,988	6.50	8,004,816	6.50
Total prizes	26,868,154	51.37	7,614,123	51.13	61,575,657	50.00
Online system expenses	2,057,130	3.93	582,928	3.91	4,836,629	3.93
Advertising	1,211,777	2.32	33,151	0.22	1,316,737	1.07
Total direct expenses	33,536,870	64.12	9,198,190	61.76	75,733,839	61.50
GROSS PROFIT BY GAME	\$18,768,305	35.88	\$ 5,694,278	38.24	\$ 47,417,475	38.50
			Pick 3 Drawings January 1, 2008 to December 31, 2008	Arizona Raffle Drawings January 1, 2008 to December 31, 2008	Fast Play Drawings January 1, 2008 to December 31, 2008	
TICKET SALES	\$ 9,595,713	100.00 %	\$ 9,364,620	100.00 %	\$ 2,552,660	100.00 %
DIRECT EXPENSES:						
Commissions	623,710	6.50	608,701	6.50	165,060	6.47
Total prizes	4,797,856	50.00	4,792,848	51.18	1,481,127	58.02
Online system expenses	376,048	3.92	367,387	3.92	100,678	3.94
Advertising	28,151	0.29	2,258,384	24.12	580,605	22.75
Total direct expenses	5,825,765	60.71	8,027,320	85.72	2,327,470	91.18
GROSS PROFIT BY GAME	\$ 3,769,948	39.29	\$ 1,337,300	14.28	\$ 225,190	8.82

NOTE: After the announced completion of ticket sales for each game, customers have a 180-day period in which they can redeem their winning tickets. The above gross profit information includes games in which the 180-day grace period expired during the fiscal year ended June 30, 2009.

(Concluded)