

ARIZONA STATE LOTTERY



A Component Unit of the State of Arizona
FINANCIAL STATEMENTS
Year Ended June 30, 2012



ARIZONA STATE LOTTERY

TABLE OF CONTENTS

	<u>Page</u>
Letter of Transmittal	i
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets	10
Statement of Cash Flows	11
Notes to Financial Statements	13
Supplemental Information	
Supplementary Schedule of Gross Profit by Game	22
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31

Janice K. Brewer
Governor



Jeff Hatch-Miller
Executive Director

November 28, 2012

Dear Arizona Lottery Commissioners:

The Arizona Lottery is pleased to submit its audited financial statements as of and for the year ended June 30, 2012, as prepared by the Lottery Accounting Department and audited by Henry & Horne, 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 31 years of operation has offered a variety of instant and on-line 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 2012 the Arizona Lottery had revenues of \$646.7 million from Lottery ticket sales, 10.8% more than last fiscal year, and an income before transfers of \$164.8 million, 13.8% more than last fiscal year. Almost \$397 million was paid to our players in prizes and our retail partners received \$43.8 million for sales commissions. In its 31 years of operation, the Lottery has produced almost \$9.2 billion in Lottery ticket sales.

In fiscal year 2012, the Arizona Lottery made transfers to other State Funds of \$10.0 million for the Heritage Fund, \$11.2 million to Mass Transit, \$3.5 million for the Economic Development Fund, \$0.3 million for the Department of Gaming, \$19.3 million for the Healthy Arizona Fund, \$1.0 million for Homeless Shelters, \$10.3 million for University Capital Bonds and \$106.1 million was transferred to the State General Fund for allocation by the state legislature.

In addition, from the Lottery Prize Fund, almost \$3 million was transferred to the Court Appointed Special Advocate (CASA). In total, over \$164.7 million was transferred to other State Funds for fiscal year 2012. In its 31 years of operation, the Lottery has returned over \$2.8 billion to its beneficiaries.

Phoenix Office · 4740 East University Drive · Phoenix, Arizona 85034 · 480-921-4400 · Fax: 480-921-4488
Tucson Office · 4010 E. Grant Road · Tucson, Arizona 85712 · 520-628-5107 · Fax: 480-921-4456
www.arizonalottery.com

Gambling Problem? 1-800-NEXT STEP (1-800-639-8783)

ⓘ Please Play Responsibly™

Further financial results for fiscal year 2012 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, with a large initial "J" and "H".

Jeff Hatch-Miller

Executive Director



HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Commissioners of
Arizona State Lottery
Phoenix, Arizona

We have audited the accompanying financial statements of The Arizona State Lottery (the "Lottery") of the State of Arizona, as of and for the year ended June 30, 2012 as listed in the table of contents. 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 summarized comparative information has been derived from the Lottery's 2011 financial statements and, in our report dated November 16, 2011, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

As discussed in Note 1, the financial statements present only the Lottery and do not purport to, and do not, present fairly the financial position of the State of Arizona, as of June 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Lottery as of June 30, 2012, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Tempe
2055 E. Warner Road
Suite 101
Tempe, AZ 85284-3487
(480) 839-4900
Fax (480) 839-1749

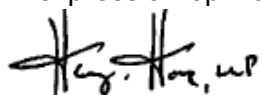
Scottsdale
7098 E. Cochise Road
Suite 100
Scottsdale, AZ 85253-4517
(480) 483-1170
Fax (480) 483-7126

Casa Grande
1115 E. Cottonwood Lane
Suite 100
Casa Grande, AZ 85122-2950
(520) 836-8201
Fax (520) 426-9432

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012, on our consideration of the Lottery's internal control over financial reporting and on 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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.

Our audit was conducted for the purpose of forming opinions on the financial statements of The Arizona State Lottery. The transmittal letter and supplemental schedule of Gross Profit by Game are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of Gross Profit by Game is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The transmittal letter 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 them.



Casa Grande, Arizona
November 28, 2012

**ARIZONA STATE LOTTERY,
A COMPONENT UNIT OF THE STATE OF ARIZONA
PROPRIETARY FUND — ENTERPRISE FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

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, 2012, 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, 2012, with comparative totals for June 30, 2011. 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 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, interest credited to the Lottery's Multistate Lottery Association (MUSL) unreserved account for interest earned on prize reserves at MUSL and income recognized from common stock. 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, 2012 were higher than Fiscal Year 2011 and also a Lottery record high. As shown in the financial statements, sales increased 10.8% from the prior year, from \$583.5 million in Fiscal Year 2011 to \$646.7 million in the current year. Sales of ScratchersSM, Powerball[®], The Pick, Pick 3TM, Fantasy 5 and Mega Millions[®] all showed increases while Cash 4, 2 by 2 and Fast PlayTM sales decreased.

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

Product Sales	FY 2012	FY 2011	Difference	Percentage
Scratchers (including economic development)	\$409.8	\$373.5	\$36.3	9.7%
Instant Tabs	3.3	1.0	2.3	223.2%
Powerball	104.2	89.1	15.1	17.0%
Mega Millions	56.1	47.3	8.8	18.5%
The Pick	34.6	34.6	0.0	0.0%
Fantasy 5	18.1	15.6	2.5	16.0%
Arizona Raffle	6.0	6.0	0.0	0.0%
Pick 3	8.5	8.3	.2	1.7%
Cash 4	2.8	3.0	-0.2	-7.0%
2 by 2	3.3	3.9	-0.6	-13.7%
Fast Play	0.0	1.2	-1.2	--100.0%
Total	\$646.7	\$583.5	\$63.2	10.8%

Total Revenues

Nonoperating revenues for the year ended June 30, 2012, were \$101,923 as compared to \$143,153 for the year ended June 30, 2011. Nonoperating revenue is comprised of interest earned on invested cash and periodic recognition of commissions earned by the Lottery. Total revenues were \$646.8 million for the year ended June 30, 2012, as compared to \$583.8 million for the year ended June 30, 2011. As mentioned above, the increase was due to an increase in sales revenues.

Major Expenses

\$459.3 million of the Lottery's total operating expenses of \$482.1 million for the year ended June 30, 2012 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 on-line gaming system.

In comparison, \$416.5 million of the Lottery's total operating expenses of \$439.1 million for the year ended June 30, 2011, 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 2012	FY 2011	Difference	Percentage
Prize Expense	\$396.7	\$360.5	\$36.2	10.0%
Retailer Commissions	43.8	39.2	4.6	11.7%
On-line System Expenses	8.6	7.8	0.8	10.3%
Scratchers System and Distribution Expenses	4.0	3.5	0.5	14.3%
Tickets Purchased	6.2	5.5	0.7	12.7%
Total	\$459.3	\$416.5	\$42.8	10.3%

The increase in Game Related Expenses is reflective of the increase in product sales. See the product sales schedule above.

Of the \$22.9 million in Fiscal Year 2012 in other operating expenses, \$14.9 million was used for advertising and promotion and \$5.9 million was used to compensate Lottery employees. In comparison, of the \$22.6 million in Fiscal Year 2011 other operating expenses, \$14.9 million was used for advertising and promotion and \$5.7 million was used to compensate Lottery employees.

Transfers to Other State Funds

Note 2 to the financial statements details the amounts transferred to other State Funds. In Fiscal Year 2012 the Lottery transferred \$164.7 million to other State Funds. In comparison, in Fiscal Year 2011 the Lottery transferred \$146.3 million to other State Funds.

Other Financial Information

Statement of Net Assets	FY 2012	FY 2011
Current Assets	\$64.8	\$55.9
Capital Assets	3.1	3.3
Other Assets — Deposits	9.4	9.0
Total Assets	77.3	68.2
Current Liabilities	66.7	57.7
Net Assets	\$10.6	\$10.5

The Lottery's total assets at June 30, 2012 were \$77.3 million. Assets consisted of cash held substantially by the State Treasurer of \$56.3 million, receivables from Lottery retailers for the sale of Lottery products of \$5.4 million, Scratchers ticket inventory of \$3.1 million, net investment in fixed assets of \$3.1 million and a deposit with MUSL of \$9.4 million.

Comparable figures at June 30, 2010, were \$60.4 million in total assets, including \$36.2 million in cash held by the State Treasurer, \$7.1 million in receivables from retailers, \$3.9 million in Scratchers ticket inventory, net investment in fixed assets of \$3.5 million, a MUSL deposit of \$8.2 million and investment in common stock of \$1.5 million.

Total liabilities at June 30, 2012, were 66.7 million, consisting of \$4.6 million in accounts payable and accrued expenses, prize liabilities of \$31.2 million, and amounts due to other State Funds of \$30.9 million. All of the Lottery's liabilities were current liabilities.

The Lottery's total liabilities at June 30, 2011, were \$57.7 million, which consisted of \$3.4 million of accounts payable and accrued expenses, prize liabilities of \$29.2 million, and amounts due to other State Funds of \$25.1 million. All liabilities were current liabilities.

Total net assets at June 30, 2012, were \$10.6 million, which is \$0.1 million more than the amount of total net assets at June 30, 2011. \$7.5 million of the Lottery's total net assets are unrestricted.

In the sixth special session of the State Legislature in 2010, amendments were made to the Lottery statutes allowing the State to issue Lottery Revenue Bonds. These bonds provide additional working capital to pay appropriated expenditures of the State's General Fund. The bonds are payable solely from and secured by pledged revenues consisting of, until July 1, 2012, amounts distributable to the State General Fund from the Lottery pursuant to Lottery law, and from and after July 1, 2012 all Lottery revenues deposited to the Lottery fund net of Lottery operating expenses. (See note 3 to the financial statements.)

BUDGETARY HIGHLIGHTS

The Lottery's budget is set by the legislative appropriations process on a biennial basis. The budgets for Fiscal Years 2012 and 2013 were set in the regular legislative session of 2011. The Lottery's Fiscal Year 2012 budget was amended in the regular legislative session of 2011. 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

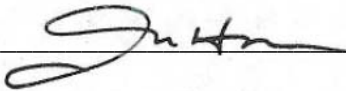
not include an amount for prizes because Lottery statutes set this amount at “not less than 50% of the total annual revenues accruing from the sale of Lottery tickets or shares.”

The Lottery’s appropriation was \$85.0 million at the beginning of the year and increased to \$88.6 million, as actual revenues were more than budgeted projections.

CONTACTING THE LOTTERY’S FINANCIAL MANAGEMENT

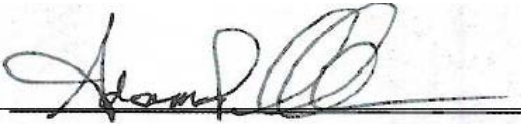
This management’s discussion and analysis (MD&A) is designed to provide Arizona citizens, Arizona government officials, our players, retailers, and other interested parties with an overview of the Lottery’s financial activity for Fiscal Year 2012 and to demonstrate the Lottery’s accountability for the 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



Adam O’Kane

Director of Accounting and Audit



ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
STATEMENT OF NET ASSETS
June 30, 2012
(with comparative totals for June 30, 2011)

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash - substantially all held by the State Treasurer	\$ 56,302,909	\$ 43,843,094
Accounts receivable - net of allowance for doubtful accounts of \$145,000 as of June 30, 2012 and 2011	5,389,421	8,018,310
Scratch ticket inventory	3,065,267	3,942,775
Pull tab inventory	<u>60,540</u>	<u>131,120</u>
TOTAL CURRENT ASSETS	<u>64,818,137</u>	<u>55,935,299</u>
CAPITAL ASSETS		
Land and land improvements	1,268,695	1,268,695
Buildings	3,648,272	3,648,272
Furniture, fixtures and equipment	2,532,245	2,361,824
Construction in progress	59,938	76,348
Less accumulated depreciation	<u>(4,370,409)</u>	<u>(4,100,729)</u>
TOTAL CAPITAL ASSETS	<u>3,138,741</u>	<u>3,254,410</u>
OTHER ASSETS		
Deposit - MUSL	<u>9,357,300</u>	<u>9,048,732</u>
TOTAL ASSETS	<u>77,314,178</u>	<u>68,238,441</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	4,148,379	2,774,277
Accrued expenses	416,396	674,168
Prize liability	31,216,564	29,217,211
Due to other state funds	<u>30,914,539</u>	<u>25,056,404</u>
TOTAL CURRENT LIABILITIES	<u>66,695,878</u>	<u>57,722,060</u>
NET ASSETS		
Invested in capital assets	3,138,741	3,254,410
Unrestricted	<u>7,479,559</u>	<u>7,261,971</u>
TOTAL NET ASSETS	<u>\$ 10,618,300</u>	<u>\$ 10,516,381</u>

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Year Ended June 30, 2012
 (with comparative totals for the year ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Ticket sales:		
Scratchers	\$ 408,849,452	\$ 361,097,419
Powerball	104,210,966	89,101,991
The Pick	34,630,237	34,623,614
Fantasy 5	18,087,438	15,597,083
Pick 3	8,485,027	8,343,169
Mega Millions	56,069,774	47,317,197
2 By 2	3,324,388	3,849,966
Cash 4	2,820,786	3,031,492
Arizona Raffle	6,000,000	6,000,000
Economic development	927,285	12,354,770
Instant tab	3,270,120	1,011,642
Fast Play	-	1,209,150
	<u>646,675,473</u>	<u>583,537,493</u>
TOTAL TICKET SALES		
Other operating revenues	172,969	224,147
	<u>646,848,442</u>	<u>583,761,640</u>
TOTAL OPERATING REVENUES		
OPERATING EXPENSES		
Direct costs:		
Prize expense	396,714,155	360,491,232
Retailer commissions and incentives	43,790,205	39,247,401
Online system expense	8,644,259	7,735,726
Scratcher system and distribution expenses	3,954,548	3,529,021
Tickets purchased	6,155,999	5,514,726
	<u>459,259,166</u>	<u>416,518,106</u>
TOTAL DIRECT COSTS		
Advertising and promotion	14,919,827	14,859,476
Wages and related expenses	5,881,112	5,735,458
Contract services	294,157	365,916
Depreciation	269,681	307,397
Administrative expenses	1,506,486	1,282,770
	<u>482,130,429</u>	<u>439,069,123</u>
TOTAL OPERATING EXPENSES		
OPERATING INCOME	164,718,013	144,692,517
NONOPERATING REVENUES - Investment income and other	101,923	143,153
INCOME BEFORE TRANSFERS	164,819,936	144,835,670
TRANSFERS TO OTHER STATE FUNDS	164,718,013	146,329,266
	<u>101,922</u>	<u>(1,493,596)</u>
CHANGE IN NET ASSETS		
NET ASSETS - BEGINNING OF YEAR	10,516,381	12,009,977
	<u>10,516,381</u>	<u>12,009,977</u>
NET ASSETS - END OF YEAR	<u>\$ 10,618,300</u>	<u>\$ 10,516,381</u>

See accompanying notes.

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
STATEMENT OF CASH FLOWS
Year Ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retailers-net of commissions and incentives	\$ 312,573,813	\$ 273,904,802
Cash received from other sources	19,198,168	62,416,807
Cash payments for prizes and related taxes	(121,297,361)	(151,598,498)
Cash payments to suppliers of goods or services	(32,935,553)	(34,520,303)
Cash payments to employees	(6,150,964)	(5,757,723)
	<u>171,388,103</u>	<u>144,445,085</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES		
Payments to beneficiaries per Arizona Statutes	<u>(158,859,878)</u>	<u>(138,343,942)</u>
CASH FLOWS USED BY CAPITAL FINANCING ACTIVITIES		
Payments for acquisition of capital assets	<u>(154,012)</u>	<u>(50,879)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	1,528,410
Receipts of interest	85,602	70,600
	<u>12,459,815</u>	<u>7,649,274</u>
NET INCREASE IN CASH		
CASH AT BEGINNING OF YEAR	<u>43,843,094</u>	<u>36,193,820</u>
CASH AT END OF YEAR	<u>\$ 56,302,909</u>	<u>\$ 43,843,094</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 164,718,013	\$ 144,692,517
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	269,681	307,397
(Increase) decrease in:		
Accounts receivable	2,645,211	(855,542)
Ticket inventory	948,086	(146,520)
Deposit - MUSL	(308,569)	(845,357)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,116,331	(1,276,252)
Prizes payable	1,999,350	2,568,842
	<u>171,388,103</u>	<u>144,445,085</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
	<u>\$ 171,388,103</u>	<u>\$ 144,445,085</u>

See accompanying notes.



ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

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. Accordingly, such prior-year information should be read in conjunction with the Lottery's financial statements for the year ended June 30, 2011, from which the information was derived.

For the period July 1, 2011 through June 30, 2012, the Lottery held 108 instant games (games 638, 671, 672, 687, 690, 692, 700-702, 705, 706, 709-711, 713, 714, 716-723, 725-744, 746-751, 753-782, 784-787, 789-791, 793-803, 810, 813, 816, 817, 820, 821, 823, 831, 752, 783), two of which were Economic Development games (games 707 and 724). During 2012, the Lottery continued the "Pick 3," "Pick 5," "The Pick," "Powerball," "Mega Millions," "2 By 2" and "Cash 4" online games, continued the "Arizona Raffle" game, which was held one time in the fiscal year. As required, the Lottery has deposits with "Powerball," and "Mega Millions," multistate online lottery games, of \$9,357,300 at June 30, 2012. The Lottery also sold instant tab lottery tickets to non-profit organizations. These games are printed and sold by the Lottery, though are administered and paid out by the purchasing non-profit organizations.

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 (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, 2011 to June 30, 2012.

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

State Lottery Fund (Continued)

- 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.

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.

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.

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.

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.

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Investments and Investment Income

Investments are reported at fair value on the Statement of Net Assets 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 Assets.

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).

Ticket 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.

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, 2012, the Fund's accounts payable and accrued expenses balance includes an accrual of vacation pay and related benefits of \$292,488. 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 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.

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

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 Web site 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 Board's 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 State Board of Investments reviews the activities and performance of the pool monthly.

At June 30, 2012, the Lottery's deposits with the Treasurer were as follows:

Cash	\$ 43,228,938
Investment-Pool 3	13,073,971
	<u>\$ 56,302,909</u>

NOTE 3 TRANSFERS AND STATUTORY REQUIREMENTS

As required by ARS Section 5-505, the Lottery made transfers during the year ended June 30, 2012, as follows:

Commerce Authority Arizona Competes Fund	\$ 3,500,000
Court-appointed special advocate fund	2,997,913
Department of gaming	300,000
Economic Security Homeless Services	1,000,000
Heritage fund	11,000,000
General Fund	135,621,096
University Bond Fund	10,299,004
Total transfers to other State funds	<u>\$ 164,718,013</u>

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

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 4 PLEDGED REVENUES (GASB 48)

The Lottery has pledged portions of its gross revenues towards the payment of debt service on the State Lottery Revenue Bonds Series 2010A 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 Lottery Fund net of operating expenses of the Lottery. At June 30, 2012, pledged revenues totaled approximately \$96,200,000, of which \$20,709,000 was required to be transferred to cover debt service. Future pledged revenues required to be transferred to pay all remaining debt service for the bonds through final maturity of July 1, 2029 is approximately \$638,000,000.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets:					
Land	\$ 937,830	\$ -	\$ -	\$ -	\$ 937,830
Land improvements	330,865	-	-	-	330,865
Buildings	3,648,272	-	-	-	3,648,272
Furniture, fixtures and equipment	2,361,824	170,421	-	-	2,532,245
Construction in progress	76,348	-	-	(16,410)	59,938
Total capital assets	<u>7,355,139</u>	<u>170,421</u>	<u>-</u>	<u>(16,410)</u>	<u>7,509,150</u>
Less accumulated depreciation for:					
Land improvements	(330,865.00)	-	-	-	(330,865)
Buildings	(1,792,677)	(86,983)	-	-	(1,879,660)
Furniture, fixtures and equipment	(1,977,188)	(182,696)	-	-	(2,159,884)
Total accumulated depreciation	<u>(4,100,730)</u>	<u>(269,679)</u>	<u>-</u>	<u>-</u>	<u>(4,370,409)</u>
Total capital assets, net	<u>\$ 3,254,409</u>	<u>\$ (99,258)</u>	<u>\$ -</u>	<u>\$(16,410)</u>	<u>\$ 3,138,741</u>

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012

NOTE 6 PRIZE LIABILITY

Prize liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Prize liability	<u>\$ 29,217,211</u>	<u>\$ 396,714,155</u>	<u>\$ (394,714,802)</u>	<u>\$ 31,216,564</u>

NOTE 7 COMMITMENTS

The Lottery enters into various contracts for goods and services during the normal course of its business. All contracts 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.

Effective September 1, 2011, 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.

NOTE 8 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 \$57,151,018 at June 30, 2012. Approximately \$34,845,756 of the total aggregate future payments at June 30, 2012, relate to annuities purchased from five separate insurance companies, of which \$13,567,333 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.

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 RETIREMENT AND PENSION 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 10.75%, 9.85%, and 9.4% (rate includes 0.25, 0.25, and 0.40 for long-term disability) of their compensation for the years ended June 30, 2012, 2011, and 2010, with the contributions made through payroll deduction. Employee contributions vest immediately. Total contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, by the Lottery's covered employees were approximately \$380,000, annually.

Matching employer member contributions were actuarially determined and fixed at 9.6%, 9.0%, and 8.95% of the compensation of all employee members for the years ended June 30, 2012, 2011, and 2010. Total matching contributions to the Plan for the years ended June 30, 2012, 2011, and 2010 by the Lottery were approximately \$380,000, annually. 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, 2012, 2011, and 2010, was \$4,050,304, \$3,996,101, and \$4,334,669, respectively. 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, 2012.



SUPPLEMENTAL INFORMATION

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
 SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
 FOR GAMES EXPIRING DURING THE YEAR
 Year Ended June 30, 2012

	\$100 Million Cash Spectacular Game 638		Golden Spin Game 671		Double Dollars Game 672	
TICKET SALES	\$ 144,431,010	100%	\$ 1,985,496	100%	\$ 1,932,046	100%
DIRECT EXPENSES:						
Commissions	9,388,016	6.50%	129,057	6.50%	125,583	6.50%
Prizes - low tier	47,734,449	33.05%	953,038	48.00%	946,703	49.00%
Prizes - high tier	53,186,711	36.82%	334,650	16.85%	285,360	14.77%
Total prizes	100,921,159	69.87%	1,287,688	64.85%	1,232,063	63.77%
Ticket purchases	794,849	0.55%	46,888	2.36%	43,663	2.26%
Advertising	2,431,017		-		-	
Total direct expenses	113,535,041	78.61%	1,463,633	73.72%	1,401,309	72.53%
GROSS PROFIT BY GAME	\$ 30,895,969	21.39%	\$ 521,863	26.28%	\$ 530,737	27.47%
	Red Hot 7S Game 687		Bingo Game 690		\$50,000 Double Play Game 692	
TICKET SALES	\$ 10,375,716	100%	\$ 20,229,318	100%	\$ 7,880,500	100%
DIRECT EXPENSES:						
Commissions	674,422	6.50%	1,314,906	6.50%	512,234	6.50%
Prizes - low tier	5,706,644	55.00%	10,822,685	53.50%	3,447,721	43.75%
Prizes - high tier	1,027,635	9.90%	2,122,330	10.49%	2,016,050	25.58%
Total prizes	6,734,279	64.90%	12,945,015	63.99%	5,463,771	69.33%
Ticket purchases	117,728	1.13%	411,443	2.03%	238,723	3.03%
Total direct expenses	7,526,428	72.54%	14,671,364	72.53%	6,214,728	78.86%
GROSS PROFIT BY GAME	\$ 2,849,288	27.46%	\$ 5,557,954	27.47%	\$ 1,665,772	21.14%
	Arizona's Millionaire Club Game 700		The Price is Right Game 701		Wild Cherry Crossword Game 702	
TICKET SALES	\$ 45,877,140	100%	\$ 5,291,390	100%	\$ 12,010,890	100%
DIRECT EXPENSES:						
Commissions	2,982,014	6.50%	343,942	6.50%	780,710	6.50%
Prizes - low tier	15,428,482	33.63%	2,314,986	43.75%	5,605,082	46.67%
Prizes - high tier	16,557,478	36.09%	1,340,550	25.33%	2,056,250	17.12%
Total prizes	31,985,960	69.72%	3,655,536	69.08%	7,661,332	63.79%
Ticket purchases	483,472	1.05%	166,814	3.15%	131,016	1.09%
Advertising	628		-		-	
Total direct expenses	35,452,074	77.28%	4,166,292	78.74%	8,573,058	71.38%
GROSS PROFIT BY GAME	\$ 10,425,066	22.72%	\$ 1,125,098	21.26%	\$ 3,437,832	28.62%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
 SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
 FOR GAMES EXPIRING DURING THE YEAR
 Year Ended June 30, 2012

	9's In a Line Game 705		Spicy Cash Game 706		Cash Explosion Game 707	
TICKET SALES	\$ 1,452,389	100%	\$ 1,517,852	100%	\$ 5,837,690	100%
DIRECT EXPENSES:						
Commissions	94,406	6.50%	98,660	6.50%	379,453	6.50%
Prizes - low tier	813,338	56.00%	698,212	46.00%	2,626,961	45.00%
Prizes - high tier	79,750	5.49%	271,380	17.88%	1,509,500	25.86%
Total prizes	893,088	61.49%	969,592	63.88%	4,136,461	70.86%
Ticket purchases	37,732	2.60%	46,011	3.03%	60,495	1.04%
Total direct expenses	1,025,226	70.59%	1,114,263	73.41%	4,576,408	78.39%
GROSS PROFIT BY GAME	\$ 427,163	29.41%	\$ 403,589	26.59%	\$ 1,261,282	21.61%
	Lucky 7's Game 708		Cosmic Cash Game 709		Bank it Baby! Game 710	
TICKET SALES	\$ 1,411,773	100%	\$ 1,196,708	100%	\$ 10,702,430	100%
DIRECT EXPENSES:						
Commissions	91,767	6.50%	77,789	6.50%	695,658	6.50%
Prizes - low tier	790,593	56.00%	592,374	49.50%	4,280,972	40.00%
Prizes - high tier	78,200	5.54%	139,600	11.67%	3,592,750	33.57%
Total prizes	868,793	61.54%	731,974	61.17%	7,873,722	73.57%
Ticket purchases	31,193	2.21%	31,155	2.60%	51,012	0.48%
Total direct expenses	991,752	70.25%	840,918	70.27%	8,620,392	80.55%
GROSS PROFIT BY GAME	\$ 420,021	29.75%	\$ 355,790	29.73%	\$ 2,082,038	19.45%
	Secret Santa Game 711		Holiday Magic Game 712		Jingle Bell Crossword Game 713	
TICKET SALES	\$ 1,646,474	100%	\$ 1,938,510	100%	\$ 2,261,548	100%
DIRECT EXPENSES:						
Commissions	107,022	6.50%	126,003	6.50%	147,001	6.50%
Prizes - low tier	823,237	50.00%	949,870	49.00%	1,108,159	49.00%
Prizes - high tier	162,880	9.89%	321,260	16.57%	362,400	16.02%
Total prizes	986,117	59.89%	1,271,130	65.57%	1,470,559	65.02%
Ticket purchases	36,332	2.21%	38,317	1.98%	62,180	2.75%
Advertising	13,301		13,301		13,301	
Total direct expenses	1,142,772	69.41%	1,448,751	74.74%	1,693,040	74.86%
GROSS PROFIT BY GAME	\$ 503,702	30.59%	\$ 489,759	25.26%	\$ 568,508	25.14%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
 SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
 FOR GAMES EXPIRING DURING THE YEAR
 Year Ended June 30, 2012

	Season's Greetings Game 714		Triple It Game 716		Find the 9's Game 717	
TICKET SALES	\$ 5,191,740	100%	\$ 1,449,851	100%	\$ 2,847,038	100%
DIRECT EXPENSES:						
Commissions	337,465	6.50%	94,241	6.50%	185,057	6.50%
Prizes - low tier	2,466,083	47.50%	710,427	49.00%	1,359,462	47.75%
Prizes - high tier	1,119,050	21.55%	168,630	11.63%	478,160	16.79%
Total prizes	3,585,133	69.05%	879,057	60.63%	1,837,622	64.55%
Ticket purchases	157,435	3.03%	31,180	2.15%	45,328	1.59%
Advertising	13,301		-		-	
Total direct expenses	4,093,334	78.84%	1,004,478	69.28%	2,068,008	72.64%
GROSS PROFIT BY GAME	\$ 1,098,406	21.16%	\$ 445,373	30.72%	\$ 779,030	27.36%
	Slingo Trio Game 718		Blackjack Bonus Game 719		Ace in the Hole Game 720	
TICKET SALES	\$ 9,409,755	100%	\$ 1,465,656	100%	\$ 2,606,288	100%
DIRECT EXPENSES:						
Commissions	611,637	6.50%	95,268	6.50%	169,409	6.50%
Prizes - low tier	3,293,414	35.00%	751,150	51.25%	1,185,861	45.50%
Prizes - high tier	3,273,065	34.78%	141,000	9.62%	480,500	18.44%
Total prizes	6,566,479	69.78%	892,150	60.87%	1,666,361	63.94%
Ticket purchases	137,823	1.46%	36,149	2.47%	46,034	1.77%
Total direct expenses	7,315,939	77.75%	1,023,567	69.84%	1,881,804	72.20%
GROSS PROFIT BY GAME	\$ 2,093,816	22.25%	\$ 442,089	30.16%	\$ 724,484	27.80%
	Diamond Dollars Game 721		Lucky Hearts Game 722		Winning in Spades Game 723	
TICKET SALES	\$ 1,536,744	100%	\$ 2,608,542	100%	\$ 5,233,210	100%
DIRECT EXPENSES:						
Commissions	99,891	6.50%	169,555	6.50%	340,161	6.50%
Prizes - low tier	806,794	52.50%	1,252,100	48.00%	2,224,118	42.50%
Prizes - high tier	121,600	7.91%	421,750	16.17%	1,449,500	27.70%
Total prizes	928,394	60.41%	1,673,850	64.17%	3,673,618	70.20%
Ticket purchases	99,531	6.48%	124,206	4.76%	185,061	3.54%
Total direct expenses	1,127,816	73.39%	1,967,611	75.43%	4,198,840	80.23%
GROSS PROFIT BY GAME	\$ 408,928	26.61%	\$ 640,931	24.57%	\$ 1,034,370	19.77%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
 SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
 FOR GAMES EXPIRING DURING THE YEAR
 Year Ended June 30, 2012

	Diamond Dollars Game 721		Lucky Hearts Game 722		Winning in Spades Game 723	
TICKET SALES	\$ 1,536,744	100%	\$ 2,608,542	100%	\$ 5,233,210	100%
DIRECT EXPENSES:						
Commissions	99,891	6.50%	169,555	6.50%	340,161	6.50%
Prizes - low tier	806,794	52.50%	1,252,100	48.00%	2,224,118	42.50%
Prizes - high tier	121,600	7.91%	421,750	16.17%	1,449,500	27.70%
Total prizes	928,394	60.41%	1,673,850	64.17%	3,673,618	70.20%
Ticket purchases	99,531	6.48%	124,206	4.76%	185,061	3.54%
Total direct expenses	1,127,816	73.39%	1,967,611	75.43%	4,198,840	80.23%
GROSS PROFIT BY GAME	\$ 408,928	26.61%	\$ 640,931	24.57%	\$ 1,034,370	19.77%
	\$100,000 Clubs Game 724		Lucky Symbols Game 725		5X the Money Game 726	
TICKET SALES	\$ 7,010,160	100%	\$ 1,607,850	100%	\$ 2,879,954	100%
DIRECT EXPENSES:						
Commissions	455,660	6.50%	104,512	6.50%	187,197	6.50%
Prizes - low tier	2,278,539	32.50%	795,888	49.50%	1,382,378	48.00%
Prizes - high tier	2,920,950	41.67%	166,520	10.36%	474,500	16.48%
Total prizes	5,199,489	74.17%	962,408	59.86%	1,856,878	64.48%
Ticket purchases	185,650	2.65%	32,039	1.99%	46,034	1.60%
Total direct expenses	5,840,799	83.32%	1,098,958	68.35%	2,090,109	72.57%
GROSS PROFIT BY GAME	\$ 1,169,361	16.68%	\$ 508,892	31.65%	\$ 789,845	27.43%
	Crown Jewel 7S Game 727		Coffee Break Crossword Game 728		Cash on the Spot Game 729	
TICKET SALES	\$ 11,928,445	100%	\$ 25,491,010	100%	\$ 1,439,322	100%
DIRECT EXPENSES:						
Commissions	775,350	6.50%	1,656,917	6.50%	93,557	6.50%
Prizes - low tier	5,367,800	45.00%	10,196,404	40.00%	712,466	49.50%
Prizes - high tier	2,907,300	24.37%	7,676,970	30.12%	165,160	11.47%
Total prizes	8,275,100	69.37%	17,873,374	70.12%	877,626	60.97%
Ticket purchases	132,485	1.11%	222,357	0.87%	32,099	2.23%
Total direct expenses	9,182,935	76.98%	19,752,648	77.49%	1,003,282	69.71%
GROSS PROFIT BY GAME	\$ 2,745,510	23.02%	\$ 5,738,362	22.51%	\$ 436,040	30.29%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
 SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
 FOR GAMES EXPIRING DURING THE YEAR
 Year Ended June 30, 2012

	Diamond Dazzler Bingo Game 730		Crossword Game 731		Wild 10's Game 732	
TICKET SALES	\$ 15,113,930	100%	\$ 20,890,100	100%	\$ 18,804,920	100%
DIRECT EXPENSES:						
Commissions	982,406	6.50%	1,357,857	6.50%	1,222,320	6.50%
Prizes - low tier	6,045,572	40.00%	10,445,050	50.00%	7,521,968	40.00%
Prizes - high tier	4,393,405	29.07%	3,058,600	14.64%	6,567,600	34.92%
Total prizes	10,438,977	69.07%	13,503,650	64.64%	14,089,568	74.92%
Ticket purchases	296,124	1.96%	301,711	1.44%	99,482	0.53%
Total direct expenses	11,717,507	77.53%	15,163,218	72.59%	15,411,370	81.95%
GROSS PROFIT BY GAME	\$ 3,396,423	22.47%	\$ 5,726,883	27.41%	\$ 3,393,550	18.05%
	Cool 5's Game 733		Easy Cash Game 734		Doubler Doubler Game 735	
TICKET SALES	\$ 5,386,400	100%	\$ 1,658,569	100%	\$ 1,640,589	100%
DIRECT EXPENSES:						
Commissions	350,117	6.50%	107,808	6.50%	106,639	6.50%
Prizes - low tier	2,693,200	50.00%	820,993	49.50%	803,889	49.00%
Prizes - high tier	1,096,750	20.36%	174,200	10.50%	179,440	10.94%
Total prizes	3,789,950	70.36%	995,193	60.00%	983,329	59.94%
Ticket purchases	71,192	1.32%	30,317	1.83%	32,056	1.95%
Total direct expenses	4,211,259	78.18%	1,133,318	68.33%	1,122,024	68.39%
GROSS PROFIT BY GAME	\$ 1,175,141	21.82%	\$ 525,251	31.67%	\$ 518,565	31.61%
	7-11-21 Game 736		Lucky 3's Game 737		Deluxe Crossword Game 738	
TICKET SALES	\$ 1,411,206	100%	\$ 1,658,569	100%	\$ 13,951,740	100%
DIRECT EXPENSES:						
Commissions	91,731	6.50%	107,808	6.50%	906,863	6.50%
Prizes - low tier	705,603	50.00%	820,993	49.50%	5,580,696	40.00%
Prizes - high tier	153,880	10.90%	174,200	10.50%	4,805,450	34.44%
Total prizes	859,483	60.90%	995,193	60.00%	10,386,146	74.44%
Ticket purchases	32,050	2.27%	30,317	1.83%	122,285	0.88%
Total direct expenses	983,264	69.68%	1,133,318	68.33%	11,415,294	81.82%
GROSS PROFIT BY GAME	\$ 427,942	30.32%	\$ 525,251	31.67%	\$ 2,536,446	18.18%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
 SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
 FOR GAMES EXPIRING DURING THE YEAR
 Year Ended June 30, 2012

	World Series of Poker Game 739		Bunco! Game 741		Winning Streak Game 744	
TICKET SALES	\$ 3,765,245	100%	\$ 2,040,764	100%	\$ 6,035,095	100%
DIRECT EXPENSES:						
Commissions	244,745	6.50%	132,650	6.50%	392,283	6.50%
Prizes - low tier	1,694,360	45.00%	979,567	48.00%	2,715,793	45.00%
Prizes - high tier	921,550	24.48%	348,500	17.08%	1,451,000	24.04%
Total prizes	2,615,910	69.48%	1,328,067	65.08%	4,166,793	69.04%
Ticket purchases	190,494	5.06%	35,761	1.75%	59,370	0.98%
Advertising	54,034	1.44%	-	0.00%	-	0.00%
Total direct expenses	3,105,184	82.47%	1,496,477	73.33%	4,618,446	76.53%
GROSS PROFIT BY GAME	\$ 660,061	17.53%	\$ 544,287	26.67%	\$ 1,416,649	23.47%
	Quick 7's Deluxe Game 749		Happy Go Lucky Game 751		Cool Bill Game 752	
TICKET SALES	\$ 2,677,246	100%	\$ 1,922,112	100%	\$ 1,154,046	100%
DIRECT EXPENSES:						
Commissions	174,021	6.50%	124,937	6.50%	75,013	6.50%
Prizes - low tier	1,271,692	47.50%	884,172	46.00%	530,861	46.00%
Prizes - high tier	448,500	16.75%	360,520	18.76%	220,480	19.10%
Total prizes	1,720,192	64.25%	1,244,692	64.76%	751,341	65.10%
Ticket purchases	35,818	1.34%	42,024	2.19%	40,516	3.51%
Total direct expenses	1,930,031	72.09%	1,411,653	73.44%	866,870	75.12%
GROSS PROFIT BY GAME	\$ 747,215	27.91%	\$ 510,459	26.56%	\$ 287,176	24.88%
	5X Cash Game 755		Crossword Game 761		Double Lucky 7's Game 762	
TICKET SALES	\$ 5,717,915	100%	\$ 19,839,302	100%	\$ 2,506,638	100%
DIRECT EXPENSES:						
Commissions	371,665	6.50%	1,289,555	6.50%	162,931	6.50%
Prizes - low tier	2,573,062	45.00%	9,919,651	50.00%	1,228,253	49.00%
Prizes - high tier	1,387,150	24.26%	2,923,200	14.73%	396,300	15.81%
Total prizes	3,960,212	69.26%	12,842,851	64.73%	1,624,553	64.81%
Ticket purchases	54,467	0.95%	286,866	1.45%	46,034	1.84%
Total direct expenses	4,386,344	76.71%	14,419,272	72.68%	1,833,518	73.15%
GROSS PROFIT BY GAME	\$ 1,331,571	23.29%	\$ 5,420,030	27.32%	\$ 673,120	26.85%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
 SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
 FOR GAMES EXPIRING DURING THE YEAR
 Year Ended June 30, 2012

	<u>Tic Tac Toe Game 771</u>	
TICKET SALES	<u>\$ 701,644</u>	100%
DIRECT EXPENSES:		
Commissions	<u>45,609</u>	6.50%
Prizes - low tier	347,316	49.50%
Prizes - high tier	67,840	9.67%
Total prizes	<u>415,156</u>	59.17%
Ticket purchases	<u>30,680</u>	4.37%
Total direct expenses	<u>491,445</u>	70.04%
GROSS PROFIT BY GAME	<u>\$ 210,199</u>	29.96%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
 SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
 FOR GAMES EXPIRING DURING THE YEAR
 Year Ended June 30, 2012

	Pick/Pick Extra Drawings January 1, 2011 to December 31, 2011		Fantasy 5/Fantasy 5 Extra Drawings January 1, 2011 to December 31, 2011		Powerball Drawings January 1, 2011 to December 31, 2011	
TICKET SALES	\$ 33,645,442	100.00%	\$ 16,565,772	100.00%	\$ 94,610,930	100.00%
DIRECT EXPENSES:						
Commissions	2,186,942	6.50%	1,076,765	6.50%	6,149,703	6.50%
Total prizes	17,138,525	50.94%	8,532,846	51.51%	47,305,465	50.00%
Online system expenses	1,244,881	3.70%	612,934	3.70%	3,500,604	3.70%
Advertising	409,084	1.22%	85,915	0.52%	2,334,478	2.47%
Total direct expenses	<u>20,979,432</u>	62.35%	<u>10,308,460</u>	62.23%	<u>59,290,250</u>	62.67%
GROSS PROFIT BY GAME	<u>\$ 12,666,010</u>	37.65%	<u>\$ 6,257,312</u>	37.77%	<u>\$ 35,320,680</u>	37.33%
	Pick 3 Drawings January 1, 2011 to December 31, 2011		Arizona Raffle Drawings January 1, 2011 to December 31, 2011		Fast Play Drawings January 1, 2011 to December 31, 2011	
TICKET SALES	\$ 8,327,849	100.00%	\$ 6,468,640	100.00%	\$ 285,800	100.00%
DIRECT EXPENSES:						
Commissions	541,305	6.50%	420,461	6.50%	18,455	6.46%
Total prizes	4,163,925	50.00%	3,260,195	50.40%	167,139	58.48%
Online system expenses	308,130	3.70%	239,340	3.70%	10,575	3.70%
Advertising	528	0.01%	1,769,536	27.36%	-	0.00%
Total direct expenses	<u>5,013,888</u>	60.21%	<u>5,689,532</u>	87.96%	<u>196,169</u>	68.64%
GROSS PROFIT BY GAME	<u>\$ 3,313,961</u>	39.79%	<u>\$ 779,108</u>	12.04%	<u>\$ 89,631</u>	31.36%
	Cash 4 Drawings January 1, 2011 to December 31, 2011		2 By 2 January 1, 2011 to December 31, 2011		Mega Millions January 1, 2011 to December 31, 2011	
TICKET SALES	\$ 2,941,544	100.00%	\$ 3,552,918	100.00%	\$ 46,720,786	100.00%
DIRECT EXPENSES:						
Commissions	191,200	6.50%	230,940	6.50%	3,036,844	6.50%
Total prizes	1,473,712	50.10%	1,840,410	51.80%	24,341,651	52.10%
Online system expenses	108,891	3.70%	131,458	3.70%	1,728,669	3.70%
Advertising	-	0.00%	-	0.00%	1,398,396	2.99%
Total direct expenses	<u>1,773,803</u>	60.30%	<u>2,202,808</u>	62.00%	<u>30,505,560</u>	65.29%
GROSS PROFIT BY GAME	<u>\$ 1,167,741</u>	39.70%	<u>\$ 1,350,110</u>	38.00%	<u>\$ 16,215,226</u>	34.71%

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, 2012.

Economic Development games are denoted with (*)





HENRY & HORNE, LLP
Certified Public Accountants

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

The Commissioners
Arizona State Lottery

We have audited the financial statements of the Arizona State Lottery (the "Lottery"), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 28, 2012. 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.

Internal Control Over Financial Reporting

Management of the lottery is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Lottery's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Tempe
2055 E. Warner Road
Suite 101
Tempe, AZ 85284-3487
(480) 839-4900
Fax (480) 839-1749

Scottsdale
7098 E. Cochise Road
Suite 100
Scottsdale, AZ 85253-4517
(480) 483-1170
Fax (480) 483-7126

Casa Grande
1115 E. Cottonwood Lane
Suite 100
Casa Grande, AZ 85122-2950
(520) 836-8201
Fax (520) 426-9432

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free of 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 determination of financial statement amounts. 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the State of Arizona, the Lottery Commissioners, management, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.



Casa Grande, Arizona
November 28, 2012