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ARIZONA LOTTERY OVERVIEW

Since selling our first ticket over four decades ago, the Arizona Lottery is proud to have benefitted the people, vibrant cultures, unique landscapes, and iconic wildlife intrinsic to the Grand Canyon state. The Arizona Lottery was created by Arizonans and for Arizonans and since we opened our doors on July 1, 1981, we've remained committed to our mission to support Arizona programs for the public benefit by maximizing net revenue in a responsible manner. Lottery sales fully fund our operation and our beneficiary transfers, which support a variety of vital state programs that drive meaningful impact for Arizona communities. Since our inception, the agency has generated over \$5.3 billion for programs, services, and infrastructure that support a higher quality of life in Arizona and fueled major economic impact through its returns of more than \$12.4 billion in prizes to players, and payment of over \$1.36 billion in commissions to retailers.



@ArizonaLottery @AZLottery @AZLottery

ARIZONA LOTTERY COMMISSION CHAIR, JEFF WEINTRAUB



When you play, Arizona wins.



As we reflect on Fiscal Year 2023 (FY23), I am excited to share the exceptional strides we've taken as the Arizona Lottery Commission. This past year was truly remarkable, defined by unprecedented accomplishments and contributions that have shaped our impact for Arizona.

From the beginning, it was evident that FY23 would be a transformative period. Our combined sales from instant-win and draw games surpassed an impressive \$1.5 billion, a feat that sets a new record within the state. This accomplishment is a testament to the dedication of our team and the unwavering support from our retailers that we've received.

The Arizona Lottery Commission is honored to provide guidance and industry expertise to the Arizona Lottery leadership team. Together, our collaborative insights and direction have contributed to the success of FY23. The progress we've witnessed is a collective effort, and it's truly heartening to see our state benefitting from the fruits of synergetic hard work.

We are proud to announce transfers of more than \$318 million to essential state programs and services during FY23. This underscores the Arizona Lottery's indispensable role in funding programs that make a tangible difference in communities across Arizona.

Collaboration has been a cornerstone of our success. Our collaboration with the Arizona Lottery leadership has brought to fruition innovative games and promotions that have resonated with players, like our Lucky Dog Scratchers tickets. These efforts provide entertainment, as well as contribution to the well-being of our communities.

Our players remain at the core of our mission. Their engagement has not only allowed us to maximize net revenue through responsible play, but also resulted in life-altering wins. Their participation exemplifies our commitment to making a positive impact on our communities, and embodies our mission to support Arizona programs for the public benefit by maximizing net revenue in a responsible manner.

Economically, our partnerships with approximately 3,500 retailers have had a significant impact. Substantial retailer commissions, exceeding \$103 million in FY23 alone, have bolstered local businesses and contributed to the broader state economy.

To our team, your efforts have solidified the Arizona Lottery's standing as a leader in gaming entertainment and one of the leading financial benefactors supporting 17 vital state programs. To our retailers, your dedication to enhancing the player experience is commendable. To our players, I extend gratitude for choosing the Arizona Lottery. Your choices reverberate positively across our great state, emphasizing the value of responsible gaming.

As we look ahead, the Arizona Lottery Commission will continue to champion positive change through responsible gaming practices. Our accomplishments in FY23 reflect the collective outcome of our concerted efforts to create a meaningful impact. Together, Arizona wins.

Jeff Weintraub, Chairperson
Arizona Lottery Commission



A MESSAGE FROM CEO & EDD ALEC ESTEBAN THOMSON

When you play, Arizona wins.

The Arizona Lottery is in a position of strength, reflection, and anticipation upon the closing of Fiscal Year 2023 (FY23). This is a moment to honor our accomplishments and set our sights on another year of success and a resilient Arizona Lottery that continues to maximize opportunity and impact for the State of Arizona. This year we achieved record-breaking growth and results for Arizonans and an unrelenting commitment to the betterment of the communities we serve—this was truly an extraordinary chapter in the Arizona Lottery’s history.

My journey with the Lottery began over two years ago when I was appointed to serve as a member of the Arizona Lottery Commission, transitioning to the role of CEO earlier this year under the leadership of Governor Katie Hobbs. During this time, I have witnessed firsthand the dedication of our team and the critical importance of the Lottery’s work on our state’s growth and quality of life.

Guided by Governor Hobbs, I am committed to maximizing the positive impact of the Lottery on Arizona communities during my tenure, working alongside our talented team and in partnership with our retailers, vendors, beneficiaries, and other stakeholders.

FY23 marked a year of transition for the Lottery with the change of administrations and agency leadership. Through it all, our team remained committed to our mission and focused on achieving results. I honor the Lottery team for remaining true to the core values that fuel our success and inspire passion for our work and the impact and fun it creates, highlighting our team’s capacity to adapt while staying true to what matters most.

The financial results of FY23 were an extraordinary success. Combined sales from instant-win and draw games soared beyond expectations, reaching an unprecedented milestone of more than \$1.5 billion in FY23. This monumental achievement translates into more than \$318 million in transfers, reinforcing our steadfast commitment to supporting vital state programs and services that make Arizona communities stronger.

At the heart of our mission is a deep-rooted dedication to empowering Arizona’s communities. The resources generated by the Arizona Lottery are catalysts for positive change, enabling us to fund programs that empower vulnerable Arizonans, preserve our stunning natural landscapes, increase access to world-class education that is building a strong and innovative workforce, and contribute to a diverse and thriving economy.

FY23 also marked a year of partnership and success for our esteemed retailers. Retailer commissions exceeded \$103 million and our players won big with nearly \$1.02 billion in prize payouts. This is a testament to the Lottery’s larger economic impact in Arizona and our role as a driving force for our state’s prosperity and quality of life.

Let me illustrate the remarkable milestones that have defined our journey in the past year:



World Record Jackpot: A Historic Moment

In November 2022, the Powerball jackpot soared to an unprecedented \$2.04 Billion—a world record. This astounding milestone exemplifies the global impact we have achieved through our lottery offerings. This record-setting jackpot was not merely a financial triumph, as the jackpot run led to a boost in sales; it was a testament to the shared dreams and aspirations that unite players around the world.

Uniting for Arizona's Landscapes: The Arizona Adventure Scratchers® Ticket

In partnership with Arizona State Parks, we introduced the Arizona Adventure Scratchers® ticket. This unique ticket not only engages our players but also encourages Arizonans to explore the diverse landscapes of our state. Featuring three iconic Arizona landscapes, this initiative reflects our commitment to community engagement and showcasing the beauty of Arizona.

Lucky Lounge: Innovating the Lottery Experience

This fiscal year also heralded the launch of Lucky Lounge—a groundbreaking gaming sweepstakes experience that redefined player engagement. Lucky Lounge exemplifies our innovation-driven approach and our commitment to providing unique avenues for players to enjoy.

Our journey in FY23 has been filled with values of inclusivity and diversity. We remain steadfast in our dedication to represent, uplift, engage, and empower every community across Arizona. Our commitment extends beyond gaming to fostering positive change across our diverse landscape.

As we continue to build for a new fiscal year, I am filled with anticipation and inspiration. Under Governor Katie Hobbs' leadership, we will continue to optimize, innovate, and remain focused on our mission to deliver a positive impact for Arizonans.

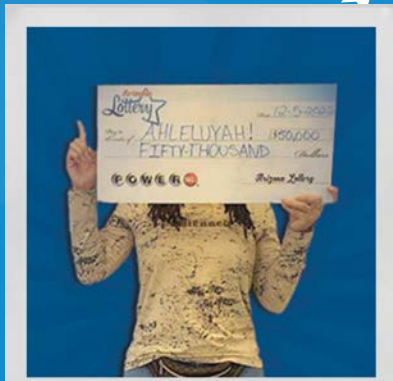
FY24 will focus on appealing to a new generation of players, while honoring and supporting our core players. We are committed to making the Arizona Lottery a great source of entertainment and impact for all Arizonans and the millions of people who visit our state every year - an Arizona Lottery for Everyone (21+)

Your unwavering support, belief in our mission, and commitment to Arizona's growth are the driving forces behind our achievements. Together, we have proven that collaboration, innovation, and shared values are at the foundation of a prosperous future.

Alec Esteban Thomson
CEO & EDD, Arizona Lottery

WINNERS

In FY23, the Arizona Lottery paid out **\$1,020,678,773** in prizes.



\$50,000
Tucson, AZ



\$1,000
Chandler, AZ



\$439,000
Mesa, AZ



\$1,000,000
Glendale, AZ



\$10,000
North Phoenix, AZ



\$100,000
Peoria, AZ



\$100,000
Cornville, AZ



\$50,000
Buckeye, AZ



\$100,000
Florence, AZ

When you play, Arizona wins.

RETAIL PARTNERS

The Arizona Lottery is proud to have a network of approximately 3,500 retailers across the state. These accessible locations create an exciting experience and lasting relationship for their loyal customers.

To find the nearest retailer, visit [ArizonaLottery.com](https://www.arizonalottery.com)

RETAILER COMMISSION & BONUS

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



In FY23, the Arizona Lottery paid nearly \$104 million in commissions and incentives to retailers across the state. Players benefit while shopping at an Arizona Lottery retailer, and the retailer benefits through increased traffic to their store, selling more products, and building lasting relationships with their customers.

Retailers selling higher-tier prize-winning tickets, such as Powerball® or Mega Millions® jackpots of \$1 million or more, The Pick™ jackpot winners, and select Scratchers tickets, can earn bonuses of up to \$50,000. In FY23, retailers earned sales growth incentives and high-tier winning ticket sales bonuses totaling over \$3.98 million.

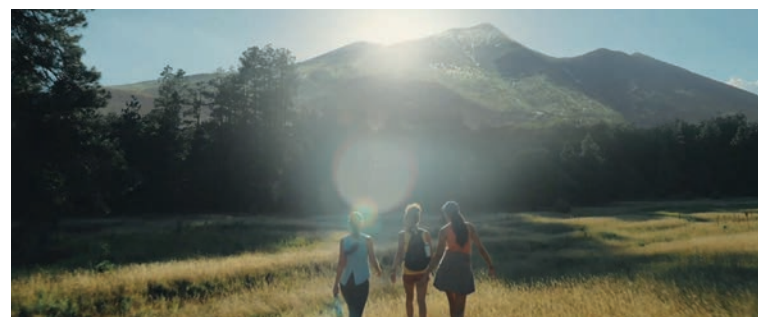
For licensing and licensing renewal information, please contact 480.921.4486 or visit [ArizonaLottery.com/Retailers](https://www.arizonalottery.com/Retailers).

PRODUCT INNOVATION

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

Arizona Adventure

- In August 2022, the Arizona Lottery launched a limited-time-only Arizona Adventure ticket and promotion that celebrated Arizona's unique landscapes while demonstrating how Lottery funding supports environmental conservation.
- To accompany the ticket, Arizona Lottery developed an adventure-filled, interactive website where players could enter their Arizona Adventure tickets and check in at 12 State Parks around the state using geo-location technology to earn entries towards a grand prize drawing for \$1 Million in cash and Arizona travel prizes.
- Over 1.4 million tickets were sold, representing \$7,108,990 in sales in a three-month period.
- The promotion engaged more than 83,000 unique users, and more than 255,000 Arizona Adventure tickets were entered.



Set For Life

- The Arizona Lottery rolled out its second \$50 Scratchers ticket "Set For Life" on January 31, 2023.
- The game features six top prizes of \$250,000 a year for 20 years – or \$5,000,000 – and offers players a unique selling proposition: a chance to win life-changing money for the next 20 year, thus being "Set For Life".
- Having only five months on shelves before the fiscal year ended, it still ranked the 3rd highest in sales for any game in FY23 generating \$46,105,250 and representing 4.3% of total Scratchers sales.



Lucky Lounge

- The Arizona Lottery launched the Lucky Lounge on December 1, 2022. The sweepstakes-based product resides on the Players Club loyalty platform and allows players to purchase tokens or play digital games to earn tokens to enter cash drawings.
- Lucky Lounge offers weekly, bi-weekly, monthly, and quarterly drawings for a chance to win up to \$10,000.
- In FY23, over 145,000 players engaged with the platform and played over 10 million games.
- \$442,750 in total prizes were distributed to 1,389 winners.



When you play, Arizona wins.

Scratch & Scan™

- On November 4, 2022, the Arizona Lottery launched Scratch & Scan.
- The unique product allows players to purchase tickets at the checkout of a participating retailer. Upon purchase, the ticket is activated in real-time.
- Players scratch the entire play area on their ticket to reveal a QR Code.
- The QR Code is then scanned from the player's phone to reveal a digital animation that shows if they have won.



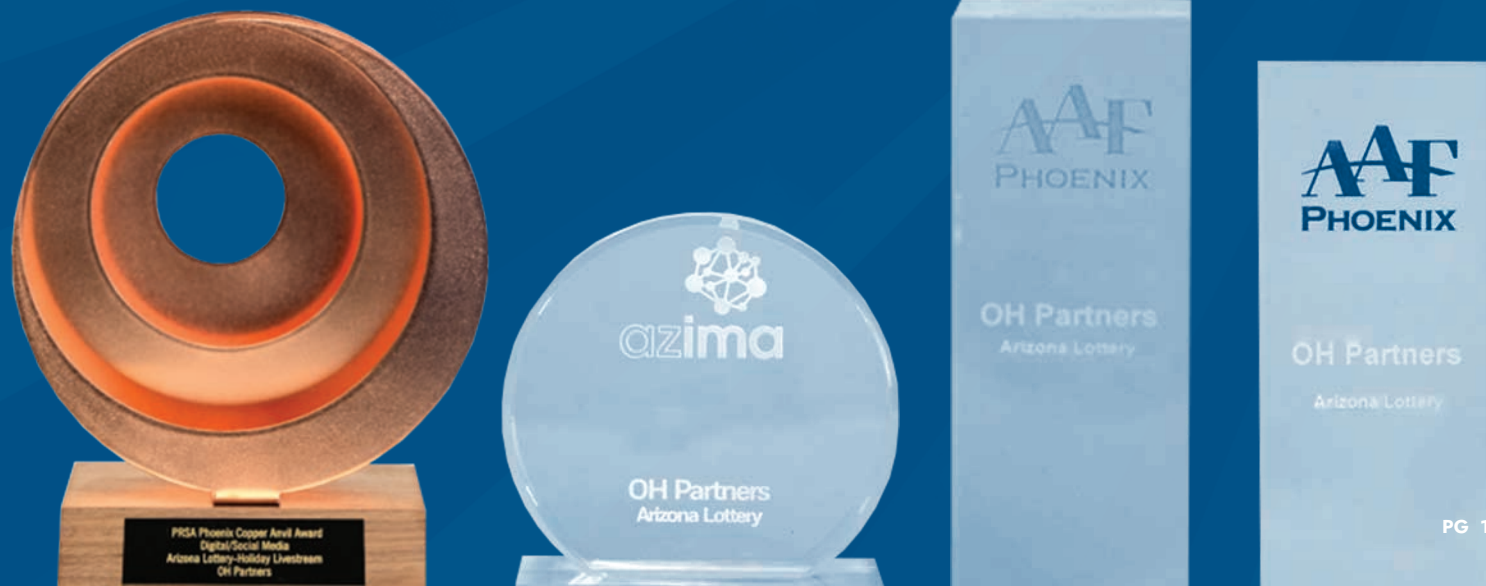
MARKETING ACHIEVEMENTS

The Arizona Lottery is recognized throughout the industry as a thought leader and source of excellence and integrity. In FY23, the Arizona Lottery contributed to our ongoing efforts to fulfill our state-mandated mission, while at the same time making a more effective and efficient business model for others to follow.

These efforts were well rewarded in FY23 as multiple professional lottery and marketing organizations and others recognized the excellence that was the Arizona Lottery in FY23, including:

- Gold and Bronze ADDYS presented by American Advertising Federation, for numerous commercial and integrated campaigns.
- Multiple Arizona Innovation Marketing Association (AZIMA) Awards dedicated to honoring and recognizing digital marketing campaigns and innovation.
- North American Association of State and Provincial Lotteries (NASPL) Finalist honoring the most creative, innovative and inspiring work produced across the North American Lottery Industry.

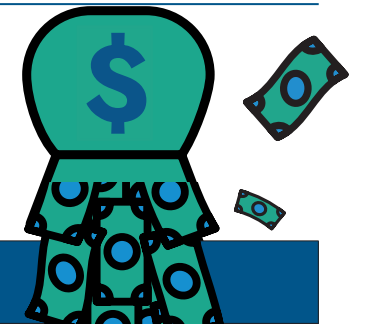
These awards honored the Arizona Lottery's industry-leading efforts to bring originality and thought provoking creative in partnership with O.H. Partners, Arizona Lottery's advertising agency of record, to its advertising campaigns and games.















When you play, Arizona wins.

BENEFICIARY TRANSFERS

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



FY23 BENEFICIARY TRANSFERS		
	General Fund	\$222,285,158
	University Bond Fund	\$37,798,773
	Healthy Arizona	\$23,878,900
	Mass Transit (LTAF)	\$11,413,800
	Heritage Fund	\$10,000,000
	Court Appointed Special Advocates (CASA)	\$6,906,992
	Arizona Competes Fund	\$3,500,000
	Economic Security Homeless Services	\$1,000,000
	Internet Crimes Against Children	\$900,000
	Tribal College Dual Enrollment Fund	\$325,000
	Department of Gaming	\$300,000
	Victims' Rights Enforcement Fund	\$100,000
Total Beneficiary Transfers		\$318,408,623

OUR BENEFICIARIES

UNIVERSITY BOND FUND

To date, these dollars have provided valuable debt service for more than \$689 million in financing through the University Capital Improvement Lease-to-Own and Bond (UCI) Fund. The money transformed the downtown area by allowing the state's three universities to expand essential research and educational facilities while also addressing neglected maintenance on older structures.

HEALTHY ARIZONA

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

LOCAL TRANSPORTATION ASSISTANCE FUND

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



When you play, Arizona wins.

HERITAGE FUND

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

COMMERCE AUTHORITY ARIZONA COMPETES FUND

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

COURT APPOINTED SPECIAL ADVOCATES OF ARIZONA

The Arizona Lottery is the sole funding source for Court Appointed Special Advocates (CASA) - everyday court appointed volunteers who speak on behalf of abused and neglected children. CASA trains and supports these qualified and compassionate adults to fight for a child's right to be safe, to be treated with dignity and respect, and to learn and grow in the security of a loving family. CASA of Arizona and its volunteers have been advocating for abused and neglected children in Arizona for more than 30 years and have served more than 27,000 children. CASA strives to ensure that society is fulfilling its most fundamental obligation to children in need.



HOMELESS SERVICES

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

ARIZONA INTERNET CRIMES AGAINST CHILDREN TASK FORCE

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

VICTIMS' RIGHTS ENFORCEMENT FUND

The Victim's Rights Enforcement Fund, administered by the Department of Public Safety, benefits the Arizona Attorney General's Office of Victim Services. The fund's principal goals are to provide legal representation to protect the rights of crime survivors as counsel of record in criminal proceedings, as well as to provide social services to crime survivors while they are being represented in court.

DIVISION OF PROBLEM GAMBLING

Through the Arizona Department of Gaming, the Division of Problem Gambling provides and supports effective problem gambling prevention, treatment, and education programs throughout the state. The Arizona Lottery helps support a sustainable continuum of services to effectively reduce the impact of problem gambling in Arizona. These include the Arizona Gaming Department's annual Problem Gambling Symposium which helps train professionals to identify and treat the issues that can lead to irresponsible gaming. The Division of Problem Gambling practices cultural sensitivity and responsiveness while also being professional, collaborative, equitable, and innovative in their solutions to address problem gambling.

TRIBAL COLLEGE DUAL ENROLLMENT PROGRAM FUND

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

When you play, Arizona wins.

HEALTHY FAMILIES ARIZONA

The Department of Child Safety's Healthy Families Arizona is a voluntary home visitation program that serves expecting parents and families of newborns. Program services are designed to strengthen families during the critical first years of a child's life. Through its efforts to support and educate families, the program reduces incidences of child abuse and neglect; provides stability for at-risk families; and has helped to grow new generations of healthy families across the state.



OUR TEAM



At the Arizona Lottery, we create fun experiences while doing good for our community. With the people of Arizona at the heart of our mission, the Arizona Lottery has raised more than \$5.3 billion for public service. That is a whole lot of good!

Our Team consists of change-makers in a variety of disciplines, with our Customer Service and Sales team at the core of our retail operations, our Operations team supporting the infrastructure of the Lottery, our Security and Regulatory team upholding the integrity of our games, and our Marketing and Products team creating fun and engaging opportunities for our players.

When you play, Arizona wins.

OUR LEADERSHIP



Alec Esteban Thomson

Cabinet Executive Officer
Executive Deputy Director

The Lottery leadership team serves our players, retail partners, beneficiaries, and employees with the goal of creating an Arizona Lottery for everyone.

We uphold *integrity*.
We embrace a culture of *fun*.
We celebrate winning *experiences*.
We strive to continuously *improve*.

When you play, Arizona wins.



Kome Akpolo

General Counsel



Russ Harben

Deputy Director:
Operations



Steve Wood

Interim Director:
Sales



Mia Lemke

Human Resources
Manager, Interim
Director: Customer Service



Chris Rogers

Deputy Director:
Marketing and
Products



Todd Terrell

Deputy Director:
Security and
Regulatory Division

COMMISSION

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



Jeff Weintraub

Chair Represents:
Certified Public Accountant
Jan 2010 - Jan 2025



Timothy O. Baumgarten

Represents:
Law Enforcement
Jan 2023 - Jan 2024



Tereza Fritz

Represents:
Marketing
May 2023 - Jan 2027



Todd E. Newman

Vice Chair Represents:
Retailer
July 2022 - Jan 2027



Julie Katsel

Represents:
Public at Large
Dec 2018 - Jan 2023*

*Member until the position is filled.
Scratchers® is a registered service mark of the California Lottery.

Arizona State Lottery

A Proprietary Fund of the State of Arizona

Financial Statements and
Supplementary Information

June 30, 2023



Independent Auditors' Report

To the Commissioners of
Arizona State Lottery

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities, of the Arizona State Lottery (the Lottery), a proprietary fund of the State of Arizona, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the Arizona State Lottery as of June 30, 2023 and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Lottery and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Arizona State Lottery, a proprietary fund of the State of Arizona are intended to present the financial position, the changes in financial position, and, cash flows of only that portion of business-type activities that is attributable to the transactions of the Lottery. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2023, the changes in financial position, or, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, including the managements discussion and analysis, the schedule of proportionate share of the net pension/total OPEB liability, the schedule of contributions, and the schedule of changes in total OPEB liability and related ratios be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included on pages 1-17 included in the annual report but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2023 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 solely 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 the effectiveness of the Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.



Tempe, Arizona
October 10, 2023

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

This discussion and analysis of the Lottery's financial statements is a required component of financial reporting under *Governmental Accounting Standards* and was prepared by Arizona Lottery Management. It provides an overview of financial activities as of and for the year ended June 30, 2023, 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, 2023. The statement of net position; the statement of revenues, expenses, and changes in net position; and the notes are presented using the accrual method of accounting. Under this method, financial transactions are recorded when earned or incurred regardless of when cash is received or disbursed. The statement of cash flows reflects cash receipts and disbursements during the same 12-month period.

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

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

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

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

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

FINANCIAL HIGHLIGHTS

- The Arizona Lottery (Lottery) surpassed \$1.5 billion in total sales for the first time, achieving record sales of approximately \$1.52 billion in fiscal year 2023. This reflects an increase of approximately 10.8% over the prior fiscal year, primarily driven by jackpot activity.
- The Lottery returned an all-time record of \$318.4 million to designated state programs in fiscal year 2023, with all beneficiaries receiving full funding. Since its inception in July 1981, the Lottery has generated approximately \$5.3 billion for Arizona programs.
- Scratchers game sales continued to be the dominant product line with sales of \$1.06 billion in fiscal year 2023. This reflects an increase of approximately \$20 million over the prior year and a growth rate of 1.9%. Demand for tickets at the \$10, \$20, and \$50 price points helped to sustain overall instant ticket sales.
- Draw game sales were impressive in fiscal year 2023. Sales of \$438.3 million represented an increase of 40.8% over the previous year. Several Powerball and Mega Millions jackpots throughout the year drove this noteworthy increase.
- Sales for the instant tab product line had respectable growth in its niche market (primarily age-restricted establishments, charitable groups, and fraternal organizations). Sales increased by about \$1.4 million from the prior fiscal year, representing a growth rate of approximately 10%.
- The Lottery's retail partners earned almost \$104 million in commissions and incentives in fiscal year 2023.

REVENUES

Total game sales were approximately \$1.52 billion for fiscal year ended June 30, 2023 as compared to \$1.37 billion for fiscal year ended June 30, 2022, reflecting increases in both instant and draw game products. The overall sales growth of \$148 million represented a 10.8% increase over the prior year.

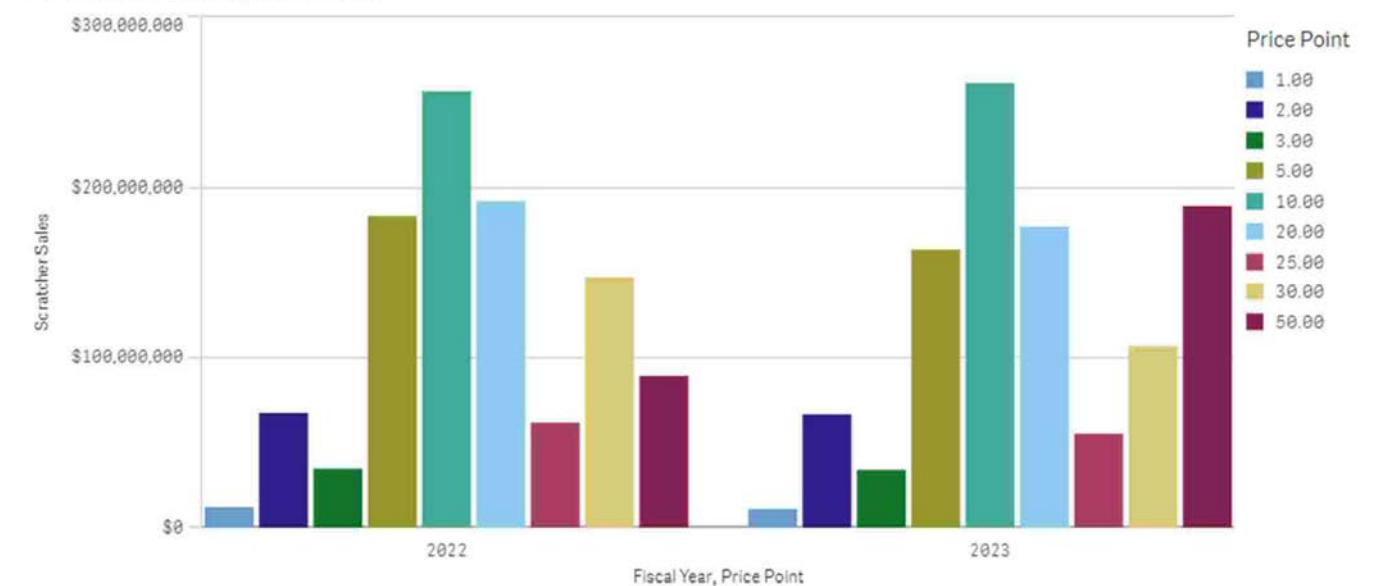
The following table summarizes Lottery total sales by game and the incremental change between fiscal years. All revenues are presented in millions of dollars. (Note: due to rounding, some figures may be slightly different from the detailed statement of revenues, expenses, and changes in net position detailed within this report).

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

Product Sales (in millions)	FY 2023	FY 2022	Change	Percentage
Scratchers	\$ 1,063.0	\$ 1,043.2	\$ 19.8	1.9%
Instant Tabs	15.4	14.1	1.3	9.2%
Powerball	162.4	117.5	44.9	38.2%
Mega Millions	142.3	60.2	82.1	136.4%
The Pick	32.1	33.2	(1.1)	-3.3%
Fantasy 5	18.8	17.6	1.2	6.8%
Pick 3	16.3	16.8	(0.5)	-3.0%
Triple Twist	17.7	18.1	(0.4)	-2.2%
Fast Play	46.2	46.0	0.2	0.4%
Quick Draw	2.5	1.7	0.8	NA
TOTAL:	\$ 1,516.7	\$ 1,368.4	\$ 148.3	10.8%

The instant ticket product line (Scratchers/Instant Tabs) had a sales increase of \$21.1 million over the prior year (\$19.8 million from Scratchers games and a \$1.3 million increase for instant tab tickets). A full year of sales of the \$50 instant game and steady sales at remaining price points helped to generate sales of over \$1 billion for this product line. The chart below displays a comparison of Scratchers sales by price point for FY 2023 and FY 2022:

FY23 Instant Sales by Price Point

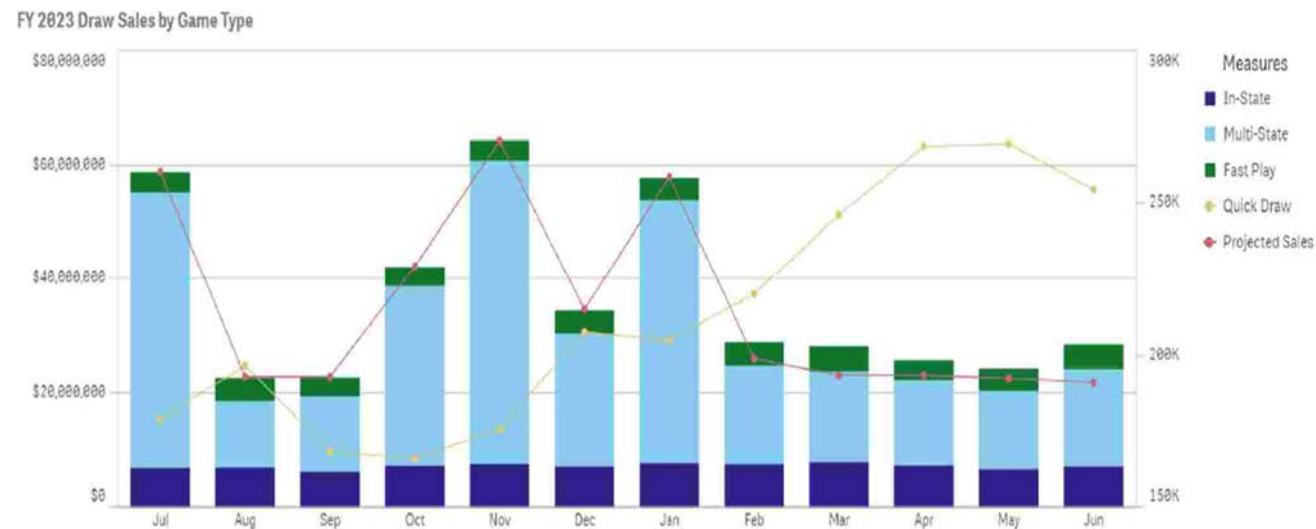


In general, draw game sales are largely jackpot-driven, impacting sales increases or decreases in any given year. Jackpots for both Powerball and Mega Millions drove the overall draw game sales increase of \$127

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

million over the prior year. These jackpots helped to mitigate essentially flat sales for remaining draw games.

The following chart depicts draw game sales for FY 2023 broken down by multi-state, in-state, Fast Play, and Quick Draw.



Product sales are the primary driver of operating revenues, but other operating revenues and sales returns are also included in this category. Other operating revenues were \$893,934 for FY 2023, which is primarily composed of commissions earned on Lottery ticket sales at Lottery offices and special events, plus other miscellaneous revenue. Sales returns and allowances, comprised of damaged tickets and promotional tickets were (\$1,845,204) for FY 2023. Total operating revenues, the sum of game sales and other operating revenues, less sales returns and allowances were \$1.516 billion for the year ended June 30, 2023, as compared to \$1.368 billion for the year ended June 30, 2022. This increase was primarily a reflection of higher overall game sales.

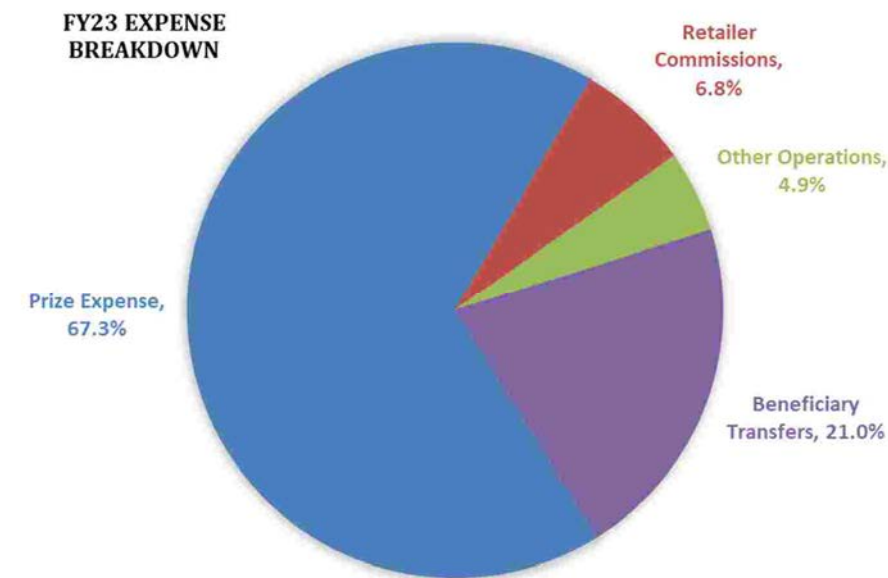
Non-operating revenue (investment income) for the year ended June 30, 2023, was \$939,860 as compared to \$81,666 for the year ended June 30, 2022. Non-operating revenue is comprised of interest earned on invested cash. Investment income will fluctuate from year-to-year based on interest rates, and was significantly higher compared to the prior year due to higher interest rates paid on the Lottery's cash deposits.

EXPENSES

By statute, the Lottery is required to return no less than 50% of annual revenues as prizes and to spend no more than 18.5% of annual revenues on Lottery operations. Remaining funds are transferred to various state beneficiaries based on statutory requirements. The following chart provides a high-level

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

percentage breakdown of Lottery expenses for FY 2023:



Lottery total operating expenses were \$1.205 billion for fiscal year ended June 30, 2023 as compared to \$1.093 billion for fiscal year ended June 30, 2022.

Of this amount, the Lottery spent \$1.174 billion (77.4%) on game expenses FY 2023, compared to \$1.063 billion (77.7%) of total operating expenses for FY 2022. These expenses include instant and online prize expense, retailer commissions and incentives, instant ticket printing and distribution costs, and vendor compensation for maintaining and supporting the online gaming system.

Other operating expenses not directly related to Lottery game sales include items such as marketing, personnel expenses, depreciation/amortization, and other administrative costs. These expenses totaled \$30.9 million in FY 2023 as compared to \$29.6 million in FY 2022.

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

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

Operating Expenses (in millions)	FY 2023	FY 2022	Change	Percentage
Instant & Online Prizes	\$ 1,020.7	\$ 925.4	\$ 95.3	10.3%
Retailer Commissions & Incentives	103.8	93.0	10.8	11.6%
Online System Expense	18.8	13.2	5.6	42.4%
Instant Ticket Distribution Expenses	18.7	21.5	(2.8)	-13.0%
Instant Ticket Printing Expenses	12.5	10.2	2.3	22.5%
Total Direct Costs	1,174.5	1,063.3	111.2	10.5%
Other Operating Expenses	30.9	29.6	1.3	4.4%
TOTAL:	\$ 1,205.4	\$ 1,092.9	\$ 112.5	10.3%

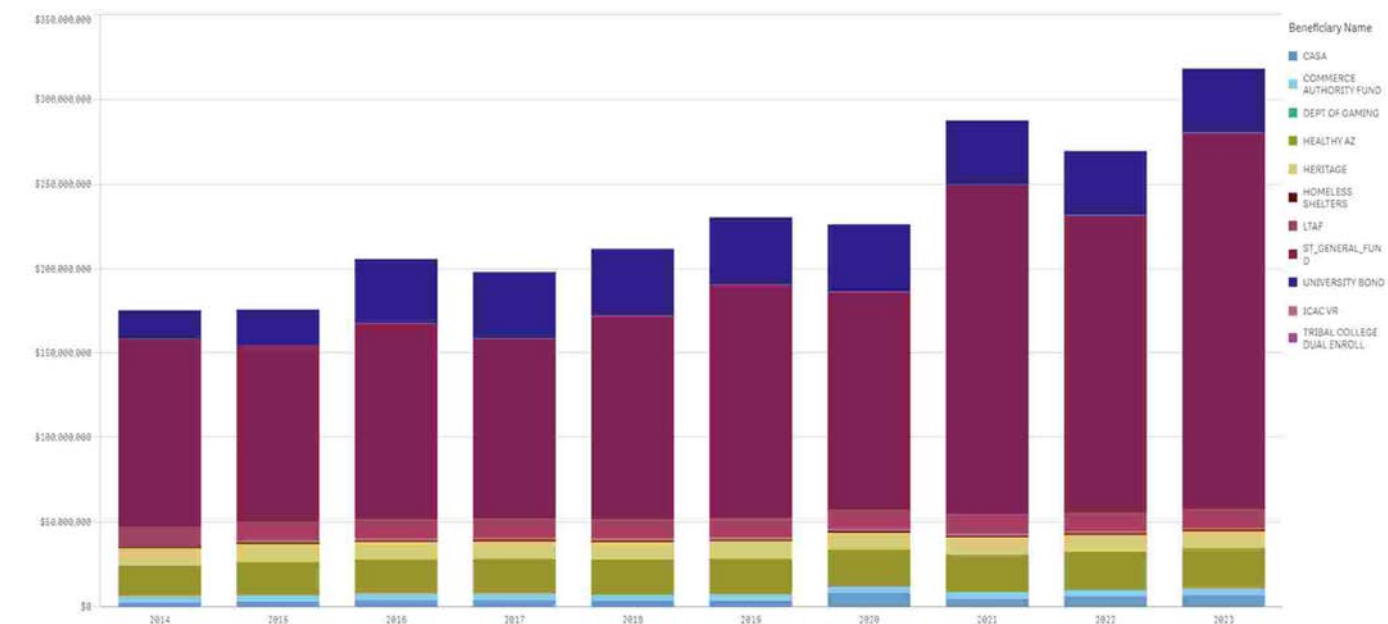
Increases in prize expense, retailer commissions, and online system expenses correlate with the increase in product sales. The net decrease in the ticket printing/distribution categories was primarily due to a one-time expense incurred in FY 2022 for vending machine maintenance services. Aggregate prize expense represented 67.3% of product sales in FY 2023 as compared to 67.6% of product sales in FY 2022. Prize expense is largely driven by the higher market share of the Scratchers product line, especially the \$50 price point. These games carry a higher associated prize expense, driving up the cumulative prize percentage.

Of the \$30.9 million for other operating expenses in FY 2023, the Lottery spent \$15.4 million on advertising and promotion, \$7.0 million to compensate Lottery employees, \$4.7 million on depreciation, and \$3.8 million for other administrative expenses. In comparison, of the \$29.6 million spent on other operating expenses for FY 2022, the Lottery spent \$15.3 million on advertising and promotion, \$6.6 million to compensate Lottery employees, \$4.7 million on depreciation, and \$2.8 million for other administrative expenses. Higher year-over-year other operating expenses were primarily driven by a state-wide employee compensation adjustment in FY 2023.

TRANSFERS TO OTHER STATE FUNDS

Lottery proceeds are statutorily directed to various benefiting funds. Note 3 to the financial statements details the amounts transferred to other State Funds. The Lottery transferred \$318.4 million in FY 2023, as compared to \$269.5 million transferred in FY 2022. The increase in product sales resulted in a corresponding increase in transferable revenues of \$48.9 million, with all designated beneficiary programs receiving full funding. The total transfer rate as a percentage of sales was 21.0% in FY 2023 and 19.7% in FY 2022. The following chart outlines transfers to Lottery beneficiaries over the last 10 years:

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



OTHER FINANCIAL INFORMATION

Net Position. The Lottery's total net position was \$29.8 million at June 30, 2023 as compared to \$36.9 million for June 30, 2022.

The Lottery's total assets at June 30, 2023 were \$255.5 million, as compared to \$200.4 million the previous year. Assets consisted primarily of cash held by the State Treasurer, net receivables from Lottery retailers for the sale of Lottery products, inventories of Scratchers, instant tab and Quick Card tickets, net investment in capital assets, and deposits with MUSL (Multi-State Lottery). The difference was primarily driven by a higher cash balance due to higher product sales in FY 2023, partially offset by additional depreciation of Lottery vending machines.

Total liabilities at June 30, 2023 were \$225.7 million, as compared to \$163.2 million the previous year. Liabilities consisted of accounts payable and accrued expenses, prize liability, amounts due to other state funds, lease liability, and net pension liability. The difference primarily reflects increases in the amounts due to other state funds and prize liability, both of which correlate to higher product sales in FY 2023 as compared to FY 2022

The following table summarizes the statement of net position. (Note: due to rounding, some figures may be slightly different from the detailed statement of net position detailed within this report).

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

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

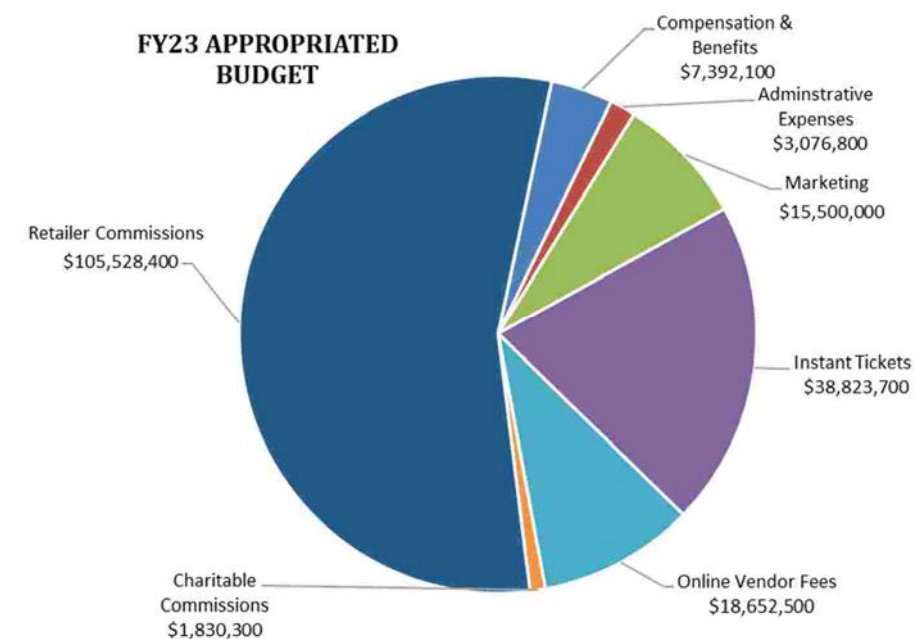
Statement of Net Position (in millions)	FY 2023	FY 2022
Current Assets	\$ 222.2	\$ 162.5
Capital Assets	23.2	27.9
Other Assets	10.1	9.9
Total Assets	255.5	200.3
Deferred Outflows of Resources	1.6	2.2
Total Assets and Deferred Outflows of Resources	257.1	202.5
Current Liabilities	216.8	154.6
Non Current Liabilities	8.9	8.5
Total Liabilities	225.7	163.1
Deferred Inflows of Resources	1.5	2.5
Total Liabilities and Deferred Inflows of Resources	227.2	165.6
Net Position	29.9	36.9
TOTAL LIABILITIES AND NET POSITION:	\$ 257.1	\$ 202.5

BUDGETARY/APPROPRIATION HIGHLIGHTS

The Lottery's budget is determined by legislative appropriation on an annual basis, and by statute cannot exceed 18.5% of annual revenues. The budget for FY 2023 was approved in the 2022 regular legislative session. The Lottery's appropriation for sales-related expenditures is allowed to adjust without a supplemental appropriation request if actual revenues exceed projected revenues as outlined in the annual General Appropriations legislation. The appropriation does not include an amount for prizes because Lottery statute sets this amount at "not less than 50% of the total annual revenues accruing from the sale of Lottery tickets or shares."

The Lottery's approved appropriation was \$170.3 million for FY 2023 based on an estimated \$1.37 billion in total sales; however, the spending authority was adjusted to \$190.8 million due to actual revenues exceeding original estimates.

The following chart depicts the breakdown of the revised FY 2023 appropriated budget of \$190.8 million:



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 2023 and to demonstrate the Lottery's accountability for the money received from the sale of Lottery products.

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

Arizona State Lottery

 Statement of Net Position
 June 30, 2023

Assets	
Current Assets	
Cash, substantially all held by the State Treasurer	\$ 202,608,426
Accounts receivable, net of allowance for doubtful accounts of \$308,700	9,118,877
Scratch ticket inventory	9,577,753
Pull tab inventory	508,920
Quick card inventory	373,890
	<u>222,187,866</u>
Total current assets	
Capital Assets	
Land and land improvements	1,268,695
Buildings	4,309,192
Furniture, fixtures and equipment	39,698,875
Intangible assets	599,324
Leasehold improvements	328,341
Right to use, lease	1,546,787
Less accumulated depreciation and amortization	(24,523,850)
	<u>23,227,364</u>
Total capital assets	
Other Assets	
Deposit, MUSL	10,118,416
	<u>10,118,416</u>
Total other assets	
Total assets	<u>255,533,646</u>
Deferred Outflows of Resources	
Related to pensions, ASRS	972,407
Related to OPEB, ADOA	588,504
	<u>1,560,911</u>
Total deferred outflows of resources	
Liabilities	
Current Liabilities	
Accounts payable	7,659,220
Accrued expenses	428,539
Prize liability	86,038,322
Due to other state funds	122,645,158
	<u>216,771,239</u>
Total current liabilities	
Noncurrent Liabilities	
Lease liability	1,435,559
Net pension liability, ASRS	6,040,854
Total OPEB liability, ADOA	1,474,023
	<u>8,950,436</u>
Total noncurrent liabilities	
Total liabilities	<u>225,721,675</u>
Deferred Inflows of Resources	
Related to pensions, ASRS	443,941
Related to OPEB, ADOA	1,085,492
	<u>1,529,433</u>
Total deferred inflows of resources	
Net Position	
Net investment in capital assets	21,791,805
Restricted for additional prizes in future games	8,051,644
	<u>29,843,449</u>
Total net position	<u>\$ 29,843,449</u>

See notes to financial statements

Arizona State Lottery

 Statement of Revenues, Expenses and Changes in Net Position
 Year Ended June 30, 2023

Operating Revenues	
Ticket sales:	
Scratchers	\$ 1,062,989,531
Powerball	162,354,946
The Pick	32,063,632
Fantasy 5	18,826,200
Pick 3	16,318,051
Mega Millions	142,272,976
Quick Draw	2,554,244
Triple Twist	17,710,600
Instant tab	15,446,940
Fast Play	46,163,467
	<u>1,516,700,587</u>
Total ticket sales	
Sales Returns and Allowances	(1,845,204)
	<u>1,514,855,383</u>
Net ticket sales	
Other operating revenues	893,934
	<u>1,515,749,317</u>
Total operating revenues	
Operating Expenses	
Direct costs:	
Prize expense	1,020,678,773
Retailer commissions and incentives	103,780,874
Online system expense	18,825,226
Scratcher system and distribution expenses	18,694,188
Tickets purchased	12,466,279
	<u>1,174,445,340</u>
Total direct costs	
Advertising and promotion	15,378,492
Wages and related expenses	7,056,001
Depreciation	4,730,785
Administrative expenses	3,765,989
	<u>1,205,376,607</u>
Total operating expenses	
Operating Income	<u>310,372,710</u>
Nonoperating Revenues/(Expenses)	
Investment income	962,072
Interest expenses	(22,212)
	<u>939,860</u>
Nonoperating revenues/expenses	
Income Before Transfers	311,312,570
Transfers to Other State Funds	<u>318,408,623</u>
Change in net position	(7,096,053)
Net Position, Beginning	<u>36,939,502</u>
Net Position Ending	<u>\$ 29,843,449</u>

See notes to financial statements

Arizona State Lottery

Statement of Cash Flows

Year Ended June 30, 2023

Cash Flows From Operating Activities

Cash received from retailers-net of validations, commissions and incentives	\$ 637,165,543
Cash received from other sources	5,352,652
Cash payments for prizes and related taxes	(229,902,322)
Cash payments to suppliers of goods or services	(68,294,818)
Cash payments to employees	(6,812,083)

Net cash provided by operating activities 337,508,972

Cash Flows Used by Noncapital Financing Activities

Payments to beneficiaries per Arizona statutes (272,160,437)

Cash Flows Used By Capital Financing Activities

Payments for acquisition of capital assets	(12,855)
Principal paid on leases	(57,000)
Interest paid on leases	(22,212)

Net cash used for capital financing activities (92,067)

Cash Flows From Investing Activities

Receipts of interest 963,719

Net increase (decrease) in cash 66,220,187

Cash, Beginning 136,388,239

Cash, Ending \$ 202,608,426

Reconciliation of Operating Income to Net Cash Provided

Operating Activities

Operating income	\$ 310,372,710
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	4,730,785
(Increase) decrease in:	
Accounts receivable	8,712,539
Ticket inventory	(2,148,313)
Deposit, MUSL	(207,033)
Deferred outflows of resources related to pensions and other postemployment benefits	632,419
Increase (decrease) in:	
Accounts payable and accrued expenses	2,965,536
Prize liability	12,928,142
Net pension and total OPEB liability	483,699
Deferred inflows of resources related to pensions and other postemployment benefits	(961,512)

Net cash provided by operating activities \$ 337,508,972

See notes to financial statements

Arizona State Lottery

Notes to Financial Statements

June 30, 2023

1. Nature of Operations and Summary of Significant Accounting Policies

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

For the period July 1, 2022 through June 30, 2023, the Lottery held 114 instant games of which 38 games expired during the fiscal year. During 2023, the Lottery continued the "The Pick," "Fantasy 5," "Pick 3," "Powerball," "Mega Millions," "FastPlay," "Triple Twist" and "Quick Draw" on-line games. As required, the Lottery has deposits with "Powerball," and "Mega Millions," multistate on-line lottery games, of \$10.1 million at June 30, 2023. The Lottery also sold instant tab lottery tickets to nonprofit organizations, age-restricted outlets, and some approved retailers. These games are printed and sold by the Lottery, though are administered and paid out by the purchasing nonprofit organizations, age-restricted outlets and approved retailers. The Lottery prepares its financial statements in accordance with accounting principles generally accepted in the United States of America.

State Lottery Fund

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

- Not less than 50% of the total annual revenue from Lottery ticket sales is apportioned for the payment of prizes to the holders of winning tickets for the period July 1, 2022 to June 30, 2023.
- Not more than 18.5% is apportioned for payment of Lottery operating expenditures as defined by Arizona Revised Statute 5-555. Legislation enacted in 2008 set this limit and also removed a 4% cap on advertising expenditure.

Cash and Investments

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

Accounts Receivable

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

Ticket Inventory

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

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

Capital Assets

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

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

Investments and Investment Income

The provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, have been implemented by the Lottery. This standard addresses the Lottery's reporting related to fair value measurements and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

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

Sales and Revenue Recognition

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

Prize Expense and Prize Liability

Instant ticket prize expense is estimated and recognized when ticket packs are settled and is based on the design of the game. Game designs include certain guaranteed prizes in each pack of tickets and prizes placed randomly by the gaming vendor. When validations for the game have ended, differences between estimated and actual prizes awarded for the randomly placed tickets are adjusted to prize expense and prize liability. Prize expense for draw games is recognized as drawings are held, based on the estimated or known cost of the prize payments. Prize expense is adjusted as prizes are claimed and the actual cost of the prize is known. Prize liabilities for prizes are recorded when the prize expense is recognized. The prize liability represents a liability for prizes which are unclaimed for games in progress. Prizes unclaimed for 180 days after the drawing date are forfeited by the ticket holder. The Lottery retains 70% of all forfeited unclaimed prizes, under State statute, for use as additional prizes in future games. State statute also requires that 30% of all forfeited unclaimed prizes be transferred to the Court Appointed Special Advocate Account, a fund within the State's General Fund. In April 2015, Senate Bill (SB) 1477 was signed by the Governor of Arizona which requires that 15% of all forfeited unclaimed prizes be transferred to the tribal college dual enrollment program fund but not to exceed \$325,000 in any fiscal year. SB 1477 adjusted the 70% retained for additional prizes in future games to 55%. SB 1477 was effective starting in FY16.

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

In April 2015, House Bill (HB) 2517 was signed by the Governor of Arizona which requires that if the monies transferred to the Internet Crimes Against Children Enforcement is less than \$900,000 each fiscal year, and if the monies transferred to Victim's Rights Enforcement Fund is less than \$100,000 each fiscal year, the difference shall be transferred from forfeited unclaimed prizes but not exceed \$1,000,000 in any fiscal year. HB2517 was effective immediately in April 2015. FY23 transfers from forfeited unclaimed prizes to the Internet Crimes Against Children Fund and Victims' Rights Enforcement Fund were \$131,300. All remaining forfeited unclaimed prizes offset prize expense.

Prize liability activity for the year ended June 30, 2023 as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Prize Liability	\$ 73,110,180	\$ 1,167,242,537	\$ (1,154,314,395)	\$ 86,038,322

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, 2023, the Fund's accounts payable and accrued expenses balance includes an accrual of vacation pay and related benefits of \$428,539. Upon termination or retirement, an employee will be compensated for accumulated leave dependent upon accumulated time. Payment will be based on the individual's rate of pay at termination or retirement. Upon death, the same benefits shall be paid to the employee's beneficiary.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources

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

Commissions

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

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

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

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

Net Position

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

- a) Net investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net position - Consists of prize revenues restricted by Arizona State Statute for the use of future games.
- c) Unrestricted net position - All other net funds that do not meet the definition of net investment in capital assets or restricted.

Use of Estimates

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

Leases

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

2. Cash and Investments Held by the State Treasurer

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

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

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

At June 30, 2023, the Lottery's deposits with the Treasurer were as follows:

Cash	\$ 150,748,455
Prize fund cash	51,859,971
	<u>51,859,971</u>
Total cash and investments held by State Treasurer	<u>\$ 202,608,426</u>

Custodial Credit Risk

For cash and investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Lottery will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2023, all of the Lottery's securities are held by the State of Arizona in the Lottery's name. The Lottery manages custodial credit risk in accordance with A.R.S. and its investment policy. The A.R.S. require collateral for deposits at 102% of all deposits that federal depository insurance does not cover.

Concentration of Credit Risk

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

Interest Rate Risk

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

3. Transfers and Statutory Requirements

As required by A.R.S. Section 5-572, the Lottery recorded transfers to the State funds below during the year ended June 30, 2023, as follows:

General Fund	\$ 222,285,158
University Bond Fund	37,798,773
Healthy Arizona	23,878,900
Local Transportation Assistance Fund, Mass Transit	11,413,800
Heritage Fund	10,000,000
Commerce Authority Arizona Competes Fund	3,500,000
Court-appointed Special Advocate Fund	6,906,992
Economic Security Homeless Services	1,000,000
Internet Crimes Against Children Fund	900,000
Department of Gaming	300,000
Tribal College Dual Enrollment Fund	325,000
Victims Right Enforcement Fund	100,000
	<u>100,000</u>
Total transfers to other state funds	<u>\$ 318,408,623</u>

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

Included in the above transfer, \$122,645,158 was due to the State General Fund as of June 30, 2023.

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

4. Capital Assets

Capital asset activity for the year ended June 30, 2023 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 937,830	\$ -	\$ -	\$ 937,830
Capital assets, being depreciated:				
Land improvements	330,865	-	-	330,865
Buildings & leasehold improvements	4,637,533	-	-	4,637,533
Furniture, fixtures and equipment	39,686,020	12,855	-	39,698,875
Intangible assets	599,324	-	-	599,324
Right to use assets, leases:				
Buildings	1,546,787	-	-	1,546,787
Total capital assets	47,738,359	12,855	-	47,751,214
Less accumulated depreciation:				
Land improvements	(330,865)	-	-	(330,865)
Buildings & Leasehold improvements	(3,850,708)	(120,865)	-	(3,971,573)
Furniture, fixtures and equipment	(14,933,850)	(4,531,602)	-	(19,465,452)
Intangible assets	(599,324)	-	-	(599,324)
Right to use assets, building leases	(78,318)	(78,318)	-	(156,636)
Total accumulated depreciation	(19,793,065)	(4,730,785)	-	(24,523,850)
Total capital assets, net	\$ 27,945,294	\$ (4,717,930)	\$ -	\$ 23,227,364

5. Pledged Revenues

The Lottery has pledged portions of its gross revenues towards the payment of debt service on the State Lottery Revenue Bonds Series 2019 issued by the State. These bonds provide additional working capital to the State to pay appropriated expenditures of the State's General Fund. The bonds are payable solely from and secured by pledged revenues consisting of, until July 1, 2012, amounts distributable to the State General Fund from the Lottery pursuant to Lottery law, and from and after July 1, 2012, all Lottery revenues deposited to the Fund net of operating expenses of the Lottery. In August 2021, the State Lottery Revenue Bonds Series 2019 issued by the State were defeased, per S.B. 1823, thus eliminating the underlying pledged revenues of the Lottery. The State placed cash in an escrow account to defease the bonds. The escrow agent will pay the debt service requirements of the defeased bonds on each scheduled payment date through July 1, 2029. The defeased bonds are not subject to optional redemption prior to maturity.

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

6. Commitments

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

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

The Lottery initially entered into a five-year contract with Scientific Games, Inc. for Draw Game services at a base contract rate of 4.256% of on-line sales in August 2016. In February 2018, the Lottery extended the contract for an additional two years. In January 2019, the Lottery fully extended the contract for the remaining three year option, through August 2026.

In 2015, the Lottery entered into a three-year lease agreement for retail space at the Phoenix Sky Harbor Airport. The lease agreement was extended in December 2018 for one additional year with an option to extend for three years until December 2022. The lease agreement was amended in January 2020 to extend the agreement and expire on December 2024. The monthly rental is based on the percentage of sales. Rent expense for the facilities was approximately \$123,941 for the year ended June 30, 2023.

In 2020, the Lottery entered into a three-year agreement for retail space at the Walmart in Kingman, AZ effective April 12, 2020 for approximately \$1,500 per month with the option to extend the agreement term for two additional three year period. Rent expenses for the facilities were approximately \$18,000 for the year ended June 30, 2023.

Future minimum rental payments due under these agreements are as follow:

Years ending June 30:	
2024	\$ 141,941
2025	138,000
2026	78,000
Total	\$ 357,941

The Lottery entered a commercial lease agreement to lease a facility in Tucson, AZ for 10 years effective April 1, 2021 and expiring on March 31, 2031. The recognized lease payments for the facilities were approximately \$79,212 for the year ended June 30, 2023 and had remaining contractual commitments with lessors of \$708,703.

Future minimum lease payments due under this agreement are as follow:

Years ending June 30:	
2024	\$ 81,192
2025	83,220
2026	85,302
2027	87,435
2028	89,622
2029 - 2031	281,932
Total	\$ 708,703

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

7. Contingencies

Jackpot winners are offered the option of cash or 30-year annuity for The Pick online game and a select number of Scratchers games. The annuities are purchased from qualifying insurance companies, which have the highest ratings from among A.M. Best Company, Standard & Poor's, Moody's, Duff & Phelps, or Weiss. Purchases of annuities transfer liabilities for prizes to the insurance company. However, the Lottery may incur liabilities for prizes in the event of a default of an insurance company. Aggregate future payments to prize winners on existing annuities totaled \$52,335,425 at June 30, 2023. Approximately \$43,703,402 of the total aggregate future payments at June 30, 2023 relate to annuities purchased from five separate insurance companies, of which \$15,748,247 relates to a single insurance company.

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

8. Pensions and Other Postemployment Benefits

The Lottery contributes to the Arizona State Retirement Plan (Plan), a retirement plan administered by the Arizona State Retirement System (ASRS) and a health insurance premium benefit plan administered by the Arizona Department of Administration (ADOA OPEB). The ASRS plan is a component of the State of Arizona. The Lottery reported \$588,552 of pension expenditure related to the pension plan to which it contributes. In addition, the Lottery reported \$140,850 of other postemployment benefit expenses related to the health insurance premium benefit ADOA OPEB plan. At June 30, 2023, the Lottery reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Pension	ADOA OPEB	Total
Net pension and total OPEB liability	\$ 6,040,854	\$ 1,474,023	\$ 7,514,877
Deferred outflows of resources related to pensions and OPEB	972,407	588,504	1,560,911
Deferred inflows of resources related to pensions and OPEB	443,941	1,085,492	1,529,433
Pension and OPEB expense	588,552	140,850	729,402

Arizona State Retirement Plan

Plan Description

The ASRS administers a cost-sharing multi-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. Although the ASRS pension plan has been recorded at June 30, 2023, the ASRS health insurance premium (OPEB) plan and long-term disability (OPEB) plan have not been recorded due to the relative insignificance to the Lottery's financial statements, however they have been further disclosed in the notes to the financial statements and required supplementary information below. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

Benefits Provided

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

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

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

* with actuarially reduced benefits

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

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

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

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

Contributions

In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2023, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.17% (12.03% for retirement and 0.14% for long-term disability) of the members' annual covered payroll, and the Lottery was required by statute to contribute at the actuarially determined rate of 12.17% (11.92% for retirement, 0.11% for health insurance premium benefit, and 0.14% for long-term disability) of the active members' annual covered payroll. In addition, the Lottery was required by statute to contribute at the actuarially determined rate of 9.68% (9.62% for retirement, and 0.6% for long-term disability) of annual covered payroll of retired members who worked for the Lottery in positions that would typically be filled by an employee who contributes to the ASRS. The Lottery's contributions to the pension plan for the year ended June 30, 2023, were \$534,262. The Lottery's contributions for the current and three preceding years for pension benefits, all of which were equal to the required contributions, were as follows:

Years ending June 30:	
2023	\$ 534,262
2022	529,152
2021	521,662
2020	475,790

Pension Liability

At June 30, 2023, the Lottery reported \$6,040,854 as net pension liability for its proportionate share of the ASRS' net pension liability.

The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined using updated procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2021, to the measurement date of June 30, 2022.

The Lottery's proportion of the net pension liability was based on fiscal year employer contributions. The Lottery's proportion measured as of June 30, 2022, and the change from its proportions measure as of June 30, 2021 were:

ASRS	Proportion June 30, 2022	Increase (Decrease) From June 30, 2021
Pension	0.03701%	-0.002820%

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

Pension Expense

For the year ended June 30, 2023, the Lottery recognized \$588,552 as pension expense for ASRS.

Pension Expense and Deferred Outflows/Inflows of Resources

At June 30, 2023, the Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Pension	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 51,472	\$ -
Net difference between projected and actual earning on pension plan investments	299,819	-
Difference between projected and actual investment earnings	-	159,122
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	86,854	284,819
Lottery contributions subsequent to the measurement date	534,262	-
Total	<u>\$ 972,407</u>	<u>\$ 443,941</u>

The \$534,262 reported as deferred outflows of resources related to ASRS pensions resulting from Lottery contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

	Pension
Years ended June 30:	\$ 223,089
2024	(207,294)
2025	(276,273)
2026	254,682
2027	-
2028	-
Thereafter	-

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

Actuarial Assumptions

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

ASRS

Actuarial valuation date	June 30, 2021
Actuarial roll forward date	June 30, 2022
Actuarial cost method	Entry age normal
Asset valuation	Fair Value
Discount rate	7.0%
Projected salary increases	2.9 - 8.4% for pensions
Inflation	2.3%
Permanent benefit increase	Included for pensions
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2020.

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

	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Asset class:		
Equity	50 %	1.95 %
Fixed income, credit	20	1.06
Fixed income, interest rate sensitive	10	(0.02)
Real estate	20	1.20
Total	100 %	4.19 %

Actual returns may be different due to volatility of returns.

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

Discount Rate

The discount rate used to measure the ASRS total pension liability was 7.0%. The projection of cash flow used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the Retirement Fund's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Lottery's Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate

The following table presents the Lottery's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the Lottery's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% (6.0% Discount Rate)	Current (7.0% Discount Rate)	1% Increase (8.0% Discount Rate)
Retirement	\$ 8,913,100	\$ 6,040,854	\$ 3,645,849

Pension Plan Fiduciary Net Position

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

9. Other Postemployment Benefits (OPEB) - ADOA

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

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

Other Postemployment Benefits (OPEB) Liability

At June 30, 2023, the Lottery reported a OPEB liability of \$1,474,023 for its proportionate share. The liability was measured as of June 30, 2022 to be reported as of June 30, 2023 under GASB 75.

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2022	\$ 1,797,693	\$ -	\$ 1,797,693
Changes for the year:			
Service cost	180,739	-	180,739
Interest	37,636	-	37,636
Difference between expected and actual experience of the total OPEB liability	-	-	-
Difference between expected and actual experience from change in Proportionate State	-	-	-
Changes of assumptions	(505,516)	-	(505,516)
Expected benefit payments	(36,529)	-	(36,529)
Net changes	(323,670)	-	(323,670)
Balance at June 30, 2023	\$ 1,474,023	\$ -	\$ 1,474,023

OPEB Deferred Outflows/Inflows of Resources

At June 30, 2023, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 26,493	\$ 547,540
Changes of assumptions or other inputs	327,674	537,952
Changes in proportion	193,804	-
Deferred outflows of contributions	40,533	-
Total	\$ 588,504	\$ 1,085,492

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

Years ending June 30:	
2024	\$ (77,525)
2025	(53,264)
2026	(32,003)
2027	(75,978)
2028	(124,176)
Thereafter	(174,521)

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

OPEB Expenses

At June 30, 2023, the Lottery reported OPEB expenses as follows:

Reporting Date for Employer Under GASB 75 Measurement Date for Employer under GASB 75	June 30, 2023 June 30, 2022
Components of OPEB expenses:	
Service cost	\$ 180,739
Interest on the total OPEB liability	37,636
Recognition of current year outflow (inflow) due to liabilities	(62,830)
Amortization of prior year outflow (inflow) due to liabilities	(14,695)
Total OPEB expenses	\$ 140,850

Actuarial Assumptions

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

Actuarial valuation date	June 30, 2022
Actuarial cost method	Individual Entry age normal
Discount rate	3.69% as of June 30, 2022
Inflation	2.30%
Salary increase	0.00% to 5.50%, not including wage inflation of 2.90%
Demographic Assumptions	The assumptions used in the valuation are the same as those used in the Arizona State Retirement System Annual Actuarial Valuation as of June 30, 2021
Mortality	Healthy Employee: Pub-2010 General Employee Mortality table. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2017. Healthy Retirees and Spouses: 2017 State Retirees of Arizona (SRA) mortality table. Generational mortality improvements in accordance with the Ultimate MP scales (through 2020) and projected from the year 2017. Disabled: Pub-2010 Disabled Retiree Mortality. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2017.
Healthcare Cost Trend Rates	Initial rate of 7.00% declining to an ultimate rate of 4.15% after 13 years.
Participation Rates	35% of employees not currently waiving medical coverage eligible to retire and receive subsidized postretirement welfare coverage were assumed to elect medical coverage. Active members currently declining coverage were assumed to decline coverage at retirement. 30% of retirees are assumed to also have a spouse that elects coverage.
Other Information: Notes	The discount rate changed from 1.92% as of June 30, 2021 to 3.69% as of June 30, 2022. Additionally, the health care trend rates were updated to reflect the plan's anticipated experience.

Arizona State Lottery

Notes to Financial Statements
June 30, 2023

Development of Discount Rate

The discount rate for OPEB funded entirely on a pay-as-you-go basis is the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). For this purpose, we used the Bond Buyer 20-Bond General Obligation Municipal Bond Index. The index value as of the June 30, 2022 measurement date is 3.69%. The index value as of the prior measurement date (June 30, 2021) was 1.92%.

Sensitivity

The following table presents the Lottery's total OPEB liability calculated using the discount rate of 1.92%, as well as what the Lottery's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.69%) or one percentage point higher (4.69%) than the current rate. Also shown is the OPEB liability using the healthcare cost and contribution trend rates that are percentage point lower or 1% point higher than the current rates.

	June 30, 2023		
	1% Decrease (2.69% Discount Rate)	Current (3.69% Discount Rate)	1% Increase (4.69% Discount Rate)
Lottery's Total OPEB Liability	\$ 1,733,380	\$ 1,474,023	\$ 1,268,536
	1% Decrease Trend Rates	Current Trend Rates	1% Increase Trend Rates
Lottery's Total OPEB Liability	\$ 1,222,829	\$ 1,474,023	\$ 1,801,894

10. Major Vendors

The Lottery has three vendors that represent approximately 89% of its purchases for the year ended June 30, 2023.

11. Risk Management

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

Arizona State Lottery

Schedule of the Agency's Proportionate Share of the Net Pension/Total OPEB Liability Cost-Sharing Pension Plan
June 30, 2023

ASRS, Pension	Reporting Fiscal Year (Measurement Date)								
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Lottery's proportion of the net pension liability	0.037010%	0.039830%	0.038018%	0.038858%	0.039409%	0.035910%	0.035630%	0.041980%	4.244200%
Lottery's proportionate share of the net pension liability	\$ 6,040,854	\$ 5,233,485	\$ 6,587,543	\$ 5,654,582	\$ 5,496,308	\$ 5,594,078	\$ 5,751,040	\$ 6,538,813	\$ 6,279,956
Lottery's covered payroll	4,448,476	4,541,270	4,721,633	4,203,658	4,203,413	3,803,924	3,336,442	3,517,362	-
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	135.8%	115.2%	139.5%	134.5%	130.8%	147.1%	172.4%	185.9%	
Plan fiduciary net position as a percentage of the total pension liability	74.26%	78.58%	69.33%	73.24%	73.00%	69.92%	67.05%	68.35%	69.49%
ADOA, OPEB	Reporting Fiscal Year (Measurement Date)								
	2022 (2021)	2021 (2020)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)		
Lottery's proportion of the total OPEB liability	0.116687%	0.150001%	0.120000%	0.120000%	0.120000%	0.120000%	0.120000%		
Lottery's proportionate share of the total OPEB liability	\$ 1,474,023	\$ 1,797,693	\$ 2,210,913	\$ 1,781,561	\$ 1,058,849	\$ 1,011,909	\$ 1,302,971		
Lottery's covered-employee payroll	4,485,872	4,359,448	3,964,231	3,860,011	3,360,126	3,271,788	-		
Lottery's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	32.86%	41.24%	55.77%	46.15%	31.51%	30.93%			

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

See notes to required supplementary information

Arizona State Lottery
Schedule of Agency Pension/OPEB Contributions
June 30, 2023

	Fiscal Year									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
ASRS, Pension										
Statutorily required contribution	\$ 534,262	\$ 529,058	\$ 540,627	\$ 469,969	\$ 458,172	\$ 410,063	\$ 362,004	\$ 382,689	\$ 444,044	\$ 432,185
Lottery's contributions in relation to the statutorily required contribution	534,262	529,058	540,627	469,969	458,172	410,063	362,004	382,689	444,044	432,185
Lottery's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's covered payroll	\$ 4,448,476	\$ 4,541,270	\$ 4,721,633	\$ 4,203,658	\$ 4,203,413	\$ 3,358,108	\$ 3,527,088	\$ 4,081,287	\$ 3,745,104	
Lottery's contributions as a percentage of covered payroll	12.01	11.65	11.45	11.18	10.9	10.7	10.85	10.88	11.54	
ADOA, OPEB										
Required contribution	\$ 40,533	\$ 36,528	\$ 46,958	\$ 39,849	\$ 33,165	\$ 30,879	\$ 32,938			
Lottery's contributions in relation to the required contribution	40,533	36,528	46,958	39,849	33,165	30,879	32,938			
Lottery's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Lottery's covered payroll	\$ 4,485,872	\$ 4,359,448	\$ 3,964,231	\$ 3,860,011	\$ 3,360,126	\$ 3,271,788				
Lottery's contributions as a percentage of covered payroll	0.90%	0.84%	1.18%	1.03%	0.99%	0.94%				

See notes to required supplementary information

Arizona State Lottery
Schedule of Changes in the Agency Total OPEB Liability and Related Ratios
June 30, 2023

	2023	2022	2021	2020	2019	2018
Total OPEB Liability:						
Service cost	\$ 180,739	\$ 185,668	\$ 154,475	\$ 114,257	\$ 86,395	\$ 115,725
Interest	37,636	58,141	59,975	44,758	38,767	36,665
Change of benefit terms	-	-	-	-	-	(100,175)
Difference between expected and actual experience of the total OPEB liability	-	(731,229)	-	57,481	-	-
Difference between expected and actual experience from change in Proportionate Share	-	161,791	-	162,177	-	(49,461)
Changes of assumptions	(505,516)	(40,633)	254,752	377,204	(47,343)	(260,878)
Expected benefit payments*	(36,529)	(46,958)	(39,850)	(33,165)	(30,879)	(32,938)
Net change in total OPEB liability	(323,670)	(413,220)	429,352	722,712	46,940	(291,062)
Total OPEB Liability, Beginning	1,797,693	2,210,913	1,781,561	1,058,849	1,011,909	1,302,971
Total OPEB Liability, Ending	\$ 1,474,023	\$ 1,797,693	\$ 2,210,913	\$ 1,781,561	\$ 1,058,849	\$ 1,011,909
Covered employee payroll**	\$ 4,485,872	\$ 4,359,448	\$ 3,964,231	\$ 3,860,011	\$ 3,360,126	\$ 3,271,788
Plan total OPEB liability as a percentage of covered employee payroll	32.9%	41.2%	55.8%	46.2%	31.5%	30.9%

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

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

See notes to required supplementary information
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Arizona State Lottery

Notes to Required Supplementary Information
June 30, 2023

1. Changes of Assumptions

The Arizona State Retirement System (ASRS) annual actuarial valuation as of June 30, 2023 report is available at:

https://www.azasrs.gov/sites/default/files/pdf/FY22%20ASRS%20GASB%2068_75%20REPORT%20FINAL%20Web%20Version.pdf

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



**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**

Independent Auditors' Report

To the Commissioners of
Arizona State Lottery

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities, of the Arizona State Lottery (the Lottery), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated October 10, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

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Purpose of This Report

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

Baker Tilly US, LLP

Tempe, Arizona
October 10, 2023



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