

# Arizona Lottery

FY24 ANNUAL REPORT  
JULY 2023 - JUNE 2024



# TABLE OF CONTENTS

Arizona Lottery Overview .....	4
Letter From Commission Chair Jeff Weintraub .....	5
Message from Executive Director Alec Thomson.....	6
Winner Gallery.....	10
Retail Partners .....	12
Product Innovation .....	13
Agency Achievements .....	16
Beneficiary Transfers .....	18
Our Beneficiaries.....	19
Our Team.....	22
Our Leadership .....	23
Our Commission.....	23
Report of Independent Auditors .....	24
Required Supplementary Information, Management’s Discussion & Analysis.....	27
Basic Financial Statements: Net Position .....	37
Basic Financial Statements: Revenues, Expenses and Changes in Net Position.....	38
Basic Financial Statements: Cash Flows .....	39
Notes to Basic Financial Statements .....	40
Required Supplementary Informwation.....	59
Report of Independent Auditors 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.....	60



## ARIZONA LOTTERY OVERVIEW

Since the Arizona Lottery sold its first ticket over forty years ago, we have proudly contributed to the dynamic culture, breathtaking landscapes, and iconic wildlife of the Grand Canyon State. Established by Arizonans for Arizonans, our mission has always been clear: to support Arizona programs for the public benefit by maximizing net revenue in a responsible manner. Since our launch on July 1, 1981, we've remained devoted to this goal, ensuring that every lottery sale not only funds our operations but also benefits a range of essential state programs.

To date, we have generated over \$5.6 billion for programs, services, and infrastructure that enhance the quality of life across Arizona. Our efforts have also had a substantial economic impact, with over \$14.2 billion returned to players in prizes and more than \$1.47 billion paid in commissions to our committed retailers. Through our dedication and success, we continue to make a significant difference in Arizona communities.



@ArizonaLottery @AZLottery @AZLottery

## ARIZONA LOTTERY COMMISSION CHAIR, JEFF WEINTRAUB



*When you play, Arizona wins.*



As we conclude Fiscal Year 2024 (FY24), I am honored to highlight the incredible accomplishments of the Arizona Lottery, which have been achieved under the guidance of the Arizona Lottery Commission.

Our role as the Commission is to ensure that the Arizona Lottery leadership develops and markets games that maximize net revenue through responsible play—funds that directly benefit state programs and services that improve the lives of Arizonans. The record-breaking \$1.52 billion in sales this year speaks volumes about the effectiveness of these strategies and the commitment of our retailers, players, and Lottery team.

Appointed by the Governor, our five-member Commission brings together diverse perspectives to shape policies that uphold the integrity and sustainability of the Arizona Lottery. FY24 was no exception. Working with the leadership team, we helped guide efforts to expand community partnerships and introduce innovative products like Arizona Adventure 2.0 in collaboration with the Arizona Office of Tourism. These initiatives not only engage players but also align with our goal of generating significant revenue while enhancing Arizona's natural beauty, educational opportunities, and economic growth.

The lottery leadership team helped drive key outcomes this fiscal year, including more than \$314 million in transfers to essential state programs and services, ensuring that the Lottery's contributions continue to create a meaningful impact. We also saw retailers benefit from their role in this success, with commissions exceeding \$103.8 million, reinforcing the broader economic impact of the Lottery.

As we turn our focus to FY25, the Arizona Lottery Commission remains dedicated to fostering innovation and ensuring that we meet the needs of both our core players and emerging demographics. With strategies that emphasize responsible gaming, diversity, and community engagement, we are committed to positioning the Lottery for continued success while ensuring that every decision we make keeps the well-being of Arizonans at the forefront.

To the leadership team, retailers, and players—thank you for your unwavering support in making the Arizona Lottery a vital part of Arizona's future. Together, we will continue to ensure that the Lottery delivers entertainment and value while uplifting communities across the state.

Jeff Weintraub, Chairperson  
Arizona Lottery Commission





# A MESSAGE FROM EXECUTIVE DIRECTOR ALEC THOMSON

As we reflect back on Fiscal Year 2024 (FY24), the Arizona Lottery stands at the intersection of progress, innovation, and opportunity as we continue to deliver meaningful impact for Arizona communities. This is a moment to celebrate the accomplishments of the past fiscal year and continue our pursuit of remaining a trusted, community-minded gaming enterprise that delivers exciting products and experiences to our players and meaningful impact to our state. We've broken new records and reached new milestones in FY24, thanks to the mission that drives our work, to strengthen the quality of life for every Arizonan.

The impact we deliver for Arizona is made possible by the unwavering dedication of our team, our retailers, our partners, and our players. Together, we have charted a path forward that will help the Arizona Lottery remain competitive and innovative, while preserving the integrity of our games, strengthening our position as a leader in the gaming and lottery industries, and as a vital source of revenue for the State of Arizona.

### **FY24: A Year of Record-Breaking Success and Engagement**

This fiscal year, the Arizona Lottery achieved \$1.52 billion in sales—a remarkable accomplishment that reflects our strategies' effectiveness, our players' enthusiasm, and the strength of our partnerships. This milestone marks yet another record in the Lottery's history and underscores the impact of our continued innovation in game development, marketing, and community outreach.

Our contributions go far beyond financial achievements. We remain committed to empowering the people and communities of Arizona through initiatives that not only entertain, but enrich lives. Our approach in FY24 focused on both immediate wins and lasting legacies.

Key to our success this year was our expansion of experiential prizing. These unique rewards offered players more than just cash—they provided immersive experiences that connected participants with exciting, once-in-a-lifetime opportunities. Whether it was an adventure, a special event, or a customized experience, our players embraced this new way to win, demonstrating their desire for engagement beyond traditional prizes.

We also reintroduced the much-anticipated Arizona Adventure 2.0, an evolution of our successful Arizona Adventure Scratchers® ticket. In partnership with the Arizona Office of Tourism and Arizona State Parks, this revamped version celebrated three new iconic Arizona landscapes, inviting players to explore the beauty of our state while participating in a fun, rewarding game. This initiative reflects our commitment to celebrating Arizona's natural wonders and encouraging our players to experience the diverse landscapes firsthand.

### Strengthening Community Relationships and Expanding Reach

In FY24, we made significant strides in strengthening our community relationships. Our Gives Back program expanded to reach more beneficiaries, amplifying our support of initiatives that empower Arizona’s most vulnerable populations, preserve our state’s natural resources, and promote education and economic development. These partnerships remain central to our mission, and we are proud of the lasting impact they continue to have across Arizona.

This year also saw us deepen our partnerships with our retailers. The trust and collaboration of our retail partners play a crucial role in our success, and in FY24, retailer commissions reflected this, providing a robust return for those who helped make our games accessible to players across the state. The success of our retailers is directly tied to the Lottery’s overall growth, and we remain committed to further strengthening these relationships as we move forward.

### Supporting Arizona’s Economy and Communities

Our record-breaking \$1.52 billion in sales is more than just a number—it represents our steadfast commitment to fueling Arizona’s economy. This achievement translated into millions of dollars in transfers to our beneficiaries, who in turn support critical state programs and services that strengthen Arizona communities. The Lottery’s role as a key contributor to the state’s economic growth is something we take great pride in, and our impact will continue to grow as we innovate and expand.

As we reflect on the economic impact of our efforts, here are some key highlights of our contributions over FY24:

- \$314,890,645 to support our 17 beneficiaries in FY24
- \$103,841,743 in Retailer commissions
- \$1,027,857,925 paid out in total prizes

In addition to financial contributions, the Lottery fosters an inclusive culture that embraces diversity, community, and shared experiences. This year, we prioritized expanding our outreach and engagement efforts, ensuring that more Arizonans feel connected to the Lottery’s mission. Our diverse range of initiatives—from the introduction of new games to our partnerships with local organizations—illustrates our commitment to uplifting and empowering all communities across the state.

### Looking Ahead: Strategies for FY25 and Beyond

As we prepare for Fiscal Year 2025 (FY25), our focus remains on innovation, community impact, and enhanced player experiences. FY25 represents a fresh chapter for the Arizona Lottery, and we are excited to explore new opportunities and implement strategies that will continue driving our success.

Key to our plan for FY25 is revitalizing our engagement with retailers. Our retail partners are the cornerstone of our success, and we are committed to creating more activations that strengthen our connection to the

marketplace. By expanding our partnerships, we aim to foster larger collaborations and increase the impact of our Gives Back initiatives.

In FY25, we are also looking to increase sales, particularly through our Scratchers portfolio. These tickets remain a vital part of our product offering, and we will focus on both driving awareness of existing products and introducing new games that appeal to a broad range of players. Renewing interest from our core players will be central to this effort, but we are also eager to attract Millennial and Gen Z players through more tailored experiences and marketing approaches.

Our FY25 strategies include:

Revitalizing Player Engagement through Elevated Winner Stories: By telling the stories of our players and their life-changing wins, we will foster a deeper connection between the Lottery and our community.

Amplifying Diversity and Inclusion: We are dedicated to ensuring that the Arizona Lottery reflects the diversity of the communities we serve. From our games to our community partnerships, inclusion will remain a key focus.

Driving Event and Ticket Van Engagement: The Arizona Lottery is about more than just playing—it’s about creating memorable experiences. We will elevate the role of our Ticket Van at events to increase engagement and excitement across the state.


Enhancing Community Impact through Gives Back Partnerships: Our Gives Back program will expand through larger partnerships, providing more substantial support to the organizations and communities that need it most.

Increasing Awareness of Strategic Jackpot Games: Jackpot games like Powerball® and Mega Millions® are essential to our mission, and we will continue to increase awareness of these games to maximize their impact.

### Building a Stronger Future Together

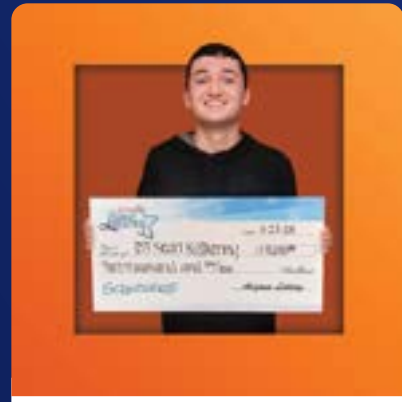
As I reflect on FY24 and look toward FY25, I am filled with pride and optimism. The Arizona Lottery is stronger than ever, and our potential for continued growth and impact is limitless. I am deeply thankful for the support of our players, partners, and team members. Together, we will continue to create an Arizona Lottery that entertains, empowers, and enriches lives across the state.

Your trust and belief in our mission make everything we do possible. Thank you for being part of our journey and for helping us build a brighter, more prosperous future for Arizona.



Alec Thomson  
Executive Director, Arizona Lottery





**\$10,000**  
📍 Scottsdale, AZ



**\$50,000**  
📍 Phoenix, AZ



**\$1,000**  
📍 Phoenix, AZ



**\$10,000**  
📍 Phoenix, AZ

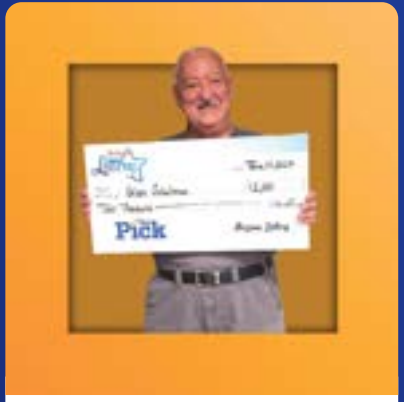


**\$1,000,000**  
📍 Peoria, AZ



**\$1,000**  
📍 Phoenix, AZ

# WINNER GALLERY



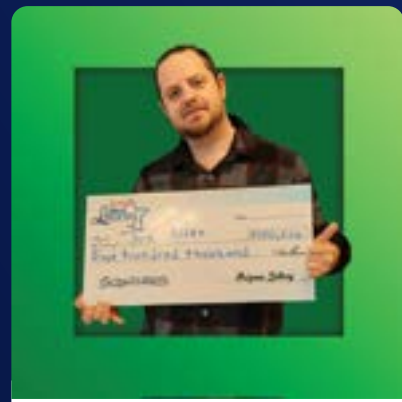
**\$2,000**  
📍 Phoenix, AZ



**\$1,000**  
📍 Tucson, AZ



**\$50,000**  
📍 Tonopah, AZ



**\$500,000**  
📍 Tucson, AZ



**\$1,000**  
📍 Maricopa, AZ



**\$2,000**  
📍 Tucson, AZ



**\$2,000**  
📍 Phoenix, AZ



**\$1,000**  
📍 Mesa, AZ



**\$500**  
📍 Phoenix, AZ

## RETAIL PARTNERS

The Arizona Lottery is proud to partner with more than 3,500 retailers statewide. This extensive network ensures an engaging experience and fosters lasting connections with our loyal customers.

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

### RETAILER COMMISSION & BONUS

As an Arizona Lottery retail partner, each store enjoys a 6.5 percent commission on all Lottery sales, with the added opportunity to earn an extra 0.5 percent performance incentive and various bonuses through Lottery promotions.



In FY24, the Arizona Lottery paid out over \$103.8 million in commissions and incentives to retailers across the state. This vital support helps our retailers thrive by increasing store traffic, boosting sales, and fostering long-term relationships with their customers. More importantly, every ticket sold by these retailers contributes to the well-being of Arizona communities.

Retailers who sell high-tier winning tickets—such as \$1 million or more Powerball and Mega Millions jackpots, The Pick™ jackpot winners, or select Scratchers tickets—can earn bonuses of up to \$50,000. In FY24, retailers earned over \$2.6 million in sales growth incentives and high-tier winning ticket bonuses, demonstrating their key role in our shared success.

By partnering with the Arizona Lottery, retailers are not just running a business—they're actively supporting essential state programs and making a positive impact on their communities. For information on licensing and renewals, please contact 480-921-4486 or visit [ArizonaLottery.com/Retailers](https://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 February 2024, the Arizona Lottery launched the second edition of 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, we developed an adventure-filled, interactive website where players could enter their Arizona Adventure tickets and check in at 10 popular recreation areas 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 1.2 million tickets were sold, representing \$6,381,435 in sales.
- The promotion engaged more than 81,000 unique users and more than 1.8 million eligible tickets were entered.





## Million Dollar Crossword

- The Arizona Lottery rolled out its first \$30 crossword Scratchers ticket, “Million Dollar Crossword,” in June 2024.
- The Million Dollar Crossword ticket is the first ever \$30 Crossword game from the Arizona Lottery with a chance to win up to \$1 million, plus, there are over \$50 million in total prizes, with overall odds of winning any prize of 1 in 2.3.
- This ticket was featured in three separate Players Club promotions. With the ticket, players were able to receive 30 Entries into the Bingo & Crossword Giveaway, 30 Entries into the Caliente Cash Million Dollar Getaway, and one entry into the \$500K Giveaway - an exclusive promotion for Million Dollar Crossword.

## Fast Play

- The Arizona Lottery launched the Caliente Cash Fast Play ticket and Promotion on April 2024.
  - The \$5 Fast Play ticket offered players a chance to win a top prize of \$10,000 and all winning and non-winning tickets could be entered into the Caliente Cash promotion in Players Club.
  - 30 Arizona Lottery winners and a guest won a trip to Miami to experience Billboard Latin Music Week as a VIP.
- The Arizona Lottery launched the Windfall Willie Doubler Fast Play ticket as a nod and cross-promotion to the Lucky Lounge platform.
  - This \$10 Fast Play game has a top prize of \$25,000 and was launched in December 2023
  - The ticket featured a QR code that took players to the Lucky Lounge within the Players Club to “continue playing.”





# AGENCY ACHIEVEMENTS

The Arizona Lottery is recognized throughout the industry as a thought leader and source of excellence and integrity. In FY24, 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 FY24 as multiple professional lottery and marketing organizations and others recognized the excellence that was the Arizona Lottery in FY24, including:

## PHOENIX ADDYS

- **Bronze, Local Television Advertising Campaign**  
Summer Scratchers

## ARIZONA GOVERNOR'S TOURISM AWARD

- **Best Tourism Partnership**  
Arizona Adventure

## NORTH AMERICAN ASSOCIATION OF STATE AND PROVINCIAL LOTTERIES (NASPL)

- **Social Media - Multicultural/Community Engagement**  
Lucky Dog Reels

## AZIMA TIM AWARDS

### EXCELLENCE AWARDS

- **Social Influencer Marketing:** Holiday Campaign
- **Social Influencer Marketing:** Arizona Adventure 2.0
- **Integrated Consumer Campaign:** Arizona Adventure 2.0

## PRSA COPPER ANVIL

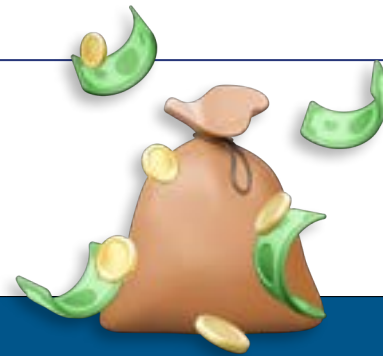
### COPPER ANVIL AWARDS












- **Integrated Communications:** Arizona Adventure 2.0
- **Socail/Influencer Marketing:** Arizona Adventure 2.0
- **Socail/Influencer Marketing:** Holiday



## BENEFICIARY TRANSFER

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.



FY24 BENEFICIARY TRANSFERS	
 General Fund	\$217,294,062
 University Bond	\$36,739,475
 Healthy Arizona	\$25,407,200
 Mass Transit (LTAF)	\$11,368,800
 Heritage Fund	\$10,000,000
 Court Appointed Special Advocates (CASA)	\$7,956,108
 Commerce Authority Arizona Competes Fund	\$3,500,000
 Internet Crimes Against Children	\$1,000,000
 Economic Security Homeless Services	\$1,000,000
 Tribal College Dual Enrollment Fund	\$325,000
 Department of Gaming	\$300,000
<b>Total Beneficiary Transfers</b>	<b>\$314,890,645</b>

## OUR BENEFICIARIES

### UNIVERSITY BOND FUND

Used for the University Capital Improvement Lease-to-Own and Bond (UCI) Fund, these dollars to date have provided valuable debt service for more than \$689 million in financing. This money has allowed the state's three universities to build out critical research and academic expansions while also addressing deferred maintenance on older buildings.

### HEALTHY ARIZONA

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

### LOCAL TRANSPORTATION ASSISTANCE FUND

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

### HERITAGE FUND

The Heritage Fund protects endangered species, acquires 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, reintroducing critical species to Arizona, and much more.

### ARIZONA COMPETES FUND

The Arizona Lottery contributes to the Arizona Commerce Authority 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 provides 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 advocating 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 comprises investigators from city, county, state, and federal agencies. Particular 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 Victims’ Rights Enforcement Fund, administered by the Department of Public Safety, benefits the Arizona Attorney General’s Office of Victim Services. The primary focuses of the fund are providing legal representation to enforce the rights of crime victims as counsel of record in criminal cases, as well as providing social services to assist crime victims during the course of legal representation.

**DIVISION OF PROBLEM GAMBLING**

Through the Arizona Department of Gaming, the Division of Problem Gambling provides and supports effective problem gambling prevention, treatment, and education programs throughout the state. The Arizona Lottery helps keep a sustainable continuum of services to 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 allows students to take a college course to simultaneously earn high school and college credit.

**HEALTHY FAMILIES ARIZONA**

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





## OUR 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 \$5.5 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.



## OUR LEADERSHIP



**Alec Thomson**  
Executive 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, we all win.



**Kome Akpolo**  
General Counsel



**Russ Harben**  
Deputy Director:  
Operations



**Mia Lemke**  
Human Resources  
Manager



**Chris Rogers**  
Chief Marketing  
Officer



**Todd Terrell**  
Deputy Director:  
Security and  
Regulatory Division

## OUR 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 Representation:  
Certified Public Accountant  
Jan 2010 - Jan 2025



**Tereza Fritz**  
Representation:  
Marketing  
May 2023 - Jan 2027



**Todd E. Newman**  
Vice Chair Representation:  
Retailer  
July 2022 - Jan 2027



**Mario L. Aniles**  
Representation:  
Public At Large  
Jan 2024 - Jan 2028



**Shannon Scheel**  
Representation:  
Law Enforcement  
Jan 2024 - Jan 2029

\*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, 2024

## 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, 2024, 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-activities of the Arizona State Lottery as of June 30, 2024 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, 2024, 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.

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.

### **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 as listed in the table of contents, including the management's discussion and analysis, the schedule of proportionate share of the net pension/total OPEB liability, the schedule of contributions, and the schedule of changes in total OPEB liability and related ratios be presented to supplement the basic financial statements. Such information 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 other information 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 November 5, 2024 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  
November 5, 2024



**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, 2024, 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, 2024. The statement of net position; the statement of revenues, expenses, and changes in net position; and the notes are presented using the accrual method of accounting. Under this method, financial transactions are recorded when earned or incurred regardless of when cash is received or disbursed. The statement of cash flows reflects cash receipts and disbursements during the same 12-month period.

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

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

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

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

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

---

**FINANCIAL HIGHLIGHTS**

- The Arizona Lottery (Lottery) again surpassed \$1.5 billion in total sales, achieving record sales of approximately \$1.53 billion in fiscal year 2024. This reflects an increase of slightly less than 1% over the prior fiscal year, primarily driven by jackpot activity.
- The Lottery returned \$314.9 million to designated state programs in fiscal year 2024, with all beneficiaries receiving full funding. Since its inception in July 1981, the Lottery has generated approximately \$5.6 billion for Arizona programs.
- Draw game sales reached historic levels in fiscal year 2024. Sales of \$479.2 million represented an increase of 9.3% over the previous year. This increase was primarily driven by five separate Powerball and Mega Millions jackpots that exceeded \$1 billion during the year. Sales for in-state draw games also experienced significant growth as well. The Lottery's Triple Twist game displayed an impressive increase of over 42% compared to the prior year.
- Scratchers game sales experienced a decline of approximately 2.8%, reaching \$1.03 billion in fiscal year 2024. For the third year in a row, sales of \$30 tickets experienced the largest year-over-year decrease, which coincides with the introduction of \$50 tickets beginning in fiscal year 2022. Scratchers sales were lower for most other price points, while \$50 and \$20 tickets continued to experience growth. Changes in product merchandising at Lottery retailers combined with growing adoption of self-checkout also contributed to the broader decline.
- Sales for the instant tab product line had respectable growth in its niche market (primarily age-restricted establishments, charitable groups, and fraternal organizations). Total instant tab sales increased by about \$416 thousand from the prior fiscal year, representing a growth rate of approximately 2.7%. Sales of instant tabs at charitable locations declined by nearly 8%, while sales at age-restricted venues saw growth of over 17% compared to the prior year.
- The Lottery's retail partners earned almost \$104 million in commissions and incentives in fiscal year 2024, approximately the same as the previous fiscal year.

**REVENUES**

Total game sales were approximately \$1.53 billion for fiscal year ended June 30, 2024 as compared to \$1.52 billion for fiscal year ended June 30, 2023, reflecting an increase in draw game products and a decrease in instant game products. The overall sales growth of \$11.5 million represented a 0.8% increase over the prior year.

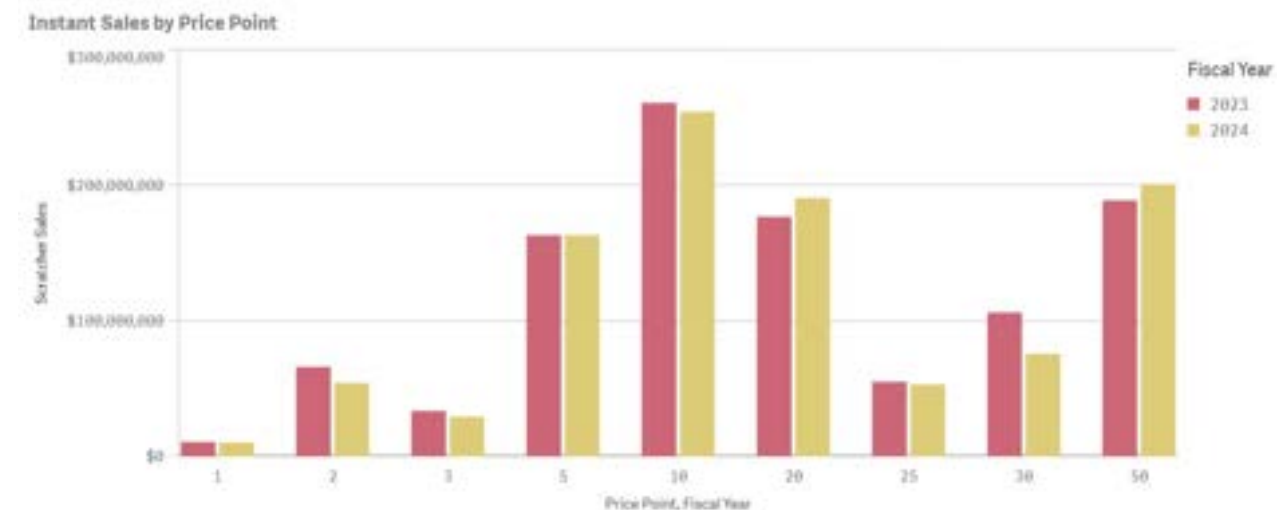
The following table summarizes Lottery total sales by game and the incremental change between fiscal years. All revenues are presented in millions of dollars. (Note: due to rounding, some figures may be slightly different from the statement of revenues, expenses, and changes in net position detailed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

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

this report).

Product Sales (in millions)	FY 2024	FY 2023	Change	Percentage
Scratchers	\$ 1,033.1	\$ 1,063.0	\$ (29.8)	-2.8%
Instant Tabs	15.9	15.4	0.4	2.7%
Powerball	193.8	162.4	31.4	19.4%
Mega Millions	127.7	142.3	(14.6)	-10.2%
The Pick	41.0	32.1	8.9	27.7%
Fantasy 5	19.4	18.8	0.6	3.3%
Pick 3	17.3	16.3	1.0	6.0%
Triple Twist	25.2	17.7	7.5	42.2%
Fast Play	51.9	46.2	5.8	12.5%
Quick Draw	3.0	2.6	0.4	15.7%
<b>TOTAL:</b>	<b>\$ 1,528.2</b>	<b>\$ 1,516.7</b>	<b>\$ 11.5</b>	<b>0.8%</b>

The instant ticket product line (Scratchers/Instant Tabs) had a sales decline of \$29.4 million over the prior year (\$29.8 million from Scratchers games and a \$0.4 million increase for instant tab tickets). Sales of \$5, \$20 and \$50 Scratchers grew compared to FY 2023, while all other price points experienced a year-over-year decline. The chart below displays a comparison of Scratchers sales by price point for FY 2024 and FY 2023:

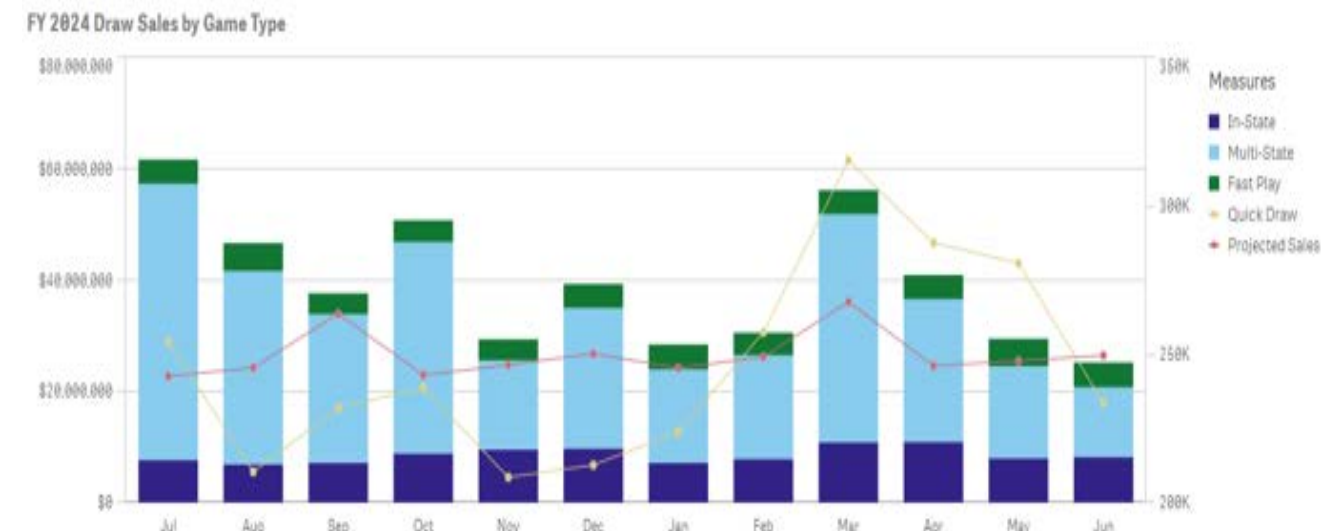


In general, draw game sales are largely jackpot-driven, impacting sales increases or decreases in any given year. FY2024 saw significant jackpot activity that produced 9.4% growth compared with FY 2023. In particular, the multi-state draw games Powerball and Mega Millions experienced four jackpots that reached \$1 billion or more, compared to three jackpots in FY2023. These games generated sales of over

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

\$321M, growing by 5.5% year-over-year. In-state draw games also experienced significant jackpot activity, which caused sales to grow by 21% to over \$102M. Sales of Fast Play and Quick Draw games also both grew by double-digit percentages in FY 2024.

The following chart depicts draw game sales for FY 2024 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 \$674,113 for FY 2024, 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 (\$295,379) for FY 2024. Total operating revenues, the sum of game sales and other operating revenues, less sales returns and allowances were approximately \$1.529 billion for the year ended June 30, 2024, as compared to \$1.516 billion for the year ended June 30, 2023. This increase was primarily a reflection of higher overall draw game sales.

Non-operating revenue (investment income) for the year ended June 30, 2024, was \$1,244,538 as compared to \$939,860 for the year ended June 30, 2023. 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 higher compared to the prior year due to more favorable interest rates paid on the Lottery's cash deposits.

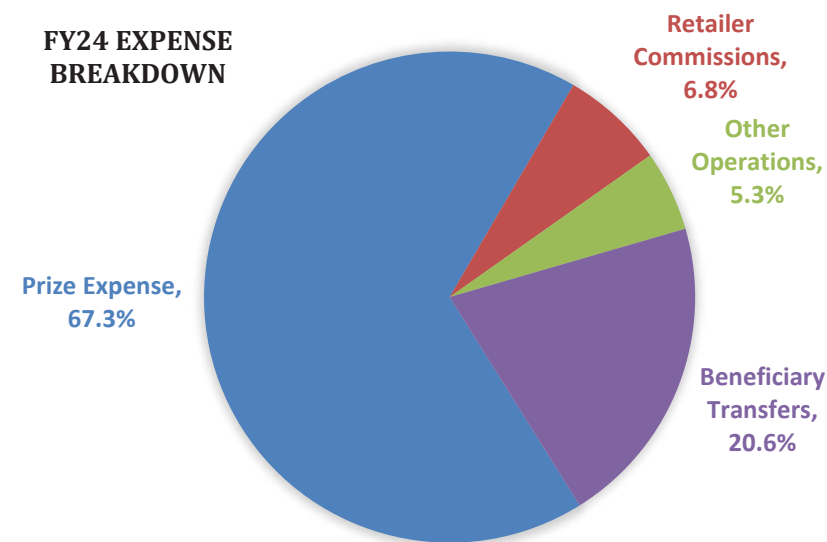
**EXPENSES**

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



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

various state beneficiaries based on statutory requirements. The following chart provides a high-level percentage breakdown of Lottery expenses for FY 2024:



Lottery total operating expenses were \$1.216 billion for fiscal year ended June 30, 2024 as compared to \$1.205 billion for fiscal year ended June 30, 2023.

Of this amount, the Lottery spent \$1.188 billion (77.7%) on game expenses in FY 2024, compared to \$1.174 billion (77.4%) of total operating expenses in FY 2023. 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 network.

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 \$27.8 million in FY 2024 as compared to \$30.9 million in FY 2023.

The following table compares Lottery total operating expenses between fiscal years. All expenses are presented in millions of dollars. (Note: due to rounding, some figures may be slightly different from the 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)**

Operating Expenses (in millions)	FY 2024	FY 2023	Change	Percentage
Instant & Online Prizes	\$ 1,027.9	\$ 1,020.7	\$ 7.2	0.7%
Retailer Commissions & Incentives	103.8	103.8	0.1	0.1%
Online System Expense	20.4	18.8	1.5	8.2%
Instant Ticket Distribution Expenses	22.7	18.7	4.0	21.5%
Instant Ticket Printing Expenses	13.2	12.5	0.8	6.1%
Total Direct Costs	1,188.0	1,174.4	13.6	1.2%
Other Operating Expenses	27.8	30.9	(3.1)	-10.1%
<b>TOTAL:</b>	<b>\$ 1,215.8</b>	<b>\$ 1,205.4</b>	<b>\$ 10.4</b>	<b>0.9%</b>

Increases/decreases in prize expense, retailer commissions, and online system expenses typically correlate with increases/decreases in product sales. The increase in the instant ticket distribution category was largely due to increased costs for goods and services supporting instant ticket sales. Aggregate prize expense represented 67.2% of product sales in FY 2024 compared to 67.3% of product sales in FY 2023. Prize expense for both instant and draw games expressed as a percentage of sales, were 73.6% and 53.3%, respectively, which were both comparable to the prize expense percentages for FY 2023.

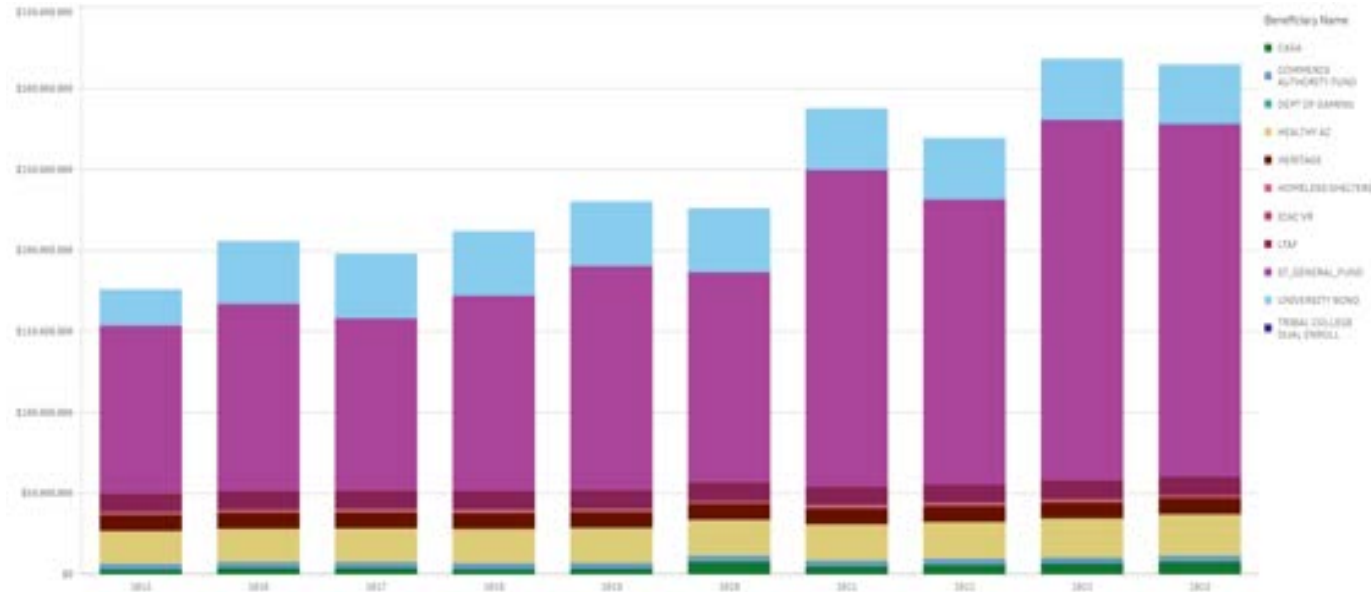
Of the \$27.8 million for other operating expenses in FY 2024, the Lottery spent \$15.0 million on advertising and promotion, \$6.4 million to compensate Lottery employees, \$4.1 million on depreciation, and \$2.3 million for other administrative expenses. In comparison, of the \$30.9 million spent on other operating expenses for 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. Lower year-over-year other operating expenses were primarily due to lower administrative expenses driven by temporary budget saving measures implemented in FY 2024, as well as lower depreciation on fixed assets.

**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 \$314.9 million in FY 2024, as compared to \$318.4 million transferred in FY 2023, with all designated beneficiary programs receiving full funding. Although product sales were slightly higher in FY 2024 compared to FY 2023, total transfers declined by approximately 1.1%. The decline was due to lower overall profitability of Scratchers ticket sales, which saw a decline in total transfers of 10.8% versus FY 2023. The growth of sales of \$50 and \$20 tickets, which have higher prize payouts, combined with the decline in more profitable lower price point tickets, caused the overall transfer rate for Scratchers games to drop from 16.5% of sales in FY 2023, to 15.1% of sales in FY 2024. The total transfer rate as a percentage of overall sales was 20.6% in FY 2024 compared to 21.0% in FY 2023. The following chart outlines transfers to Lottery beneficiaries over the

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

last 10 years:



**OTHER FINANCIAL INFORMATION**

**Net Position.** The Lottery's total net position was \$29.0 million at June 30, 2024 as compared to \$29.8 million for June 30, 2023.

The Lottery's total assets at June 30, 2024 were \$261.8 million, as compared to \$255.5 million the previous year. Assets consisted primarily of cash held by the State Treasurer, net receivables from Lottery retailers for the sale of Lottery products, Scratchers inventory, 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 2024, partially offset by additional depreciation of Lottery vending machines.

Total liabilities at June 30, 2024 were \$231.6 million, as compared to \$225.7 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 increased prize liability in FY 2024, due to the increase in sales compared to FY2023 and the shift in sales to higher price point Scratchers tickets.

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

<b>Statement of Net Position (in millions)</b>	<b>FY 2024</b>	<b>FY 2023</b>
Current Assets	\$ 232.1	\$ 222.2
Capital Assets	19.2	23.2
Other Assets	10.5	10.1
<b>Total Assets</b>	<b>261.8</b>	<b>255.5</b>
Deferred Outflows of Resources	1.1	1.6
<b>Total Assets and Deferred Outflows of Resources</b>	<b>262.9</b>	<b>257.1</b>
Current Liabilities	224.1	216.8
Non Current Liabilities	7.5	9.0
<b>Total Liabilities</b>	<b>231.6</b>	<b>225.7</b>
Deferred Inflows of Resources	2.3	1.5
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>233.9</b>	<b>227.3</b>
<b>Net Position</b>	<b>29.0</b>	<b>29.8</b>
<b>TOTAL LIABILITIES AND NET POSITION:</b>	<b>262.9</b>	<b>257.1</b>

**BUDGETARY/APPROPRIATION HIGHLIGHTS**

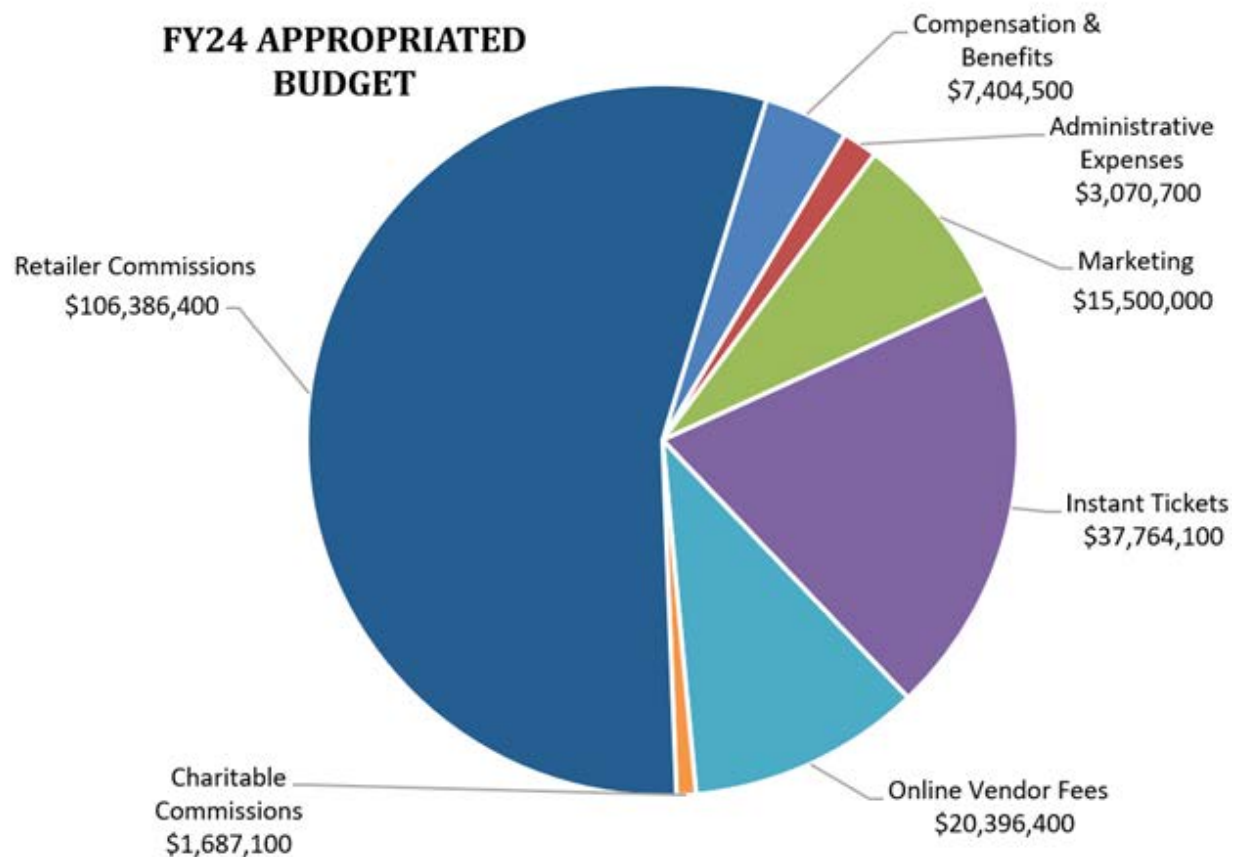
The Lottery's budget is determined by legislative appropriation on an annual basis, and by statute cannot exceed 18.5% of annual revenues. The budget for FY 2024 was approved in the 2023 regular legislative session. The Lottery's appropriation for sales-related expenditures is allowed to adjust without 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 \$188.8 million for FY 2024 based on an estimated \$1.54 billion in total sales; however, the spending authority was adjusted to \$192.2 million due to draw game revenues and retailer commissions exceeding original estimates.

The following chart depicts the breakdown of the revised FY 2024 appropriated budget of \$192.2 million:



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



**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 2024 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, 2024

**Assets and Deferred Outflows of Resources**

<b>Current Assets</b>		
Cash, substantially all held by the State Treasurer		\$ 213,121,391
Accounts receivable, net of allowance for doubtful accounts of \$1,053,800		10,683,140
Scratch ticket inventory		7,515,839
Pull tab inventory		410,362
Quick card inventory		333,774
<b>Total current assets</b>		<u>232,064,506</u>
<b>Capital Assets</b>		
Land and land improvements		1,268,695
Buildings		4,309,192
Furniture, fixtures and equipment		39,767,200
Intangible assets		599,324
Leasehold improvements		328,341
Right to use, lease		1,546,787
Less accumulated depreciation and amortization		<u>(28,627,791)</u>
<b>Total capital assets</b>		<u>19,191,748</u>
<b>Other Assets</b>		
Deposit, MUSL		<u>10,538,805</u>
<b>Total assets</b>		<u>261,795,059</u>
<b>Deferred Outflows of Resources</b>		
Related to pensions, ASRS		660,814
Related to OPEB, ADOA		<u>449,402</u>
<b>Total deferred outflows of resources</b>		<u>1,110,216</u>
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable		6,291,622
Accrued expenses		409,407
Prize liability		99,622,175
Due to other state funds		117,654,062
Current portion of:		
Lease liability		62,820
Total OPEB liability, ADOA, net of current		<u>17,888</u>
<b>Total current liabilities</b>		<u>224,057,974</u>
<b>Noncurrent Liabilities</b>		
Lease liability, net of current		1,312,875
Net pension liability, ASRS		5,631,143
Total OPEB liability, ADOA		<u>587,954</u>
<b>Total noncurrent liabilities</b>		<u>7,531,972</u>
<b>Total liabilities</b>		<u>231,589,946</u>
<b>Deferred Inflows of Resources</b>		
Related to pensions, ASRS		558,854
Related to OPEB, ADOA		<u>1,744,632</u>
<b>Total deferred inflows of resources</b>		<u>2,303,486</u>
<b>Net Position</b>		
Net investment in capital assets		17,816,053
Restricted for additional prizes in future games		<u>11,195,790</u>
<b>Total net position</b>		<u>\$ 29,011,843</u>

See notes to financial statements

**Arizona State Lottery**Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2024**Operating Revenues**

Ticket sales:	
Scratchers	\$ 1,033,139,695
Powerball	193,784,040
The Pick	40,950,043
Fantasy 5	19,441,017
Pick 3	17,298,718
Mega Millions	127,693,078
Quick Draw	2,955,116
Triple Twist	25,185,276
Instant Tab	15,862,740
Fast Play	51,931,276
Total ticket sales	1,528,240,999
Sales returns and allowances	(295,379)
Net ticket sales	1,527,945,620
Other operating revenues	674,113
Total operating revenues	1,528,619,733
<b>Operating Expenses</b>	
Direct costs:	
Prize expense	1,027,857,925
Retailer commissions and incentives	103,841,743
Online system expense	20,366,677
Scratcher system and distribution expenses	22,713,679
Tickets purchased	13,224,992
Total direct costs	1,188,005,016
Advertising and promotion	14,993,456
Wages and related expenses	6,363,263
Depreciation	4,103,940
Administrative expenses	2,339,557
Total operating expenses	1,215,805,232
<b>Operating Income</b>	312,814,501
<b>Nonoperating Revenues / (Expenses)</b>	
Investment income	1,265,867
Interest expenses	(21,329)
Nonoperating revenues / expenses	1,244,538
<b>Income Before Transfers</b>	314,059,039
<b>Transfers to Other State Funds</b>	314,890,645
Change in net position	(831,606)
<b>Net Position, Beginning</b>	29,843,449
<b>Net Position Ending</b>	\$ 29,011,843

See notes to financial statements

**Arizona State Lottery**Statement of Cash Flows  
Year Ended June 30, 2024**Cash Flows From Operating Activities**

Cash received from retailers, net of validations, commissions and incentives	\$ 641,390,246
Cash received from other sources	4,837,993
Cash payments for prizes and related taxes	(239,022,760)
Cash payments to suppliers of goods or services	(71,432,831)
Cash payments to employees	(6,474,112)
Net cash provided by operating activities	329,298,536
<b>Cash Flows Used by Noncapital Financing Activities</b>	
Payments to beneficiaries per Arizona statutes	(319,881,742)
<b>Cash Flows Used By Capital Financing Activities</b>	
Payments for acquisition of capital assets	(68,324)
Principal paid on leases	(59,864)
Interest paid on leases	(21,329)
Net cash used for capital financing activities	(149,517)
<b>Cash Flows From Investing Activities</b>	
Receipts of interest	1,245,688
Net increase (decrease) in cash	10,512,965
<b>Cash, Beginning</b>	202,608,426
<b>Cash, Ending</b>	\$ 213,121,391
<b>Reconciliation of Operating Income to Net Cash Provided</b>	
<b>Operating Activities</b>	
Operating income	\$ 312,814,501
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	4,103,940
(Increase) decrease in:	
Accounts receivable	(1,544,082)
Ticket inventory	2,200,588
Deposit, MUSL	(420,390)
Deferred outflows of resources related to pensions and other postemployment benefits	450,695
Increase (decrease) in:	
Accounts payable and accrued expenses	(1,386,730)
Prize liability	13,583,853
Net pension and total OPEB liability	(1,277,892)
Deferred inflows of resources related to pensions and other postemployment benefits	774,053
Net cash provided by operating activities	\$ 329,298,536

See notes to financial statements



## Arizona State Lottery

Notes to Financial Statements  
June 30, 2024

### 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, 2023 through June 30, 2024, the Lottery held 105 instant games of which 45 games expired during the fiscal year. During 2024, 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 \$10.5 million at June 30, 2024. 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 follow 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, 2023 to June 30, 2024.
- 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 represent 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, 2024

### 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:

	<u>Years</u>
Buildings	40
Improvements	40
Fixtures and equipment	3-10
Intangible assets	6

### Investments and Investment Income

The provisions of Governmental Accounting Standards Board (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, 2024

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 Victims' 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. FY24 transfers from forfeited unclaimed prizes to the Internet Crimes Against Children Fund and Victims' Rights Enforcement Fund were \$8,381,108. All remaining forfeited unclaimed prizes offset prize expense.

Prize liability activity for the year ended June 30, 2024 as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Prize liability	\$ 86,038,322	\$ 1,170,899,660	\$ (1,157,315,807)	\$ 99,622,175

**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, 2024, the Fund's accounts payable and accrued expenses balance includes an accrual of vacation pay and related benefits of \$409,407. 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, 2024

**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](http://www.aztreasury.gov) or by contacting the Treasurer's Office at 1700 West Washington St., 1<sup>st</sup> 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, 2024

At June 30, 2024, the Lottery's deposits with the Treasurer were as follows:

Cash	\$ 159,816,757
Prize fund cash	<u>53,304,634</u>
Total cash and investments held by State Treasurer	<u>\$ 213,121,391</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, 2024, 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. requires 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, 2024, as follows:

General Fund	\$ 217,294,062
University Bond Fund	36,739,475
Healthy Arizona	25,407,200
Local Transportation Assistance Fund, Mass Transit	11,368,800
Heritage Fund	10,000,000
Commerce Authority Arizona Competes Fund	3,500,000
Court-appointed Special Advocate Fund	7,956,108
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' Rights Enforcement Fund	<u>100,000</u>
Total transfers to other state funds	<u>\$ 314,890,645</u>

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

Included in the above transfer, \$117,654,062 was due to the State General Fund as of June 30, 2024.

## Arizona State Lottery

Notes to Financial Statements  
June 30, 2024

### 4. Capital Assets

Capital asset activity for the year ended June 30, 2024 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated/amortized:				
Land	\$ 937,830	\$ -	\$ -	\$ 937,830
Capital assets, being depreciated/amortized:				
Land improvements	330,865	-	-	330,865
Buildings and leasehold improvements	4,637,533	-	-	4,637,533
Furniture, fixtures and equipment	39,698,875	68,325	-	39,767,200
Intangible assets	599,324	-	-	599,324
Right to use assets, leases:				
Buildings	1,546,787	-	-	1,546,787
Total capital assets	<u>47,751,214</u>	<u>68,325</u>	<u>-</u>	<u>47,819,539</u>
Less accumulated depreciation/amortization:				
Land improvements	(330,865)	-	-	(330,865)
Buildings and leasehold improvements	(3,971,573)	(120,865)	-	(4,092,438)
Furniture, fixtures and equipment	(19,465,452)	(3,904,757)	-	(23,370,209)
Intangible assets	(599,324)	-	-	(599,324)
Right to use assets, building leases	(156,636)	(78,319)	-	(234,955)
Total accumulated depreciation/amortization	<u>(24,523,850)</u>	<u>(4,103,941)</u>	<u>-</u>	<u>(28,627,791)</u>
Total capital assets, net	<u>\$ 23,227,364</u>	<u>\$ (4,035,616)</u>	<u>\$ -</u>	<u>\$ 19,191,748</u>

### 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, 2024

### 6. Commitments

The following is a summary of changes in long-term commitments for the year ended June 30, 2024:

	Beginning of Year	Additions	Retirements	End of Year	Due Within One Year
Prize liability	\$ 86,038,322	\$ 1,170,899,660	\$ (1,157,315,807)	\$ 99,622,175	\$ -
Lease liabilities	1,435,559	-	(59,864)	1,375,695	62,820
Net pension liabilities	6,040,854	544,957	(954,668)	5,631,143	-
OPEB liabilities	1,474,023	52,051	(920,232)	605,842	17,888
Total long-term liabilities	\$ 94,988,758	\$ 1,171,496,668	\$ (1,159,250,571)	\$ 107,234,855	\$ 80,708

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 rental 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 in December 2024. The monthly rental is based on the percentage of sales. Rent expense for the facilities was approximately \$134,767 for the year ended June 30, 2024.

In 2020, the Lottery entered into a three-year agreement for retail space at the Walmart in Kingman, Arizona effective April 12, 2020 for approximately \$1,500 per month with the option to extend the agreement term for two additional three year periods and will expire April 2029. Rent expenses for the facilities were approximately \$18,000 for the year ended June 30, 2024.

The Lottery entered a commercial lease agreement to lease a facility in Tucson, Arizona for ten years effective April 1, 2021 and expiring on March 31, 2031, with the option to extend for ten additional years. The recognized lease payments for the facilities were approximately \$81,192, with an interest rate of 1.5138% for the year ended June 30, 2024 and had remaining contractual commitments with lessors of \$1,312,875.

## Arizona State Lottery

Notes to Financial Statements  
June 30, 2024

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

Years ending June 30:	Principal	Interest
2025	\$ 62,820	\$ 20,402
2026	65,873	19,429
2027	69,025	18,410
2028	72,279	17,342
2029	75,637	16,224
2030 - 2034	415,008	62,801
2035 - 2039	449,512	30,051
2040 - 2041	165,541	2,308
Total	\$ 1,375,695	\$ 186,967

### 7. Contingencies

Jackpot winners are offered the option of cash or a 30-year annuity for The Pick online game and a select number of Scratcher games. The annuities are purchased from qualifying insurance companies, which have the highest ratings from among A.M. Best Company, Standard & Poor's, Moody's, Duff & Phelps or Weiss. Purchases of annuities transfer liabilities for prizes to the insurance company. However, the Lottery may incur liabilities for prizes in the event of a default of an insurance company. Aggregate future payments to prize winners on existing annuities totaled \$49,036,500 at June 30, 2024. Approximately \$40,928,590 of the total aggregate future payments at June 30, 2024 relate to annuities purchased from five separate insurance companies, of which \$14,638,266 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 \$550,368 of pension expenditure related to the pension plan to which it contributes. In addition, the Lottery reported \$(52,101) of other postemployment benefit expenses related to the health insurance premium benefit ADOA OPEB plan. At June 30, 2024, the Lottery reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Pension	ADOA OPEB	Total
Net pension and total OPEB liability	\$ 5,631,143	\$ 587,954	\$ 6,219,097
Deferred outflows of resources related to pensions and OPEB	660,814	449,402	1,110,216
Deferred inflows of resources related to pensions and OPEB	558,854	1,744,632	2,303,486
Pension and OPEB expense	550,368	(52,101)	498,267



**Arizona State Lottery**

Notes to Financial Statements  
June 30, 2024

**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, 2024, 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](http://www.azasrs.gov).

**Benefits Provided**

The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. The health insurance premium supplement, long-term disability, and survivor benefits included in the ASRS plan are considered other 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:

	<b>Retirement</b>	
	<b>Initial Membership Date:</b>	
	<b>Before July 1, 2011 (Tier 1)</b>	<b>On or After July 1, 2011 (Tier 2)</b>
	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.

**Arizona State Lottery**

Notes to Financial Statements  
June 30, 2024

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.

**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, 2024, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.29% (12.14% for retirement and 0.15% 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 12.29% (12.03% for retirement, 0.11% for health insurance premium benefit, and 0.15% 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 9.99% (9.94% for retirement, and 0.5% 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, 2024, were \$544,957. 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:		
2024	\$	544,957
2023		534,262
2022		529,058
2021		540,560

**Pension Liability**

At June 30, 2024, the Lottery reported \$5,631,143 as net pension liability for its proportionate share of the ASRS' net pension liability.

The net pension liability was measured as of June 30, 2023. 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, 2022, to the measurement date of June 30, 2023.

**Arizona State Lottery**

Notes to Financial Statements  
June 30, 2024

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, 2023, and the change from its proportions measure as of June 30, 2022 were:

ASRS	Proportion June 30, 2023	Increase (Decrease) From June 30, 2022
Pension	0.03480%	-0.002215%

**Pension Expense**

For the year ended June 30, 2024, the Lottery recognized \$550,368 as pension expense for ASRS.

**Pension Expense and Deferred Outflows/Inflows of Resources**

At June 30, 2024, 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	\$ 127,241	\$ -
Net difference between projected and actual earning on pension plan investments	-	-
Difference between projected and actual investment earnings	-	199,235
Changes in proportion and differences between Lottery contributions and proportionate share of contributions	-	359,619
Lottery contributions subsequent to the measurement date	533,573	-
<b>Total</b>	<b>\$ 660,814</b>	<b>\$ 558,854</b>

The \$533,573 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, 2025. 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:	
2025	\$ (288,457)
2026	(333,114)
2027	214,716
2028	(24,758)
2029	-
Thereafter	-

**Arizona State Lottery**

Notes to Financial Statements  
June 30, 2024

**Actuarial Assumptions**

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

**ASRS**

Actuarial valuation date	June 30, 2022
Actuarial roll forward date	June 30, 2023
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, 2022 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset class:	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Public equity	44 %	1.54 %
Credit	23	1.36
Real estate	17	1.00
Private equity	10	0.67
Interest rate sensitive	6	0.09
<b>Total</b>	<b>100 %</b>	

Actual returns may be different due to volatility of returns.



**Arizona State Lottery**

Notes to Financial Statements  
June 30, 2024

**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:

	<u>1% Decrease (6.0% Discount Rate)</u>	<u>Current (7.0% Discount Rate)</u>	<u>1% Increase (8.0% Discount Rate)</u>
Retirement	\$ 8,434,625	\$ 5,631,143	\$ 3,296,535

**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 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.

**Arizona State Lottery**

Notes to Financial Statements  
June 30, 2024

**Other Postemployment Benefits (OPEB) Liability**

At June 30, 2024, the Lottery reported a OPEB liability of \$605,842 for its proportionate share. The liability was measured as of June 30, 2023 to be reported as of June 30, 2024 under GASB 75.

	<u>Total OPEB Liability (a)</u>	<u>Increase (Decrease) Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability (a) - (b)</u>
Balance at June 30, 2023	\$ 1,474,023	\$ -	\$ 1,474,023
Changes for the year:			
Service cost	89,607	-	89,607
Interest	56,950	-	56,950
Difference between expected and actual experience of the total OPEB liability	(599,329)	-	(599,329)
Difference between expected and actual experience from change in Proportionate State	(396,569)	-	(396,569)
Changes of assumptions	21,693	-	21,693
Expected benefit payments	(40,533)	-	(40,533)
Net changes	(868,181)	-	(868,181)
Balance at June 30, 2024	<u>\$ 605,842</u>	<u>\$ -</u>	<u>\$ 605,842</u>

**OPEB Deferred Outflows/Inflows of Resources**

At June 30, 2024, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2024</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 18,746	\$ 969,135
Changes of assumptions or other inputs	262,189	428,216
Changes in proportion	150,579	347,281
Deferred outflows of contributions	17,888	-
Total	<u>\$ 449,402</u>	<u>\$ 1,744,632</u>

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:	
2025	\$ (174,347)
2026	(153,086)
2027	(197,061)
2028	(245,259)
2029	(229,952)
Thereafter	(313,413)

**Arizona State Lottery**

Notes to Financial Statements  
June 30, 2024

**OPEB Expenses**

At June 30, 2024, the Lottery reported OPEB expenses as follows:

Reporting Date for Employer Under GASB 75 Measurement Date for Employer under GASB 75	June 30, 2024 June 30, 2023
Components of OPEB expenses:	
Service cost	\$ 89,607
Interest on the total OPEB liability	56,950
Recognition of current year outflow (inflow) due to liabilities	(121,083)
Amortization of prior year outflow (inflow) due to liabilities	<u>(77,575)</u>
Total OPEB expenses	<u>\$ (52,101)</u>

**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, 2023
Actuarial cost method	Individual Entry age normal
Discount rate	3.86% as of June 30, 2023
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, 2023
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 7.20% declining to an ultimate rate of 4.25% after 16 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 3.69% as of June 30, 2022 to 3.86% as of June 30, 2023. Additionally, the health care trend rates were updated to reflect the plan's anticipated experience.

**Arizona State Lottery**

Notes to Financial Statements  
June 30, 2024

**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, 2023 measurement date is 3.86%. The index value as of the prior measurement date (June 30, 2022) was 3.69%.

**Sensitivity**

The following table presents the Lottery's total OPEB liability calculated using the discount rate of 3.86%, 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 (2.86%) or one percentage point higher (4.86%) 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, 2024		
	1% Decrease (2.86% Discount Rate)	Current (3.86% Discount Rate)	1% Increase (4.86% Discount Rate)
Lottery's Total OPEB Liability	\$ 697,591	\$ 605,842	\$ 531,197
	1% Decrease Trend Rates	Current Trend Rates	1% Increase Trend Rates
Lottery's Total OPEB Liability	\$ 513,284	\$ 605,842	\$ 723,828

**10. Major Vendors**

The Lottery has three vendors that represent approximately 86% of its purchases for the year ended June 30, 2024.

**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, 2024

ASRS, Pension	Reporting Fiscal Year (Measurement Date)									
	2024 (2023)	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	0.034800%	0.037010%	0.039830%	0.038018%	0.038858%	0.039409%	0.039910%	0.039630%	0.041980%	4.244200%
Lottery's proportionate share of the net pension liability	\$ 5,631,143	\$ 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	4,435,353	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	127.0%	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	75.47%	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)							
	2024 (2024)	2022 (2021)	2021 (2020)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)
Lottery's proportion of the total OPEB liability	0.150003%	0.116687%	0.150001%	0.120000%	0.120000%	0.120000%	0.120000%	0.120000%
Lottery's proportionate share of the total OPEB liability	\$ 587,954	\$ 1,474,023	\$ 1,797,893	\$ 2,210,913	\$ 1,781,561	\$ 1,058,849	\$ 1,011,909	\$ 1,302,971
Lottery's covered-employee payroll	4,503,746	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	13.05%	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, 2024

ASRS, Pension	Fiscal Year									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 533,573	\$ 534,262	\$ 529,058	\$ 540,627	\$ 469,969	\$ 458,172	\$ 410,063	\$ 362,004	\$ 382,689	\$ 444,044
Lottery's contributions in relation to the statutorily required contribution	533,573	534,262	529,058	540,627	469,969	458,172	410,063	362,004	382,689	444,044
Lottery's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's covered payroll	\$ 4,435,353	\$ 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	12.03%	12.01%	11.65%	11.45%	11.18%	10.90%	10.70%	10.85%	10.88%	11.54%

ADOA, OPEB	Fiscal Year							
	2024	2023	2022	2021	2020	2019	2018	2017
Required contribution	\$ 17,888	\$ 40,533	\$ 36,528	\$ 46,958	\$ 39,849	\$ 33,165	\$ 30,879	\$ 32,938
Lottery's contributions in relation to the required contribution	17,888	40,533	36,528	46,958	39,849	33,165	30,879	32,938
Lottery's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lottery's covered payroll	\$ 4,503,746	\$ 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	0.40%	0.90%	0.84%	1.18%	1.03%	0.99%	0.94%	

See notes to required supplementary information

## Arizona State Lottery

Notes to Required Supplementary Information  
June 30, 2024

### 1. Changes of Assumptions

The Arizona State Retirement System (ASRS) annual actuarial valuation as of June 30, 2024 report is available at:

[https://www.azasrs.gov/sites/default/files/pdf/FY23\\_GASB\\_68\\_75\\_\\_FINAL.pdf](https://www.azasrs.gov/sites/default/files/pdf/FY23_GASB_68_75__FINAL.pdf)

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

Changes of assumptions reflect a change in the discount rate from 3.69% as of June 30, 2022 to 3.86% as of June 30, 2023. Additionally, health care trend rates were updated.

### Arizona State Lottery

Schedule of Changes in the Agency Total OPEB Liability and Related Ratios  
June 30, 2024

	2024	2023	2022	2021	2020	2019
Total OPEB Liability:						
Service cost	\$ 89,607	\$ 180,739	\$ 185,668	\$ 154,475	\$ 114,257	\$ 86,395
Interest	56,950	37,636	58,141	59,975	44,758	38,767
Change of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience of the total OPEB liability	(599,329)	-	(731,229)	-	57,481	-
Difference between expected and actual experience from change in Proportionate Share	(396,569)	-	161,791	-	162,177	-
Changes of assumptions	21,693	(505,516)	(40,633)	254,752	377,204	(47,343)
Expected benefit payments*	(40,533)	(36,529)	(46,958)	(39,850)	(33,165)	(30,879)
Net change in total OPEB liability	(868,181)	(323,670)	(413,220)	429,352	722,712	46,940
<b>Total OPEB Liability, Beginning</b>	<b>1,474,023</b>	<b>785,784</b>	<b>1,199,004</b>	<b>769,652</b>	<b>46,940</b>	<b>-</b>
<b>Total OPEB Liability, Ending</b>	<b>\$ 605,842</b>	<b>\$ 462,114</b>	<b>\$ 785,784</b>	<b>\$ 1,199,004</b>	<b>\$ 769,652</b>	<b>\$ 46,940</b>
Covered employee payroll**	\$ 4,503,746	\$ 4,485,872	\$ 4,359,448	\$ 3,964,231	\$ 3,860,011	\$ 3,360,126
Plan total OPEB liability as a percentage of covered employee payroll	13.5%	10.3%	18.0%	30.2%	19.9%	1.4%

\* Benefit payments of \$40,533 projected for the year ended June 30, 2024.

\*\* Covered-employee payroll is the amount in force as of the valuation date and likely differs from the actual payroll paid during the year.

See notes to required supplementary information





**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, 2024, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated November 5, 2024.

**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.

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.

**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*.

**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  
November 5, 2024

*Arizona Lottery*<sup>™</sup>

4740 E. University Dr.  
Phoenix, AZ 85034  
**ArizonaLottery.com**