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Letter from the Executive Director



To the Citizens of Arizona:

On behalf of the Arizona Lottery, I am pleased to submit the Fiscal Year 2004 Annual Report.

Since 1980, when Arizona voters passed an initiative to establish the Arizona Lottery, the agency's mission has been to support Arizona programs for the public benefit by maximizing revenue in a responsible manner.

The Lottery is pleased to report successful completion of this mission. Since its inception, the Lottery has produced \$5.1 billion in total revenue, awarded \$2.6 billion in prizes, and returned more than \$1.7 billion to provide funding for a vast array of state and community projects, many of which might not otherwise be possible.

For Fiscal Year 2004, the Arizona Lottery set three goals: generate revenues of \$310 million, resulting in more than \$88 million in beneficiary funding; maintain or improve the operational integrity of the Lottery; and define and measure the core business processes of the Lottery.

I am proud to announce that gross sales for Fiscal Year 2004, which ended on June 30, exceeded the goal and reached over \$366.6 million, topping last year's \$322.3 million record. This resulted in a net profit for the state of more than \$107.7 million, the first time in our history that the Lottery's net profit for the state reached and exceeded the \$100 million mark.

For 23 years, the Lottery's icon has been the little prospector, Windfall Willie. This year has been deemed our "Windfall Year" because of the Lottery's amazing double-digit growth rates. We experienced a 13.7 percent increase in total sales, a 15 percent increase in ScratchersSM sales, and a 12.5 percent increase in drawing game sales.

In fiscal year 2005, the Lottery will continue its website development, continue to research players and their preferences, and further enhance communications and marketing with the continuing goal of increasing returns to the state.

As we look forward to another successful year, we thank you, our customers, for your ongoing support and our retailers for their enthusiastic promotion of our products.

Sincerely,

A handwritten signature in black ink, appearing to read 'KSPushor', written in a cursive style.

Kathleen "Katie" Pushor
Executive Director

Commissioners

Members of the Arizona Lottery Commission are appointed by the Governor and confirmed by the Senate. The Commission meets regularly to make recommendations and set policy, approve or reject reports of the Executive Director, and transact other business properly brought before the Commission. The Commission meetings are open to the public.

Arizona Lottery Commission Fiscal Year 2004:



Richard Clore, Chairman



Tom Stabler, Vice-Chairman



Lori Mann, Commissioner



Leo V. Valdez, Commissioner

Arizona Lottery Commission Fiscal Year 2005:



Tom Stabler, Chair



Lori Mann, Vice-Chair



Jeffrey R. Boehm



Jesus J. Hernandez



Leo V. Valdez

Highlights of the Year

- Distributed more than \$107.7 million to Lottery beneficiaries throughout Arizona for street improvements, public transportation, educational programs, rural economic development, county programs, and Heritage Fund projects.
- Topped a quarter of a billion dollars in sales for the seventh consecutive year.
- Reached an all-time high of \$183.3 million in Scratchers sales, topping last year's record by 15.1 percent.
- Continued efforts to strengthen the Lottery's relationship with the retail community through communications, partnerships, promotions, security, and training.
- Increased the frequency of retailer and player promotions around the state.
- Continued the Please Play Responsibly™ campaign to support problem gambling prevention.

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Financial Overview

Sources of Lottery

Revenues

Revenues	\$367,052,100
Sales	366,582,100
Licenses	66,700
Other	403,300

Uses of Lottery Revenues

Expenses/Distributions - Total	
Lottery Prizes	
Funds Distributed to State Programs	
From Lottery Revenues	
From Unclaimed Prizes	
Retailer Commissions	
Advertising & Promotions	
Wages, Contracts, Other	
Administration	
Online System	
Scratchers Ticket Expense	
Scratchers System & Distribution	

Totals	Subtotals
\$366,497,800	
200,302,400	
107,757,700	105,861,000
	1,896,700
24,501,400	
9,632,100	
7,664,600	
11,482,100	
3,644,000	
1,513,500	

Winners

Since Fiscal Year 1994, Powerball® prizes for Arizona players have totaled \$570.0 million, including six winning jackpot tickets and 490 second-place \$100,000 tickets. Over 25.5 million winning Powerball tickets have been sold in Arizona.

The Pick™/Lotto™ players have won \$753.9 million since Fiscal Year 1992. In total, more than 26.7 million winning The Pick/Lotto tickets have been sold, including 180 winning jackpot tickets.

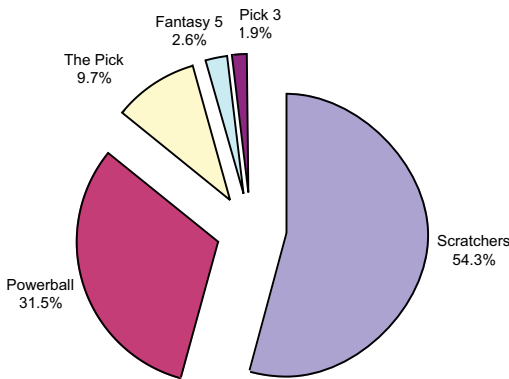
Since Fiscal Year 1995, 204.2 million winning Scratchers tickets have been validated for more than \$738.4 million in prizes.

Fantasy 5™ prizes have totaled more than \$93.6 million, including 641 \$50,000 winning tickets. Over 2.8 million winning tickets have been sold since the game was introduced in Fiscal Year 1992.

Since Pick 3™ was introduced in Fiscal Year 1998, 183,661 winning tickets have been sold for more than \$20.9 million in prize money. The top prize of \$500 has been won by 17,467 players.

In Fiscal Year 2004, the Lottery continued to inform the public of winners via the Lottery's website, www.arizonalottery.com, and through articles submitted to local publications.

Breakdown of Game Prizes – Fiscal Year 2004



Prizes per Game	
Scratchers	\$ 110,042,500
Powerball	65,324,800
The Pick	16,996,500
Fantasy 5	4,529,400
Pick 3	<u>3,409,200</u>
TOTALS	\$200,302,400

Retail Partners

The Lottery's success is dependent on the almost 2,600 retailers throughout the state who are our front-line partners to promote and sell Lottery products.

Lottery retail outlets come in all sizes, including large grocery and convenience store chains, independent markets, gift shops, and restaurants. Arizona Lottery retailers earn a base commission of 6.5 percent of their sales. In Fiscal Year 2004, retailers earned over \$23.8 million in base commissions and over \$673,500 in bonus commissions. The total base and bonus commissions paid to retailers was \$24.4 million.

The Lottery developed the Retailer Incentive Program to generate additional sales of Arizona Lottery products by providing financial incentives to encourage retailers to exceed sales goals. The incentive program is intended to motivate retailers to promote and sell lottery games throughout the entire fiscal year.

Retailers who achieve a sales performance level that is at least 5 percent higher than the Lottery's overall performance when measured against the same period in the prior fiscal year receive an additional 1/2 percent commission on their total sales.

Base Sales and Commissions by County

<u>County</u>	<u>Commissions (6.5% of Sales)</u>	<u>Sales Totals</u>
Apache	\$56,041	\$862,176
Cochise	\$623,832	\$9,597,422
Coconino	\$502,047	\$7,723,799
Gila	\$255,115	\$3,924,840
Graham	\$113,433	\$1,745,130
Greenlee	\$47,146	\$725,329
La Paz	\$200,013	\$3,077,126
Maricopa	\$14,623,104	\$224,970,827
Mohave	\$1,399,579	\$21,531,986
Navajo	\$309,391	\$4,759,855
Pima	\$3,251,998	\$50,030,743
Pinal	\$930,830	\$14,320,465
Santa Cruz	\$205,815	\$3,166,388
Yavapai	\$758,486	\$11,669,020
<u>Yuma</u>	<u>\$551,005</u>	<u>\$8,476,999</u>
ALL	\$23,827,835	\$366,582,105

Website

The Arizona Lottery's website (www.arizonalottery.com) was redesigned and revamped to better serve our customers. Featuring the look of an Old West territorial newspaper, the site now features easier navigation, helpful features (such as a number checker and winning numbers lists), and entertaining stories about winners.

The site's redesign was done with the help of our site visitors whose feedback contributed to the addition of many new features as well as the retention of old favorites. It contains information about virtually every aspect of the Lottery: information on available Scratchers games, current and past winning numbers, prize amounts, what to do when you win, office locations, winner experiences, Lottery operations and revenues, where Lottery revenues are distributed, and other informative details. Customers may also sign up to receive winning numbers via email by clicking on the Email Sign Up link located at the upper right corner of the home page.

The site is a prime source of information for Lottery players and retailers, members of the media, Arizona residents and visitors, and members of the State Legislature.

We invite you to experience and enjoy www.arizonalottery.com.

Products



The Pick is Arizona's own jackpot game with jackpots starting at \$1 million and growing until someone wins. The Pick has 5 ways to win. Match all 6 numbers to win the jackpot. Or match 5 of the first 6 numbers drawn and the bonus ball to win \$10,000. By choosing The Pick EXTRA option, you get chances to win cash instantly. For just a dollar more, EXTRA gives you 6 extra numbers on your ticket. If any match your drawing numbers, you win up to \$100 instantly. The Pick drawings are held every Wednesday and Saturday evening and are aired first on Channel 12, our television broadcast partner.



Powerball is a multi-state jackpot game, operated by the 29-member jurisdiction of the Multi-State Lottery Association (MUSL), with a jackpot starting at \$10 million and increasing until it's won. You get nine ways to win with Powerball. Match all 5 numbers plus the Powerball to win the jackpot. And when you choose Power Play, you can multiply the prize up to five times. For an extra \$1 per game, you can multiply your winnings by a number from two to five randomly selected at draw time. Power Play does not apply to the jackpot and Match 5 Bonus prizes. Powerball drawings are held every Wednesday and Saturday evening and are aired first on Channel 12.



Fantasy 5 is a daily drawing game with a big prize payoff. Match the 5 numbers drawn to win \$50,000. Drawings are held every Monday through Saturday evening and are aired first on Channel 12.



Pick 3 is the daily numbers game that lets you choose how you play (Straight, Box etc.). Play a different way every day. Match 3 numbers in the order drawn (Straight) and win up to \$500. Drawings are held every Monday through Saturday evening and are aired first on Channel 12.

You can buy your tickets for Powerball*, The Pick, Pick 3, and Fantasy 5 between 4 a.m. and 9:30 p.m. every day. Sales may resume for the next drawing at participating retailers from 9:35 p.m. until midnight.

Products (cont.)

*Wednesday and Saturday Powerball sales stop at 7:59 p.m. Arizona time the last Sunday in October through the first Saturday in April, and at 6:59 p.m. Arizona time from the first Sunday in April through the last Saturday in October. Sales may resume at participating retailers from 9:45 p.m. until midnight.

Drawing game tickets cannot be voided. All sales are final.



Scratchers games are played by removing the latex-covered play areas on the tickets. A player can win by matching symbols or figures, adding numbers for a specific total, or playing familiar game styles such as tic-tac-toe and bingo. If the correct combination appears, the player is an instant winner. Prizes up to \$599 may be redeemed at a participating retailer; larger prizes must be redeemed at a Lottery office. Scratchers games cover a wide variety of themes, including money, luck, numbers, and cards. The Lottery introduced 36 new Scratchers games in Fiscal Year 2004.

Beneficiaries

In Fiscal Year 2004, the Lottery's statutory beneficiaries received the following:

Local Transportation Assistance Fund

\$23,000,000

Local Transportation Assistance Funds went for a wide variety of uses, including:

Funding roads, traffic signals, sidewalk or alley repair, maintenance and improvement in Apache Junction, Benson, Cave Creek, Chandler, Coolidge, Eloy, Flagstaff, Florence, Fredonia, Gilbert, Globe, Goodyear, Kingman, Lake Havasu City, Marana, Nogales, Patagonia, Payson, Safford, Sahuarita, Sedona, and Springerville.

Funding operating expenses for new and existing mass transportation programs, including Dial-a-Ride, in Avondale, Chandler, Clarkdale, Coolidge, Cottonwood, Glendale, Guadalupe, Holbrook, Lake Havasu City, Mesa, Oro Valley, Peoria, Phoenix, Prescott Valley, Quartzsite, Scottsdale, and Sierra Vista.

Contributing to the advancement of arts in Kearney – Friends of the Kearney Library; Phoenix – Phoenix Office of Arts and Culture and the Phoenix Symphony Association; St. Johns – Fine Arts Association.

General Fund

\$35,337,700

The Legislature allocates all monies deposited into the Arizona General Fund for a number of projects in a variety of areas, including:

Grades K-12 and Higher Education – \$21,149,000

Health and Welfare – \$8,200,900

Protection and Safety – \$3,865,600

General Government – \$1,617,400

Inspection and Regulation – \$211,000

Natural Resources – \$293,800

(Calculated as percentage of the total annual State General Fund appropriation.)

County Assistance Fund

\$7,650,000

Funding from the Lottery was directed to the General Funds of each of Arizona's 15 counties to be used as directed by each county's Board of Supervisors.

Beneficiaries (cont.)

Heritage Fund

\$20,000,000

The Arizona Departments of Game and Fish and State Parks used the proceeds from the Lottery to support projects across the state and across the board in scope. Some of these grants went to such endeavors as:

- Prescott Unified School District, “*Prescott Mile High Hands-On Habitat.*”
- Flagstaff Unified School District #1, “*Francis Short Pond Restoration Project.*”
- Pima County, “*Evaluation of Mesquite Mouse Status.*”
- USDA Forest Service, “*Upper Eagle Creek Watershed Trail Restoration.*”
- Outdoor recreation projects such as ball fields, picnic areas, and playgrounds in Avondale, Bullhead City, Chino Valley, Coolidge, Eloy, Flagstaff, Gila County, Glendale, Kearny, Miami, the Navajo Nation, Phoenix, Santa Cruz County, Scottsdale, Wickenburg, and Williams.

Economic Development Fund

\$2,674,500

The Commerce and Economic Development Commission, administered by the Arizona Department of Commerce, utilizes the proceeds from two Arizona Lottery Scratchers games to support the state’s community and economic development goals of increasing prosperity and quality of life for all residents.

Court Appointed Special Advocate Fund

\$1,896,700

By statute, the Court Appointed Special Advocate (CASA) Fund receives its sole funding from 30 percent of the Lottery’s unclaimed prizes. Dedicated to helping abused, neglected, and abandoned children in Arizona, CASA consists of approximately 1,150 trained volunteers who involve themselves with these children and provide a voice for their interests in the courtroom. The CASA volunteers’ recommendations help judges determine the best interests of the children. CASA assisted 1,500 children last year.

Mass Transit

\$13,528,100

The Mass Transit Fund is used by communities throughout the state to enhance existing public transportation systems.

Beneficiaries (cont.)

Healthy Arizona
\$3,670,700

A 1996 voter-approved initiative covering six health-related programs.