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Letter from the Executive Director



Letter from the Executive Director

To the Citizens of Arizona:

On behalf of the Arizona Lottery, I am pleased to submit the Fiscal Year 2005 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 more than \$5.5 billion in total revenue, awarded \$2.6 billion in prizes, and returned more than \$1.8 billion to provide funding for a vast array of state and community projects, many of which might not otherwise be possible.

For Fiscal Year 2005, the Arizona Lottery broke all previous records with end-of-year sales exceeding \$397.5 million, resulting in a net profit of almost \$116.4 million for the state. Again, this record's true importance is embodied in the increased funding that created additional opportunities for children, education, transportation, and outdoor recreation.

In Fiscal Year 2006, the Lottery will continue its efforts to maximize revenues for the benefit of the state. Additionally, we will enhance our website with new and exciting promotional opportunities, and expanded capabilities for our retailers.

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 "Art Macrae". The signature is fluid and cursive, written in a professional style.

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 policies, 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 2005 and Fiscal Year 2006



Tom Stabler, Chair



Lori Mann, Vice-Chair



Jeffrey R. Boehm



Jesus J. Hernandez



Leo V. Valdez

Highlights of the Year

- Distributed almost \$116.4 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 eighth consecutive year.
- 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	\$398,520,200
Sales	397,560,900
Licenses	24,800
Other	934,500

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
\$397,880,600	
220,297,800	
116,392,900	113,744,000
	2,648,900
26,505,400	
10,512,500	
8,155,700	
10,530,500	
3,759,000	
1,726,800	

Winners

Since Fiscal Year 1994, Powerball® prizes for Arizona players have totaled \$601.2 million, including seven winning jackpot tickets and 533 second-place \$100,000 tickets. Over 28.2 million winning Powerball tickets have been sold in Arizona.

The Pick™/Lotto™ players have won \$793.9 million since Fiscal Year 1992. In total, more than 28.2 million winning The Pick/Lotto tickets have been sold, including 188 winning jackpot tickets.

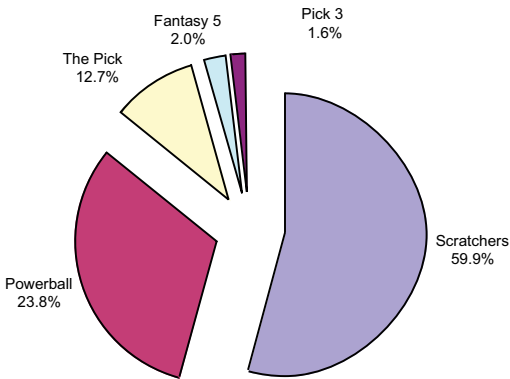
Since Fiscal Year 1995, 229.3 million winning Scratchers tickets have been validated for more than \$871.6 million in prizes.

Fantasy 5™ prizes have totaled more than \$97.7 million, including 669 \$50,000 winning tickets. Over 2.9 million winning tickets have been sold since the game was introduced in Fiscal Year 1992.

Since Pick 3™ was introduced in Fiscal Year 1998, 217,085 winning tickets have been sold for more than \$24.4 million in prize money. The top prize of \$500 has been won by 20,729 players.

In Fiscal Year 2005, the Lottery continued to inform the public of winners via the Lottery’s website, www.arizonalottery.com, press conferences, and articles submitted to local publications.

Breakdown of Game Prizes – Fiscal Year 2005



Prizes per Game	
Scratchers	\$131,854,500
Powerball	52,449,400
The Pick	27,987,600
Fantasy 5	4,430,700
Pick 3	<u>3,575,600</u>
TOTALS	\$220,297,800

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 2005, retailers earned over \$25.8 million in base commissions and over \$663,999 in bonus commissions. The total base and bonus commissions paid to retailers was over \$26.4 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

County	Commissions (6.5% of Sales)	Sales Totals
Apache	\$68,151	\$1,048,479
Cochise	\$696,310	\$10,712,462
Coconino	\$508,392	\$7,821,418
Gila	\$273,508	\$4,207,816
Graham	\$128,240	\$1,972,932
Greenlee	\$53,242	\$819,115
La Paz	\$186,784	\$2,873,597
Maricopa	\$15,928,139	\$245,048,291
Mohave	\$1,463,249	\$22,511,525
Navajo	\$354,231	\$5,449,701
Pima	\$3,510,629	\$54,009,678
Pinal	\$1,035,686	\$15,933,632
Santa Cruz	\$215,645	\$3,317,612
Yavapai	\$831,044	\$12,785,293
Yuma	\$588,211	\$9,049,394
ALL	\$25,841,461	\$397,560,945

Website

The Arizona Lottery's website (arizonalottery.com) is rapidly becoming the primary source of information for Lottery players. The website was completely revamped in Fiscal Year 2004 with a new design, easier navigation, and new features.

During Fiscal Year 2005, we continued the enhancements with more player stories and pictures, contest entry access, and promotional information.

This year we added a monthly Scratchers email update, and a jackpot alert email for when online games reach a certain amount. In Fiscal Year 2005, 28,000 people had signed up to receive winning numbers, Scratchers, and jackpot alert information via email.

The redesign of the website proved to be successful, and statistics showed that visitors were going deeper into the site and staying longer, indicating that the information available is interesting to our players.

Started in Fiscal Year 2005 and implemented in Fiscal Year 2006 is a searchable database in the *Where the Money Goes* section. The section contains information on projects throughout the state that have received funding from the Arizona Lottery. You can search projects by city, county, or categories.

In Fiscal Year 2006, we also plan to add a 2nd chance drawing section to the website giving players more value for the Lottery purchases. The website will continue to be monitored and updated weekly to keep information fresh and exciting.

The site is a valuable source of information for Lottery players, retailers, members of the media, Arizona residents and visitors, and members of the State Legislature. We invite you to experience and enjoy 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 \$250 instantly. The Pick drawings are held every Wednesday and Saturday evening and are aired first on ABC 15, 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 \$15 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 ABC 15.



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 ABC 15.



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 ABC 15.

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.

**ARIZONA LOTTERY™
SCRATCHERS™** 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 42 new Scratchers games in Fiscal Year 2005.

Beneficiaries

In Fiscal Year 2005, the Lottery's statutory beneficiaries received the following:

Local Transportation Assistance Fund

\$23,000,000

Each incorporated city and town may apply for and receive a portion (based on population) of the \$23 million the Lottery annually contributes to the Local Transportation Assistance Fund (LTAF). The monies are used for a variety of transportation-related purposes throughout the state, including:

- Street maintenance and improvements
- Street lighting
- Airport-related projects
- Transportation service for the elderly and disabled
- Dial-a-Ride and Meals-on-Wheels programs
- Curbs, gutters, and sidewalks

Annually, each municipality may use up to 10 percent of its LTAF monies, if matched with private monies, for cultural, educational, historical, recreational, scientific facilities or programs, nonresidential outpatient programs, or services for persons with disabilities.

General Fund

\$38,050,900

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 – \$22,373,900
- Health and Welfare – \$9,703,000
- Protection and Safety – \$3,805,100
- General Government – \$1,636,200
- Inspection and Regulation – \$228,300
- Natural Resources – \$304,400

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

County Assistance Funds

\$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

In 1990, The Heritage Fund was put forth to the citizens of Arizona as a potential beneficiary of Lottery revenues. By an overwhelming majority, voters approved the Heritage Initiative to set aside \$20 million in Arizona Lottery revenues each year for parks, trails, natural areas, historic preservation, and a full range of wildlife conservation activities.

The allocation each year is split equally between Arizona State Parks and the Arizona Game and Fish Department. Grants from the Heritage Fund support a variety of projects in each of Arizona's 15 counties.

The Arizona Game and Fish Department funds grants to:

- Conserve wildlife and maintain its habitat in areas surrounding our cities, and inform people how to better coexist with wild animals that may show up in our cities and neighborhoods.
- Carry out wildlife research, surveys, and management of habitat for sensitive species.
- Ensure access to public lands for outdoor recreation, sometimes by creating roads or trails.
- Develop and maintain wildlife habitat projects at schools or adjacent areas for wildlife education activities.
- Enhance or develop conservation and environmental education programs for Arizona schools and projects that increase awareness and understanding about wildlife issues.

Arizona State Parks uses Heritage Fund money for grants such as:

- Ball field lighting and improvements
- Playground equipment
- Hiking trails
- Picnic armadas, landscaping of community parks
- Historic preservation

Economic Development Fund

\$2,900,000

The Commerce Economic Development Commission 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.

Beneficiaries (cont.)

Court Appointed Special Advocate

\$2,648,900

By statute, the Court Appointed Special Advocate Fund (CASA) receives its sole funding from 30 percent of the Lottery's unclaimed prize fund. 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 served 2,300 children last year.

Mass Transit

\$5,084,700

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

Healthy Arizona

\$17,000,000

The Healthy Arizonans program is a 1996 voter-approved initiative that allocates up to \$17 million of Lottery proceeds. Healthy Arizona receives funding after other Lottery beneficiaries receive their maximum allocations. The first time this fund received Lottery revenues was in Fiscal Year 2004; it received its full allocation in Fiscal Year 2005.

The money funds six different initiatives: Healthy Families, Arizona Health Education System, Teenage Pregnancy Prevention, Health Start, Disease Control, and Women, Infants, and Children (WIC) Food Program.