ARIZONA STATE LOTTERY

A Component Unit of the State of Arizona

FINANCIAL STATEMENTS

Year Ended June 30, 2010

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ARIZONA STATE LOTTERY

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Janice K. Brewer
Governor

Jeff Hatch-Miller
Executive Director

November 19, 2010

Dear Arizona Lottery Commissioners:

The Arizona Lottery is pleased to submit its audited financial statements as of and for the year ended June 30, 2010, as prepared by the Lottery Accounting Department and audited by Henry & Horne LLP. The Lottery is responsible for the accuracy and completeness of all data and disclosures in this report. To the best of our knowledge, the information presented is accurate and complete in all material respects and fairly depicts the financial position of the Arizona Lottery. This report includes a statement of net assets of the Arizona Lottery, the related statement of revenues, expenses, and changes in fund net assets; the statement of cash flows; footnotes related to the financial reports; and the supplemental schedule of gross profit by game.

The audit of the Arizona Lottery was performed under the authority of A.R.S. § 5-505 and A.R.S. § 5-524, which require an annual audit of the Lottery.

The Arizona Lottery was created in 1980 when Arizona voters approved a ballot initiative adding Title 5, Chapter 5 to the Arizona Revised Statutes. The Lottery began selling instant "scratch-off" tickets in July 1981 and during its 29 years of operation has offered a variety of instant and on-line products. The Lottery operates as an agency of the State of Arizona and is reported as an enterprise fund within the state's Comprehensive Annual Financial Report. The fund is operated in a manner similar to a private business enterprise.

In fiscal year 2010 the Arizona Lottery had revenues of $551.5 million from Lottery ticket sales, 13.8% more than last fiscal year, and an income before transfers of $143.5 million, 12.1% more than last fiscal year. More than $333 million was paid to our players in prizes and our retail partners received $37.0 million for sales commissions. In its 29 years of operation, the Lottery has produced over $7.9 billion in Lottery ticket sales.

In fiscal year 2010, the Arizona Lottery made transfers to other State Funds of $17.8 million for the Local Transportation Assistance Fund, $4.2 million for the County Assistance Fund, $16.1 million for the Heritage Fund, $5.7 million for the Economic Development Fund, $0.3 million for the Department of Gaming, $18.7 million for the Healthy Arizona Fund, $1.0 million for Homeless Shelters and $75.5 million was transferred to the State General Fund for allocation by the state legislature. In addition, from the Lottery Prize Fund, over $2.5 million was transferred to the Court Appointed Special Advocate (CASA). In total, over $141.8 million was transferred to other State Funds for fiscal year 2010. In its 29 years of operation, the Lottery has returned over $2.5 billion to its beneficiaries.

Further financial results for fiscal year 2010 are detailed in Management's Discussion and Analysis, included in this report.

Sincerely,

Jeff Hatch-Miller

Executive Director

Celebrating 50 Years Of Service

HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Commissioners of
Arizona State Lottery
Phoenix, Arizona

We have audited the accompanying statement of net assets of Arizona State Lottery (the "Lottery"), a component unit of the state of Arizona, as of June 30, 2010 (with comparative totals as of June 30, 2009), and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended (with comparative totals for the year ended June 30, 2009). These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year comparative totals information has been derived from the Lottery's 2009 financial statements, which were audited by other auditors whose report dated January 15, 2010 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Lottery as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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To the Commissioners of
Arizona State Lottery

The accompanying transmittal letter is not part of the required basic financial statements. Such information is the responsibility of the Lottery's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the transmittal letter. However, we did not audit the information and we do not express an opinion on it.

The accompanying required supplementary information, management's discussion and analysis, is presented on pages 3 through 7 and is not a required part of the basic financial statements, but is supplementary accounting information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Lottery's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Lottery's basic financial statements. The accompanying supplemental schedule of Gross Profit by Game is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplemental schedule is the responsibility of the Lottery's management. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2010, on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Henry & Horne, LLP

Casa Grande, Arizona
November 19, 2010

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

This discussion and analysis of the Lottery's financial statements is a required component of financial reporting under *Government Accounting Standards* and was prepared by Arizona Lottery Management. It provides an overview of financial activities as of and for the year ended June 30, 2010, 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, 2010, with comparative totals for June 30, 2009. The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the notes are presented using the accrual method of accounting. Under this method, financial transactions are recorded when earned or incurred regardless of when cash is received or disbursed. The statement of cash flows reflects cash receipts and disbursements during the same 12-month periods.

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

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

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

The statement of cash flows includes cash receipts and disbursements from operating, noncapital financing, and investment earnings. This statement also includes a reconciliation of operating income presented on the accrual basis of accounting to net cash provided by operating activities.

The notes to the financial statements present information on accounting policies, transfers and statutory requirements, commitments, contingencies, and retirement benefits. These notes are an integral part of the financial statements.

Sales Activities

Revenues from the sale of Lottery products for the fiscal year ended June 30, 2010 were higher than Fiscal Year 2009. As shown in the financial statements, sales increased 13.8% from the prior year, from $484.5 million in Fiscal Year 2009 to $551.5 million in the current year. The increases in Scratchers℠, Powerball®, Pick 5™, Cash 4, and Fast Play™ sales, and the introduction of the Mega Millions ® and 2 by 2® games more than offset the decrease in The Pick, Pick 3™, and Arizona Raffle™ sales.

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

Product Sales	FY 2010	FY 2009	Difference	Percentage
Scratchers (including economic development)	$336.9	$278.9	$58.0	20.8%
Powerball	118.8	117.3	1.5	1.3%
Mega Millions	6.8	0.0	6.8	-
The Pick	44.4	45.5	-1.1	-2.4%
Pick 5	16.5	17.0	-.5	-2.9%
Arizona Raffle	5.3	11.2	-5.9	-52.7%
Pick 3	8.6	9.4	-0.8	-8.5%
Cash 4	5.4	3.0	2.4	80.0%
2 by 2	6.5	0.0	6.5	-
Fast Play	2.3	2.2	0.1	4.6%
Total	$551.5	$484.5	$67.0	13.8%

Total Revenues

Nonoperating revenues for the year ended June 30, 2010, were $1,734,523 as compared to $752,101 for the year ended June 30, 2009. Nonoperating revenue is comprised of interest earned on invested cash, periodic recognition of commissions earned by the Lottery and income from common stock.

Total revenues were $551.8 million for the year ended June 30, 2010, as compared to $485.8 million for the year ended June 30, 2009. As mentioned above, most of the increase was due to an increase in sales revenues.

Major Expenses

$385.6 million of the Lottery's total operating expenses of $410.1 million for the year ended June 30, 2010 were incurred in direct support of the sales of Lottery games. These expenses include prize expense, retailer commissions and incentives, purchases of Scratchers tickets, compensation to the vendor for Scratchers ticket distribution, and compensation to the vendor who maintains and supports the on-line gaming system.

In comparison, $332.1 million of the Lottery's total operating expenses of $357.8 million for the year ended June 30, 2009, were game-related expenses.

The following table compares the game-related expenses between fiscal years. All expenses are presented in millions of dollars.

Game Related Expenses	FY 2010	FY 2009	Difference	Percentage
Prize Expense	$333.1	$282.5	$50.6	17.9%
Retailer Commissions	37.0	32.5	4.5	13.8%
On-line System Expenses	8.0	7.8	.2	2.6%
Scratchers System and Distribution Expenses	2.0	2.3	-.3	-13.0%
Tickets Purchased	5.5	7.0	-1.5	-21.4%
Total	$385.6	$332.1	$53.5	16.1%

The increase in prize expense and retailer commissions is reflective of the increase in product sales. See the product sales schedule above. The decrease in tickets purchased is mostly related to the inventory write-off that was included in last year's results.

The pricing in the Lottery's new contract with an outside vendor for and scratch ticket system expenses resulted in decreased costs of approximately $864 thousand over last fiscal year.

Of the $24.5 million in Fiscal Year 2010 in other operating expenses, $14.5 million was used for advertising and promotion and $6.1 million was used to compensate Lottery employees. In comparison, of the $20.0 million in Fiscal Year 2009 other operating expenses, $15.7 million was used for advertising and promotion and $6.1 million was used to compensate Lottery employees.

Transfers to Other State Funds

Note 2 to the financial statements details the amounts transferred to other State Funds. In Fiscal Year 2010 the Lottery transferred $141.9 million to other State Funds. In comparison, in Fiscal Year 2009 the Lottery transferred $129.1 million to other State Funds.

Other Financial Information

Statement of Net Assets	FY 2010	FY 2009
Current Assets	$47.2	$43.7
Capital Assets	3.5	3.8
Other Assets — Deposit and Investment	9.7	8.3
Total Assets	60.4	55.8
Current Liabilities	48.4	45.4
Net Assets	$12.0	$10.4

The Lottery's total assets at June 30, 2010 were $60.4 million. Assets consisted of cash held substantially by the State Treasurer of $36.2 million, receivables from Lottery retailers for the sale of Lottery products of $7.1 million, Scratchers ticket inventory of $3.9 million, net investment in fixed assets of $3.5 million, a deposit with MUSL of $8.2 million, and an investment in common stock of $1.5 million.

Comparable figures at June 30, 2009, were $55.8 million in total assets, including $35.5 million in cash held by the State Treasurer, $5.8 million in receivables from retailers, $2.4 million in Scratchers ticket inventory, net investment in fixed assets of $3.8 million, and a MUSL deposit of $8.3 million.

Total liabilities at June 30, 2010, were $48.4 million, consisting of $4.7 million in accounts payable and accrued expenses, prize liabilities of $26.6 million, and amounts due to other State Funds of $17.1 million. All of the Lottery's liabilities were current liabilities.

The Lottery's total liabilities at June 30, 2009, were $45.4 million, which consisted of $4.8 million of accounts payable and accrued expenses, prize liabilities of $31.9 million, and amounts due to other State Funds of $8.6 million. All liabilities were current liabilities.

Total net assets at June 30, 2010, were $12.0 million, which is $1.6 million more than the amount of total net assets at June 30, 2009. $8.5 million of the Lottery's total net assets are unrestricted.

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

BUDGETARY HIGHLIGHTS

The Lottery's budget is set by the legislative appropriations process on a biennial basis. The budgets for Fiscal Years 2010 and 2011 were set in the regular legislative session of 2009. The Lottery's Fiscal Year 2010 budget was amended in the regular legislative session of 2010 and again in special sessions of 2010. The Lottery's appropriation for sales-related expenditures is based on approved percentages of projected revenues and is allowed to increase for these items without a supplemental appropriations request if actual revenues exceed projected revenues. The appropriation does not include an amount for prizes because Lottery statutes set this amount at "not less than 50% of the total annual revenues accruing from the sale of Lottery tickets or shares."

In the second regular legislative session of 2008 Lottery statutes were amended so that distributions to beneficiaries are no longer derived from specific Lottery products. The legislation also removed the 4% cap for advertising expenditures, limiting total expenditures to not more than 18.5% of revenues.

The Lottery's appropriation was $78.5 million at the beginning of the year and decreased to $75.9 million, as actual revenues were less than budgeted projections.

CONTACTING THE LOTTERY'S FINANCIAL MANAGEMENT

This management's discussion and analysis (MD&A) is designed to provide Arizona citizens, Arizona government officials, our players, retailers, and other interested parties with an overview of the Lottery's financial activity for Fiscal Year 2010 and to demonstrate the Lottery's accountability for the money it received from the sale of Lottery products.

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

Jeff Hatch-Miller
Executive Director

William B. Kahler
Director of Accounting and Audit

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
STATEMENT OF NET ASSETS
June 30, 2010
(with comparative totals for June 30, 2009)

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash - substantially all held by the State Treasurer	$ 36,193,820	$ 35,537,819
Accounts receivable - net of allowance for doubtful accounts of $145,000 as of June 30, 2010 and 2009	7,090,214	5,783,197
Scratch ticket inventory	3,927,375	2,367,733
TOTAL CURRENT ASSETS	47,211,409	43,688,749
CAPITAL ASSETS		
Land and land improvements	1,268,695	1,268,695
Buildings	3,648,272	3,648,272
Furniture, fixtures and equipment	2,271,713	2,466,217
Construction in progress	83,580	52,680
Less accumulated depreciation	(3,793,332)	(3,647,979)
TOTAL CAPITAL ASSETS	3,478,928	3,787,885
OTHER ASSETS		
Investments	1,528,410	-
Deposit - MUSL	8,203,374	8,329,576
TOTAL ASSETS	60,422,121	55,806,210
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	4,363,723	4,531,282
Accrued expenses	328,970	308,411
Prize liability	26,648,369	31,930,197
Due to other state funds	17,071,082	8,645,397
TOTAL LIABILITIES	48,412,144	45,415,287
NET ASSETS		
Invested in capital assets	3,478,928	3,787,885
Unrestricted	8,531,049	6,603,038
TOTAL NET ASSETS	$ 12,009,977	$ 10,390,923

See accompanying notes.

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

	2010	2009
OPERATING REVENUES		
Ticket sales:		
Scratchers	$ 313,175,361	$ 262,695,972
Powerball	118,802,400	117,238,451
The Pick	44,354,631	45,489,149
Pick 5	16,541,074	16,996,584
Pick 3	8,563,207	9,409,924
Mega Millions	6,785,931	-
2 By 2	6,466,860	-
Cash 4	5,425,860	3,036,194
Arizona Raffle	5,307,060	11,184,560
Economic development	23,766,275	16,228,385
Fast Play	2,303,042	2,206,885
TOTAL TICKET SALES	551,491,701	484,486,104
Other operating revenues	321,640	550,905
TOTAL OPERATING REVENUES	551,813,341	485,037,009
OPERATING EXPENSES		
Direct costs:		
Prize expense	333,105,221	282,482,645
Retailer commissions and incentives	36,995,955	32,472,390
Online system expense	7,991,552	7,813,813
Scratcher system and distribution expenses	1,980,925	2,329,018
Tickets purchased	5,545,973	7,037,109
TOTAL DIRECT COSTS	385,619,626	332,134,975
Advertising and promotion	14,454,016	15,687,024
Wages and related expenses	6,077,733	6,107,037
Contract services	337,559	393,838
Depreciation	352,766	355,971
Administrative expenses	3,228,532	3,129,245
TOTAL OPERATING EXPENSES	410,070,232	357,808,090
OPERATING INCOME	141,743,109	127,228,919
NONOPERATING REVENUES - Investment income and other	1,734,523	752,101
INCOME BEFORE TRANSFERS	143,477,632	127,981,020
TRANSFERS TO OTHER STATE FUNDS	141,858,578	129,080,003
CHANGE IN NET ASSETS	1,619,054	(1,098,983)
NET ASSETS - BEGINNING OF YEAR	10,390,923	11,489,906
NET ASSETS - END OF YEAR	$ 12,009,977	$ 10,390,923

See accompanying notes.

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
STATEMENT OF CASH FLOWS
Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retailers -net of commissions and incentives	$ 263,951,121	$ 249,897,690
Cash received from other sources	10,691,153	10,541,931
Cash payments for prizes and related taxes	(99,789,628)	(93,272,517)
Cash payments to suppliers of goods or services	(34,831,299)	(34,056,699)
Cash payments to employees	(6,024,094)	(6,128,575)
NET CASH PROVIDED BY OPERATING ACTIVITIES	133,997,253	126,981,830
CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES		
Payments to beneficiaries per Arizona Statutes	(133,432,900)	(147,314,209)
CASH FLOWS USED BY CAPITAL FINANCING ACTIVITIES		
Payments for acquisition of capital assets	(43,809)	(142,056)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of interest	135,457	161,811
NET INCREASE (DECREASE) IN CASH	656,001	(20,312,624)
CASH AT BEGINNING OF YEAR	35,537,819	55,850,443
CASH AT END OF YEAR	$ 36,193,820	$ 35,537,819
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 141,743,109	$ 127,228,919
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	352,766	355,971
(Increase) decrease in:		
Accounts receivable	(1,236,354)	(19,917)
Ticket inventory	(1,559,642)	1,146,517
Deposit - MUSL	126,202	(581,847)
Increase (decrease) in:		
Accounts payable and accrued expenses	(147,000)	1,195,426
Prizes payable	(5,281,828)	(2,343,239)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 133,997,253	$ 126,981,830

See accompanying notes.

NOTE 1 NATURE OF OPERATIIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements include prior-year comparative information, but the notes to the financial statements omit prior-year information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such prior-year information should be read in conjunction with the Lottery's financial statements for the year ended June 30, 2009, from which the information was derived.

For the period July 1, 2009 through June 30, 2010, the Lottery held 71 instant games (games 453, 619, 623, 626, 628-629, 634, 636, 638-641, 645, 647-652, 654-665, 667-670, 672-700, 702-703, 710, 718, 728, 731, and 732), three of which were Economic Development games (games 619, 636, and 662). During 2010, the Lottery continued the "Pick 3," "Pick 5," "The Pick," "Powerball," "Fast Play," and "Cash 4" online games, continued the "Arizona Raffle" game, which was held two times in the fiscal year, and introduced the "2 By 2" and "Mega Millions" online games. As required, the Lottery has deposits with "Powerball," and "Mega Millions," multistate online lottery games, of $8,203,374 at June 30, 2010.

The Lottery prepares its financial statements in accordance with accounting principles generally accepted in the United States of America.

State Lottery Fund

The State Lottery Fund (the "Fund"), which is a component unit of the State, accounts for revenues received from the sale of lottery tickets and the receipt of license fees. The Fund is operated in a manner similar to a private business enterprise where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, management control, accountability or other purposes. Activities accounted for in the proprietary fund follow all applicable Governmental Accounting Standards Board pronouncements, as well as applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989. The Fund accounts for prize payments, operational expenses, including consulting, promotional, and advertising expenses, and transfers of monies to other State funds. Receipts from each type of lottery game are to be allocated as follows:

- Not less than 50% of the total annual revenue from Lottery ticket sales is apportioned for the payment of prizes to the holders of winning tickets for the period July 1, 2009 to June 30, 2010.

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

State Lottery Fund (Continued)

- Not more than 18.5% is apportioned for payment of Lottery operating expenditures. Legislation enacted in 2008 set this limit and also removed a 4% cap on advertising expenditures.

In addition, State statute requires that 30% of all unclaimed prizes be transferred to the Court-Appointed Special Advocate Account, a fund within the State's General Fund.

Cash

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

Accounts Receivable

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

Ticket Inventory

Ticket inventory is stated at cost, which represents the amount incurred by the Lottery for purchasing the tickets.

Property and Equipment

Property and equipment of the Fund, which consists principally of buildings, land, land improvements, and office furniture and equipment are stated at historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Expenditures for normal repairs and maintenance are charged to operations as incurred, whereas expenditures for major renewals, replacements, and betterments are capitalized and depreciated. Depreciation is provided for as follows:

	Method	Estimated Useful Life
Buildings	Straight-line	40 years
Land improvements	Straight-line	20 years
Furniture, fixtures, and computer equipment	Straight-line	5–7 years

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

Investments and Investment Income

Investments are reported at fair value on the Statement of Net Assets as determined by quoted market prices with any realized or unrealized gains and losses reported in the Statement of Revenues, Expenses and Changes in Net Assets.

Investment income from all investments is recognized by the Lottery in the period it is earned and gains and losses are recognized as revenue in the period in which they occur. Investment income also includes earnings on invested cash held by the State Treasurer and invested prize reserves held by the Multistate Lottery Association (MUSL).

Ticket Sales and Revenue Recognition

Revenue is recognized and the related direct expenses of ticket sales, including prize expense, are accrued based upon the known relationship of the amount of ticket sales to the amount of prizes for each game. This method of measuring revenue is necessary in order to properly match revenues and expenses.

Compensated Absences

Vacation leave vests with the employee as it is earned. Employees may carry forward only the amount of vacation benefits equal to the maximum allowable accumulated credits for the preceding calendar year. Accordingly, at June 30, 2010, the Fund's accounts payable and accrued expenses balance includes an accrual of vacation pay and related benefits of $328,970. Upon termination or retirement, an employee will be compensated for accumulated leave up to a maximum of 240 hours, dependent upon accumulated time and the individual's benefits associated with their rank as defined by State personnel rule #R2-5-403. Payment will be based on the individual's rate of pay at termination or retirement. Upon death, the same benefits shall be paid to the employee's beneficiary.

Use of Estimates

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

NOTE 2 TRANSFERS AND STATUTORY REQUIREMENTS

As required by ARS Section 5-505, the Lottery made transfers during the year ended June 30, 2010, as follows:

County assistance fund	$	4,233,400
Court-appointed special advocate account		2,527,678
Department of gaming		300,000
Economic development commission fund		5,693,900
General fund		75,451,150
Healthy Arizona fund		18,659,400
Heritage fund		16,147,750
Homeless shelters		1,000,000
Local transportation assistance fund		17,845,300
Total transfers to other State funds	$	141,858,578

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

NOTE 3 PLEDGED REVENUES (GASB 48)

The Lottery has pledged portions of its gross revenues towards the payment of debt service on the State Lottery Revenue Bonds Series 2010A issued by the State. These bonds provide additional working capital to the State to pay appropriated expenditures of the State's General Fund. The bonds are payable solely from and secured by pledged revenues consisting of, until July 1, 2012, amounts distributable to the State General Fund from the Lottery pursuant to Lottery law, and from and after July 1, 2012, all Lottery revenues deposited to the Lottery Fund net of operating expenses of the Lottery. At June 30, 2010, pledged revenues totaled $64,297,950, of which 3.5% ($2,255,045) was required to be transferred to cover debt service. Future pledged revenues required to be transferred to pay all remaining debt service for the bonds through final maturity of July 1, 2029 is $677,598,181.

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets:					
Land	$ 937,830	$ -	$ -	$ -	$ 937,830
Land improvements	330,865	-	-	-	330,865
Buildings	3,648,272	-	-	-	3,648,272
Furniture, fixtures and equipment	2,466,217	12,909	(207,413)	-	2,271,713
Construction in progress	52,680	30,900	-	-	83,580
Total capital assets	7,435,864	43,809	(207,413)	-	7,272,260
Less accumulated depreciation for:					
Land improvements	(330,865)	-	-	-	(330,865)
Buildings	(1,590,425)	(115,268)	-	-	(1,705,693)
Furniture, fixtures and equipment	(1,726,689)	(237,498)	207,413	-	(1,756,774)
Total accumulated depreciation	(3,647,979)	(352,766)	207,413	-	(3,793,332)
Total capital assets, net	$ 3,787,885	$ (308,957)	$ -	$ -	$ 3,478,928

NOTE 5 INVESTMENTS

During the year ended June 30, 2010, the Lottery was notified that they owned common stock in publicly traded companies with a fair value of $1,528,410. These stocks were issued to the Lottery as incentives for purchasing annuity contracts for prize payouts. The Lottery intends to liquidate these investments subsequent to year end.

NOTE 6 PRIZE LIABILITY

Prize liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Prize liability	$ 31,930,197	$ 337,041,316	$ (342,323,144)	$ 26,648,369

NOTE 7 COMMITMENTS

The Lottery enters into various contracts for goods and services during the normal course of its business. All contacts and purchasing activity are subject to the Arizona State Procurement Code and the rules of the Arizona State Procurement Office. All contracts have incorporated into them the "Standard Terms and Conditions" as required by the Arizona State Procurement Office. These terms and conditions in all the contracts allow for cancellation for lack of funding in the current fiscal year or next fiscal year. The contract may also be terminated for the Lottery's convenience at any time with no penalty when it is in the best interest of the State.

Effective September 1, 2006, the Lottery entered into a five-year contract with G-Tech Services, Inc. for computer processing services at a base contract rate of 3.8012% of online sales.

NOTE 8 CONTINGENCIES

Annuities are purchased for all prizes over $400,000 for which winners will receive the jackpot in annual installments for The Pick online game. These annuities are purchased from qualifying insurance companies, which have the highest ratings from among A.M. Best Company, Standard & Poor's, Moody's, Duff & Phelps or Weiss. The Lottery may incur future liabilities on these annuities. Aggregate future payments to prize winners on existing annuities totaled $65,801,522 at June 30, 2010. Approximately $42,527,700 of the total aggregate future payments at June 30, 2010, relate to annuities purchased from five separate insurance companies, of which $11,731,924 relates to a single insurance company.

Tort claims against the Lottery, its agents, officers, and employees who are acting in the scope and course of their employment with the Lottery are covered pursuant to the State Risk Management statute, ARS § 41-621. There is no limit to that coverage. Therefore, as to any claims based on tort, there is no contingent liability to the budget of the Lottery.

The Lottery is involved in various legal proceedings, which arose in the normal course of business. Management of the Lottery does not believe that the ultimate resolution of these matters will have a material effect on the financial position, results of operations, or cash flows of the Lottery.

NOTE 9 RETIREMENT AND PENSION PLAN

Permanent, full-time employees of the Lottery are covered by the Arizona State Retirement Plan (the "Plan"), a retirement plan administered by the Arizona State Retirement System (ASRS), which is a multiple-employer, cost-sharing pension plan.

NOTE 9 RETIREMENT AND PENSION PLAN (Continued)

The Comprehensive Annual Financial Report of the ASRS can be obtained by accessing www.azasrs.gov . The Plan was established by the State to provide benefits for employees of the State and employees of participating political subdivisions and school districts. The Plan became effective on July 1, 1971. By actuarial computation, employee member contributions to the Plan were fixed at 9.0%, 8.95%, and 9.10% of their compensation for the years ended June 30, 2010, 2009, and 2008, with the contributions made through payroll deduction. Employee contributions vest immediately. Total contributions to the Plan for the years ended June 30, 2010, 2009, and 2008; by the Lottery's covered employees were $381,883, $384,476, and $397,693, respectively.

Matching employer member contributions were actuarially determined and fixed at 9.0%, 8.95%, and 9.10% of the compensation of all employee members for the years ended June 30, 2010, 2009, and 2008. Total matching contributions to the Plan for the years ended June 30, 2010, 2009, and 2008 by the Lottery were $381,883, $384,476, and $397,693. In the event the Plan's actuary determines that additional contributions are needed in order to amortize an unfunded accrued liability, every employer member will be required to contribute the revised contribution percentage that is set by the Plan.

All full-time employees of the Lottery are required to become members of the Plan. The Lottery's total payroll for employees covered by this Plan for the years ended June 30, 2010, 2009, and 2008, was $4,334,699, $4,410,518, and 4,422,107, respectively. Contributions to the Plan by the Lottery for its covered employees become fully vested immediately after membership in the Plan. All required employer contributions were made to the Plan within 30 days after June 30, 2010.

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SUPPLEMENTAL INFORMATION

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
Year Ended June 30, 2010

	King Size Crossword Game 515		Super Slots Game 545		Super Red Hot Dice Game 548	
TICKET SALES	$ 34,507,990	100%	$ 590,269	100%	$ 1,376,962	100%
DIRECT EXPENSES:						
Commissions	2,243,021	6.50%	38,368	6.50%	89,503	6.50%
Prizes - low tier	11,135,732	32.27%	289,232	49.00%	647,172	47.00%
Prizes - high tier	9,532,770	27.62%	46,500	7.88%	180,140	13.08%
Total prizes	20,668,502	59.89%	335,732	56.88%	827,312	60.08%
Ticket purchases	498,670	1.45%	42,070	7.13%	46,281	3.36%
Total direct expenses	23,410,193	67.84%	416,170	70.51%	963,096	69.94%
GROSS PROFIT BY GAME	$ 11,097,797	32.16%	$ 174,099	29.49%	$ 413,866	30.06%

	Red Hot 7's Game 552		Wild 10's Game 554		Wild Willie Game 559	
TICKET SALES	$ 8,558,870	100%	$ 20,459,650	100%	$ 906,055	100%
DIRECT EXPENSES:						
Commissions	556,327	6.50%	1,329,877	6.50%	58,894	6.50%
Prizes - low tier	4,707,379	55.00%	7,248,555	35.43%	471,149	52.00%
Prizes - high tier	415,912	4.86%	5,214,550	25.49%	47,875	5.28%
Total prizes	5,123,291	59.86%	12,463,105	60.92%	519,024	57.28%
Ticket purchases	113,646	1.33%	194,417	0.95%	48,166	5.32%
Total direct expenses	5,793,264	67.69%	13,987,399	68.37%	626,084	69.10%
GROSS PROFIT BY GAME	$ 2,765,606	32.31%	$ 6,472,251	31.63%	$ 279,971	30.90%

	Bingo Game 560		Crossword Game 561		Triple 7's Blackjack Game 563	
TICKET SALES	$ 16,324,436	100%	$ 39,820,078	100%	$ 4,813,025	100%
DIRECT EXPENSES:						
Commissions	1,061,088	6.50%	2,588,305	6.50%	312,847	6.50%
Prizes - low tier	8,815,195	54.00%	19,910,039	50.00%	2,045,536	42.50%
Prizes - high tier	1,172,900	7.18%	4,767,750	11.97%	1,045,430	21.72%
Total prizes	9,988,095	61.18%	24,677,789	61.97%	3,090,966	64.22%
Ticket purchases	357,861	2.19%	638,448	1.60%	74,207	1.54%
Total direct expenses	11,407,044	69.88%	27,904,542	70.08%	3,478,020	72.26%
GROSS PROFIT BY GAME	$ 4,917,392	30.12%	$ 11,915,536	29.92%	$ 1,335,005	27.74%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
Year Ended June 30, 2010

	Just a Buck Game 566		Wild Cherries Game 577		Blingo Bling Game 583	
TICKET SALES	$ 659,664	100%	$ 1,821,078	100%	$ 10,205,920	100%
DIRECT EXPENSES:						
Commissions	42,879	6.50%	118,370	6.50%	663,386	6.50%
Prizes - low tier	290,252	44.00%	846,801	46.50%	3,300,937	32.34%
Prizes - high tier	88,770	13.46%	231,490	12.71%	2,717,280	26.62%
Total prizes	379,022	57.46%	1,078,291	59.21%	6,018,217	58.97%
Ticket purchases	45,679	6.92%	47,251	2.59%	239,678	2.35%
Total direct expenses	467,580	70.88%	1,243,912	68.31%	6,921,281	67.82%
GROSS PROFIT BY GAME	$ 192,084	29.12%	$ 577,166	31.69%	$ 3,284,639	32.18%

	Colossal Crossword Game 590		Double Doubler Game 591		Sacks of Cash Game 593	
TICKET SALES	$ 8,244,360	100%	$ 1,303,566	100%	$ 988,244	100%
DIRECT EXPENSES:						
Commissions	535,883	6.50%	84,732	6.50%	64,237	6.50%
Prizes - low tier	2,812,704	34.12%	599,640	46.00%	501,536	50.75%
Prizes - high tier	1,871,150	22.70%	184,280	14.14%	63,550	6.43%
Total prizes	4,683,854	56.81%	783,920	60.14%	565,086	57.18%
Ticket purchases	112,664	1.37%	43,576	3.34%	37,393	3.78%
Total direct expenses	5,332,401	64.68%	912,228	69.98%	666,716	67.46%
GROSS PROFIT BY GAME	$ 2,911,959	35.32%	$ 391,338	30.02%	$ 321,528	32.54%

	Doubling Star Crossword Game 594		Fun $50's Game 595		Wild 8s Game 596	
TICKET SALES	$ 12,337,275	100%	$ 1,328,102	100%	$ 1,252,306	100%
DIRECT EXPENSES:						
Commissions	801,924	6.50%	86,327	6.50%	81,400	6.50%
Prizes - low tier	5,757,395	46.67%	557,803	42.00%	588,584	47.00%
Prizes - high tier	1,983,700	16.08%	230,900	17.39%	166,372	13.29%
Total prizes	7,741,095	62.75%	788,703	59.39%	754,956	60.29%
Ticket purchases	184,175	1.49%	43,781	3.30%	43,455	3.47%
Total direct expenses	8,727,194	70.74%	918,811	69.18%	879,811	70.26%
GROSS PROFIT BY GAME	$ 3,610,081	29.26%	$ 409,291	30.82%	$ 372,495	29.74%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
Year Ended June 30, 2010

	Hot Tamales Game 597		Money Maker Game 598		Money Money Money Game 599	
TICKET SALES	$ 2,000,924	100%	$ 3,329,905	100%	$ 2,894,885	100%
DIRECT EXPENSES:						
Commissions	130,060	6.50%	216,444	6.50%	188,168	6.50%
Prizes - low tier	940,434	47.00%	1,254,710	37.68%	1,230,424	42.50%
Prizes - high tier	354,150	17.70%	708,750	21.28%	635,900	21.97%
Total prizes	1,294,584	64.70%	1,963,460	58.96%	1,866,324	64.47%
Ticket purchases	100,622	5.03%	70,073	2.10%	65,706	2.27%
Total direct expenses	1,525,266	76.23%	2,249,977	67.57%	2,120,198	73.24%
GROSS PROFIT BY GAME	$ 475,658	23.77%	$ 1,079,928	32.43%	$ 774,687	26.76%

	500K Cash Bonanza Blowout Game 600		Triple Win Game 601		Cash Zone Game 602	
TICKET SALES	$ 23,156,920	100%	$ 900,889	100%	$ 1,156,840	100%
DIRECT EXPENSES:						
Commissions	1,505,200	6.50%	58,558	6.50%	75,197	6.50%
Prizes - low tier	5,582,365	24.11%	448,193	49.75%	589,988	51.00%
Prizes - high tier	7,420,200	32.04%	68,490	7.60%	119,340	10.32%
Total prizes	13,002,565	56.15%	516,683	57.35%	709,328	61.32%
Ticket purchases	213,068	0.92%	38,064	4.23%	57,133	4.94%
Advertising	214,068	0.92%				
Total direct expenses	14,934,901	64.49%	613,305	68.08%	841,658	72.75%
GROSS PROFIT BY GAME	$ 8,222,019	35.51%	$ 287,584	31.92%	$ 315,182	27.25%

	Big Money Maker Game 603		Monopoly ($1) Game 604		Monopoly ($2) Game 605	
TICKET SALES	$ 4,001,440	100%	$ 1,345,573	100%	$ 2,248,412	100%
DIRECT EXPENSES:						
Commissions	260,094	6.50%	87,464	6.50%	146,147	6.50%
Prizes - low tier	1,368,492	34.20%	672,787	50.00%	944,333	42.00%
Prizes - high tier	1,042,800	26.06%	96,500	7.17%	405,600	18.04%
Total prizes	2,411,292	60.26%	769,287	57.17%	1,349,933	60.04%
Ticket purchases	76,036	1.90%	77,925	5.79%	118,629	5.28%
Advertising			131,185	9.75%	131,185	5.83%
Total direct expenses	2,747,422	68.66%	1,065,861	79.21%	1,745,894	77.65%
GROSS PROFIT BY GAME	$ 1,254,018	31.34%	$ 279,712	20.79%	$ 502,518	22.35%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
Year Ended June 30, 2010

	Monopoly ($5) Game 606		$500,000 Golden Ticket Game 607		King of Cash Game 608	
TICKET SALES	$ 3,827,460	100%	$ 13,057,440	100%	$ 773,145	100%
DIRECT EXPENSES:						
Commissions	248,786	6.50%	848,734	6.50%	50,255	6.50%
Prizes - low tier	1,626,672	42.50%	3,554,254	27.22%	396,238	51.25%
Prizes - high tier	846,350	22.11%	5,743,600	43.99%	47,400	6.13%
Total prizes	2,473,022	64.61%	9,297,854	71.21%	443,638	57.38%
Ticket purchases	184,125	4.81%	144,778	1.11%	38,163	4.94%
Advertising	131,185	3.43%	15,168	0.12%		
Total direct expenses	3,037,118	79.35%	10,306,534	78.93%	532,056	68.82%
GROSS PROFIT BY GAME	$ 790,342	20.65%	$ 2,750,906	21.07%	$ 241,089	31.18%

	Holiday Bucks Game 610		Happy Holiday Game 611		Candy Cane Crossword Game 612	
TICKET SALES	$ 1,284,322	100%	$ 1,305,694	100%	$ 2,245,158	100%
DIRECT EXPENSES:						
Commissions	83,483	6.50%	84,870	6.50%	145,935	6.50%
Prizes - low tier	629,318	49.00%	639,790	49.00%	1,100,127	49.00%
Prizes - high tier	163,940	12.76%	180,260	13.81%	368,350	16.41%
Total prizes	793,258	61.76%	820,050	62.81%	1,468,477	65.41%
Ticket purchases	55,621	4.33%	48,568	3.72%	78,477	3.50%
Advertising	150,773	11.74%	150,773	11.55%	150,773	6.72%
Total direct expenses	1,083,135	84.34%	1,104,261	84.57%	1,843,662	82.12%
GROSS PROFIT BY GAME	$ 201,187	15.66%	$ 201,433	15.43%	$ 401,496	17.88%

	Silver Bells Game 613		Fast Money Game 614		Triple Payout Game 615	
TICKET SALES	$ 3,271,535	100%	$ 540,220	100%	$ 2,182,358	100%
DIRECT EXPENSES:						
Commissions	212,652	6.50%	35,115	6.50%	141,853	6.50%
Prizes - low tier	1,553,982	47.50%	270,110	50.00%	894,767	41.00%
Prizes - high tier	747,200	22.84%	39,100	7.24%	408,610	18.72%
Total prizes	2,301,182	70.34%	309,210	57.24%	1,303,377	59.72%
Ticket purchases	132,341	4.05%	37,482	6.94%	43,681	2.00%
Advertising	150,773	4.61%				
Total direct expenses	2,796,948	85.49%	381,807	70.68%	1,488,911	68.22%
GROSS PROFIT BY GAME	$ 474,587	14.51%	$ 158,413	29.32%	$ 693,447	31.78%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
Year Ended June 30, 2010

	In the Chips Game 616		Player's Club Game 617		High Roller Game 618	
TICKET SALES	$ 1,659,223	100%	$ 2,274,172	100%	$ 4,503,010	100%
DIRECT EXPENSES:						
Commissions	107,852	6.50%	147,821	6.50%	292,697	6.50%
Prizes - low tier	813,019	49.00%	1,040,438	45.75%	1,969,919	43.75%
Prizes - high tier	210,320	12.68%	424,350	18.66%	1,256,800	27.91%
Total prizes	1,023,339	61.68%	1,464,788	64.41%	3,226,719	71.66%
Ticket purchases	96,452	5.81%	107,944	4.75%	161,081	3.58%
Total direct expenses	1,227,643	73.99%	1,720,553	75.66%	3,680,497	81.73%
GROSS PROFIT BY GAME	$ 431,580	26.01%	$ 553,619	24.34%	$ 822,513	18.27%

	Texas Hold 'Em Game 620		Lucky 7's Game 621		Odds & Evens Game 622	
TICKET SALES	$ 5,972,705	100%	$ 1,484,846	100%	$ 1,396,152	100%
DIRECT EXPENSES:						
Commissions	388,228	6.50%	96,515	6.50%	90,751	6.50%
Prizes - low tier	2,687,717	45.00%	831,514	56.00%	628,268	45.00%
Prizes - high tier	1,579,750	26.45%	87,700	5.91%	228,025	16.33%
Total prizes	4,267,467	71.45%	919,214	61.91%	856,293	61.33%
Ticket purchases	216,303	3.62%	37,482	2.52%	40,026	2.87%
Total direct expenses	4,871,998	81.57%	1,053,211	70.93%	987,070	70.70%
GROSS PROFIT BY GAME	$ 1,100,707	18.43%	$ 431,635	29.07%	$ 409,082	29.30%

	Lucky Symbols Game 624		Lucky Bucks Game 625		Funky 5's Game 627	
TICKET SALES	$ 1,423,524	100%	$ 1,806,056	100%	$ 6,178,295	100%
DIRECT EXPENSES:						
Commissions	92,631	6.51%	117,394	6.50%	401,590	6.50%
Prizes - low tier	704,647	49.50%	844,334	46.75%	3,089,148	50.00%
Prizes - high tier	158,920	11.16%	316,820	17.54%	1,341,900	21.72%
Total prizes	863,567	60.66%	1,161,154	64.29%	4,431,048	71.72%
Ticket purchases	38,208	2.68%	50,037	2.77%	78,736	1.27%
Total direct expenses	994,406	69.86%	1,328,585	73.56%	4,911,374	79.49%
GROSS PROFIT BY GAME	$ 429,118	30.14%	$ 477,471	26.44%	$ 1,266,921	20.51%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
Year Ended June 30, 2010

	Bingo Game 630		Crossword Game 631		Dazzlin' Diamond 7s Game 632	
TICKET SALES	$ 9,957,074	100%	$ 10,364,778	100%	$ 5,897,970	100%
DIRECT EXPENSES:						
Commissions	647,210	6.50%	673,711	6.50%	383,371	6.50%
Prizes - low tier	5,327,035	53.50%	5,182,389	50.00%	2,948,985	50.00%
Prizes - high tier	1,059,270	10.64%	1,541,650	14.87%	1,302,450	22.08%
Total prizes	6,386,305	64.14%	6,724,039	64.87%	4,251,435	72.08%
Ticket purchases	210,528	2.11%	221,281	2.13%	73,583	1.25%
Total direct expenses	7,244,043	72.75%	7,619,031	73.51%	4,708,389	79.83%
GROSS PROFIT BY GAME	$ 2,713,031	27.25%	$ 2,745,747	26.49%	$ 1,189,581	20.17%

	Holiday Treasures Game 633		Blackout Bingo Game 635		Beat the Dealer Game 637	
TICKET SALES	$ 3,221,490	100%	$ 4,734,840	100%	$ 1,264,558	100%
DIRECT EXPENSES:						
Commissions	209,397	6.50%	307,769	6.50%	82,196	6.50%
Prizes - low tier	1,293,540	40.15%	1,893,936	40.00%	575,374	45.50%
Prizes - high tier	929,400	28.85%	1,534,380	32.41%	250,950	19.84%
Total prizes	2,222,940	69.00%	3,428,316	72.41%	826,324	65.34%
Ticket purchases	41,048	1.27%	165,560	3.50%	49,418	3.91%
Advertising	150,773	4.68%				
Total direct expenses	2,624,158	81.46%	3,901,645	82.40%	957,938	75.75%
GROSS PROFIT BY GAME	$ 597,332	18.54%	$ 833,195	17.60%	$ 306,620	24.25%

	Monopoly ($1) Game 642		Monopoly ($2) Game 643		Monopoly ($5) Game 644	
TICKET SALES	$ 552,989	100%	$ 836,086	100%	$ 1,347,195	100%
DIRECT EXPENSES:						
Commissions	35,947	6.50%	54,346	6.50%	87,570	6.50%
Prizes - low tier	295,852	53.50%	353,250	42.25%	555,770	41.25%
Prizes - high tier	46,750	8.45%	182,350	21.81%	428,550	31.81%
Total prizes	342,602	61.95%	535,600	64.06%	984,320	73.06%
Ticket purchases	77,777	14.06%	118,676	14.19%	184,125	13.67%
Total direct expenses	456,326	82.52%	708,622	84.75%	1,256,015	93.23%
GROSS PROFIT BY GAME	$ 96,663	17.48%	$ 127,464	15.25%	$ 91,180	6.77%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
Year Ended June 30, 2010

	Crossword Game 653	
TICKET SALES	$ 10,201,252	100%
DIRECT EXPENSES:		
Commissions	663,081	6.50%
Prizes - low tier	5,100,626	50.00%
Prizes - high tier	1,510,800	14.81%
Total prizes	6,611,426	64.81%
Ticket purchases	221,737	2.17%
Total direct expenses	7,496,244	73.48%
GROSS PROFIT BY GAME	$ 2,705,008	26.52%

	Blazin' Red Hot Numbers* Game 572		Super 7's* Game 592	
TICKET SALES	$ 9,458,030	100%	$ 10,553,000	100%
DIRECT EXPENSES:				
Commissions	614,772	6.50%	685,945	6.50%
Prizes - low tier	2,751,341	29.09%	3,429,736	32.50%
Prizes - high tier	2,904,400	30.71%	3,396,385	32.18%
Total prizes	5,655,741	59.80%	6,826,121	64.68%
Ticket purchases	94,051	0.99%	70,959	0.67%
Total direct expenses	6,364,564	67.29%	7,583,025	71.86%
GROSS PROFIT BY GAME	$ 3,093,466	32.71%	$ 2,969,975	28.14%

ARIZONA STATE LOTTERY, A COMPONENT UNIT OF THE STATE OF ARIZONA
SUPPLEMENTAL SCHEDULE OF GROSS PROFIT BY GAME
FOR GAMES EXPIRING DURING THE YEAR
Year Ended June 30, 2010

	Pick/Pick Extra Drawings January 1, 2009 to December 31, 2009		Pick 5/Pick 5 Extra Drawings January 1, 2009 to December 31, 2009		Powerball Drawings January 1, 2009 to December 31, 2009	
TICKET SALES	$ 23,013,241	100.00%	$ 9,392,307	100.00%	$ 61,360,563	100.00%
DIRECT EXPENSES:						
Commissions	1,495,875	6.50%	610,510	6.50%	3,988,443	6.50%
Total prizes	11,758,080	51.09%	4,784,044	50.94%	30,680,282	50.00%
Online system expenses	874,779	3.80%	357,020	3.80%	2,332,438	3.80%
Advertising	519,498	2.26%	94,181	1.00%	467,009	0.76%
Total direct expenses	14,648,232	63.65%	5,845,755	62.24%	37,468,172	61.06%
GROSS PROFIT BY GAME	$ 8,365,009	36.35%	$ 3,546,552	37.76%	$ 23,892,391	38.94%

	Pick 3 Drawings January 1, 2009 to December 31, 2009		Arizona Raffle Drawings January 1, 2009 to December 31, 2009		Fast Play Drawings January 1, 2009 to December 31, 2009	
TICKET SALES	$ 4,704,152	100.00%	$ 6,763,060	100.00%	$ 1,232,625	100.00%
DIRECT EXPENSES:						
Commissions	305,775	6.50%	439,599	6.50%	79,488	6.45%
Total prizes	2,352,076	50.00%	3,550,607	52.50%	717,787	58.23%
Online system expenses	178,814	3.80%	257,077	3.80%	46,855	3.80%
Advertising	-	0.00%	1,625,091	24.03%	98,985	8.03%
Total direct expenses	2,836,665	60.30%	5,872,374	86.83%	943,115	76.51%
GROSS PROFIT BY GAME	$ 1,867,487	39.70%	$ 890,686	13.17%	$ 289,510	23.49%

	Cash 4 Drawings January 1, 2009 to December 31, 2009	
TICKET SALES	$ 3,036,194	100.00%
DIRECT EXPENSES:		
Commissions	197,353	6.50%
Total prizes	1,521,133	50.10%
Online system expenses	115,412	3.80%
Advertising	751,355	24.75%
Total direct expenses	2,585,253	85.15%
GROSS PROFIT BY GAME	$ 450,941	14.85%

NOTE: After the announced completion of ticket sales for each game, customers have a 180-day period in which they can redeem their winning tickets. The above gross profit information includes games in which the 180-day grace period expired during the fiscal year ended June 30, 2010.

Economic Development games are denoted with (*)

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Celebrating 50 Years Of Service

HENRY & HORNE, LLP
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Commissioners
Arizona State Lottery

We have audited the financial statements of the Arizona State Lottery (the "Lottery"), as of and for the year ended June 30, 2010, and have issued our report thereon dated November 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

<u>Internal Control Over Financial Reporting</u>

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

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

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

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Compliance and Other Matters

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

We noted certain other matters that we reported to management of the Lottery in a separate letter dated November 19, 2010.

This report is intended solely for the information and use of the Lottery Commissioners, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, Meech & Co., LLP

Casa Grande, Arizona
November 19, 2010