



*Arizona Lottery*

| love the play™

**ANNUAL REPORT**  
JULY 2024 - JUNE 2025



Baker Tilly US, LLP has not been engaged to perform and has not performed, since the date of the report included herein, any procedures on the financial statements addressed in that report. Baker Tilly US, LLP also has not performed any procedures relating to this annual report.

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# ARIZONA LOTTERY OVERVIEW

This Fiscal Year 2025 Annual Report is a testament to a remarkable year of growth, economic empowerment, and significant contributions to the Grand Canyon State!

The Arizona Lottery plays a vital dual role: supporting Arizona's retail landscape and funding critical state initiatives. Empowering over 3,600 retailers across the state, from small businesses to major chains, our retail partners are integral to boosting local economies while connecting players to life-changing opportunities. We're driving growth and convenience for players and retailers through innovative promotions and digital tools, building a resilient retail network that benefits communities statewide. Equally important, the Arizona Lottery's proceeds directly support vital programs that strengthen Arizona's education, health, and environmental initiatives, demonstrating our commitment to a brighter future for all Arizonans.







**A LETTER  
FROM THE  
COMMISSION  
CHAIR  
JEFF  
WEINTRAUB**

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To our partners, players, and the great retailers of the Arizona Lottery,

It is with great pride that I write to you today as the Chair of the Arizona Lottery Commission, having been reconfirmed as a member of the Commission by the Arizona State Senate for a 5-year term earlier this year. Having served on the Commission for over a decade, I have had the unique privilege of a front-row seat to the tremendous growth and evolution of our organization.

The Arizona Lottery operates in a unique space — a state agency guided by the rigor and foresight of a business. This approach has been instrumental in our ability to navigate challenges and achieve our mission of responsibly generating revenue for vital state programs.

My role, and that of the Commission, is to provide oversight and strategic guidance, ensuring that the Arizona Lottery's achievements directly benefit the communities we serve. This Annual Report is a testament to the hard work and dedication of the entire Arizona Lottery team. It highlights a very successful fiscal year, and the pages that follow will detail the impressive results of FY25 and outline the exciting path forward.

Thank you for your continued support and for making the Arizona Lottery a point of pride for our state.

Sincerely,  
Chairman Weintraub



# Arizona Lottery



**The impact we deliver  
for Arizona is made  
possible by the  
unwavering dedication  
of our team, our  
retailers, our partners,  
and our players.**

## A MESSAGE FROM EXECUTIVE DIRECTOR ALEC THOMSON

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At the Arizona Lottery, our mantra is, when you play, Arizona wins—and this past fiscal year, this truth was reaffirmed yet again. As we reflect on FY25, I am proud to share how our organization has remained financially resilient, adapted to market headwinds, led our industry in growth, retail innovation and game integrity, and advanced critical initiatives that create long-term value for our players, retailers, and communities across Arizona.

Despite an ever-evolving retail environment and the macroeconomic and industry challenges we face, we remain the state's biggest revenue generator, reaching over \$1,403,405,281 in total sales. This reaffirms the Arizona Lottery's role as a strong, consistent contributor to our state's economy and the vital state programs funded by lottery revenue. In FY25, we paid more than \$95 million in retailer commissions, returned \$271 million to our 17 beneficiaries, and awarded over \$962 million in total prizes to our players.

This year, the industry faced significant market challenges, from shifting player engagement patterns to retail channel disruptions. Yet, we met these headwinds with innovation and agility. We optimized operations and product mix, made strategic investments at retail, enhanced our digital strategy, and expanded our marketing reach with an eye toward the next generation of players. These efforts helped us sustain performance, be one of few jurisdictions in North America to grow instant product sales, and positioned us for growth in FY26.

To support our operations and better serve players and beneficiaries, we also pursued necessary regulatory enhancements that modernize our approach and preserve the integrity of our games. These updates were developed with transparency and care, ensuring they benefit our players, our retail partners, and our beneficiaries. Further, they will help us evolve in step

with our digital-first world and ensure that the integrity and trust that the Arizona Lottery has built over the decades remains paramount.

Among our most exciting achievements in FY25 were our continued investments in retail, innovation, and community. We looked hard at the evolving retail landscape and came together with our retail partners to deploy new technology at stores statewide that is working to drive sales, launch exciting collaborative promotions, and optimize our approach in the field to ensure our valued retailers are in the best position possible to connect our players to our products.

We also launched the next chapter of Love the Play, a brand platform that reaffirms the joy and purpose behind every lottery experience. In addition, we appreciate the value of taking the lottery experience beyond the ticket. That's why we've prioritized modernizing our digital player tools, including mobile app enhancements and personalized loyalty experiences through Players Club, offering our players more value with every play.

Our Gives Back program continues to drive meaningful impact in communities statewide, investing in programs and services across four pillars: education, health and human services, environmental conservation, and economic development.

For FY26, we aim to maximize net revenue now and ensure future growth, maintaining the lottery's resilient revenue source for Arizona. We'll continue investing in retail partners, enhancing player experience, engaging players, and increasing awareness of the lottery's positive state impact. Our ambition for growth is high and our commitment to delivering on our mission of generating vital funds for a better quality of life in Arizona now and for generations to come is stronger than ever.

Sincerely,



Alec E. Thomson



**Together, we are creating more than winners—we're building a stronger Arizona.**

# OPERATIONAL EFFICIENCY

In FY25, we focused on creating a more efficient, data-driven, and responsive organization. To support a growing player base and better understand and serve our markets, we invested in people, processes, and technology across multiple departments.



## DATA-DRIVEN PERFORMANCE

Our analytics team enhanced reporting and insights, giving us sharper visibility into player trends and retail performance. Our Human Resources department, in collaboration with leadership and managers, strengthened internal training and onboarding, ensuring staff in every role had the tools and knowledge to succeed. Our technology group upgraded key systems to improve operational speed, accuracy, and scalability.



## OPTIMIZING SALES & DISTRIBUTION

Our sales team underwent a major realignment to improve service to our retailers and meet the demands of our expanding retailer network. To align with industry standards and ensure every retailer receives dedicated attention, we expanded and optimized sales operations by creating a new district and five new territories. This restructuring positioned us to execute major retail initiatives, including the rollout of new vending machines and game expansions, while providing each partner with personalized, consistent service. The result is a stronger, more efficient, and more agile team ready to deliver on both daily service needs and large-scale strategic projects.



## MODERNIZING OPERATIONS

To better support the agency and gaming vendors, we have strategically centralized key IT functions under the newly formed Operations and Innovation Division. By realigning IT and our central gaming system experts, we have created a more unified and efficient structure to meet our day-to-day functions. This collaboration has been instrumental in implementing a variety of game enhancements, launching new games, and deploying upgraded platforms in the retail market.



## DRIVING INNOVATION TOGETHER

Our renewed partnership with our valued vendor partners will be fundamental to the continuous evolution of the Lottery's offerings, driving innovation in game enhancements, the introduction of exciting new games, and significant upgrades to existing game platforms. These advancements are specifically designed to meet evolving market demands and enrich the retail experience for consumers.



# MAJOR WINS

This fiscal year saw significant retail advancements powered by cross-department collaboration, bringing several high-impact projects across the finish line:

## 40 - BIN VENDING MACHINE ROLLOUT

- **Initial rollout began in December** at 10 Kroger locations.
- Full rollout completed in June, **adding 1,400+ retail facings statewide.**

## LOVE THE PLAY BRAND PLATFORM

- **Unified Brand Identity:** Introduced Love the Play™ as the Arizona Lottery's new overarching brand platform, **celebrating the excitement, optimism, and playfulness** at the heart of every game.
- **Consistent Creative Integration:** Rolled out the platform across campaigns, retail, and experiential touchpoints—**strengthening brand recognition and emotional connection** with players statewide.

## \$50 TICKET EXPANSION AT QUIKTRIP

- **Expanded \$50 ticket sales** to all QuikTrip locations following a successful pilot.
- **Pilot stores saw an average monthly sales increase of \$10,000**, underscoring strong player demand.

## RECORD MEGA MILLIONS JACKPOT WIN

- In January, Arizona had its **first Mega Millions® jackpot win of 2025: \$112 million.**
- This was the **second-largest Mega Millions prize** ever awarded in the state.
- The monumental win **created a ripple effect of excitement**, boosting public awareness and driving sales momentum statewide.

## EXPANDED PLAYER ENGAGEMENT

- **Statewide Promotional Activations** Supporting the Launch of Loaded Cash Explosion® Tickets
- **Delivered high-impact retail and experiential activations** across Arizona to drive awareness and excitement for the Loaded Cash Explosion game launch.
- **Achieved record participation and engagement**, reinforcing the Lottery's commitment to bringing fun, rewarding experiences directly to players.

# MAJOR WINS (CONTINUED)

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## OPERATIONAL IMPROVEMENTS

- Achieved the **lowest out-of-stock averages** in three years.
- Ensured players and retailers had **consistent access to our most popular games**.
- **Increased store visits and improved retailer support**.

## DIGITAL MENU BOARD EXPANSION

- **Installed 230 digital menu boards** at Circle K stores statewide.
- **Leveraged technology to increase game visibility** and player engagement at the point of purchase.

## KINGMAN CLAIM CENTER UPGRADES

- **Improved Visibility & Awareness** — Relocated to a prime, high-traffic area between Walmart's busiest bank branch and restrooms, with new large-scale signage to boost visibility and attract more walk-up traffic.
- **Leadership & Training** — Added a new Supervisor role and enhanced staff training to ensure exceptional customer service.
- **Stronger Leadership & Training** — Added a new Supervisor role, actively preparing staff with targeted training for excellent customer service delivery.
- **Improved Signage & Storefront Visibility** — Large Arizona Lottery signage now visible across the store, with potential exterior signage to further increase awareness of Lottery services.

## RESPONSIBLE GAMING CERTIFICATION

- Achieved World Lottery Association (WLA) Level 2 Responsible **Gaming Certification**.
- **Formally adopted clear goals**, internal procedures, and leadership-backed initiatives to promote healthy play and protect players.

Looking ahead to FY26, we will build on this momentum through expanded retail advertising, targeted promotional campaigns, and enhanced retailer engagement programs. Plans are already underway to broaden our vending machine footprint, ensuring even greater statewide access to our games. We are also committed to achieving WLA Level 3 Responsible Gaming Certification, further demonstrating our dedication to player protection and corporate social responsibility.





# love the play™

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In FY25, we proudly introduced our new brand platform, Love The Play™. More than a tagline, this platform is used across all our communications to build a deeper, more emotional connection with our players and the broader community. It positions the Arizona Lottery as more than just a game; it celebrates the joy, anticipation, and community impact behind every play.

Love The Play embodies the spirit of anticipation, the fun of participation, and the shared thrill of possibility. It's about appreciating every moment, from choosing your numbers to scratching a ticket, and recognizing the positive impact the Arizona Lottery has on communities across the state. This brand platform resonates with our players by highlighting the inherent enjoyment and purpose behind every game. It also reinforces our commitment to responsible gaming and showcases the benefits derived from lottery proceeds, such as supporting vital state programs.

**To learn more, visit [ArizonaLottery.com/LoveThePlay](https://ArizonaLottery.com/LoveThePlay).**

# LOCAL LOVE



## DESERT BOTANICAL GARDEN

- \$5 Lotería Grande Scratchers® game
- Celebrates Hispanic culture and traditions
- Players can win exclusive Lotería-themed merchandise



## BARRETT-JACKSON

- \$5 Scratchers ticket
- Players can win \$50,000 and a VIP experience



## ARIZONA HIGHWAYS

- \$3 Arizona Treasure Hunt Scratchers ticket
- Features an illustrated map of the state with hidden treasures



## ZIA RECORDS

- \$2 Rock Out Scratchers ticket
- Collaboration for Record Store Day
- Offered free merchandise and a chance to win more when purchasing Scratchers tickets from our van



## STATE FORTY EIGHT

- \$5 Scratchers ticket
- Highlights Arizona's culture
- Players can win up to \$48,000
- Supports the State Forty Eight Foundation



# EXPERIENTIAL PROMOTIONS

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Our promotions this year were all about creating unforgettable experiences for our players. The Lady Luck Women in Country Music promotion, which ran from July to September, invited players to enter eligible tickets for a chance to win a VIP trip to the Smoky Mountains, where they enjoyed a private Martina McBride concert. **The promotion generated over \$25 million in total retail spend and saw a total of 76,503 unique players, a strong indicator of its success.**

Our Hawaiian Holiday promotion from October to January offered 50 lucky players a deluxe travel package and a chance to win even more cash prizes. This campaign saw a remarkable **63.38% lift in sales** for the featured tickets and **contributed nearly 20% of the total retail spend** during that period, demonstrating the powerful cross-promotional effect of our campaigns.

# RETAIL MARKETING CASE STUDIES

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By collaborating with retailers, we turned everyday transactions into memorable brand experiences. We conducted several targeted retail promotions to drive engagement and sales. Our Cobblestone Car Wash partnership offered a **free car wash with the purchase of a Barrett-Jackson Scratchers ticket**, resulting in 703 ticket purchases and 213 redemptions.

With Circle K, we launched the **“Power of Three”** promotion, which gave players a free Arizona Diamondbacks hat with the purchase of gas and a \$10 Scratchers ticket, as well as a popular “15 cents off gas” offer.

We also held a fun **Willie’s Wares Scavenger Hunt** at 19 locations, where players searched for Golden Tickets to redeem exclusive Arizona Lottery merchandise, generating over 31,000 impressions and 3,200 engagements on social media.





**\$5** *Barrett-Jackson*  
THE WORLD'S GREATEST COLLECTOR CAR AUCTIONS®

**TAXES PAID  
WIN UP TO \$50,000\***

Match any 5 YOUR NUMBERS to any 5 of the WINNING NUMBERS,  
and your chance to win \$50,000 is yours. \*A typical  
jackpot prize drawn at random.

**WINNING NUMBERS**

**YOUR NUMBERS**

TOP PRIZE ALSO INCLUDES A RIDER EXPERIENCE TO  
BARRETT-JACKSON'S JANUARY 2026 SCOTTSDALE EVENT.  
SEE BACK FOR DETAILS.

1167-V01DVS-10V

Arizona Lottery



# GET A FREE CAR WASH

SHOW YOUR \$5 BARRETT-JACKSON  
SCRATCHERS® TO A COBBLESTONE  
CASHIER TO GET A FREE CARNAUBA  
WAX EXPRESS CAR WASH

Official SNAP Rules at ArizonaLottery.com/Promotions. Must be 21 or older to purchase or redeem tickets. Overall odds vary by game. All sales are final. In accordance with ADA, these materials may be made available in an alternative format. Gambling problems? Call 1.800.NEXT STEP (1.800.639.8783) or text NEXT STEP to 53342. Please Play Responsibly™. Scratchers® is a registered service mark of the California Lottery. Barrett-Jackson and The World's Greatest Collector Car Auctions are trademarks of Barrett-Jackson or its affiliates and are used under license by Arizona Lottery.

CIRCLE K

Arizona Lottery



## FREE DIAMONDBACKS HAT

1. PURCHASE A MINIMUM OF 8 GALLONS OF GAS AT CIRCLE K
2. BUY ANY \$10 ARIZONA LOTTERY SCRATCHERS® TICKET IN THE SAME TRANSACTION
3. BRING YOUR CIRCLE K RECEIPT TO CHASE FIELD TO REDEEM A DIAMONDBACKS HAT



\*ONLY VALID WHILE SUPPLIES LAST

FOR MORE INFO PLEASE VISIT [HTTPS://WWW.ARIZONALOTTERY.COM/EVENTS](https://www.arizonalottery.com/events)

WILLIE HID HIS MERCH  
ALL OVER ARIZONA



IT'S EASY TO WIN.  
FIND A GOLDEN TICKET  
AND CLAIM YOUR PRIZE!



WINNER WINNER!

# WHERE'S WILLIE



# WILLIE'S WANTED

# CORE TICKET LAUNCHES AND FAST PLAY GROWTH

THIS YEAR WE LAUNCHED SOME OF OUR MOST POPULAR GAMES.

Our second  
\$30 Million Dollar  
Crossword ticket was  
a major success,  
contributing to over  
\$58 million in total sales.

**\$30** MILLION DOLLAR  
CROSSWORD

— **\$58** MILLION  
TOTAL SALES

**LOADED  
CASH  
EXPLOSION®**

— **\$21**  
MILLION  
SOLD  
IN 3 MONTHS

We also introduced Loaded  
CASH EXPLOSION®, a game  
packed with \$1,000 prizes and  
four top prizes of \$2.5 million,  
which sold over \$21 million in  
just a few months.

Our licensed game portfolio expanded with the launch  
of **MONOPOLY®**, **PAC-MAN**, and **JURASSIC PARK™**  
**Scratchers** and **JURASSIC WORLD™ Fast Play**, which  
combined sold over \$65 million in sales and introduced  
us to new player segments.

**\$65**  
MILLION  
COMBINED SALES

We are particularly proud of the continued growth of Fast Play, which saw a 6.39% increase in sales year-over-year to over \$55 million.

# FAST PLAY

# 6.39%

**INCREASE IN SALES**

## ARIZONA GOLD RUSH PROGRESSIVE

The launch of our first-ever \$30 Fast Play game, Arizona Gold Rush Progressive, was a game-changer, selling over \$3.2 million in its first four months and boosting the performance of our other Fast Play games.

# \$3.2 MILLION

**IN 4 MONTHS**



# INVESTING IN ARIZONA

The true heart of the Arizona Lottery's mission is the impact we make in our communities. This year, we were honored to provide crucial support to incredible organizations across the state.

These are just a few examples of how every ticket purchase fuels meaningful change and builds a stronger, more vibrant Arizona. We are incredibly grateful to our players, retailers, and community partners for making this such a successful and impactful year.

## ARIZONA FOSTER ALLIANCE

We partnered with the Arizona Foster Alliance with \$100,000 in funding to support their Holiday Toy Fest to provide brand-new gifts to foster families and participating in a volunteer day to pack backpacks for their Back to School program.

## PHOENIX CHILDREN'S HOSPITAL

We contributed \$50,000 to the Phoenix Children's Hospital Homeless Youth Outreach program, supporting their mobile clinic and bringing vital healthcare to at-risk youth.



## HABITAT FOR HUMANITY

Our partnership with Habitat for Humanity included a \$100,000 sponsorship that helped a deserving family become homeowners, with our team proudly volunteering to help build a home.

## NORTHERN ARIZONA UNIVERSITY

We supported education with a \$25,000 grant to Northern Arizona University's Honors Native American Summer Research Program, enabling five Indigenous students to complete a five-week research experience.

## DESERT BOTANICAL GARDEN

Our contributions to the Desert Botanical Garden included a \$100,000 investment to support environmental conservation, funding specially trained dogs that sniff out endangered plants, conducting a saguaro census, and supporting monarch butterfly migration tracking.

## STATE FORTY EIGHT FOUNDATION

We also partnered with the State Forty Eight Foundation, by providing \$35,000 to support their entrepreneurship programs, investing in a more inclusive and empowered Arizona business community.



# OUR BENEFICIARIES

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

## FY25 BENEFICIARY TRANSFERS

|                                                                                     |                                          |                      |
|-------------------------------------------------------------------------------------|------------------------------------------|----------------------|
|    | General Fund                             | \$171,343,255        |
|    | University Bond                          | \$42,252,406         |
|    | Healthy Arizona                          | \$26,078,000         |
|    | Mass Transit (LTAF)                      | \$11,505,600         |
|    | Heritage Fund                            | \$10,000,000         |
|  | Court Appointed Special Advocates (CASA) | \$7,492,351          |
|  | Commerce Authority Arizona Competes Fund | \$1,750,000          |
|  | 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>\$273,064,612</b> |

# OUR BENEFICIARIES

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## 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.



## 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.

# OUR BENEFICIARIES

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## 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.



## 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 lead to irresponsible gaming.



## 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.



Alec Thomson | Executive Director

## OUR TEAM

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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 \$6 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

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



**May Mgbolu**  
Chief of Staff



**Tonya Beenders**  
Chief Sales Officer



**Chris Rogers**  
Chief Marketing Officer



**Todd Terrell**  
Chief of Operations

## OUR COMMISSION

Commissioners work 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**  
Certified Public Accountant



**Todd E. Newman**  
Retailer



**Mario L. Aniles**  
Public At Large



**Shannon Scheel**  
Law Enforcement



**Tereza Fritz**  
Marketing

## **Arizona State Lottery**

A Proprietary Fund of the State of Arizona

Financial Statements and  
Supplementary Information

June 30, 2025

## **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, 2025, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the Arizona State Lottery as of June 30, 2025 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 opinions.

#### **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 the 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 State of Arizona as of June 30, 2025, and 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.

As discussed in Note 1, the Lottery adopted the provisions of GASB Statement No. 101, effective July 1, 2024. Our opinion are not modified with respect to this matter.

## Responsibilities of Management for the Financial Statements

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

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

## Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents, including the management's discussion and analysis, the schedule of proportionate share of 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 Lottery's annual report. The other information comprises the other information included in the annual report but does not include the required supplementary information, the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements do not cover the other information in the annual report, and we do not express an opinion or any form of assurance thereon.

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2025 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.



Tempe, Arizona  
October 27, 2025

## Arizona State Lottery

### Management's Discussion and Analysis (Unaudited)

June 30, 2025

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, 2025, 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, 2025. 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.

### FINANCIAL HIGHLIGHTS

- The Arizona Lottery (Lottery) again surpassed the \$1 billion threshold, achieving sales of approximately \$1.4 billion in fiscal year 2025. This reflects a decrease of approximately 8% from the prior fiscal year, primarily driven by a lack of jackpot activity.
- The Lottery returned about \$273.0 million to designated state programs in fiscal year 2025. Since its inception in July 1981, the Lottery has generated almost \$5.9 billion for Arizona programs.
- Draw game sales were lower in fiscal year 2025, primarily attributable to a lack of multi-state game jackpots. Sales of \$348 million represented a decrease of 27.4% from fiscal year 2024. The prior fiscal year included four separate Powerball and Mega Millions jackpots that exceeded \$1 billion. Sales for in-state draw games also experienced an overall sales decline of approximately \$10.6 million (6.7%) as compared to fiscal year 2024.

## Arizona State Lottery

Management's Discussion and Analysis (Unaudited)

June 30, 2025

- Scratchers game sales continued as the dominate product line with sales of approximately \$1.04 billion in fiscal year 2025. This reflects a modest increase of \$3.5 million over the prior year and a growth rate of 0.3%. Demand for tickets at the \$10, \$30, and \$50 price points largely drove this sales increase, with sales of \$30 tickets demonstrating the largest year-over-year increase. Sales for price points ranging from \$1 to \$5 declined from the previous year, while the \$10 price point and above continued to experience growth.
- Sales for the instant tab product line exhibited considerable growth in its niche markets (primarily age-restricted establishments, charitable groups, and fraternal organizations). Total instant tab sales increased by about \$3 million from the prior fiscal year, representing a growth rate of approximately 18%. Sales of instant tabs at charitable locations increased by over 13%, while sales at age-restricted venues saw growth of almost 24% compared to the prior year.
- The Lottery's retail partners earned about \$95.2 million in commissions and incentives in fiscal year 2025, approximately the same as the previous fiscal year.

## REVENUES

Total game sales were approximately \$1.40 billion for fiscal year ended June 30, 2025 as compared to \$1.53 billion for fiscal year ended June 30, 2024, reflecting an increase in instant game products and a decrease in draw game products. The overall sales decline of \$124.8 million represented an 8% decrease over the prior year.

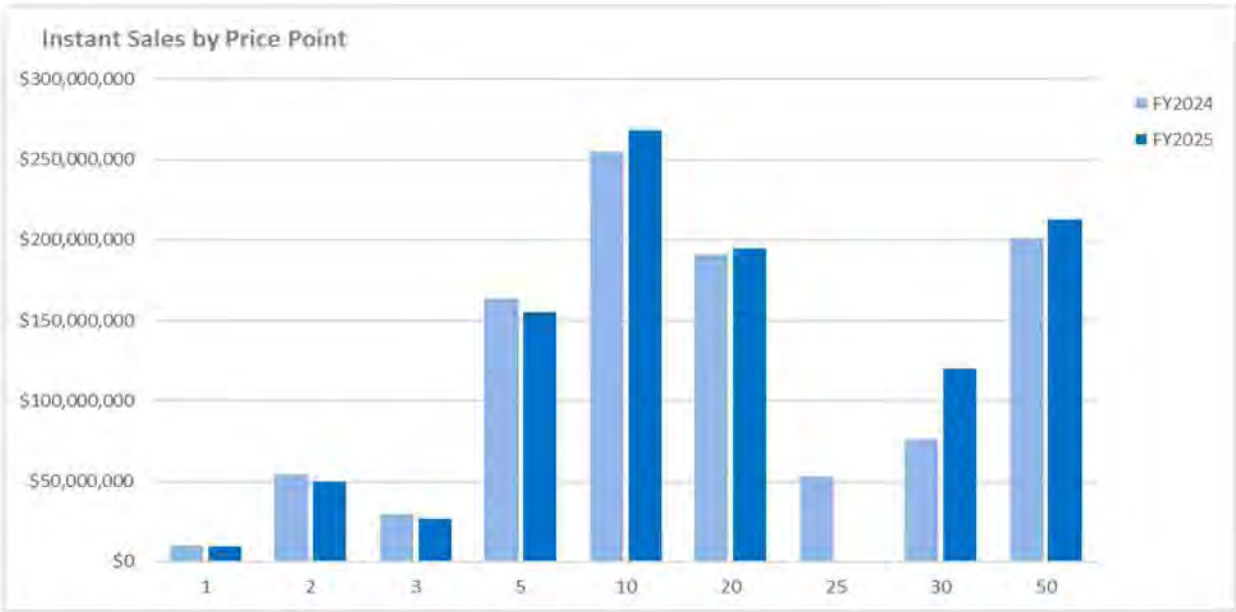
The following table summarizes Lottery total sales by game and the incremental change between fiscal years. All revenues are presented in millions of dollars. (Note: due to rounding, some figures may be slightly different from the statement of revenues, expenses, and changes in net position detailed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

| Product Sales (in millions) | FY 2025           | FY 2024           | Change            | Percentage   |
|-----------------------------|-------------------|-------------------|-------------------|--------------|
| Scratchers                  | \$ 1,036.6        | \$ 1,033.1        | \$ 3.5            | 0.3%         |
| Instant Tabs                | 18.8              | 15.9              | 2.9               | 18.4%        |
| Powerball                   | 99.1              | 193.8             | (94.7)            | -48.9%       |
| Mega Millions               | 101.7             | 127.7             | (26.0)            | -20.3%       |
| The Pick                    | 35.3              | 41.0              | (5.7)             | -13.9%       |
| Fantasy 5                   | 17.5              | 19.4              | (1.9)             | -9.9%        |
| Pick 3                      | 16.4              | 17.3              | (0.9)             | -5.2%        |
| Triple Twist                | 19.9              | 25.2              | (5.3)             | -21.0%       |
| Fast Play                   | 55.3              | 51.9              | 3.3               | 6.4%         |
| Quick Draw                  | 2.9               | 3.0               | (0.1)             | -3.4%        |
| <b>TOTAL:</b>               | <b>\$ 1,403.4</b> | <b>\$ 1,528.2</b> | <b>\$ (124.8)</b> | <b>-8.2%</b> |

The instant ticket product line (Scratchers/Instant Tabs) had sales growth of \$6.4 million over the prior year (\$3.5 million from Scratchers games and \$2.9 million for instant tab tickets). Sales of \$10, \$20, \$30 and \$50 Scratchers grew compared to FY 2024, while all other price points experienced a year-over-year decline. The \$25 price point was discontinued in fiscal year 2025, officially ending in October 2024. The chart below displays a comparison of Scratchers sales by price point for FY 2025 and FY 2024:

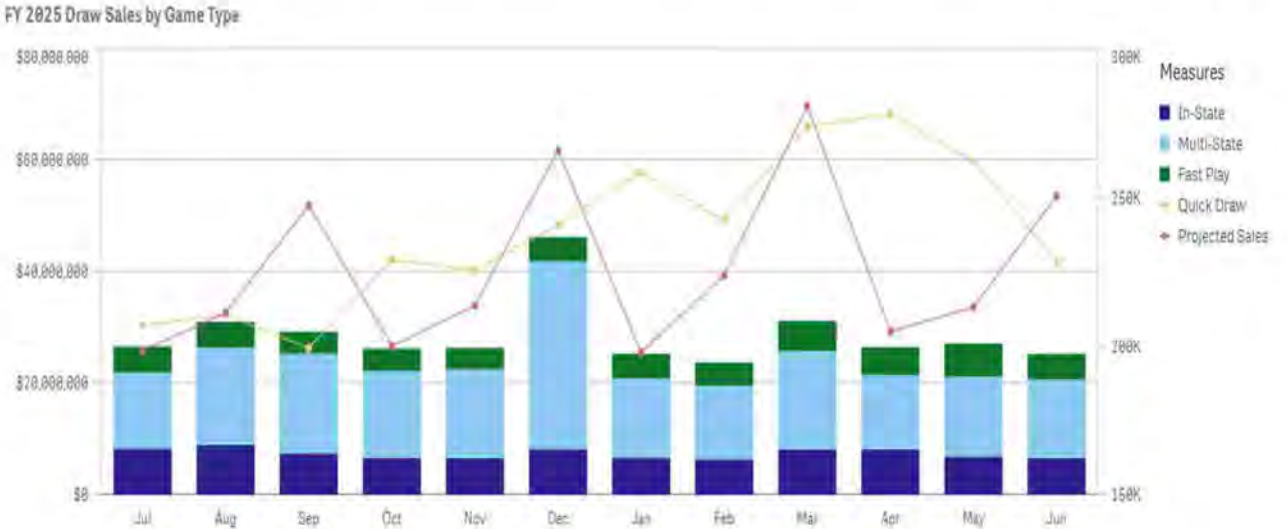
Arizona State Lottery

Management's Discussion and Analysis (Unaudited)  
June 30, 2025



In general, draw game sales are largely jackpot-driven, impacting sales increases or decreases in any given year. FY2025 experienced an overall draw game sales decline of 27.4%. 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, and in-state draw games also experienced substantial jackpot activity. Although there were some multi-state game jackpots in FY2025, this could not compensate for the enormous Mega Millions and Powerball jackpots that helped drive sales in FY2024. Sales of Fast Play games grew by \$3.3M while remaining in-state games declined by \$13.9 million in FY 2025.

The following chart depicts draw game sales for FY 2025 broken down by multi-state, in-state, Fast Play, and Quick Draw.



Arizona State Lottery

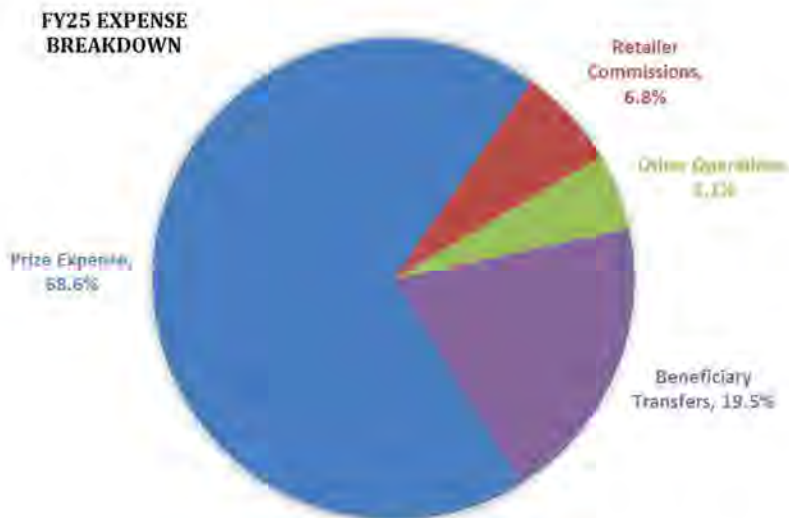
Management’s Discussion and Analysis (Unaudited)  
June 30, 2025

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 \$2,598,879 for FY 2025, which is primarily composed of commissions earned on Lottery ticket sales at Lottery offices and special events, plus other miscellaneous revenue. Other operating revenues increased by approximately \$1.9 million compared to FY2024, primarily due to damages recovered under contractual agreements. Sales returns and allowances, comprised of damaged tickets and promotional tickets were (\$730,129) for FY 2025. Total operating revenues, the sum of game sales and other operating revenues, less sales returns and allowances were approximately \$1.405 billion for the year ended June 30, 2025, as compared to \$1.529 billion for the year ended June 30, 2024. This decrease was primarily a reflection of lower overall draw game sales.

Non-operating revenue (investment income) for the year ended June 30, 2025, was \$5,878,937 as compared to \$1,244,538 for the year ended June 30, 2024. The majority of non-operating revenue comes from interest on invested cash, and the amount of investment income varies year to year based on the interest rates applied to the Lottery’s cash deposits. For fiscal year 2025, there was also \$4.9 million in liquidated damages capital contributions that drove the overall year-over-year increase in non-operating revenues.

EXPENSES

By statute, the Lottery is required to return no less than 50% of annual revenues as prizes and to spend no more than 18.5% of annual revenues on Lottery operations. Remaining funds are transferred to various state beneficiaries based on statutory requirements. The following chart provides a high-level percentage breakdown of Lottery expenses as a percentage of revenues for FY 2025:



Lottery total operating expenses were \$1.135 billion for fiscal year ended June 30, 2025 as compared to \$1.216 billion for fiscal year ended June 30, 2024.

Of this amount, the Lottery spent \$1.109 billion (79.0%) on game expenses in FY 2025, compared to \$1.188 billion (77.7%) in FY 2024. 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 \$25.5 million in FY 2025 as compared to \$27.8 million in FY 2024.

## Arizona State Lottery

### Management's Discussion and Analysis (Unaudited)

June 30, 2025

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).

| Operating Expenses (in millions)     | FY 2025           | FY 2024           | Change           | Percentage   |
|--------------------------------------|-------------------|-------------------|------------------|--------------|
| Instant & Online Prizes              | \$ 962.5          | \$ 1,027.9        | \$ (65.4)        | -6.4%        |
| Retailer Commissions & Incentives    | 95.2              | 103.8             | (8.7)            | -8.3%        |
| Online System Expense                | 14.9              | 20.4              | (5.4)            | -26.6%       |
| Instant Ticket Distribution Expenses | 22.6              | 22.7              | (0.1)            | -0.6%        |
| Instant Ticket Printing Expenses     | 14.0              | 13.2              | 0.7              | 5.6%         |
| Total Direct Costs                   | 1,109.2           | 1,188.0           | (78.9)           | -6.6%        |
| Other Operating Expenses             | 25.5              | 27.8              | (2.3)            | -8.4%        |
| <b>TOTAL:</b>                        | <b>\$ 1,134.6</b> | <b>\$ 1,215.8</b> | <b>\$ (81.2)</b> | <b>-6.7%</b> |

Increases/decreases in prize expense, retailer commissions, and online system expenses typically correlate with increases/decreases in product sales. Expenses for remaining categories were similar to the prior fiscal year. Aggregate prize expense represented 68.6% of product sales in FY 2025 compared to 67.2% of product sales in FY 2024. When separated by product line, prize expense for instant games and draw games were 73.1% and 54.9% respectively, which were both comparable to prize expense percentages for FY 2024.

Of the \$25.5 million for other operating expenses in FY 2025, the Lottery spent \$15.5 million on advertising and promotion, \$5.4 million to compensate Lottery employees, \$1.8 million on depreciation, and \$2.8 million for other administrative expenses. In comparison, of the \$27.8 million spent on 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. Lower year-over-year other operating expenses were primarily due to reduction of depreciation expenses on fixed assets.

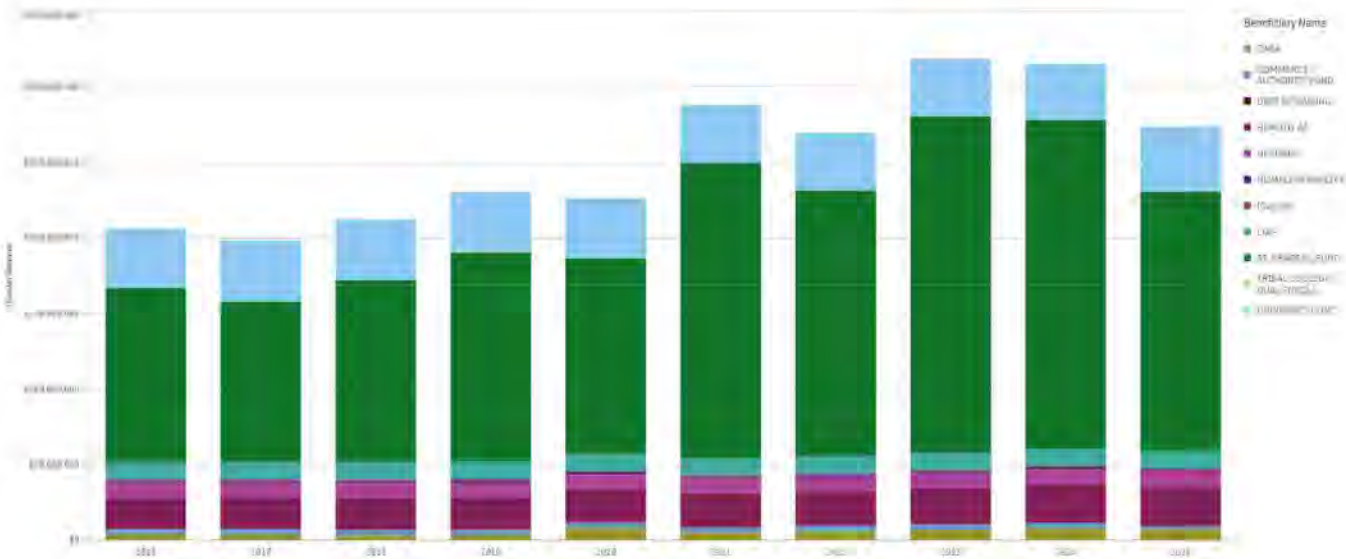
### TRANSFERS TO OTHER STATE FUNDS

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 \$273.0 million in FY 2025, as compared to \$314.9 million transferred in FY 2024. The decrease in overall product sales resulted in a corresponding decline in transferable revenues; however, all designated beneficiary programs still received full funding. The total transfer rate as a percentage of overall sales was 19.5% in FY 2025 compared to 20.6% in FY 2024.

Arizona State Lottery

Management's Discussion and Analysis (Unaudited)  
June 30, 2025

The following chart outlines transfers to Lottery beneficiaries over the last 10 years:



OTHER FINANCIAL INFORMATION

**Net Position.** The Lottery's total net position was \$32.5 million at June 30, 2025 as compared to \$29.0 million for June 30, 2024.

The Lottery's total assets at June 30, 2025 were \$229.9 million, as compared to \$261.8 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 reduced cash balance due to lower product sales in FY 2025.

Total liabilities at June 30, 2025 were \$196.3 million, as compared to \$231.6 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 a decrease in the amount due to other state funds, correlated with lower overall product sales.

## Arizona State Lottery

Management's Discussion and Analysis (Unaudited)

June 30, 2025

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).

| Statement of Net Position (in millions)             | FY 2025      | FY 2024      |
|-----------------------------------------------------|--------------|--------------|
| Current Assets                                      | \$ 197.1     | \$ 232.1     |
| Capital Assets                                      | 22.2         | 19.2         |
| Other Assets                                        | 10.6         | 10.5         |
| Total Assets                                        | 229.9        | 261.8        |
| Deferred Outflows of Resources                      | 1.1          | 1.1          |
| Total Assets and Deferred Outflows of Resources     | 231.0        | 262.9        |
| Current Liabilities                                 | 189.0        | 224.0        |
| Non Current Liabilities                             | 7.3          | 7.6          |
| Total Liabilities                                   | 196.3        | 231.6        |
| Deferred Inflows of Resources                       | 2.2          | 2.3          |
| Total Liabilities and Deferred Inflows of Resources | 198.5        | 233.9        |
| Net Position                                        | 32.5         | 29.0         |
| <b>TOTAL LIABILITIES AND NET POSITION:</b>          | <b>231.0</b> | <b>262.9</b> |

### BUDGETARY/APPROPRIATION HIGHLIGHTS

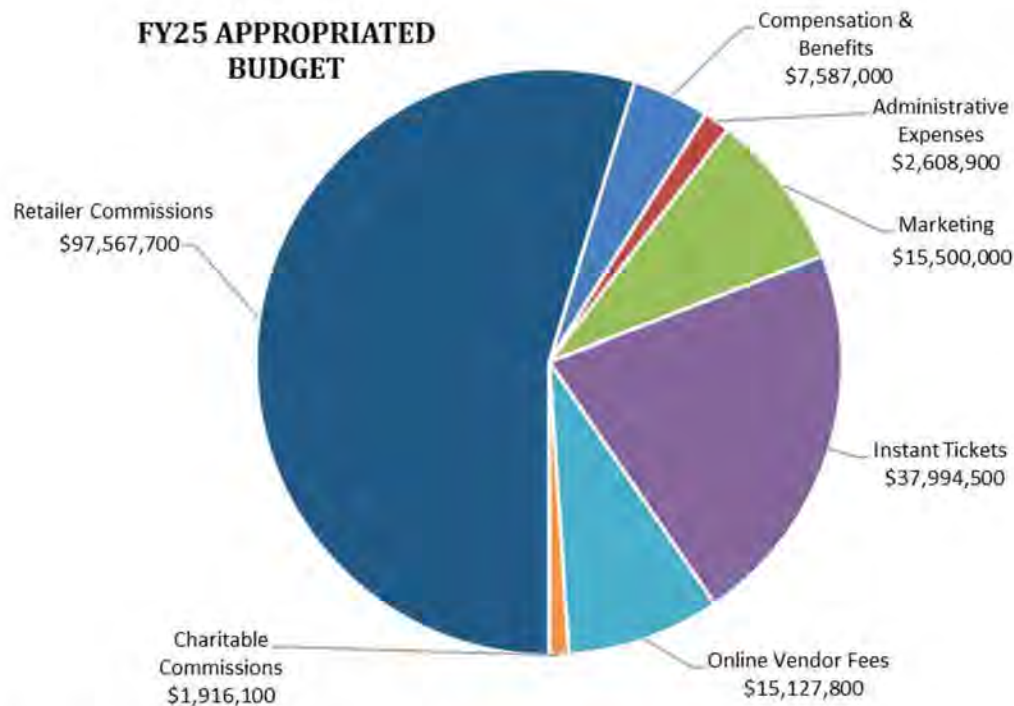
The Lottery's budget is determined by legislative appropriation on an annual basis, and by statute cannot exceed 18.5% of annual revenues. The budget for FY 2025 was approved in the 2024 regular legislative session. The Lottery's appropriation for sales-related expenditures is allowed to adjust without a supplemental appropriation request if actual revenues exceed projected revenues as delineated 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 \$201.7 million for FY 2025 based on an estimated \$1.66 billion in total sales; however, the spending authority was adjusted to \$178.3 million due to game revenues falling short of original estimates.

Arizona State Lottery

Management's Discussion and Analysis (Unaudited)  
June 30, 2025

The following chart depicts the breakdown of the revised FY 2025 appropriated budget of \$178.3 million:



CONTACTING THE LOTTERY'S FINANCIAL MANAGEMENT

This management's discussion and analysis (MD&A) is designed to provide Arizona citizens, Arizona government officials, our players, retailers, and other interested parties with an overview of the Lottery's financial activity for Fiscal Year 2025 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 Director of Finance & Administration, 4740 East University, Phoenix, Arizona 85034.

## Arizona State Lottery

Statement of Net Position  
June 30, 2025

### Assets and Deferred Outflows of Resources

#### Current Assets

|                                                                          |                    |
|--------------------------------------------------------------------------|--------------------|
| Cash, substantially all held by the State Treasurer                      | \$ 178,547,702     |
| Accounts receivable, net of allowance for doubtful accounts of \$287,900 | 9,425,026          |
| Scratch ticket inventory                                                 | 8,718,308          |
| Pull tab inventory                                                       | 436,278            |
| Total current assets                                                     | <u>197,127,314</u> |

#### Capital Assets

|                                                |                   |
|------------------------------------------------|-------------------|
| Land and land improvements                     | 1,268,695         |
| Buildings                                      | 4,309,192         |
| Furniture, fixtures and equipment              | 44,668,211        |
| Intangible assets                              | 599,324           |
| Right-to-use, lease                            | 1,546,787         |
| Less accumulated depreciation and amortization | (30,239,957)      |
| Total capital assets                           | <u>22,152,252</u> |

#### Other Assets

|               |                    |
|---------------|--------------------|
| Deposit, MUSL | <u>10,613,872</u>  |
| Total assets  | <u>229,893,438</u> |

#### Deferred Outflows of Resources

|                                      |                  |
|--------------------------------------|------------------|
| Related to pensions, ASRS            | 755,998          |
| Related to OPEB, ADOA                | <u>314,011</u>   |
| Total deferred outflows of resources | <u>1,070,009</u> |

### Liabilities, Deferred Inflows of Resources, and Net Position

#### Current Liabilities

|                                            |                    |
|--------------------------------------------|--------------------|
| Accounts payable                           | 6,632,779          |
| Prize liability                            | 110,108,175        |
| Due to other state funds                   | 71,703,255         |
| Current portion of:                        |                    |
| Compensated absences                       | 498,957            |
| Lease liability                            | 65,873             |
| Total OPEB liability, ADOA, net of current | <u>20,647</u>      |
| Total current liabilities                  | <u>189,029,686</u> |

#### Noncurrent Liabilities

|                                 |                  |
|---------------------------------|------------------|
| Compensated absences            | 243,611          |
| Lease liability, net of current | 1,247,001        |
| Net pension liability, ASRS     | 5,134,883        |
| Total OPEB liability, ADOA      | <u>646,281</u>   |
| Total noncurrent liabilities    | <u>7,271,776</u> |

|                   |                    |
|-------------------|--------------------|
| Total liabilities | <u>196,301,462</u> |
|-------------------|--------------------|

#### Deferred Inflows of Resources

|                                     |                  |
|-------------------------------------|------------------|
| Related to pensions, ASRS           | 719,280          |
| Related to OPEB, ADOA               | <u>1,440,869</u> |
| Total deferred inflows of resources | <u>2,160,149</u> |

#### Net Position

|                                                  |                      |
|--------------------------------------------------|----------------------|
| Net investment in capital assets                 | 20,839,378           |
| Restricted for additional prizes in future games | <u>11,662,458</u>    |
| Total net position                               | <u>\$ 32,501,836</u> |

See notes to financial statements

**Arizona State Lottery****Statement of Revenues, Expenses and Changes in Net Position**  
Year Ended June 30, 2025**Operating Revenues**

|                              |                  |
|------------------------------|------------------|
| Ticket sales:                |                  |
| Scratchers                   | \$ 1,036,624,585 |
| Powerball                    | 99,101,472       |
| The Pick                     | 35,275,838       |
| Fantasy 5                    | 17,508,237       |
| Pick 3                       | 16,400,326       |
| Mega Millions                | 101,714,868      |
| Quick Draw                   | 2,856,098        |
| Triple Twist                 | 19,892,182       |
| Instant Tab                  | 18,778,540       |
| Fast Play                    | 55,253,134       |
| Total ticket sales           | 1,403,405,280    |
| Sales returns and allowances | (730,129)        |
| Net ticket sales             | 1,402,675,151    |
| Other operating revenues     | 2,598,879        |
| Total operating revenues     | 1,405,274,030    |

**Operating Expenses**

|                                            |               |
|--------------------------------------------|---------------|
| Direct costs:                              |               |
| Prize expense                              | 962,475,909   |
| Retailer commissions and incentives        | 95,179,906    |
| Online system expense                      | 14,949,402    |
| Scratcher system and distribution expenses | 22,582,259    |
| Tickets purchased                          | 13,964,578    |
| Total direct costs                         | 1,109,152,054 |
| Advertising and promotion                  | 15,472,194    |
| Wages and related expenses                 | 5,457,029     |
| Depreciation                               | 1,766,314     |
| Administrative expenses                    | 2,768,771     |
| Total operating expenses                   | 1,134,616,362 |

**Operating Income**

270,657,668

**Nonoperating Revenues / (Expenses)**

|                                            |           |
|--------------------------------------------|-----------|
| Investment income                          | 1,172,521 |
| Interest expenses                          | (20,402)  |
| Gain/loss disposal of assets               | (174,193) |
| Capital contributions - liquidated damages | 4,901,011 |
| Nonoperating revenues / expenses           | 5,878,937 |

**Income Before Transfers**

276,536,605

**Transfers to Other State Funds**

273,046,612

## Change in net position

3,489,993

**Net Position, Beginning**

29,011,843

**Net Position Ending**

\$ 32,501,836

See notes to financial statements

## Arizona State Lottery

### Statement of Cash Flows Year Ended June 30, 2025

#### Cash Flows From Operating Activities

|                                                                              |                    |
|------------------------------------------------------------------------------|--------------------|
| Cash received from retailers, net of validations, commissions and incentives | \$ 527,417,766     |
| Cash received from other sources                                             | 60,095,559         |
| Cash payments for prizes and related taxes                                   | (228,860,343)      |
| Cash payments to suppliers of goods or services                              | (69,593,908)       |
| Cash payments to employees                                                   | (5,659,605)        |
| Net cash provided by operating activities                                    | <u>283,399,469</u> |

#### Cash Flows Used by Noncapital Financing Activities

|                                                |                      |
|------------------------------------------------|----------------------|
| Payments to beneficiaries per Arizona statutes | <u>(318,997,419)</u> |
|------------------------------------------------|----------------------|

#### Cash Flows Used by Capital Financing Activities

|                                                |                 |
|------------------------------------------------|-----------------|
| Principal paid on leases                       | (62,821)        |
| Interest paid on leases                        | <u>(20,402)</u> |
| Net cash used for capital financing activities | <u>(83,223)</u> |

#### Cash Flows From Investing Activities

|                                 |                  |
|---------------------------------|------------------|
| Receipts of interest            | <u>1,107,484</u> |
| Net increase (decrease) in cash | (34,573,689)     |

#### Cash, Beginning

213,121,391

#### Cash, Ending

\$ 178,547,702

#### Reconciliation of Operating Income to Net Cash Provided

|                                                                                         |                       |
|-----------------------------------------------------------------------------------------|-----------------------|
| <b>Operating Activities</b>                                                             |                       |
| Operating income                                                                        | \$ 270,657,668        |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                       |
| Depreciation                                                                            | 1,766,314             |
| (Increase) decrease in:                                                                 |                       |
| Accounts receivable                                                                     | 1,323,152             |
| Ticket inventory                                                                        | (894,611)             |
| Deposit, MUSL                                                                           | (75,068)              |
| Deferred outflows of resources related to pensions and other postemployment benefits    | 40,207                |
| Increase (decrease) in:                                                                 |                       |
| Accounts payable and accrued expenses                                                   | 674,318               |
| Prize liability                                                                         | 10,486,000            |
| Net pension and total OPEB liability                                                    | (435,174)             |
| Deferred inflows of resources related to pensions and other postemployment benefits     | <u>(143,337)</u>      |
| Net cash provided by operating activities                                               | <u>\$ 283,399,469</u> |

#### Noncash Capital and Financing Activities

|                                                      |                     |
|------------------------------------------------------|---------------------|
| Capital contributions provided by liquidated damages | \$ 4,901,011        |
| Loss on early disposal of lease                      | <u>(174,193)</u>    |
| Total noncash capital and financing activities       | <u>\$ 4,726,818</u> |

See notes to financial statements

## Arizona State Lottery

Notes to Financial Statements  
June 30, 2025

### 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, 2024 through June 30, 2025, the Lottery held 110 instant games of which 49 games expired during the fiscal year. During 2025, 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 \$10.6 million at June 30, 2025. 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, 2024 to June 30, 2025.
- 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, 2025

### 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/amortization is computed using the straight-line method. Capital assets are depreciated/amortized on the following basis:

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

Intangible right-to-use lease assets are amortized over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the County is reasonably certain of being exercised, then the lease asset is amortized over the useful life of the underlying asset.

### 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.

## Arizona State Lottery

Notes to Financial Statements  
June 30, 2025

### 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.

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. FY25 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, 2025 as follows:

|                 | <b>Beginning<br/>Balance</b> | <b>Increases</b> | <b>Decreases</b>   | <b>Ending<br/>Balance</b> |
|-----------------|------------------------------|------------------|--------------------|---------------------------|
| Prize liability | \$ 99,622,175                | \$ 1,159,206,228 | \$ (1,148,720,228) | \$ 110,108,175            |

### 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. Additionally, sick leave that has been accumulated and attributable to services already rendered is accrued based on what is more likely than not to be paid, used or settled through noncash means. Accordingly, at June 30, 2025, the Fund's accounts payable and accrued expenses balance includes an accrual of vacation/sick pay and related benefits of \$742,568. 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.

### Pension and Other Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the 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.

## Arizona State Lottery

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Notes to Financial Statements  
June 30, 2025

### 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 asset 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 asset 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.

### 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.

Arizona State Lottery

Notes to Financial Statements  
June 30, 2025

Change in Accounting Principle

During the fiscal year ended June 30, 2025, the Lottery adopted a new accounting standards issued by the Governmental Accounting Standards Board (GASB). GASB Statement No. 101, *Compensated Absences*, requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. As a result, the Lottery's accrued expenses and disclosures on commitments have been modified to reflect the implementation of this new standard.

Effect of New Accounting Standards on Future Period Financial Statements

The Governmental Accounting Standards Board (GASB) has issued several statements that have been adopted but are not yet effective for the fiscal year ending June 30, 2025. The Lottery will implement these standards in future reporting periods as required. Those standards include:

GASB Statement No. 103, *Financial Reporting Model Improvements*,

GASB Statement No. 104, *Disclosure of Certain Capital Assets*.

The Lottery continues to monitor and evaluate the impact of these new standards, and any future accounting standards issued by GASB, to ensure compliance and accurate financial reporting on its future financial statements. The adoption of these standards is expected to enhance the transparency and comparability of the Lottery's financial reporting. The Lottery will provide additional disclosures in the financial statements for the periods in which these standards become effective.

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.

At June 30, 2025, the Lottery's deposits with the Treasurer were as follows:

|                                                    |                |
|----------------------------------------------------|----------------|
| Cash                                               | \$ 157,450,349 |
| Prize fund cash                                    | 21,097,353     |
| Total cash and investments held by State Treasurer | \$ 178,547,702 |

## Arizona State Lottery

Notes to Financial Statements

June 30, 2025

### 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, 2025, 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, 2025, as follows:

|                                                    |                       |
|----------------------------------------------------|-----------------------|
| General Fund                                       | \$ 171,343,255        |
| University Bond Fund                               | 42,252,406            |
| Healthy Arizona                                    | 26,078,000            |
| Local Transportation Assistance Fund, Mass Transit | 11,505,600            |
| Heritage Fund                                      | 10,000,000            |
| Commerce Authority Arizona Competes Fund           | 1,750,000             |
| Court-appointed Special Advocate Fund              | 7,492,351             |
| 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                   | 100,000               |
| Total transfers to other state funds               | <u>\$ 273,046,612</u> |

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

Included in the above transfer, \$71,703,255 was due to the State General Fund as of June 30, 2025.

## Arizona State Lottery

Notes to Financial Statements  
June 30, 2025

### 4. Capital Assets

Capital asset activity for the year ended June 30, 2025 is as follows:

|                                                     | Beginning<br>Balance | Increases    | Decreases    | Ending<br>Balance |
|-----------------------------------------------------|----------------------|--------------|--------------|-------------------|
| Capital assets, not being<br>depreciated/amortized: |                      |              |              |                   |
| Land                                                | \$ 937,830           | \$ -         | \$ -         | \$ 937,830        |
| Capital assets, being<br>depreciated/amortized:     |                      |              |              |                   |
| Land improvements                                   | 330,865              | -            | -            | 330,865           |
| Buildings and leasehold<br>improvements             | 4,637,533            | -            | (328,341)    | 4,309,192         |
| Furniture, fixtures and<br>equipment                | 39,767,200           | 4,901,011    | -            | 44,668,211        |
| Intangible assets                                   | 599,324              | -            | -            | 599,324           |
| Right-to-use assets, leases:                        |                      |              |              |                   |
| Buildings                                           | 1,546,787            | -            | -            | 1,546,787         |
| Total capital assets                                | 47,819,539           | 4,901,011    | (328,341)    | 52,392,209        |
| Less accumulated<br>depreciation/amortization:      |                      |              |              |                   |
| Land improvements                                   | (330,865)            | -            | -            | (330,865)         |
| Buildings and leasehold<br>improvements             | (4,092,438)          | (99,091)     | 154,148      | (4,037,381)       |
| Furniture, fixtures and<br>equipment                | (23,370,209)         | (1,588,905)  | -            | (24,959,114)      |
| Intangible assets                                   | (599,324)            | -            | -            | (599,324)         |
| Right-to-use assets, leases:                        |                      |              |              |                   |
| Buildings                                           | (234,955)            | (78,318)     | -            | (313,273)         |
| Total accumulated<br>depreciation/<br>amortization  | (28,627,791)         | (1,766,314)  | 154,148      | (30,239,957)      |
| Total capital assets, net                           | \$ 19,191,748        | \$ 3,134,697 | \$ (174,193) | \$ 22,152,252     |

### 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, 2025

#### 6. Commitments

The following is a summary of changes in long-term commitments for the year ended June 30, 2025:

|                                    | Beginning of<br>Year  | Additions               | Retirements               | End of Year           | Due Within<br>One Year |
|------------------------------------|-----------------------|-------------------------|---------------------------|-----------------------|------------------------|
| Compensated absences               | \$ 409,407            | \$ 333,161              | \$ -                      | \$ 742,568            | \$ 498,957             |
| Prize liability                    | 99,622,175            | 1,159,206,228           | (1,148,720,228)           | 110,108,175           | 110,108,175            |
| Lease liabilities                  | 1,375,695             | -                       | (62,820)                  | 1,312,874             | 65,873                 |
| Net pension liabilities            | 5,631,143             | 477,789                 | (974,049)                 | 5,134,883             | -                      |
| OPEB liabilities                   | 605,842               | 86,639                  | (25,553)                  | 666,928               | 20,647                 |
| <b>Total long-term liabilities</b> | <b>\$ 107,644,262</b> | <b>\$ 1,160,103,817</b> | <b>\$ (1,149,782,650)</b> | <b>\$ 117,965,428</b> | <b>\$ 110,693,652</b>  |

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. After the lease ended, the lease was not renewed. The monthly rental is based on the percentage of sales. Rent expense for the facilities was approximately \$86,217 for the year ended June 30, 2025.

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, 2025.

The Lottery entered a commercial lease agreement to lease a facility in Tucson, Arizona for 10 years effective April 1, 2021 and expiring on March 31, 2031, with the option to extend for 10 additional years. The recognized lease payments for the facilities were approximately \$83,222, with an interest rate of 1.5138% for the year ended June 30, 2025 and had remaining contractual commitments with lessors of \$1,312,875.

## Arizona State Lottery

Notes to Financial Statements  
June 30, 2025

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

|                       | Principal    | Interest   |
|-----------------------|--------------|------------|
| Years ending June 30: |              |            |
| 2026                  | \$ 65,873    | \$ 19,429  |
| 2027                  | 69,025       | 18,410     |
| 2028                  | 72,279       | 17,342     |
| 2029                  | 75,637       | 16,224     |
| 2030                  | 79,103       | 15,055     |
| 2031 - 2035           | 423,107      | 56,457     |
| 2036 - 2040           | 456,367      | 23,197     |
| 2041                  | 71,484       | 452        |
| Total                 | \$ 1,312,875 | \$ 166,566 |

### 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 \$49,220,908 at June 30, 2025. Approximately \$40,670,443 of the total aggregate future payments at June 30, 2025 relate to annuities purchased from five separate insurance companies, of which \$13,528,285 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 \$38,365 of pension expenditure related to the pension plan to which it contributes. In addition, the Lottery reported \$(86,639) of other postemployment benefit expenses (income) related to the health insurance premium benefit ADOA OPEB plan. At June 30, 2025, 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<br>Statement of Activities       | Pension      | ADOA OPEB  | Total        |
|----------------------------------------------------------------|--------------|------------|--------------|
| Net pension and total OPEB liability                           | \$ 5,134,883 | \$ 666,928 | \$ 5,801,811 |
| Deferred outflows of resources related to pensions<br>and OPEB | 755,998      | 314,011    | 1,070,009    |
| Deferred inflows of resources related to pensions<br>and OPEB  | 719,280      | 1,440,869  | 2,160,149    |
| Pension and OPEB expense                                       | 38,356       | (86,639)   | (48,283)     |

## Arizona State Lottery

Notes to Financial Statements

June 30, 2025

### 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, 2025, 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:

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

\* 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, 2025

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 equal to 10% for each completed year 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, 2025, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.27% (12.12% 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 12.27% (12.05% for retirement, 0.07% 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 10.19% (10.14% for retirement, and 0.05% 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, 2025, were \$469,374. 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: |            |
| 2025                  | \$ 469,374 |
| 2024                  | 544,957    |
| 2023                  | 534,262    |
| 2022                  | 529,058    |

Pension Liability

At June 30, 2025, the Lottery reported \$5,134,883 as net pension liability for its proportionate share of the ASRS' net pension liability.

The net pension liability was measured as of June 30, 2024. 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, 2023, to the measurement date of June 30, 2024.

## Arizona State Lottery

### Notes to Financial Statements

June 30, 2025

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, 2024, and the change from its proportions measure as of June 30, 2023 were:

| ASRS    | Proportion June 30, 2024 | Increase (Decrease) From June 30, 2023 |
|---------|--------------------------|----------------------------------------|
| Pension | 0.03209%                 | -0.002707%                             |

#### Pension Expense

For the year ended June 30, 2025, the Lottery recognized \$38,356 as pension expense for ASRS.

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

At June 30, 2025, 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                                                            | \$ 286,624                     | \$ -                          |
| Net difference between projected and actual earning on pension plan investments                              | -                              | -                             |
| Difference between projected and actual investment earnings                                                  | -                              | 327,918                       |
| Changes in proportion and differences between Lottery contributions and proportionate share of contributions | -                              | 391,362                       |
| Lottery contributions subsequent to the measurement date                                                     | 469,374                        | -                             |
| Total                                                                                                        | \$ 755,998                     | \$ 719,280                    |

The \$469,374 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, 2026. 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: |              |
| 2026                 | \$ (402,582) |
| 2027                 | 113,110      |
| 2028                 | (83,007)     |
| 2029                 | (60,177)     |
| 2030                 | -            |
| Thereafter           | -            |

Arizona State Lottery

Notes to Financial Statements  
June 30, 2025

Actuarial Assumptions

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

ASRS

|                             |                                                                                                |
|-----------------------------|------------------------------------------------------------------------------------------------|
| Actuarial valuation date    | June 30, 2023                                                                                  |
| Actuarial roll forward date | June 30, 2024                                                                                  |
| 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<br>2017 SRA Scale U-MP for pensions and health insurance premium benefit |
| Mortality rates             | 2012 GLDT for long-term disability                                                             |
| Recovery rates              | Not applicable                                                                                 |
| Healthcare cost trend rate  |                                                                                                |

Actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the five-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:

|                         | Target<br>Allocation | Long-Term<br>Expected<br>Geometric<br>Real Rate of<br>Return |
|-------------------------|----------------------|--------------------------------------------------------------|
| Asset class:            |                      |                                                              |
| Public equity           | 44 %                 | 4.48 %                                                       |
| Credit                  | 23                   | 4.40                                                         |
| Real estate             | 17                   | 6.05                                                         |
| Private equity          | 10                   | 6.11                                                         |
| Interest rate sensitive | 6                    | (0.45)                                                       |
| Total                   | 100 %                |                                                              |

Actual returns may be different due to volatility of returns.

## Arizona State Lottery

Notes to Financial Statements

June 30, 2025

### Discount Rate

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

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

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

|            | 1% Decrease<br>(6.0% Discount<br>Rate) | Current<br>(7.0% Discount<br>Rate) | 1% Increase<br>(8.0% Discount<br>Rate) |
|------------|----------------------------------------|------------------------------------|----------------------------------------|
| Retirement | \$ 7,862,556                           | \$ 5,134,883                       | \$ 2,861,606                           |

### Pension Plan Fiduciary Net Position

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

### 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, 2025

#### Other Postemployment Benefits (OPEB) Liability

At June 30, 2025, the Lottery reported a OPEB liability of \$666,928 for its proportionate share. The liability was measured as of June 30, 2024 to be reported as of June 30, 2025 under GASB 75.

|                                                                                            | Total<br>OPEB Liability<br>(a) | Increase<br>(Decrease) Plan<br>Fiduciary<br>Net Position<br>(b) | Net OPEB<br>Liability<br>(a) - (b) |
|--------------------------------------------------------------------------------------------|--------------------------------|-----------------------------------------------------------------|------------------------------------|
| Balance at June 30, 2024                                                                   | \$ 605,842                     | \$ -                                                            | \$ 605,842                         |
| Changes for the year:                                                                      |                                |                                                                 |                                    |
| Service cost                                                                               | 63,443                         | -                                                               | 63,443                             |
| Interest                                                                                   | 25,490                         | -                                                               | 25,490                             |
| Difference between expected and actual<br>experience of the total OPEB liability           | -                              | -                                                               | -                                  |
| Difference between expected and actual<br>experience from change in<br>Proportionate State | -                              | -                                                               | -                                  |
| Changes of assumptions                                                                     | (9,959)                        | -                                                               | (9,959)                            |
| Expected benefit payments                                                                  | (17,888)                       | -                                                               | (17,888)                           |
| Net changes                                                                                | 61,086                         | -                                                               | 61,086                             |
| Balance at June 30, 2025                                                                   | \$ 666,928                     | \$ -                                                            | \$ 666,928                         |

#### OPEB Deferred Outflows/Inflows of Resources

At June 30, 2025, the Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|                                                   | 2025                                 |                                     |
|---------------------------------------------------|--------------------------------------|-------------------------------------|
|                                                   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Difference between expected and actual experience | \$ 10,999                            | \$ 795,270                          |
| Changes of assumptions or other inputs            | 175,011                              | 347,608                             |
| Changes in proportion                             | 107,354                              | 297,991                             |
| Deferred outflows of contributions                | 20,647                               | -                                   |
| Total                                             | \$ 314,011                           | \$ 1,440,869                        |

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: |              |
| 2026                  | \$ (154,311) |
| 2027                  | (198,286)    |
| 2028                  | (246,484)    |
| 2029                  | (231,177)    |
| 2030                  | (185,138)    |
| Thereafter            | (132,109)    |

## Arizona State Lottery

Notes to Financial Statements

June 30, 2025

### OPEB Expenses

At June 30, 2025, the Lottery reported OPEB expenses as follows:

| Reporting Date for Employer Under GASB 75<br>Measurement Date for Employer under GASB 75 | June 30, 2025<br>June 30, 2024 |
|------------------------------------------------------------------------------------------|--------------------------------|
| Components of OPEB expenses:                                                             |                                |
| Service cost                                                                             | \$ 63,443                      |
| Interest on the total OPEB liability                                                     | 25,490                         |
| Recognition of current year outflow (inflow) due to liabilities                          | (1,225)                        |
| Amortization of prior year outflow (inflow) due to liabilities                           | (174,347)                      |
| Total OPEB expenses                                                                      | \$ (86,639)                    |

### 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               | 3.97% as of June 30, 2024                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 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.<br>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:<br>Notes | The discount rate changed from 3.86% as of June 30, 2023 to 3.97% as of June 30, 2024. Additionally, the health care trend rates were updated to reflect the plan's anticipated experience.                                                                                                                                                                                                                                                                                                                                                                       |

Arizona State Lottery

Notes to Financial Statements  
June 30, 2025

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, 2024 measurement date is 3.97%. The index value as of the prior measurement date (June 30, 2023) was 3.86%.

Sensitivity

The following table presents the Lottery's total OPEB liability calculated using the discount rate of 3.97%, 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 (2.97%) or one percentage point higher (4.97%) 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, 2025                           |                                     |                                         |
|--------------------------------|-----------------------------------------|-------------------------------------|-----------------------------------------|
|                                | 1% Decrease<br>(2.97% Discount<br>Rate) | Current<br>(3.97% Discount<br>Rate) | 1% Increase<br>(4.97% Discount<br>Rate) |
| Lottery's Total OPEB Liability | \$ 766,860                              | \$ 666,928                          | \$ 585,571                              |
|                                | 1% Decrease<br>Trend Rates              | Current<br>Trend Rates              | 1% Increase<br>Trend Rates              |
| Lottery's Total OPEB Liability | \$ 561,883                              | \$ 666,928                          | \$ 801,207                              |

9. Major Vendors

The Lottery has three vendors that represent approximately 88% of its purchases for the year ended June 30, 2025.

10. 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.

11. Capital Contributions

For the fiscal year ended June 30, 2025, the Lottery recognized \$4.9 million in additional capital assets resulting from liquidated damages settlements with vendors who did not fulfill contractual obligations. Part of these settlements were satisfied through the transfer of capital assets before year end.

# Arizona State Lottery

Schedule of the Agency's Proportionate Share of the Net Pension/Total OPEB Liability Cost-Sharing Pension Plan  
June 30, 2025

| ASRS, Pension                                                                                             | Reporting Fiscal Year (Measurement Date) |                |                |                |                |                |                |                |                |                            |
|-----------------------------------------------------------------------------------------------------------|------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------------------|
|                                                                                                           | 2025<br>(2024)                           | 2024<br>(2023) | 2023<br>(2022) | 2022<br>(2021) | 2021<br>(2020) | 2020<br>(2019) | 2019<br>(2018) | 2018<br>(2017) | 2017<br>(2016) | 2016<br>(2015)             |
| Lottery's proportion of the net pension liability                                                         | 0.032090%                                | 0.034600%      | 0.037010%      | 0.038630%      | 0.038018%      | 0.038866%      | 0.036409%      | 0.035910%      | 0.035630%      | 0.041960%                  |
| Lottery's proportionate share of the net pension liability                                                | \$ 5,134,683                             | \$ 5,631,143   | \$ 6,040,864   | \$ 5,233,485   | \$ 6,587,543   | \$ 5,654,562   | \$ 5,496,308   | \$ 5,594,078   | \$ 5,751,040   | \$ 6,536,813               |
| Lottery's covered payroll                                                                                 | 3,895,220                                | 4,435,363      | 4,448,476      | 4,541,270      | 4,721,633      | 4,203,668      | 4,203,413      | 3,603,624      | 3,336,442      | 3,617,362                  |
| Lottery's proportionate share of the net pension liability as a percentage of its covered payroll         | 131.8%                                   | 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                                | 76.03%                                   | 75.47%         | 74.26%         | 78.58%         | 89.33%         | 73.24%         | 73.00%         | 69.62%         | 67.05%         | 68.35%                     |
| ADOA, OPEB                                                                                                | Reporting Fiscal Year (Measurement Date) |                |                |                |                |                |                |                |                |                            |
|                                                                                                           | 2025<br>(2024)                           | 2024<br>(2023) | 2023<br>(2022) | 2022<br>(2021) | 2021<br>(2020) | 2020<br>(2019) | 2019<br>(2018) | 2018<br>(2017) | 2017<br>(2016) | 2016<br>(2015)             |
| Lottery's proportion of the total OPEB liability                                                          | 0.131200%                                | 0.150003%      | 0.116667%      | 0.160001%      | 0.120000%      | 0.120000%      | 0.120000%      | 0.120000%      | 0.120000%      | Information not available* |
| Lottery's proportionate share of the total OPEB liability                                                 | \$ 666,928                               | \$ 587,954     | \$ 1,474,023   | \$ 1,797,683   | \$ 2,210,913   | \$ 1,781,561   | \$ 1,068,849   | \$ 1,011,909   | \$ 1,302,971   | Information not available* |
| Lottery's covered-employee payroll                                                                        | 4,034,366                                | 4,503,746      | 4,465,872      | 4,359,448      | 3,904,231      | 3,860,011      | 3,360,126      | 3,271,788      | 3,271,788      | Information not available* |
| Lottery's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll | 14.36%                                   | 13.05%         | 32.86%         | 41.24%         | 56.77%         | 46.15%         | 31.51%         | 30.93%         | 39.82%         | Information not available* |

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

\* Additional years' information will be displayed as it becomes available

See notes to required supplementary information

**Arizona State Lottery**

Schedule of Agency Pension/OPEB Contributions  
June 30, 2025

| ASRS, Pension                                                                   | Fiscal Year  |              |              |              |              |              |              |              |              |                                  |
|---------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------------------------|
|                                                                                 | 2025         | 2024         | 2023         | 2022         | 2021         | 2020         | 2019         | 2018         | 2017         | 2016                             |
| Statutorily required contribution                                               | \$ 469,374   | \$ 533,573   | \$ 534,282   | \$ 529,068   | \$ 540,627   | \$ 469,960   | \$ 458,172   | \$ 410,063   | \$ 362,004   | \$ 382,869                       |
| Lottery's contributions in relation to the<br>statutorily required contribution | 469,374      | 533,573      | 534,282      | 529,068      | 540,627      | 469,960      | 458,172      | 410,063      | 362,004      | 382,869                          |
| Lottery's covered payroll                                                       | \$ 3,895,220 | \$ 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                     |
| Lottery's contributions as a percentage of<br>covered payroll                   | 12.05%       | 12.03%       | 12.01%       | 11.85%       | 11.45%       | 11.18%       | 10.90%       | 10.70%       | 10.85%       | 10.85%                           |
| ADQA, OPEB                                                                      | Fiscal Year  |              |              |              |              |              |              |              |              |                                  |
|                                                                                 | 2025         | 2024         | 2023         | 2022         | 2021         | 2020         | 2019         | 2018         | 2017         | 2016                             |
| Required contribution                                                           | \$ 20,647    | \$ 17,898    | \$ 40,533    | \$ 36,528    | \$ 46,958    | \$ 39,849    | \$ 33,165    | \$ 30,879    | \$ 32,938    | Information<br>not<br>available* |
| Lottery's contributions in relation to the<br>required contribution             | 20,647       | 17,898       | 40,533       | 36,528       | 46,958       | 39,849       | 33,165       | 30,879       | 32,938       | Information<br>not<br>available* |
| Lottery's contribution<br>deficiency (excess)                                   | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | Information<br>not<br>available* |
| Lottery's covered payroll                                                       | \$ 4,834,355 | \$ 4,503,746 | \$ 4,485,872 | \$ 4,359,448 | \$ 3,904,231 | \$ 3,880,011 | \$ 3,360,126 | \$ 3,271,785 |              |                                  |
| Lottery's contributions as a percentage of<br>covered payroll                   | 0.45%        | 0.40%        | 0.90%        | 0.84%        | 1.18%        | 1.03%        | 0.99%        | 0.94%        |              |                                  |

\* Additional years' information will be displayed as it becomes available

See notes to required supplementary information

# Arizona State Lottery

Schedule of Changes in the Agency Total OPEB Liability and Related Ratios  
June 30, 2025

|                                                                                      | 2025         | 2024         | 2023         | 2022         | 2021         | 2020         | 2019         |
|--------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total OPEB Liability:                                                                |              |              |              |              |              |              |              |
| Service cost                                                                         | \$ 63,443    | \$ 89,607    | \$ 180,739   | \$ 185,668   | \$ 154,475   | \$ 114,257   | \$ 86,395    |
| Interest                                                                             | 25,490       | 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 | -            | (386,569)    | -            | 161,791      | -            | 162,177      | -            |
| Changes of assumptions                                                               | (9,959)      | 21,693       | (505,516)    | (40,633)     | 254,752      | 377,204      | (47,343)     |
| Expected benefit payments*                                                           | (17,888)     | (40,533)     | (36,529)     | (46,958)     | (39,850)     | (33,165)     | (30,879)     |
| Net change in total OPEB liability                                                   | 61,086       | (868,181)    | (323,670)    | (413,220)    | 429,352      | 722,712      | 46,940       |
| Total OPEB Liability, Beginning                                                      | 605,842      | 1,474,023    | 785,784      | 1,199,004    | 769,652      | 46,940       | -            |
| Total OPEB Liability, Ending                                                         | \$ 666,928   | \$ 605,842   | \$ 462,114   | \$ 785,784   | \$ 1,199,004 | \$ 769,652   | \$ 46,940    |
| Covered employee payroll**                                                           | \$ 4,634,355 | \$ 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                | 14.4%        | 13.5%        | 10.3%        | 18.0%        | 30.2%        | 19.9%        | 1.4%         |

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

\* Additional years' information will be displayed as it becomes available

See notes to required supplementary information

## Arizona State Lottery

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Notes to Required Supplementary Information  
June 30, 2025

### 1. Changes of Assumptions

The Arizona State Retirement System (ASRS) annual actuarial valuation as of June 30, 2025 report is available at:

[https://www.azasrs.gov/sites/default/files/pdf/FY24\\_GASB\\_68-75\\_Web.pdf](https://www.azasrs.gov/sites/default/files/pdf/FY24_GASB_68-75_Web.pdf)

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

Changes of assumptions reflect a change in the discount rate from 3.86% as of June 30, 2023 to 3.97% as of June 30, 2024. Additionally, health care trend rates were updated.

**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, 2025, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated October 27, 2025.

**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 opinion 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.

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### **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  
October 27, 2025



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