

FOR FISCAL YEAR

2025

ANNUAL FINANCIAL REPORT AND INDEPENDENT AUDITOR'S REPORT

TEXAS
LOTTERY



TEXAS LOTTERY

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TEXAS DEPARTMENT OF LICENSING & REGULATION

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January 5, 2026

Honorable Greg Abbott, Governor
Honorable Kelly Hancock, Acting Comptroller of Public Accounts
Mr. Jerry McGinty, Director, Legislative Budget Board
Ms. Lisa Collier, State Auditor

Lady and Gentlemen:

We are pleased to submit the Texas Lottery *Annual Financial Report and Independent Auditor's Report* for the year ending on August 31, 2025, in compliance with Texas Government Code Annotated, § 2101.011, and in accordance with the requirements established by the Texas Comptroller of Public Accounts.

The accompanying annual financial report has been prepared in accordance with generally accepted accounting principles reporting requirements. The financial report has been audited by an independent auditor as required by statute.

If you have any questions, please contact Sergio Rey, Interim Lottery & Bingo Operations Deputy Executive Director, at (512) 344-5426.

Sincerely,

A handwritten signature in black ink, appearing to read "Courtney Arbour".

Courtney Arbour
Executive Director

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TEXAS LOTTERY

FINANCIAL SECTION

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Lisa R. Collier,
CPA, CFE, CIDA,
State Auditor

Independent Auditor's Report

Texas Commission of Licensing and Regulation

Mr. Rick Figueroa, Chair
Mr. Thomas F. Butler, Vice Chair
Dr. Gerald R. Callas
Ms. Nora Castañeda
Mr. Sujeeth Draksharam
Ms. Lori High
Dr. Gary Wesson

Report on the Audit of the Financial Statements


Opinions


We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Texas Lottery at the Department of Licensing and Regulation (Department), an agency of the State of Texas, as of and for the year ended August 31, 2025, and the related notes to the financial statements, which collectively comprise the Texas 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 governmental activities, the business-type activities, and each major fund of the Texas Lottery, as of August 31, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, 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.

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Emphasis of Matters

Texas Lottery Financial Statements

As discussed in Note 1, the financial statements of the Texas Lottery are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, and each major fund of the State that is attributable to the transactions of the Texas Lottery. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2025, the changes in its financial position, or, where applicable, its 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.

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 Texas 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.

Auditor's 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 auditor's report that includes our opinions. 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 Texas 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; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Texas 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 management's discussion and analysis, budgetary comparison schedule—general fund, schedule of changes in net pension liability, schedule of employer contributions—pension, notes to the schedule of employer contributions—pension, schedule of proportionate share of net OPEB liability, and schedule of employer contributions—OPEB, as listed in the table of contents, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the letter of transmittal but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2026, on our consideration of the Texas 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 Texas 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 Texas Lottery's internal control over financial reporting and compliance.

Lisa R. Collier

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

January 5, 2026

Texas Lottery
Management's Discussion and Analysis
For the Year Ended August 31, 2025
(Unaudited)

This section of the former Texas Lottery Commission's (Texas Lottery) annual financial report presents a comparative discussion and analysis of the Texas Lottery's financial performance for the fiscal year ended August 31, 2025, with summarized comparative totals for the fiscal year ended August 31, 2024. This analysis is to be considered in conjunction with the transmittal letter at the front of this report and the Texas Lottery's basic financial statements to provide an objective analysis of the Texas Lottery's financial activities based on facts, decisions, and conditions currently facing management.

With the passage of Senate Bill No. 3070 in May 2025, the Texas Lottery Commission was abolished effective September 1, 2025, and its authority, operations and regulations were transferred to the Texas Department of Licensing & Regulations (TDLR).

Financial Highlights

Government-wide:

- The assets and deferred outflows of resources of the Texas Lottery exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2025 by \$14.3 million (reported as *net position*). Net position reflects an increase of \$56.6 million from the previous fiscal year.
- In accordance with GASB No. 68, *Accounting and Financial Reporting for Pensions*, the Texas Lottery has recorded a net pension liability. It has relied on reports issued by Employee Retirement System of Texas (ERS) who is the administrator of the plan. The Texas Lottery has reported its proportionate share of the pension liability according to their reports in the amount of \$20.6 million of which \$17.4 million is reported in business-type activities and \$3.2 million in governmental activities.
- In accordance with GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the Texas Lottery has recorded a net OPEB liability. It has relied on reports issued by ERS who is the administrator of the plan. The Texas Lottery has reported its proportionate share of the OPEB liability according to their reports in the amount of \$42.6 million of which \$38.3 million is reported in business-type activities and \$4.2 million in governmental activities.

Fund Level:

- As of the close of fiscal year 2024, the Commission's governmental funds reported unassigned fund balance of \$0.5 million.

- The proprietary funds reported net position at fiscal year-end 2025 of \$21.2 million. Net position reflects an increase of \$55.4million during the year.

Understanding the Texas Lottery's Financial Statements

This discussion and analysis are an introduction to the Texas Lottery's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains supplementary information in addition to the basic financial statements.

- The first sets of statements are government-wide financial statements that provide information about the Texas Lottery's overall financial position and results. These statements, which are presented on an accrual basis, consist of the Statement of Net Position and the Statement of Activities.
- The remaining statements are fund financial statements of the Texas Lottery's governmental and proprietary funds. The governmental funds activities are funded primarily from General Revenue appropriations for which the Texas Lottery follows a modified accrual basis of accounting. The Texas Lottery's proprietary fund operates similar to business activities and follows an accrual basis of accounting.
- The basic financial statements also include a "Notes to Financial Statements" section which explains the information presented in the government-wide and fund financial statements and provides additional detailed data.
- The Notes to the Financial Statements are followed by the Required Supplementary Information which includes the Schedule of Changes in Texas Lottery's Net Pension Liability, Schedule of Changes in Texas Lottery's Net OPEB Liability and the Budgetary Comparison Schedule.

The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each of these statements.

Government-wide Statements (Reporting the Texas Lottery as a whole)

The Statement of Net Position and the Statement of Activities are two financial statements that report information about the Texas Lottery, as a whole, and about its activities that should help answer this question: Is the Texas Lottery more (or less) effective in achieving its defined objective? These statements include all non-custodial assets and liabilities using the accrual basis of accounting. The current fiscal year's revenues and expenses are considered regardless of when cash is received or paid.

The Statement of Net Position presents all of the Texas Lottery's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the two reported as "net position". Over time, increases and decreases in net position measure whether the Texas Lottery's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Texas Lottery's net position changed during fiscal year 2025. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in changes in cash flows in future fiscal periods (e.g., earned but unused compensatory leave).

Both statements report two activities:

- *Governmental Activities* – The Texas Lottery's Charitable Bingo Operations Division is reported under this category. Bingo prize fees and occupational license fees are the primary source of funding for these services.
- *Business-type Activities* – The Texas Lottery's lottery and administrative operations are accounted for under this category. Sales of lottery tickets and fees charged to retailers provide funding for the business-type activities. The primary focus of business-type activities is to generate revenue for the State's Foundation School Fund, rather than to change the net position of the Texas Lottery.

This report includes two schedules that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the appropriate government-wide statements. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Unless due and payable, long-term liabilities such as compensated absences and pension and other postemployment benefits (OPEB) liabilities only appear as liabilities in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements but are reported as expenditures on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements but are reported as expenditures on the governmental fund statements.

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Fund Financial Statements (Reporting the Texas Lottery's Major Funds)

Because the Texas Lottery operates with few funds, management determined that, for fair presentation, all funds are considered major. The fund financial statements provide detailed information about all the individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Texas Lottery uses to keep track of specific sources of funding and spending for a particular purpose. The Texas Lottery's funds are divided into two categories: governmental and proprietary and use different accounting methods.

- *Governmental funds* – The Texas Lottery’s Charitable Bingo Operations Division and its services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the Texas Lottery’s Charitable Bingo Operations Division operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Charitable Bingo programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The General Revenue Fund, Child Support Employee Deduction, Bingo Cash Bonds and Lottery Retailer Security Funds are reported in the Governmental Fund.
- *Proprietary funds* – Proprietary funds utilize accrual accounting - the same method used by private sector businesses. The Texas Lottery records all transactions related to the operation of the State Lottery and its investment activities in Enterprise Funds.

Additional Required Supplementary Information

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes a budgetary comparison schedule reconciling the statutory and generally accepted accounting principles (GAAP) fund balances at fiscal year-end for the General Fund, a schedule of changes in net pension liability, a schedule of employer contributions – pension, a schedule of proportionate share of net OPEB liability and a schedule of employer contributions – OPEB.

Financial Analysis of the Government as a Whole

Statement of Net Position

The following table shows a summary of changes from prior year amounts.

STATEMENT OF NET POSITION In millions	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
ASSETS						
Current & Non-current Assets	\$ 1.95	\$ 1.68	\$615.88	\$539.24	\$617.83	\$540.92
Capital Assets	0.00	0.00	5.91	3.03	5.91	3.03
Total Assets	1.95	1.68	621.79	542.27	623.74	543.95
DEFERRED OUTFLOWS OF RESOURCES	1.88	1.73	17.71	16.22	19.59	17.95
LIABILITIES						
Current Liabilities (Short Term)	1.88	1.53	398.10	335.51	399.98	337.03
Non-Current Liabilities (Long Term)	7.48	7.32	208.62	232.19	216.09	239.51
Total Liabilities	9.35	8.84	606.72	567.70	616.07	576.54
DEFERRED INFLOWS OF RESOURCES	1.35	2.68	11.61	25.03	12.96	27.70
NET POSITION						
Invested in Capital Assets	0.00	0.00	1.94	1.77	1.94	1.77
Restricted	0.00	0.00	5.00	5.00	5.00	5.00
Unrestricted	(6.87)	(8.11)	14.22	(41.01)	7.35	(49.11)
Total Net Position	\$ (6.87)	\$ (8.11)	\$ 21.16	\$ (34.23)	\$ 14.29	\$ (42.34)

Amounts may not calculate exact due to rounding.

Unrestricted net position is reflected at \$7.35 million, which may be used at the Texas Lottery's discretion, but often have limitations on use based on State statutes. Restricted net position comprising \$5.0 million represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion represents the amount invested in capital assets. The Texas Lottery uses these capital assets to provide services; consequently, these assets are *not* available for future spending.

The majority of the Texas Lottery's assets consist of cash, cash equivalents and investments used to fund future installment payments. At August 31, 2025, the Texas Lottery's assets included \$199.8 million in cash and cash equivalents as compared with \$152.8 million at August 31, 2024. The Texas Lottery's short and long-term investments approximated \$188.5 and \$220.7 million, respectively, at August 31, 2025, and 2024.

The Texas Lottery's liabilities included at the balance sheet date are amounts owed to the State's lottery beneficiaries for August accrued sales and unclaimed prizes for fiscal year 2025, vendor payables, prize payment obligations, and pension and OPEB liabilities.

Reported as Due to Other Agencies is the amount due to the Foundation School Fund, which was approximately \$130.98 million at August 31, 2025, as compared with \$84.9 million at August 31, 2024. The amount due to the Texas Veterans Commission was approximately \$2.8 million at August 31, 2025, compared to \$2.4 million at August 31, 2024. At August 31, 2025, no payments were due to the State Comptroller for the state share of Bingo prize fees.

Other liabilities included prize obligations, made up largely of scratch ticket installment payments, were \$345.9 million and \$365.2 million at August 31, 2025, and 2024, respectively. Vendor

payables were \$60.1 million at August 31, 2025, as compared to \$53.1 million at August 31, 2024. Other payable balances totaled \$13.1 million and \$9.4 million, at August 31, 2025, and 2024, respectively.

Liabilities for pension and OPEB amounted to \$63.2 million at August 31, 2025, compared to \$61.6 million at August 31, 2024.

The majority of the Texas Lottery's assets represent current resources necessary to pay the current liabilities owed to vendors, prize winners, and ultimately the State's Foundation School Fund.

Statement of Activities and Changes in Net Position

The Statement of Activities reflects the sources of the Texas Lottery's changes in net position as these arise through its various programs and functions. A condensed Statement of Activities for the fiscal year ended August 31, 2025, and 2024 is shown in the table below.

<i>In Millions</i>	Governmental Activities		Business-Type Activities		Total		% Change
	2025	2024	2025	2024	2025	2024	
Program Revenue							
Charges for Services							
Bingo Operations	\$ 16.40	\$ 0.00	\$ -	\$ -	\$ 16.40	\$ 0.00	*
Lottery Operations	-	-	7914.70	8397.29	7914.70	8397.29	-5.7%
Total Revenue	16.40	0.00	7914.70	8397.29	7931.09	8397.29	-5.6%
Total Expense	1.83	1.49	7859.30	8345.53	7861.13	8347.01	-5.8%
Net Revenue	14.57	(1.49)	55.40	51.76	69.97	50.28	39.2%
General Revenue	3.28	3.15	-	-	3.28	3.15	4.2%
Transfers	(16.15)	-	-	-	(16.15)	-	0.0%
Lapse	(0.47)	-	-	-	(0.47)	-	0.0%
Change in Net Position	1.24	1.66	55.40	51.76	56.63	53.42	6.0%
Beginning Net Position	(8.11)	(9.77)	(34.23)	(86.00)	(42.34)	(95.76)	-55.8%
Restatement	-	-	-	-	-	-	0.0%
Net Position, Restated	(8.11)	(9.77)	(34.23)	(86.00)	(42.34)	(95.76)	-55.8%
Ending Net Position	\$ (6.87)	\$ (8.11)	\$ 21.16	\$ (34.23)	\$ 14.29	\$ (42.34)	-133.8%

**Note: Fiscal Year 2025 includes Governmental Activity Sources for Bingo Operations which in previous statements were excluded in accordance with unaudited reporting requirements. These sources and related expenses net out in both representations and does not represent any misstatements of activities.*

Sales

Lottery sales consist of draw and scratch ticket lottery games. The first category is draw games, which included *Lotto Texas with Extra!®*, *Pick 3™ plus FIREBALL*, *Daily 4™ plus FIREBALL*, *Cash Five®*, *Texas Two Step®*, *Mega Millions® with Megaplier®*, *Mega Millions®* and *Just the Jackpot®*, *Powerball® with Power Play®*, and *All or Nothing™* at August 31, 2025. *Mega Millions®* was revamped in April 2025 with a new game structure removing *Megaplier®*. In total, draw games sales decreased by \$267.4 million from the prior year's sales total.

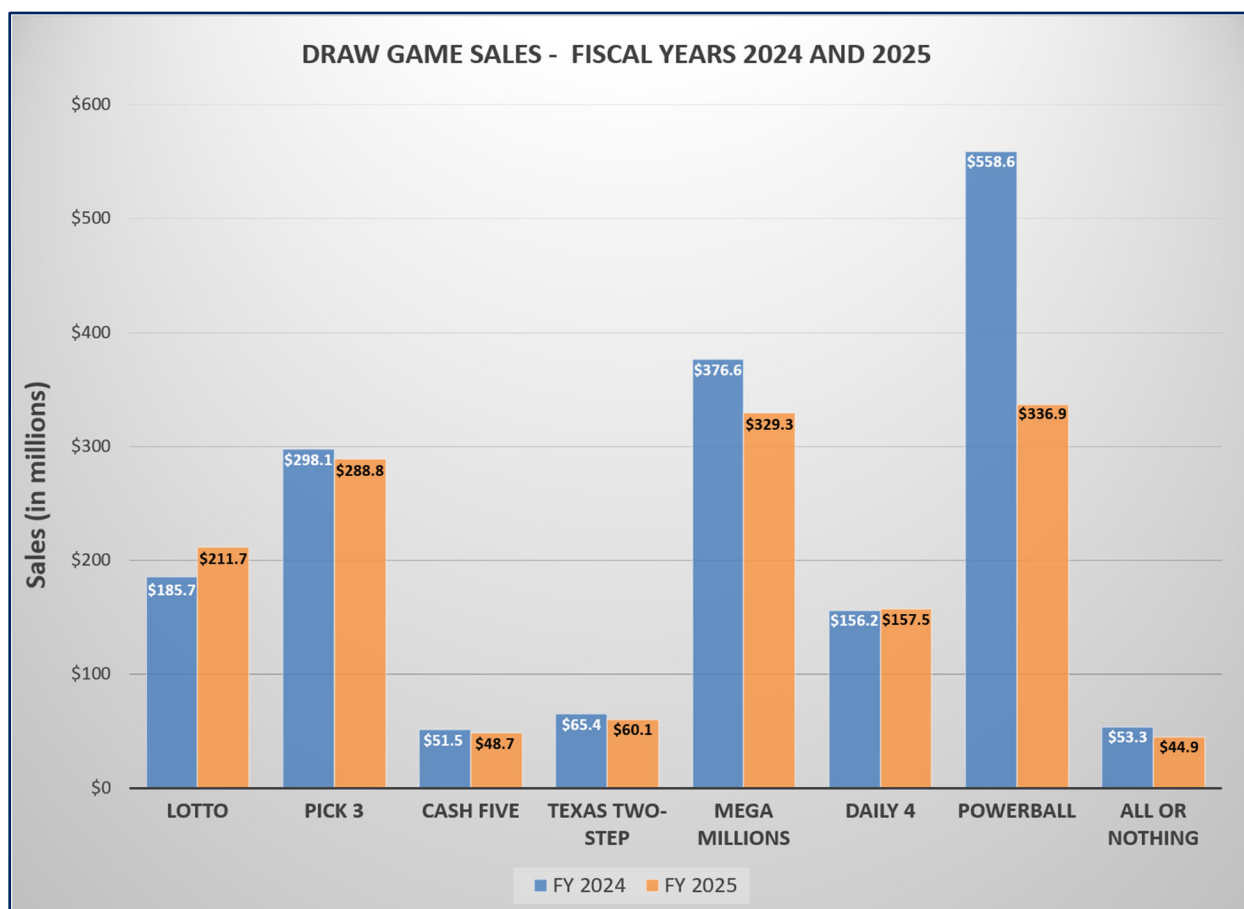
The majority of the decrease in draw games sales is attributable to multi-state games. *Mega Millions®*, *Megaplier®* and *MM Just the Jackpot®* experienced a decrease of \$47.3 million, or

12.6% as compared to fiscal year 2024. Sales for *Powerball*® with *Powerplay*® for the fiscal year ended August 31, 2025 decreased by \$221.6 million, a decrease of 39.7%.

Most of the other draw games experienced decreases in sales as compared to fiscal year 2024 sales. *Pick 3*™ plus *FIREBALL* sales for the fiscal year ended August 31, 2025 decreased over fiscal year 2024 by \$9.2 million, or 3.1%. *Cash Five*® sales for the fiscal year ended August 31, 2025, decreased from fiscal year 2024 by \$2.8 million, or 5.4%. *Texas Two Step*® sales for the fiscal year ended August 31, 2025, also decreased from fiscal year 2024 by \$5.4 million, or 8.2%. Another draw game with a decrease in sales as compared to fiscal year 2024 was *All or Nothing*™ with a decrease of \$8.4 million or 15.7%. *Daily 4*™ plus *FIREBALL* sales was one of the exceptions with an increase over fiscal year 2024 by \$1.3 million, or 0.8%.

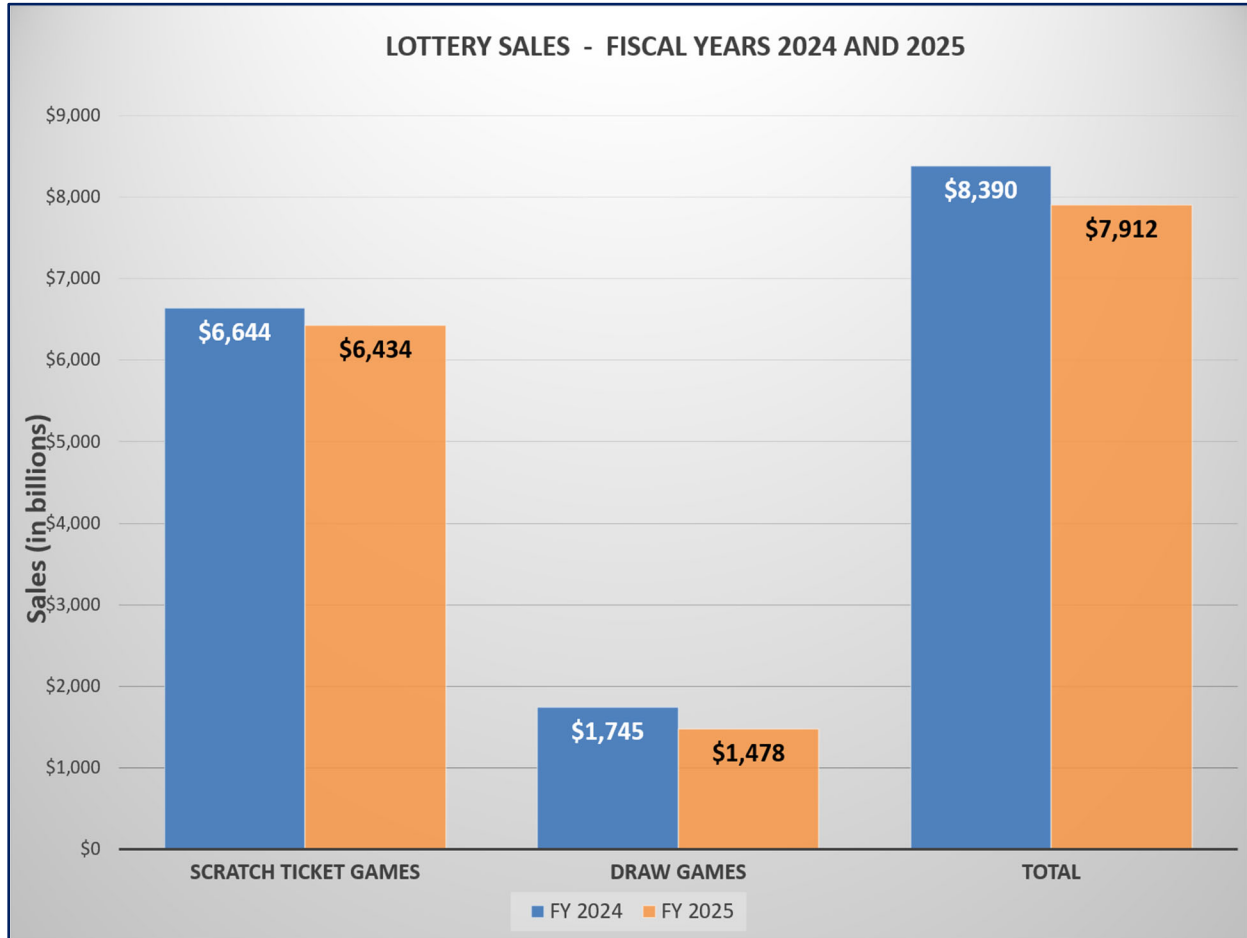
The other draw game with an increase in sales as compared to fiscal year 2024 sales was *Lotto Texas with Extra!*® sales which increased from fiscal year 2024 by \$26.0 million, or 14.0%. This growth was fueled by a jackpot run that stretched a record 102 drawings and culminated with an estimated \$83.5 million prize for the February 17 drawing – the fifth largest jackpot won in *Lotto Texas* history. Overall, Texas’ original jackpot game accounted for 14.3% of total draw game sales in FY 2025.

The following graph depicts the Texas Lottery’s draw sales for the fiscal years ended August 31, 2025, and 2024. Draw game sales includes both base game sales and add-on features.



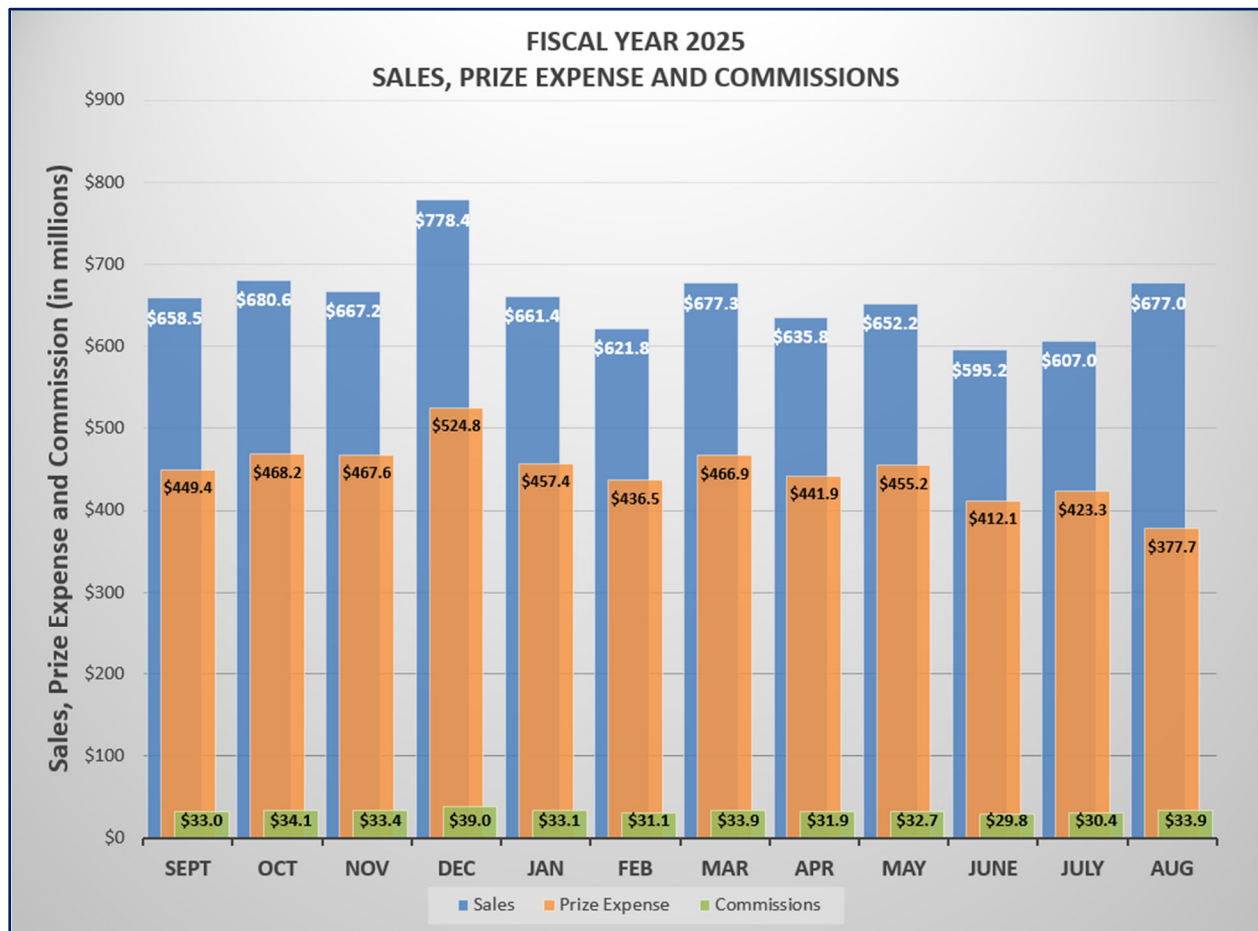
Scratch tickets are the other category of Lottery games offered to the public. Scratch ticket sales for the fiscal year ended August 31, 2025, decreased by \$210.1 million or 3.2% from the preceding fiscal year's sales. While this reflected a 3.2% decline from last year, it was the fifth consecutive year that scratch ticket sales in Texas exceeded \$6 billion.

The following graph depicts the Texas Lottery's draw, scratch and total lottery sales for the fiscal year ended August 31, 2025, in comparison to the fiscal year ended August 31, 2024.



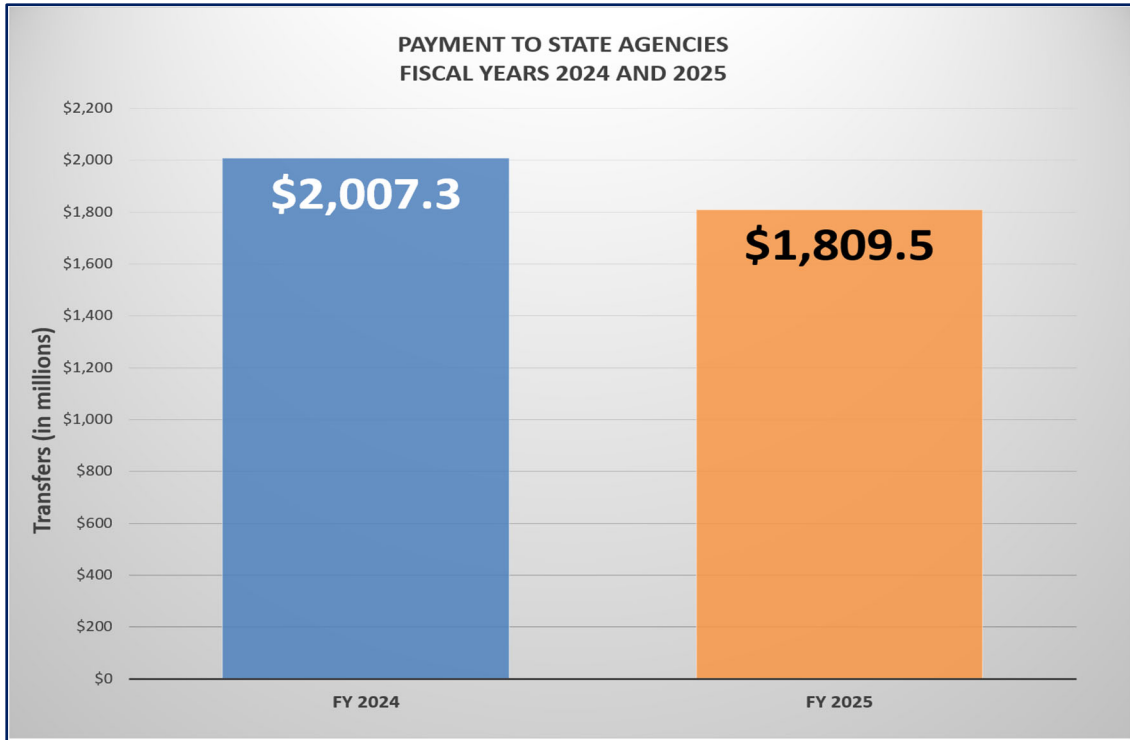
Commissions and Prize Awards Expense

As the following graph depicts, the Texas Lottery's most significant expenses (commissions and prize expense) are predictable because these have a direct correlation to sales. As lottery sales increase, so do the related prizes and commissions paid by the Texas Lottery. While each lottery game has a predetermined and unique prize payout structure, the overall amount paid as prize award expense is consistent.

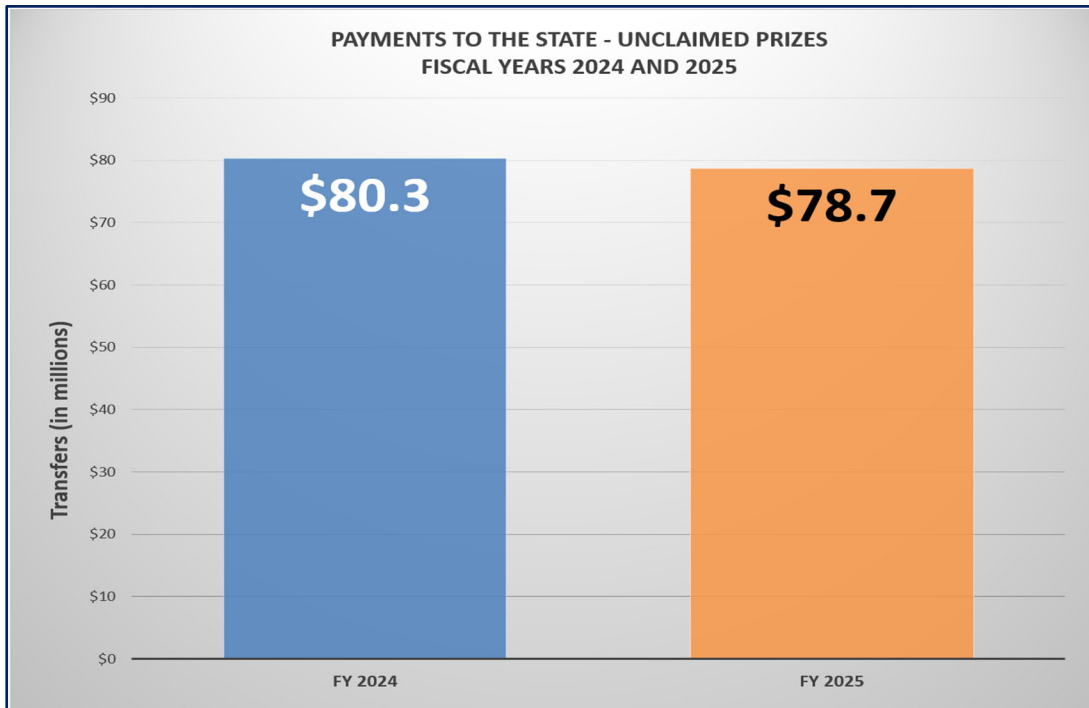


Payments to the State

Lottery sales for the fiscal year ended August 31, 2025, totaled \$7,912.3million, a decrease of 5.7% over the previous year's total of \$8,389.8 million. Payments to state agencies for the period totaled \$1.809.5 million, as compared to \$2,007.3 million for the fiscal year ended August 31, 2024.



During fiscal years 2025 and 2024, the Texas Lottery transferred unclaimed lottery prize winnings totaling \$78.7million and \$80.3 million, respectively. This represents a decrease of \$1.6 million or almost 1.9% as compared to prior year.



General Fund Budgetary Highlights

During the year, there were no significant changes between the original and final budgets as approved by the Texas Lottery. See the Budgetary Comparison Schedule – General Fund for more details.

Capital Assets

As of August 31, 2025, the Texas Lottery had \$5.91 million in net capital assets. This represents an increase of 94.9% in net capital assets from fiscal year 2024. The Texas Lottery's capital assets include building and building improvements, furniture and equipment, vehicles, computer software, and the Right to Use Asset of Buildings. The details of capital assets are shown in Note 2.

Contacting the Texas Lottery's Financial Management

This financial report is designed to provide a general overview of the Texas Lottery's financial activity for all those interested in the Texas Lottery's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Texas Department of Licensing & Regulations, Attn: Office of the Controller, P.O. Box 16630, Austin, Texas 78761-6630.

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TEXAS LOTTERY

BASIC FINANCIAL STATEMENTS

Texas Lottery
Government-wide Statement of Net Position
for the Fiscal Year Ended August 31, 2025

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents:			
Cash in Bank	\$ -	\$ 501,500.00	\$ 501,500.00
Cash in State Treasury	1,578.96	199,282,078.65	199,283,657.61
Legislative Appropriations	754,327.68		754,327.68
Restricted:			
Short Term Investments	-	43,534,584.64	43,534,584.64
Receivables from:			
Accounts	-	89,172,008.83	89,172,008.83
Other	-	138,248.20	138,248.20
Consumable Inventories	-	1,653,399.34	1,653,399.34
Merchandise Inventories	-	64,806,857.65	64,806,857.65
Prepaid Items	-	71,821,908.81	71,821,908.81
Other Current Assets	1,195,000.00	-	1,195,000.00
Total Current Assets	1,950,906.64	470,910,586.12	472,861,492.76
Non-Current Assets:			
Restricted:			
Investments	-	144,969,455.79	144,969,455.79
Capital Assets:			
Depreciable:			
Building and Building Improvements	-	1,864,141.89	1,864,141.89
Less Accumulated Depreciation	-	(303,344.07)	(303,344.07)
Furniture and Equipment	14,999.95	3,406,477.63	3,421,477.58
Less Accumulated Depreciation	(14,999.95)	(3,025,443.29)	(3,040,443.24)
Vehicles, Boats, and Aircraft	-	48,176.20	48,176.20
Less Accumulated Depreciation	-	(48,176.20)	(48,176.20)
Computer Software	1,313,072.30	7,200.00	1,320,272.30
Less Accumulated Amortization	(1,313,072.30)	(7,200.00)	(1,320,272.30)
Right to Use Asset - Amortizable			
Building and Building Improvements	-	5,924,424.61	5,924,424.61
Less Accumulated Amortization	-	(1,960,660.07)	(1,960,660.07)
Total Non-Current Assets	-	150,875,052.49	150,875,052.49
Total Assets	1,950,906.64	621,785,638.61	623,736,545.25
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources	1,881,714.89	17,706,636.42	19,588,351.31
Total Deferred Outflows of Resources	1,881,714.89	17,706,636.42	19,588,351.31

Texas Lottery
Government-wide Statement of Net Position
for the Fiscal Year Ended August 31, 2025

	Primary Government		
	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Current Liabilities:			
Payables from:			
Accounts	10,812.93	25,599,847.70	25,610,660.63
Vouchers	8,402.14	21,489,911.01	21,498,313.15
Payroll	275,650.45	2,744,497.71	3,020,148.16
Annuities	-	2,145,826.23	2,145,826.23
Interest	-	11,953.93	11,953.93
Other	1,578.96	12,957,106.25	12,958,685.21
Due to Other Agencies	-	133,808,392.01	133,808,392.01
Unearned Revenue	1,195,000.00	1,046.67	1,196,046.67
Employees' Compensable Leave	197,102.23	2,311,616.10	2,508,718.33
Right to Use Lease Obligations	-	615,377.22	615,377.22
Net Other Post-Employment Benefits Liability	186,583.03	1,819,022.93	2,005,605.96
Payable From Restricted Assets	-	194,600,297.85	194,600,297.85
Total Current Liabilities	1,875,129.74	398,104,895.61	399,980,025.35
Non-Current Liabilities:			
Employees' Compensable Leave	\$ 196,942.89	\$ 2,157,624.62	\$ 2,354,567.51
Right to Use Lease Obligations	-	3,422,738.14	3,422,738.14
Net Pension Liability	3,222,694.33	17,363,273.21	20,585,967.54
Net Other Post-Employment Benefits Liability	4,057,801.21	36,514,622.68	40,572,423.89
Payable From Restricted Assets	-	149,158,328.36	149,158,328.36
Total Non-Current Liabilities	7,477,438.43	208,616,587.01	216,094,025.44
Total Liabilities	9,352,568.17	606,721,482.62	616,074,050.79
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources	1,350,442.39	11,608,041.21	12,958,483.60
Total Deferred Inflows of Resources	1,350,442.39	11,608,041.21	12,958,483.60
NET POSITION			
Invested in Capital Assets	-	1,941,832.16	1,941,832.16
Expendable Restricted for:			
Pooled Bond Fund	-	5,000,000.00	5,000,000.00
Prize Reserve Fund	-	-	-
Unrestricted	(6,870,389.03)	14,220,919.04	7,350,530.01
Total Net Position	\$ (6,870,389.03)	\$ 21,162,751.20	\$ 14,292,362.17

The accompanying notes to the basic financial statements are an integral part of this statement.

Texas Lottery
Statement of Activities
for the Fiscal Year Ended August 31, 2025

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental Activities:			
Bingo Prize Fee Collections and Accounting	\$ 121,835.68	\$ 1,967,485.38	\$ -
Bingo Licensing	480,257.10	3,279,142.31	-
Bingo Law Compliance Field Operations	1,136,784.91	10,493,255.39	-
Bingo Education and Development	86,569.60	655,828.46	-
Total Governmental Activities	<u>1,825,447.29</u>	<u>16,395,711.54</u>	<u>-</u>
Business-type Activities:			
Lottery Operations	6,028,154,258.66	7,913,218,416.06	-
Marketing, Research, and Promotion	4,350,162.49	167.45	-
Central Administration	15,696,413.68	687,914.26	-
Enforcement	1,606,099.67	145.06	-
Intergovernmental		-	-
Lottery Prize Investments	-	790,984.40	-
Total Business-type Activities	<u>6,049,806,934.50</u>	<u>7,914,697,627.23</u>	<u>-</u>
Total Primary Government	<u>\$ 6,051,632,381.79</u>	<u>\$ 7,931,093,338.77</u>	<u>\$ -</u>
General Revenues and Transfers			
Legislative Appropriations			
Transfers In/Out			
Lapsed Appropriations			
Other			
Total General Revenue and Transfers			
Change in Net Position			
Net Position, Beginning of Year			
Restatement			
Net Position, Beginning of Year, as Restated			
Net Position, End of Year			

The accompanying notes to the basic financial statements are an integral part of this statement.

Texas Lottery
Statement of Activities
for the Fiscal Year Ended August 31, 2025

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ 1,845,649.70	\$ -	\$ 1,845,649.70
2,798,885.21	-	2,798,885.21
9,356,470.48	-	9,356,470.48
569,258.86	-	569,258.86
<u>14,570,264.25</u>	<u>-</u>	<u>14,570,264.25</u>
-	1,885,064,157.40	1,885,064,157.40
-	(4,349,995.04)	(4,349,995.04)
-	(15,008,499.42)	(15,008,499.42)
-	(1,605,954.61)	(1,605,954.61)
-	-	-
-	790,984.40	790,984.40
-	<u>1,864,890,692.73</u>	<u>1,864,890,692.73</u>
<u>\$ 14,570,264.25</u>	<u>\$ 1,864,890,692.73</u>	<u>\$ 1,879,460,956.98</u>
\$ 3,280,375.72	\$ -	\$ 3,280,375.72
(16,146,783.97)	(1,809,493,690.24)	(1,825,640,474.21)
(467,916.45)	-	(467,916.45)
222.88	-	222.88
<u>(13,334,101.82)</u>	<u>(1,809,493,690.24)</u>	<u>(1,822,827,792.06)</u>
1,236,162.43	55,397,002.49	56,633,164.92
<u>(8,106,551.46)</u>	<u>(34,234,251.29)</u>	<u>(42,340,802.75)</u>
-	-	-
<u>(8,106,551.46)</u>	<u>(34,234,251.29)</u>	<u>(42,340,802.75)</u>
<u>\$ (6,870,389.03)</u>	<u>\$ 21,162,751.20</u>	<u>\$ 14,292,362.17</u>

Texas Lottery
Statement of Net Position – Governmental Fund
for the Fiscal Year Ended August 31, 2025

	General Revenue Fund 0001	Total Governmental Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash in State Treasury	\$ 1,578.96	\$ 1,578.96
Legislative Appropriations	754,327.68	754,327.68
Other Current Assets	1,195,000.00	1,195,000.00
Total Current Assets	<u>1,950,906.64</u>	<u>1,950,906.64</u>
Total Assets	<u><u>\$ 1,950,906.64</u></u>	<u><u>\$ 1,950,906.64</u></u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Current Liabilities:		
Payables From:		
Accounts	\$ 10,812.93	\$ 10,812.93
Vouchers	8,402.14	8,402.14
Payroll	275,650.45	275,650.45
Other	1,578.96	1,578.96
Unearned Revenue (Retailer Deposits)	1,195,000.00	1,195,000.00
Total Current Liabilities	<u>1,491,444.48</u>	<u>1,491,444.48</u>
Total Liabilities	<u>1,491,444.48</u>	<u>1,491,444.48</u>
FUND FINANCIAL STATEMENT-FUND BALANCES		
Fund Balances:		
Unassigned	459,462.16	459,462.16
Total Fund Balances	<u>459,462.16</u>	<u>459,462.16</u>
Total Liabilities and Fund Balances	<u><u>\$ 1,950,906.64</u></u>	<u><u>\$ 1,950,906.64</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

Texas Lottery
Reconciliation of Total Governmental Fund Balance
to Net Position of Governmental Activities
for the Fiscal Year Ended August 31, 2025

Total Governmental Fund Balance	\$ 459,462.16
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Amounts reported for governmental activities in the statement
of net position are different because:

Capital assets used in governmental activities are not financial resources and
therefore, are not reported in the governmental fund. These assets consist of:

Furniture and equipment	14,999.95	
Accumulated depreciation	(14,999.95)	
Computer software	1,313,072.30	
Accumulated amortization	<u>(1,313,072.30)</u>	
Total capital assets		-

Some liabilities are not due and payable in the current period and therefore,
are not reported in the governmental fund. Those liabilities consist of:

Employee compensable leave	(394,045.12)	
Net pension liability	(3,222,694.33)	
Net other post-employment benefits liability	<u>(4,244,384.24)</u>	
Total long-term liabilities		(7,861,123.69)

Amounts reported as deferred outflows and inflows of resources related to
pensions and other post-employment benefit are not reported in the
governmental fund. These deferred amounts consist of:

Deferred outflows of resources	1,881,714.89	
Deferred inflows of resources	<u>(1,350,442.39)</u>	
Total deferred inflow and outflow amounts		<u>531,272.50</u>

Net Position of Governmental Activities	<u>\$ (6,870,389.03)</u>
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The accompanying notes to the basic financial statements are an integral part of this statement.

Texas Lottery
Statement of Revenues, Expenditures and
Changes in Fund Balance – Governmental Fund
for the Fiscal Year Ended August 31, 2025

	General Revenue Fund 0001	Total Governmental Fund
REVENUES		
Legislative Appropriations:		
Original Appropriations	\$ 2,596,625.00	\$ 2,596,625.00
Additional Appropriations	683,750.72	683,750.72
Licenses, Fees and Permits	16,392,830.39	16,392,830.39
Sales of Goods and Services	581.20	581.20
Other	250,173.16	250,173.16
Total Revenues	<u>19,923,960.47</u>	<u>19,923,960.47</u>
EXPENDITURES		
Current:		
Salaries and Wages	2,055,702.42	2,055,702.42
Payroll Related Costs	715,978.16	715,978.16
Professional Fees and Services	104,003.02	104,003.02
Travel	55,980.83	55,980.83
Materials and Supplies	104,957.30	104,957.30
Communication and Utilities	1,184.85	1,184.85
Repairs and Maintenance	-	-
Rentals and Leases	16,097.46	16,097.46
Printing and Reproduction	-	-
Claims and Judgments	-	-
Other Expenditures	15,841.44	15,841.44
Depreciation & Amortization	-	-
Capital Outlay	-	-
Total Expenditures	<u>3,069,745.48</u>	<u>3,069,745.48</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>16,854,214.99</u>	<u>16,854,214.99</u>
OTHER FINANCING SOURCES (USES)		
Transfers Out	(581.20)	(581.20)
Legislative Transfers In	1,026.86	1,026.86
Legislative Transfers Out	<u>(16,395,102.84)</u>	<u>(16,395,102.84)</u>
Total Other Financing Sources (Uses)	<u>(16,394,657.18)</u>	<u>(16,394,657.18)</u>
Net Change in Fund Balance	459,557.81	459,557.81
FUND FINANCIAL STATEMENT-FUND BALANCE		
Fund Balance, Beginning of Year	467,820.80	467,820.80
Appropriation Lapse	(467,916.45)	(467,916.45)
Restatements	-	-
Changes in Fund Balance	<u>(95.65)</u>	<u>(95.65)</u>
Fund Balance, End of Year	<u>\$ 459,462.16</u>	<u>\$ 459,462.16</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

Texas Lottery
Reconciliation of Changes in Fund Balance of Governmental Fund
to Changes in Net Position of Governmental Activities
for the Fiscal Year Ended August 31, 2025

Net Change in Fund Balance Total - Governmental Fund \$ 459,557.81

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	-	
Depreciation expense	(1,964.34)	
Excess of capital outlay over depreciation expense	(1,964.34)	(1,964.34)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Change in pension liability and related deferred inflows and outflows	1,237,265.60	
Change in other post-employment benefits liability and related deferred inflows and outflows	95,810.15	
Changes from lapsed appropriations	(467,916.45)	
Change in compensable leave	(86,590.34)	
Total change in liabilities, deferred flows and lapse appropriations	778,568.96	778,568.96

Change in Net Position of Governmental Activities **\$ 1,236,162.43**

The accompanying notes to the basic financial statements are an integral part of this statement.

Texas Lottery
Statement of Net Position - Proprietary Fund
for the Fiscal Year Ended August 31, 2025

	Enterprise Lottery Fund	Total Proprietary Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash in Bank	\$ 501,500.00	\$ 501,500.00
Cash in State Treasury	199,282,078.65	199,282,078.65
Restricted:		
Short Term Investments	43,534,584.64	43,534,584.64
Receivables from:		
Accounts	89,172,008.83	89,172,008.83
Other	138,248.20	138,248.20
Consumable Inventories	1,653,399.34	1,653,399.34
Merchandise Inventories	64,806,857.65	64,806,857.65
Prepaid Items	71,821,908.81	71,821,908.81
Total Current Assets	<u>470,910,586.12</u>	<u>470,910,586.12</u>
Non-Current Assets:		
Restricted:		
Investments	144,969,455.79	144,969,455.79
Capital Assets:		
Depreciable:		
Building and Building Improvements	1,864,141.89	1,864,141.89
Less Accumulated Depreciation	(303,344.07)	(303,344.07)
Furniture and Equipment	3,406,477.63	3,406,477.63
Less Accumulated Depreciation	(3,025,443.29)	(3,025,443.29)
Vehicles, Boats, and Aircraft	48,176.20	48,176.20
Less Accumulated Depreciation	(48,176.20)	(48,176.20)
Computer Software	7,200.00	7,200.00
Less Accumulated Amortization	(7,200.00)	(7,200.00)
Right to Use Asset - Amortizable:		
Building and Building Improvements	5,924,424.61	5,924,424.61
Less Accumulated Amortization	(1,960,660.07)	(1,960,660.07)
Total Non-Current Assets	<u>150,875,052.49</u>	<u>150,875,052.49</u>
Total Assets	<u>621,785,638.61</u>	<u>621,785,638.61</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources	17,706,636.42	17,706,636.42
Total Deferred Outflows of Resources	<u>17,706,636.42</u>	<u>17,706,636.42</u>

Texas Lottery
Statement of Net Position - Proprietary Fund
for the Fiscal Year Ended August 31, 2025

	<u>Enterprise Lottery Fund</u>	<u>Total Proprietary Fund</u>
LIABILITIES		
Current Liabilities:		
Payables from:		
Accounts	\$ 25,599,847.70	\$ 25,599,847.70
Vouchers	21,489,911.01	21,489,911.01
Payroll	2,744,497.71	2,744,497.71
Annuities	2,145,826.23	2,145,826.23
Interest	11,953.93	11,953.93
Other	12,957,106.25	12,957,106.25
Due to Other Agencies	133,808,392.01	133,808,392.01
Unearned Revenue	1,046.67	1,046.67
Employees' Compensable Leave	2,311,616.10	2,311,616.10
Right to Use Lease Obligations	615,377.22	615,377.22
Net Other Post-Employment Benefits Liability	1,819,022.93	1,819,022.93
Payable from Restricted Assets	194,600,297.85	194,600,297.85
Total Current Liabilities	<u>398,104,895.61</u>	<u>398,104,895.61</u>
Non-Current Liabilities:		
Employees' Compensable Leave	2,157,624.62	2,157,624.62
Right to Use Lease Obligations	3,422,738.14	3,422,738.14
Net Pension Liability	17,363,273.21	17,363,273.21
Net Other Post-Employment Benefits Liability	36,514,622.68	36,514,622.68
Payable from Restricted Assets	149,158,328.36	149,158,328.36
Total Non-Current Liabilities	<u>208,616,587.01</u>	<u>208,616,587.01</u>
Total Liabilities	<u>606,721,482.62</u>	<u>606,721,482.62</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources	11,608,041.21	11,608,041.21
Total Deferred Inflows of Resources	<u>11,608,041.21</u>	<u>11,608,041.21</u>
NET POSITION		
Invested in Capital Assets	1,941,832.16	1,941,832.16
Restricted for:		
Expendable:		
Restricted by Other:		
Pooled Bond Fund	5,000,000.00	5,000,000.00
Unrestricted	14,220,919.04	14,220,919.04
Total Net Position	<u>\$ 21,162,751.20</u>	<u>\$ 21,162,751.20</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

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Texas Lottery
Statement of Revenues, Expenses, and
Changes in Net Position - Proprietary Fund
for the Fiscal Year Ended August 31, 2025

	Enterprise Lottery Fund	Total Proprietary Fund
OPERATING REVENUES:		
Sales of Goods and Services:		
Lottery Proceeds:		
Ticket Sales	\$ 7,912,408,357.76	\$ 7,912,408,357.76
Lottery License Application Fees	304,144.01	304,144.01
Lottery Security Proceeds	53,250.00	53,250.00
Other Operating Revenues	1,140,891.06	1,140,891.06
Total Operating Revenues	<u>7,913,906,642.83</u>	<u>7,913,906,642.83</u>
OPERATING EXPENSES:		
Salaries and Wages	24,915,127.20	24,915,127.20
Payroll Related Costs	(5,214,881.59)	(5,214,881.59)
Professional Fees and Services	5,685,063.21	5,685,063.21
Travel	255,595.49	255,595.49
Materials and Supplies	1,153,413.33	1,153,413.33
Communication and Utilities	507,357.56	507,357.56
Repairs and Maintenance	455,715.12	455,715.12
Rentals and Leases	2,525,530.31	2,525,530.31
Printing and Reproduction	64,783,401.17	64,783,401.17
Depreciation and Amortization	806,393.06	806,393.06
Bad Debt Expense	666,276.90	666,276.90
Interest	1,086.58	1,086.58
Lottery Prizes	5,381,093,144.03	5,381,093,144.03
Retailer Commissions	396,111,260.24	396,111,260.24
Retailer Bonuses	30,536,774.86	30,536,774.86
Other Operating Expenses:		
Lottery Operator Fees	127,028,476.06	127,028,476.06
Advertising	9,977,470.10	9,977,470.10
Other	8,438,989.44	8,438,989.44
Total Operating Expenses	<u>6,049,726,193.07</u>	<u>6,049,726,193.07</u>
Operating Income (Loss)	<u>1,864,180,449.76</u>	<u>1,864,180,449.76</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest Expenses and Fiscal Charges	(80,741.43)	(80,741.43)
Net Increase (Decrease) Fair Value	790,984.40	790,984.40
Total Non-operating Revenues (Expenses)	<u>710,242.97</u>	<u>710,242.97</u>
OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS		
Transfers Out	(1,809,493,690.24)	(1,809,493,690.24)
Total Other Revenues, Expenses, Gains/Losses and Transfers	<u>(1,809,493,690.24)</u>	<u>(1,809,493,690.24)</u>
Change in Net Position	55,397,002.49	55,397,002.49
Total Net Position, Beginning of Year	(34,234,251.29)	(34,234,251.29)
Restatement	-	-
Total Net Position, Beginning of Year, as Restated	<u>(34,234,251.29)</u>	<u>(34,234,251.29)</u>
Total Net Position, End of Year	<u>\$ 21,162,751.20</u>	<u>\$ 21,162,751.20</u>

The accompanying notes to the basic financial statement are an integral part of this statement.

Texas Lottery
Statement of Cash Flows - Proprietary Fund
for the Fiscal Year Ended August 31, 2025

	Enterprise Lottery Fund	Total Proprietary Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from Customers	\$ 7,883,289,236.20	\$ 7,883,289,236.20
Payments to Suppliers for Goods and Services	(677,267,628.09)	(677,267,628.09)
Payments to Employees	(32,638,634.36)	(32,638,634.36)
Payments for Other Expenses	(5,362,206,681.11)	(5,362,206,681.11)
Net Cash Provided by (Used in) Operating Activities	<u>1,811,176,292.64</u>	<u>1,811,176,292.64</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Payments for Other Uses	(39,288,000.00)	(39,288,000.00)
Payments for Transfers to Other Funds	(1,762,935,835.30)	(1,762,935,835.30)
Proceeds from Other Financing	1,046.67	1,046.67
Net Cash Used in Noncapital Financing Activities	<u>(1,802,222,788.63)</u>	<u>(1,802,222,788.63)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for Additions to Capital Assets	(354,714.09)	(354,714.09)
Payments for Leases	(617,353.27)	(617,353.27)
Net Cash Used in Capital and Related Financing Activities	<u>(972,067.36)</u>	<u>(972,067.36)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	39,722,868.62	39,722,868.62
Payments to Acquire Investments	-	-
Net Cash Provided by Investing Activities	<u>39,722,868.62</u>	<u>39,722,868.62</u>
Net Increase (Decrease) in Cash and Cash Equivalents	47,704,305.27	47,704,305.27
Cash and Cash Equivalents, Beginning of Year	<u>152,079,273.38</u>	<u>152,079,273.38</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 199,783,578.65</u></u>	<u><u>\$ 199,783,578.65</u></u>

Texas Lottery
Statement of Cash Flows - Proprietary Fund
for the Fiscal Year Ended August 31, 2025

	<u>Enterprise Lottery Fund</u>	<u>Total Proprietary Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating Income (Loss)	\$ 1,864,180,449.76	\$ 1,864,180,449.76
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Amortization and Depreciation	806,393.06	806,393.06
Bad Debt Expense	666,276.90	666,276.90
Grant Revenue-OPEB Related	(2,246.06)	(2,246.06)
Pension Expense	(10,203,710.62)	(10,203,710.62)
Other Post-Employment Benefits Expense	3,125,538.35	3,125,538.35
Other	-	-
Operating Income and Cash Flow Categories:		
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(30,615,153.25)	(30,615,153.25)
(Increase) Decrease in Inventories	(9,647,079.73)	(9,647,079.73)
(Increase) Decrease in Prepaid Items	(21,517,863.73)	(21,517,863.73)
(Increase) Decrease in Deferred Outflows	(1,486,482.61)	(1,486,482.61)
Increase (Decrease) in Payables	20,782,146.52	20,782,146.52
Increase (Decrease) in Deferred Inflows	(13,418,186.96)	(13,418,186.96)
Increase (Decrease) in Liabilities to Employees for Pension	7,894,978.37	7,894,978.37
Increase (Decrease) in Liabilities to Employees for OPEB	611,232.64	611,232.64
Total Adjustments	<u>(53,004,157.12)</u>	<u>(53,004,157.12)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,811,176,292.64</u>	<u>\$ 1,811,176,292.64</u>
Non Cash Transactions		
Net Increase (Decrease) in Fair Value of Investments	\$ 790,984.40	\$ 790,984.40
Interest from Right to Use Obligations	(80,741.43)	(80,741.43)
Other	-	-
Total Non Cash Transactions	<u>\$ 710,242.97</u>	<u>\$ 710,242.97</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

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TEXAS LOTTERY

NOTES TO THE BASIC FINANCIAL STATEMENTS

TEXAS LOTTERY

Notes to the Basic Financial Statements

<i>NOTE 1: Summary of Significant Accounting Policies</i>
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ENTITY

The Texas Lottery is a program of the state of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for State Agencies.

The Texas Lottery serves the state by operating lottery games. The Texas Lottery Commission was created on August 26, 1991, with the enactment of House Bill No. 54, as a division of the Office of the Comptroller of Public Accounts. The Texas Lottery Commission was approved by the voters of Texas in a general election on November 5, 1991, and commenced operations on November 20, 1991. The Texas Lottery Commission was formed by state lawmakers during the 1993 legislative session and became effective September 1, 1993.

Effective April 1, 1994, House Bill No. 2771 transferred Bingo operations from the Texas Alcoholic Beverage Commission to the Texas Lottery Commission. The Charitable Bingo Operations Division collects fees and regulates the operations of charitable bingo in the state of Texas. Initially, fees collected were allocated to cities and counties with the balance deposited in the General Revenue Fund. Effective January 1, 2020, pursuant to House Bill No. 914, the Texas Lottery no longer has a role in the disbursement of prize fees to counties and municipalities.

With the passage of Senate Bill No. 3070 in May 2025, the Texas Lottery Commission was abolished effective September 1, 2025, and its authority, operations and regulations were transferred to the Texas Department of Licensing & Regulations (TDLR).

In this report for fiscal year 2025, the Texas Lottery includes all components as determined by an analysis of their relationship to the Texas Lottery. No component units have been identified as defined by Generally Accepted Accounting Principles (GAAP).

BASIS OF PRESENTATION

The accompanying financial statements of the Texas Lottery have been prepared to conform to GAAP as prescribed by the Governmental Accounting Standards Board (GASB).

NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 101, *Compensated Absences*, was issued June 2022 and first implemented this year. The objective of the Statement is to better meet the information needs of financial statement users by

updating the recognition and measurement guidance for compensated absences. This is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The result will be a liability for compensated absences that more appropriately reflects when an obligation is incurred. For fiscal year 2025, Texas Lottery evaluated the types of compensated absences provided to employees and determined no changes were required to the current calculation of the compensated absences liability in accordance with this Statement. Refer to Note 4 for additional information.

GASB Statement No. 102, Certain Risk Disclosures, was issued December 2023 and first implemented this year. The objective of the Statement is to provide information about the risks related to the government's vulnerabilities due to certain concentrations and/or constraints that could have a substantial financial impact. Texas Lottery will apply these new requirements if any significant concentrations or constraints requiring disclosure are identified. During fiscal year 2025, Texas Lottery determined that a concentration existed that made the Texas Lottery vulnerable to a risk of substantial negative impact. Refer to Note 12 for additional information.

FINANCIAL REPORTING STRUCTURE

The basic financial statements include both government-wide (based on the Texas Lottery as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

Government-wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the Texas Lottery as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the Texas Lottery. Eliminating adjustments have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated).

The focus of the government-wide statements is on the sustainability of the Texas Lottery as a program and the change in aggregate financial position resulting from the activities of the fiscal period.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (Bingo Prize Fee Collections and Accounting, Bingo Licensing, Bingo Law Compliance Field Operations and Bingo Education and Development), which are otherwise supported by general government revenues. The Statement of Activities reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, if any. Depreciation expense and other related payroll costs for both the business-type activities and governmental activities are allocated to functional categories based on full time equivalent units of employees. The program revenues must be directly associated with the function, or with a business-type activity. The operating grants column includes operating-specific and discretionary

(either operating or capital) grants, while the capital grants column reflects capital-specific grants. The Texas Lottery does not use capital grants to finance any of its operations.

Program revenues include charges for services, special assessments, and payments made by external third parties if that money is restricted to a particular program. Internally dedicated resources are reported as general revenues rather than program revenues. Program revenues are netted within program expenses in the statement of activities to present the net cost of each program.

The net costs (program expenses less program revenues) of all activities are financed by general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liabilities, rather than as expenditures.

Fund Structure

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity. The fund types used to account for the operations of the Texas Lottery include the General Fund and Enterprise Funds.

Governmental Fund Types

General Revenue Fund

The General Revenue Fund (0001) is used to account for all financial resources of the state except those required to be accounted in another fund. The General Revenue Fund is used to account for the Charitable Bingo Operations.

Child Support Employee Deduction Fund (8070) receives child support deductions from employee payrolls prior to the ultimate disposition of funds to the Office of the Attorney General.

Bingo Cash Bonds Fund (1002) is used to accumulate security funds for the fee on prizes imposed under Chapter 2001, Section 514, Texas Occupation Code.

Lottery Retailer Security Fund (1003) is used to account for funds, provided by retailers that do not meet certain credit criteria during the licensing process, which are held as financial security to protect the state in the event the retailer is unable to settle its debt to the Texas Lottery during the collections process. The securities are typically in the form of a Certificate of Deposit, maintained at a bank and assigned to the Texas Lottery.

The Texas Lottery accounts for the General Revenue Fund, Child Support Deductions Fund, Bingo Cash Bond Fund and Lottery Retailer Security Fund in its governmental activities as separate sub-funds, which are presented as one general fund for financial reporting purposes.

Proprietary Fund Types

Enterprise Funds

Enterprise funds account for any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.
2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

The Texas Lottery accounts for its proprietary activities in separate sub-funds, which are presented as one fund for financial reporting purposes, as discussed below:

General Revenue (GR) Dedicated – Lottery Fund (5025) is used to record all transactions related to the operation of the Texas Lottery.

Lotto Prize Trust Fund (0895) is used to account for investments purchased by the Texas Lottery to meet future installment obligations to prize winners.

Fund Financial Statements

The fund financial statements are similar to the financial statements presented in the previous model. The emphasis is on the major funds in either governmental or proprietary categories. Due to the number of funds used by the Texas Lottery to account for its activities, management has decided to present all funds as major funds. Therefore, non-major funds will not be presented in the fund financial statements.

The major governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate (a) compliance with legal and covenant requirements; (b) the source and use of financial resources; and (c) how the Texas Lottery's actual experience conforms to the budget. Since the governmental fund statements are presented using a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which explains the adjustments required to restate the fund-based financial statements to the governmental activities' column in the government-wide financial statements. The fund financial statements are presented after the government-wide financial statements.

The Texas Lottery uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FUND FINANCIAL STATEMENT PRESENTATION

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The governmental fund types that build the fund financial statements are accounted for using the modified accrual basis of accounting. Under modified accrual accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The Texas Lottery considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on the modified accrual basis. Expenditures and other uses of financial resources are recognized when their related liability is incurred.

The governmental activities included in the Statement of Net Position and Statement of Activities are accounted for using the accrual basis of accounting. Under accrual accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

The business-type activities and proprietary fund are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting

The budget is prepared biennially and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriations Act).

The state monitors its statewide budget by establishing the legal level of control at the agency level to ensure that expenditures do not exceed their total budget, but the State Comptroller ultimately ensures that each total authorized agency budget is not exceeded.

Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

Assets, Liabilities, and Fund Balances/Net Position

ASSETS

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Texas Lottery considers cash and cash equivalents to be Cash in Bank and Cash Held in State Treasury.

Allocation of Income

Revenues from scratch and draw lottery ticket sales and fees, net of retailer commissions and direct retailer prize payments, are deposited directly into an account in the Enterprise Fund (5025). From this account, prize payment reimbursements are made to a separate local bank account ("Lottery Prize Payment Account") to provide for prize payments. The Texas Lottery retains 12 percent of gross lottery revenues, subject to appropriation limitation, accruing from the sales of tickets for the payment of costs incurred in the operation and administration of the lottery operations, including not less than 5 percent for retailer commissions.

During fiscal year 2025, net proceeds from sales continued to be transferred to the Foundation School Fund and the Texas Veterans Commission. Obligated amounts in the Lottery operations account at August 31, 2025, are included as Cash in State Treasury on the Lottery's balance sheet because the use of such funds is necessary to cover the Lottery's expenditures and prize payment obligations.

Accrued transfers in the amount of \$133,808,392.01 are recorded as Due to Other Agencies as of August 31, 2025. The Texas Veterans Commission (Fund 0030) is due \$2,832,113.03 for August sales and unclaimed prizes, and the remaining balance is due to the Foundation School Fund (Fund 0193) for August sales and unclaimed prizes.

Other Current Assets

Other Current Assets represents funds, provided by lottery retailers that do not meet certain credit criteria during the licensing process, which are held as financial security to protect the state in the event the retailer is unable to settle its debt to the Texas Lottery during the collections process. The securities are typically in the form of a Certificate of Deposit, maintained at a bank and assigned to the Texas Lottery.

Investments

Investments are measured at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement 72, *Fair Value Measurement and Application*. Investments are purchased to meet future installment payments to prize winners. The investments are measured at fair value and the related short-term prizes payable is reported at par value. The related long-term prizes payable is reported at book value. The net unrealized gain (loss) on investment securities, which is the difference

between the fair value and the amortized cost, is reflected as Unrestricted-Net Position in the “Statement of Net Position – Proprietary Fund”.

Restricted Assets

Restricted Assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds held in a repurchase agreement for payment of lottery prizes and investments held by a third party to satisfy future lottery prizes.

Inventories

Inventories consist of scratch game tickets on hand at year-end (held for sale) and consumable inventories. The scratch ticket inventory, recorded as Merchandise Inventories, is carried at cost, as determined by the weighted average method. The consumable inventory is valued at cost, generally utilizing the last-in, first-out method. The consumption method of accounting is used to account for the inventories that appear in the proprietary fund types. The cost of these items is expensed when the items are consumed.

Prepaid Items

Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in the proprietary fund financial statement. The costs of these items are expensed when the items are used or consumed.

Capital Assets

Assets with an initial individual cost equal to or greater than \$10,000.00 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all “exhaustible” assets. Assets are depreciated over the estimated useful lives of the assets using the straight-line method. All capital assets acquired by proprietary funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the donation date. Depreciation is charged to operations over the estimated useful life of each asset, using the straight-line method.

Right to Use Asset of Buildings represents the leases that meet the recognition criteria per GASB Statement No. 87, *Leases*. The underlying asset is amortized over the lease term.

Receivables from - Other

The balance in Receivables from - Other consists of amounts owed to the Texas Lottery for services billable to third parties in the amount of \$138,248.20.

LIABILITIES

Accounts Payable

Accounts Payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

Payroll Payable

Payroll Payable represents the liability for salaries and related payroll costs earned by employees at the balance sheet date for which payment is pending.

Retailer Deposits

Retailer Deposits represents funds, held by the Texas Lottery that have been received from lottery retailers that do not meet certain credit criteria during the licensing process, which are held as financial security to protect the state in the event the retailer is unable to settle its debt to the Texas Lottery during the collections process.

Employees' Compensable Leave Balances

GASB Statement No. 101, *Compensated Absences*, superseded GASB Statement No. 16, *Accounting for Compensated Absences*, establishes standards of accounting and reporting for compensated absences by state and local governmental entities. GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* ("GASB No. 34"), requires governments to report and disclose the portion of compensated absences that is due within one year of the statement date.

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics, is accrued as a liability as the benefits are earned by the employee, if both the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of 8 to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

Overtime, under the federal Fair Labor Standards Act (FLSA) and state laws, can be accumulated in lieu of immediate payment as compensatory leave (at 1.5 hours x overtime hours worked) for non-exempt, non-emergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. Unpaid overtime is included in the calculation of current and non-current liabilities for each employee since it may be used like compensatory time or be paid to the employee.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave, and it is non-transferable. Compensatory leave is reported as a current liability.

Sick leave is accrued at a rate of 8 hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. An employee who retires based on service or a disability is entitled to service credit in the retirement system for unused sick leave on the last day of employment.

Accumulated compensable leave liabilities for annual leave, overtime, and compensatory leave are reported in the Government-wide Statement of Net Position and in the Statement of Net Position for the Proprietary Fund. Refer to Note 4 for additional information.

Right to Use Lease Obligations

Right to Use Lease Obligations balances represent the amount recognized by a lessee on its financial statements regarding its leases. It is initially measured at the present value of lease payments and is measured whenever there is a change in lease payments or lease modification. Liabilities are reported separately as either current or non-current.

Liabilities Payable from Restricted Assets

Lotto Texas®, *Mega Millions*®, and *Powerball*® jackpots are payable in a lump sum or in annual installments. Prior to February 1997, the *Lotto Texas* prizes were paid in twenty installments. Beginning in February 1997, the players were given a choice at the time of purchase of receiving either a lump sum payment or twenty-five annual installments. Beginning in April 2013, *Lotto Texas*® prizes are paid in thirty annual installments instead of twenty-five annual payments. Beginning in October 2013, *Mega Millions*® jackpot prizes are paid in thirty annual graduated installments, unless the lump sum option is selected by the player. *Powerball*® jackpot prizes are paid in thirty annual graduated installments, unless the lump sum option is selected by the player. The first installment is processed on the day the prize is claimed. The subsequent installments are funded with United States Guaranteed Securities purchased by the Texas Treasury Safekeeping Trust Company on the Texas Lottery's behalf, as are the installment payments for *Weekly Grand*, *Super Weekly Grand*, *Weekly Half Grand*, *Bonus Weekly Grand*, *Weekly Bonus*, *Deal or No Deal*, *Monthly Bonus*, *Win for Life*, *Set for Life*, *Super Set for Life*, and *\$750M Winner's Circle*.

The amortization of the discount of investments held for prizes payable is based on yields ranging from 0.48 percent to 6.26 percent and reflects interest rates earned by the investments held to fund the prizes payable.

Unclaimed Prizes

In accordance with Subsection 466.408 of the State Lottery Act, the ticket holder forfeits prizes that remain unclaimed for 180 days after the drawing date or 180 days after the close of a scratch game. During fiscal year 2025, the Texas Lottery transferred a total of \$78,735,972.25 in unclaimed lottery prize winnings on a quarterly basis to the following agencies: the Texas Education Agency received \$74,606,155.25 for credit to the Foundation School Fund; the Texas Veterans Commission received \$3,690,329.00 for credit to the Fund for Veterans Assistance; and the Health and Human Services Commission received \$439,443.00 for credit to the Multi-categorical Teaching Hospital Account.

The amount of unclaimed prize funds to be paid to the Texas Veterans Commission is limited to \$5 million per state fiscal year in accordance with the provisions of Subsection 466.408(b)(3) of the State Lottery Act. Any additional amounts over the \$5 million are deposited into the Foundation School Fund.

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

The statement of net position includes a separate section, in addition to assets, for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position/fund balance that applies to a future period(s) and therefore will not be recognized as an expense/expenditure until that time. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as revenue until that time.

The Texas Lottery's deferred outflows and deferred inflows are related to its net pension and postemployment benefits other than pension amounts. Refer to Notes 7 and 9 for additional information and description of these amounts.

FUND BALANCE/NET POSITION

Fund balance is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources on the governmental fund statements. Net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources on the government-wide and proprietary fund statements.

Fund Balance Components

Fund balance amounts for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned in the fund financial statements.

Nonspendable fund balance includes amounts not available to be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.

Restricted fund balance includes those resources that have constraints placed on their use through external parties or by law through constitutional provisions or enabling legislation.

Committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the Texas Legislature, the state's highest level of decision-making authority.

Assigned fund balance includes amounts constrained by the state's intent to be used for specific purposes but are neither restricted nor committed. Intent is expressed by (1) the Texas Legislature or (2) a body (for example, a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that was not assigned to other funds and was not restricted, committed or assigned to specific purposes within the General Fund.

When both unassigned and assigned or committed resources are available for use, it is the Texas Lottery's policy to use unassigned resources first and then assigned or committed as they are intended.

Invested in Capital Assets

Invested in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding balances for bond, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. It also includes right to use assets net of accumulated amortization and reduced by right to use lease obligations.

Restricted Net Position

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provision or enabling legislation.

When both restricted and unrestricted resources are available for use, it is the Texas Lottery's policy to use unrestricted resources first and then restricted resources, as they are needed.

Pooled Bond Fund

The Reserve for Pooled Bond Fund is established in accordance with the Texas Government Code, Chapter 466. Specifically, Texas Government Code, Section 466.156 authorizes the executive director of the TDLR to establish a pooled bond fund from the collection of cash from each sales agent to be used to reimburse the state for losses to the state from the operation of the Texas Lottery's sales. As of August 31, 2025, the balance in the Pooled Bond Fund did not exceed the statutory cap of \$5 million.

Unrestricted Net Position

Unrestricted net position consists of net position which does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management but can be removed or modified.

Unrestricted

This represents other balances at year-end, retained by the Texas Lottery for operational purposes.

REVENUES AND EXPENSES

Operating and Non-Operating Revenues or Expenses

Operating revenues are those derived directly from the operation of lottery activities. Revenues arising from transactions peripheral to lottery activities, gains and losses, and other contributions are treated as non-operating revenues.

Operating expenses are those costs that are either directly connected to the operation of lottery activities or necessary for the maintenance of the business enterprise. Expenses incurred for non-operating functions, investment expenses, or in the performance of activities not directly related to the basic business enterprise are categorized as non-operating.

Recognition of Revenue

Lottery revenues are primarily composed of revenues from scratch and draw lottery ticket sales and retailer fees. Scratch ticket sales are recognized as revenue when ticket packs are settled with retailers. There are four (4) traditional ways retailers are charged for the cost of a pack of scratch tickets. Ticket packs are considered settled on the earlier of the date when 70 percent of the low-tier prizes in the pack are validated, 45 days after the pack is activated by the retailer, manual settlement by the retailer upon activation of the pack, or game closing in which retailers are charged for any ticket in their possession after end of game date. The Texas Lottery introduced an additional 21-day settlement class option September 1, 2016. Draw ticket sales are recognized as revenue when tickets are purchased by lottery players. Revenues from retailer license and application fees are recorded when received. Lottery revenues are used for payment of prizes and to pay costs incurred in the operation and administration of the Lottery, such costs being limited to 12 percent of gross lottery revenues, subject to appropriation limitation, accruing from the sales of tickets, including not less than 5 percent for retailer commissions. Any funds not used for these purposes are transferred to the Foundation School Fund of the state of Texas at the end of each fiscal year.

Lottery Prizes

Prize expense for scratch and draw games are estimated as a function of sales based on the predetermined prize structure for each game.

Retailer Commissions

Retailers receive a commission of not less than 5 percent based on total ticket sales.

Retailer Bonuses

The Texas Lottery provides retailers additional compensation in the form of bonuses for selling certain prize-winning tickets.

The following table identifies the games offering a bonus option and the amount of the bonus:

Game	Bonus Structure
Mega Millions	1% bonus of grand/jackpot portion won in Texas capped at \$1,000,000; retailer bonus is pari-mutuel.
Powerball	1% bonus of grand/jackpot portion won in Texas capped at \$1,000,000; retailer bonus is pari-mutuel.

Retailers can also earn additional compensation from participating in various retailer sales incentive programs based on meeting sales goals throughout the year.

Lottery Operator Fees

The lottery operator received a fee of 1.9889 percent for fiscal year 2025, based on the total lottery tickets sold, as defined in Amendment No. 8 of the contract for Lottery Operations and Services, dated October 13, 2016. In addition to the operator, the Texas Lottery contracts for other goods and services in the ordinary course of business. Payments under such contracts, less rebates, credits, and sanctions, are charged to expense as the goods and services are received.

Use of Estimates

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

NOTE 2: Capital Assets

Assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Based on the requirements of GASB No. 34, depreciation is reported on all exhaustible assets. All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost, if actual historical cost is not available.

The following schedules present the composition of the Texas Lottery's capital assets, additions, and deletions during fiscal year 2025. The additions column includes current year purchases and depreciation. The deletions column shows assets removed during a fiscal year.

A summary of changes in Capital Assets for the year ended August 31, 2025, is presented below:

Capital Assets

GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT			
	Balance 9/1/2024	Additions	Deletions	Balance 8/31/2025
Depreciable Assets				
Furniture and Equipment	\$ 33,713.32	\$ -	\$ (18,713.37)	\$ 14,999.95
Total Depreciable Assets at Historical Costs	\$ 33,713.32	\$ -	\$ (18,713.37)	\$ 14,999.95
Less Accumulated Depreciation for:				
Furniture and Equipment	\$ (31,748.98)	\$ (1,964.34)	\$ 18,713.37	\$ (14,999.95)
Total Accumulated Depreciation	(31,748.98)	(1,964.34)	18,713.37	(14,999.95)
Depreciable Assets, Net	1,964.34	(1,964.34)	-	-
Intangible Capital Assets - Amortizable				
Computer Software - Intangible	\$ 1,313,072.30	\$ -	\$ -	\$ 1,313,072.30
Total Intangible Capital Assets-Amortizable	\$ 1,313,072.30	\$ -	\$ -	\$ 1,313,072.30
Less Accumulated Amortization for:				
Computer Software - Intangible	\$ (1,313,072.30)	\$ -	\$ -	\$ (1,313,072.30)
Total Accumulated Amortization	(1,313,072.30)	-	-	(1,313,072.30)
Intangible Capital Assets - Amortizable, Net	-	-	-	-
Governmental Activities Capital Assets, Net	\$ 1,964.34	\$ (1,964.34)	\$ -	\$ -
BUSINESS-TYPE ACTIVITIES				
	Balance 9/1/2024	Additions	Deletions	Balance 8/31/2025
Depreciable Assets				
Furniture and Equipment	\$ 4,363,356.10	\$ 208,514.09	\$ (1,165,392.56)	\$ 3,406,477.63
Vehicle, Boats & Aircraft	48,176.20	-	-	48,176.20
Buildings and Improvements	1,717,941.89	146,200.00	-	1,864,141.89
Total Depreciable Assets at Historical Costs	\$ 6,129,474.19	\$ 354,714.09	\$ (1,165,392.56)	\$ 5,318,795.72
Less Accumulated Depreciation for:				
Furniture and Equipment	\$ (4,056,492.35)	\$ (134,343.50)	\$ 1,165,392.56	\$ (3,025,443.29)
Vehicles, Boats & Aircraft	(48,176.20)	-	-	(48,176.20)
Buildings and Improvements	(224,530.77)	(78,813.30)	-	(303,344.07)
Total Accumulated Depreciation	(4,329,199.32)	(213,156.80)	1,165,392.56	(3,376,963.56)
Depreciable Assets, Net	1,800,274.87	141,557.29	-	1,941,832.16
Intangible Capital Assets - Amortizable				
Computer Software - Intangible	\$ 19,462.50	\$ -	\$ (12,262.50)	\$ 7,200.00
Total Intangible Capital Assets-Amortizable	\$ 19,462.50	\$ -	\$ (12,262.50)	\$ 7,200.00
Less Accumulated Amortization for:				
Computer Software - Intangible	\$ (19,462.50)	\$ -	\$ 12,262.50	\$ (7,200.00)
Total Accumulated Amortization	(19,462.50)	-	12,262.50	(7,200.00)
Intangible Capital Assets - Amortizable, Net	-	-	-	-
Business-Type Activities Capital Assets, Net	\$ 1,800,274.87	\$ 141,557.29	\$ -	\$ 1,941,832.16
Right to Use Assets - Amortizable				
Buildings and Building Improvements	\$ 2,595,209.29	\$ 3,329,215.32	\$ -	\$ 5,924,424.61
Total Right to Use Assets at Historical Costs	\$ 2,595,209.29	\$ 3,329,215.32	\$ -	\$ 5,924,424.61
Less Accumulated Amortization for:				
Building and Building Improvements	\$ (1,367,423.81)	\$ (593,236.26)	\$ -	\$ (1,960,660.07)
Total Accumulated Amortization	\$ (1,367,423.81)	\$ (593,236.26)	\$ -	\$ (1,960,660.07)
Business-Type Activities Right to Use, Net	\$ 1,227,785.48	\$ 2,735,979.06	\$ -	\$ 3,963,764.54

The Capital Assets of the Texas Lottery are depreciated/amortized by using the Straight-Line Method. Capital Assets depreciable/amortizable lives are established by the State's Property Accounting Division as follows:

Description	Life
Furniture and Equipment	3-10
Vehicles, Boats, & Aircraft	5-7
Leasehold Improvements & Right to Use Assets	Life of Lease
Building Improvements	22
Intangibles-Purchased Software	5

Depreciation and amortization expense was charged to activities as follows:

Governmental Activities:	
Bingo Licensing	<u>\$ 1,964.34</u>
Total Governmental Activities	<u>1,964.34</u>
Business-type Activities:	
Lottery Operations	392,122.14
Marketing, Research, and Promotion	58,205.63
Central Administration	303,986.56
Enforcement	<u>52,078.72</u>
Total Business-type Activities	<u>806,393.06</u>
Total Primary Government	<u>\$ 808,357.40</u>

NOTE 3: Deposits, Investments, & Repurchase Agreements

The Texas Lottery's deposits are collateralized under a program administered by the Texas Treasury Safekeeping Trust Company. State law requires that all State funds administered by the Texas Treasury Safekeeping Trust Company deposited in financial institutions above the federally insured amounts be fully collateralized by the pledging of eligible securities valued at market excluding accrued interest to the state.

All securities pledged to the state must be held by a third-party bank domiciled in Texas; the Federal Reserve Bank of Dallas or one of its branches; or in the vault of the Texas Treasury Safekeeping Trust Company. The deposits in the Lottery Prize Payment account were fully collateralized at August 31, 2025.

Deposits of Cash in Bank

As of August 31, 2025, the carrying amount of deposits was \$501,500.00 as presented below:

Governmental and Business Type Activities	
Cash in Bank – Carrying Value	<u>\$ 501,500.00</u>
Total Cash in Bank	<u>\$ 501,500.00</u>
Proprietary Funds Current Assets Cash in Bank	<u>\$ 501,500.00</u>
Total Cash in Bank	<u>\$ 501,500.00</u>

As of August 31, 2025, the total bank balance was as follows:

Governmental and Business Type Activities

\$ 367,677.23

Investments

The Texas Lottery's investments consist of United States Government Securities (Treasury and REFCO Strips). These investments have been purchased to provide for the payment of the *Lotto Texas*, *Mega Millions* and *Powerball* jackpot prizes that are payable as cash upon claim the first year, followed by annual payments over twenty-four-year, twenty-five-year, or twenty-nine-year periods, as well as installment payments for several scratch ticket games for less than 24 years. All investments are held to maturity; therefore, fluctuations in market price have no effect on the ability of the Texas Lottery to meet installment payment obligations as these become due. The Texas Lottery's investments are held by the Texas Treasury Safekeeping Trust Company or its agent in the Texas Treasury Safekeeping Trust Company's name.

The Texas Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Texas Lottery has some investments that are not subject to GASB Statement No. 72. Investments not measured at fair value include money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less and are held by governments other than external investment pools. These investments are reported at amortized cost.

The Texas Lottery had the following recurring fair value measurements as of August 31, 2025:

Investments Fair Values Governmental and Business-Type Activities	Fair Value Hierarchy			Total
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
U.S. Government				
U.S. Treasury Strips	\$ -	\$ 129,489,007.01	\$ -	\$ 129,489,007.01
Resolution Funding Corporation Strips	-	48,767,906.01	-	48,767,906.01
Total Investments at Fair Value	\$ -	\$ 178,256,913.02	\$ -	\$ 178,256,913.02
Investments at Amortized Costs or Not Subject to GASB Statement No. 72				
Repurchase Agreement (Texas Treasury Safekeeping Trust Co.)				\$ 10,247,127.41
Total of Investments - Governmental and Business-Type Activities				\$ 188,504,040.43
Reconciliation of Investments per Exhibits - Governmental and Business-Type Activities				Total
Proprietary Funds Current Assets Restricted Short-Term Investments				\$ 43,534,584.64
Proprietary Funds Non-Current Assets Restricted Investments				144,969,455.79
Investments per Exhibits				\$ 188,504,040.43

U.S. Government Securities reported in Level 1 of the fair value hierarchy were valued using quoted prices in active markets. Resolution Funding Corporation Strips reported in Level 2 of the fair value hierarchy were valued using bid indications for identical assets in inactive markets.

The following schedule details the fair values and maturities of the Texas Lottery's investment in U.S. Government Securities and Repurchase Agreement as of August 31, 2025.

Investment Type	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Government and Agency Investments	\$ 178,256,913.02	\$ 33,287,457.23	\$ 89,484,825.11	\$ 51,803,290.74	\$ 3,681,339.94
Repurchase Agreement	10,247,127.41	10,247,127.41			
Total	\$ 188,504,040.43	\$ 43,534,584.64	\$ 89,484,825.11	\$ 51,803,290.74	\$ 3,681,339.94

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. By rule, the Texas Lottery, through the Texas Treasury Safekeeping Trust Company, can only invest in U.S. Government Securities and Agency Obligations. These investments are explicitly guaranteed by the U.S. Government and therefore, are not rated by nationally recognized statistical rating organizations.

As of August 31, 2025, the Texas Lottery's credit quality distribution for securities with credit risk exposure was as follows:

Unrated

05	5025	Repurchase Agreement (Texas Treasury Safekeeping Trust Co.)	\$10,247,127.41
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Interest rate risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. The Texas Lottery, through the Texas Treasury Safekeeping Trust Company, manages its exposure to fair value losses arising from increasing interest rates by limiting the modified duration of its investment portfolio.

<u>U.S. Government</u>	<u>Modified Duration Years</u>
U.S. Treasury Strips	4.625
Resolution Funding Corporation Strips	1.798

Reverse Repurchase Agreement

On August 31, 2025, certain investments were subject to reverse repurchase agreements entered into by the Texas Treasury Safekeeping Trust Company. Such reverse repurchase agreements, which are permitted by statute, consist of sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Proceeds are invested in securities that mature at or near the same date as the reverse repurchase agreement and the proceeds from those securities will be used to liquidate the agreement, resulting in a matched position, and minimizing market risk because the Texas Treasury Safekeeping Trust Company will hold the securities to maturity and liquidate them at face value. The market value of securities underlying reverse repurchase agreements normally exceeds the cash received, providing a margin against decline in market value. If the re-purchaser defaults on the obligation to sell these securities to the Texas Treasury Safekeeping Trust Company or provide securities or cash of equal value, an economic loss could result equal to the difference between the face value and the market value plus accrued interest of the underlying securities. Any such loss incurred would be the responsibility of the Texas Treasury Safekeeping Trust Company rather than the Texas Lottery. To

minimize the risk of such default, all securities backing the reverse repurchase agreements are held by the Federal Reserve Bank in the name of the Comptroller of Public Accounts, Treasury Operations. There were no significant violations of legal or contractual provisions during the year.

The amount of investments subject to reverse repurchase agreements at August 31, 2025, was approximately \$3,263,326.62 at book value. The fair value of the securities underlying these agreements on August 31, 2025, was approximately \$3,165,180.84.

NOTE 4: Summary of Long-Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2025, the following changes occurred in long-term liabilities:

Governmental Activities	Balance 09/01/2024	Additions	Reductions	Balance 08/31/2025	Amounts Due Within One Year
Compensable Leave	\$ 307,454.78	\$ 393,203.46	\$ 306,613.12	\$ 394,045.12	\$ 197,102.23
Total Governmental Activities	\$ 307,454.78	\$ 393,203.46	\$ 306,613.12	\$ 394,045.12	\$ 197,102.23

Business-Type Activities	Balance 09/01/2024	Additions	Reductions	Balance 08/31/2025	Amounts Due Within One Year
Compensable Leave	\$ 4,114,077.69	\$ 5,114,861.65	\$ 4,759,698.41	\$ 4,469,240.93	\$ 2,311,616.10
Right to Use Lease Obligations	1,255,831.47	2,782,283.89	0.00	4,038,115.36	\$615,377.22
Long-Term Prizes Payable	361,590,461.35	441,802,907.07	459,634,742.21	343,758,626.21	194,600,297.85
Total Business Type Activities	\$ 366,960,370.51	\$ 449,700,052.61	\$ 464,394,440.62	\$ 352,265,982.50	\$ 197,527,291.17

Employees' Compensable Leave

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from state employment, provided the employee has had continuous employment with the state for six months. Expenditures for accumulated leave balances (annual, overtime, and compensatory) are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Position. An expense and liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees.

For financial accounting and reporting purposes of sick leave, Texas Lottery uses the last-in, first-out (LIFO) flows assumption. Under LIFO, the employee uses the current reporting period hours earned

before using the accumulated balance from prior fiscal years. If hours used do not exceed hours earned in the current reporting period, no liability is recognized. For fiscal year 2025, Texas Lottery recognized no sick leave liability as hours earned exceeded hours used.

Right to Use Lease Obligations

Lease agreements in accordance with GASB 87 are measured at the present value of lease payments expected to be made during the lease term. The Right to Use Lease Obligations balance represents the future lease payments that are discounted using the estimated incremental borrowing rate and is reduced by the lease payments made in the fiscal year.

Long-Term Prizes Payable

The Long-Term Prizes Payable balance represents future installments due to winners. These prizes are paid weekly, monthly, quarterly, and annually. The payables' additions are net from multijurisdictional draw game tickets purchased in Texas whose jackpot prizes were validated and claimed throughout the fiscal year and unclaimed prizes transferred to lottery beneficiaries. The reductions include the net of the gaming system automated transactions and validations processed throughout the year.

Certain Texas Lottery games provide prize winners the ability to receive winnings over time. Maturity of these prizes range from 1 year to 29 years.

The prizes payable relating to annual installments consisted of the following at August 31, 2025:

	2025
Total Obligation	\$ 210,508,000.00
Less – unamortized discount	(27,271,671.64)
Total carrying amount	183,236,328.36
Less – prizes payable within one year	(34,078,000.00)
Long-term prizes payable	<u>\$ 149,158,328.36</u>

The aggregate amounts of prizes payable due in each of the five fiscal years following August 31, 2025 and 2024, and the total thereafter are as follows:

Aggregate Amounts of Prizes Payable			
Business-Type Activities – Principal Amounts			
	2025		2024
2026 (Future Year 1)	\$ 34,078,000.00	2025 (Future Year 1)	\$ 39,288,000.00
2027 (Future Year 2)	28,520,000.00	2026 (Future Year 2)	34,078,000.00
2028 (Future Year 3)	25,140,000.00	2027 (Future Year 3)	28,520,000.00
2029 (Future Year 4)	23,884,000.00	2028 (Future Year 4)	25,140,000.00
2030 (Future Year 5)	22,644,000.00	2029 (Future Year 5)	23,884,000.00
2031-2035	68,732,000.00	2030-2034	83,138,000.00
2036-2040	4,406,000.00	2035-2039	12,290,000.00
2041-2053	3,104,000.00	2040-2052	3,458,000.00
Total Prizes Payable	<u>210,508,000.00</u>	Total Prizes Payable	<u>\$ 249,796,000.00</u>

There were no prizes payable for the governmental activities as of August 31, 2025 and 2024.

NOTE 5: Leases

The Texas Lottery has leased buildings with remaining lease terms through 2040. The leases consist of a warehouse/disaster recovery center in Austin as well as claim centers in Abilene, Amarillo, Beaumont, Corpus Christi, Dallas, Fort Worth, Houston, Laredo, Lubbock, McAllen, Odessa, San Antonio, Tyler, and Victoria. The Austin, Dallas, Houston, Odessa, and San Antonio offices also house 5 Bingo regional offices. These lease agreements generally do not require payment of taxes, insurance, and maintenance by the Texas Lottery, except for utility costs directly attributable to computer equipment at the recovery center, and utility and janitorial costs at some claim centers. Generally, management expects that leases will be renewed or replaced by other leases in the normal course of business.

Included in the expenditures reported in the financial statements are the following amounts of rent paid:

Fund Type	Amount
General Revenue	\$ 16,097.46
GR Dedicated-Lottery Account No. 5025	\$ 2,525,530.31

Future Lease Payments Year Ended August 31, 2025, are as follows:

Business-Type Activities			
Year	Principal	Interest	Total Future Min. Lease Payments
2026	\$ 615,377.22	\$ 135,042.16	\$ 750,419.39
2027	657,562.35	110,975.71	768,538.06
2028	705,134.89	84,964.10	790,098.99
2029	759,106.12	56,679.87	815,785.99
2030	509,579.93	28,969.37	538,549.30
2031-2035	732,703.24	37,290.09	769,993.33
2036-2040	58,651.63	477.00	59,128.63
Total	\$ 4,038,115.38	\$ 454,398.30	\$ 4,492,513.68

The Texas Lottery has no buildings, equipment, or land assets to lease to other parties for reporting purposes under this note.

NOTE 6: Interfund Activity and Transactions

The Texas Lottery has the following transfers which are legally required payments that are reported when incurred.

Transfers to Foundation School Fund during fiscal year 2025 were as follows:

Cash Transfers	\$ 1,731,758,816.25
Accrued transfers at beginning of fiscal year	(84,857,275.76)
Amount paid from current year revenue	1,646,901,540.49
Accrued transfers at end of fiscal year	130,976,278.98
Total Transfers to Foundation School Fund	\$ 1,777,877,819.47

Transfers to the Texas Veterans Commission during fiscal year 2025 were as follows:

Cash Transfers	\$ 30,737,576.05
Accrued transfers at beginning of fiscal year	(2,393,261.31)
Amount paid from current year revenue	28,344,314.74
Accrued transfers at end of fiscal year	2,832,113.03
Total Transfers to Texas Veterans Commission	\$ 31,176,427.77

Transfers to the Health and Human Services Commission for credit to the Multicategorical Teaching Hospital Account for unclaimed prizes during fiscal year 2025 were as follows:

Cash Transfers	\$ 439,443.00
Accrued transfers at beginning of fiscal year	-
Amount paid from current year revenue	439,443.00
Accrued transfers at end of fiscal year	-
Total Transfers to Health and Human Services Commission	\$ 439,443.00

Transfers to the Office of the Comptroller of Public Accounts during fiscal year 2025 were as follows:

Cash Transfers	\$ 581.20
Legislative Transfers	16,394,075.98
Accrued transfers at beginning of fiscal year	-
Amount paid from current year revenue	16,394,657.18
Accrued transfers at end of fiscal year	-
Total Transfers to Comptroller of Public Accounts	\$ 16,394,657.18

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

As of August 31, 2025, there were no interfund payables or receivables.

NOTE 7: Pension

The Employees Retirement System of Texas (ERS) is one of three retirement systems for the state of Texas. Texas Lottery employees participate in the ERS Plan. The ERS Plan is considered a single employer defined benefit plan under GASB Statement No. 68 Accounting and Financial Reporting for Pensions and is administered through trust.

The board of trustees of ERS is the administrator of four pension plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. In addition to the state of Texas, the employers of the ERS Plan include various component units of the state. ERS and the Texas Treasury Safekeeping Trust Company, which are blended component units, and the State Bar of Texas, which is a discrete component unit, are also employers of the ERS Plan.

The ERS Plan covers members in employee and elected classes. Employee class includes employees and appointed officers of the agencies of the state of Texas except those who are included in the coverage of the Teacher Retirement System (TRS), or the Judicial Retirement System (JRS) Plans 1 and 2. Elected class includes elected state officials not included in the coverage of JRS1 and JRS2 Plans, members of the Legislature and district and criminal district attorneys.

The benefit and contribution provisions of the ERS Plan are authorized by state law (Texas Government Code (TGC), Title 8, Subtitle B) and may be amended by the Legislature. The monthly benefit may vary by membership class.

The monthly standard annuity of the employee class is determined by a statutory percentage of 2.3 percent of a member's average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the employee class may vary depending on the hire date.

- Members hired on or before August 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation.
- Members hired on or after September 1, 2009, and before September 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation.
- Members hired on or after September 1, 2013, the average monthly compensation is the average of the highest 60 months of compensation.
- Members hired on or after September 1, 2022, are enrolled in a defined benefit retirement structure known as a cash balance benefit; standard monthly annuity is equal to member account balance plus 150 percent state match multiplied by an annuity conversion factor.

The average monthly compensation of the elected class may vary depending on the hire date.

- Members hired on or before August 31, 2019, the monthly standard annuity of the elected class is determined by a statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change.
- Members hired on or after September 1, 2019, the monthly standard annuity of the elected class is determined by a statutory percentage of 2.3 percent of the current state base salary of a district judge multiplied by number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change.
- Members hired on or after September 1, 2022, are enrolled in a defined benefit retirement structure known as a cash balance benefit; non-legislative standard monthly annuity is equal to member account balance plus 150 percent state match multiplied by an annuity conversion factor. Legislative standard monthly annuity is equal to member notional account balance plus 150 percent state match multiplied by an annuity conversion factor.

The ERS Plan's membership as of the measurement date of August. 31, 2024 is presented in the table below:

ERS Membership Data	ERS Plan
Retirees and Beneficiaries Currently Receiving Benefits	125,832
Terminated Employees Entitled to Benefits but Not Yet Receiving Them	167,858
Current Employees Vested and Non-Vested	144,049
Total Members	437,739

The contribution rates for the state and the members for the ERS Plan for the measurement period of fiscal 2024 are presented in the table below:

Employer Required Contribution Rates			
Hire Date	Employee Class	Elected Class Legislators	Elected Class Other
On or Before 08/31/22	10.0%	10.0%	10.0%
On or After 09/01/22	10.0%	10.0%	10.0%

Member Required Contribution Rates			
Hire Date	Employee Class	Elected Class Legislators	Elected Class Other
On or Before 08/31/22	9.5%	9.5%	9.5%
On or After 09/01/22	6.0%	6.0%	6.0%

The amount of Texas Lottery's contributions recognized by the ERS Plan during the measurement period of August 31, 2024, was \$2,385,119.12.

The total pension liability, net pension liability, and certain sensitivity information shown in this report are based on an actuarial valuation performed as of August 31, 2024. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of August 31, 2024:

ERS Plan Actuarial Assumptions	
Valuation Date	Actuarially determined contribution rates are calculated as of August 31, 2024. Members and employers contribute based on statutorily fixed rates. Provisions of the Legacy Payment structure adopted during the 2021 legislative session were reflected in disclosures for the fiscal years 2022 and later.
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, plus Level Dollar Legacy Payment, Closed
Remaining Amortization Period	Unfunded Actuarial Accrued Liability (UAAL) to be eliminated by 2054
Asset Valuation Method	Marked to market as of August 31, 2017. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains and losses.
Investment Rate of Return	7.0%
Inflation Rate	2.3%
Projected Salary Increase	0% to 8.8%
Last Experience Study	4-year period ending August 31, 2023
Mortality	2020 State Retirees of Texas (SRT) Mortality Tables. Generational mortality improvements in accordance with the ultimate rates from the scale most recently published by Retirement Plans Experience Committee of the Society of Actuaries ("Scale U-MP") and projected from the year 2020.
Cost-of-Living Adjustments	None – Employee 2.3% - Elected

A single discount rate of 7 percent was used to measure the total pension liability as of August 31, 2024, remaining unchanged from the prior measurement period. This single discount rate was based on an expected rate of return on pension plan investments of 7 percent and a municipal bond rate of 3.87 percent. The source of the municipal bond rate as of August 31, 2024, is the rate for Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. In March 2024, the System Board of Trustees continued the long-term rate of return assumption of 7.0% after considering 1) the long-term expected return from the building block method; 2) an analysis of long-term expected return performed by the System investment consultant; and 3) analyses and recommendations of the System pension actuary. This actuarial valuation also incorporates the most significant across-the-board pay increases budgeted by the State Legislature when they are granted for the current biennium.

The assumptions and methods reflected as of the measurement date of August 31, 2024, were adopted at the March 2024 System Board of Trustees meeting, based on the experience investigation that covered the period ending August 31, 2023. Updates to the assumptions include:

- Updates to the projection scales used for mortality improvement, using the most recent MP scale published by the Society of Actuaries, with immediate convergence.
- Updated termination, disability incidence and retirement assumptions; and
- Increase in the expected administrative expenses, as a percentage of payroll, from 0.33% to 0.40%.

There have been no changes to the benefit provisions of the ERS Plan since the prior measurement date for employees hired before September 1, 2022.

The projected cash flow from the employer are based on contributions for the most recent five-year period, modified for consideration of subsequent events. The legislature passed Senate Bill (SB) 321 in the 87th

Legislative Session requiring a legacy payment to pay off the current unfunded actuarial liability by 2054. The legacy payment is an actuarially determined amount each biennium. The actuarially determined amount for fiscal year 2024 and 2025 is \$510 million each year. The passage of this bill indicates that the legislature is committed to funding the state pension obligations.

The long-term expected rate of return on plan investments was developed 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 weighting the expected future geometric real rates of return by the target asset allocation percentage and by adding expected inflation. Total Real Rate of Return is arithmetic.

The target allocations and best estimates of real rates of return for each major asset class for the plan's investment portfolio are presented below:

Asset Class	Target Allocation	Real Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity			
Public Equity	35.00	4.39	1.54
Private Equity	16.00	7.12	1.14
Global Credit			
Public Credit	9.00	5.65	0.51
Private Credit	3.00	6.14	0.18
Public Real Estate	3.00	4.00	0.12
Private Real Estate	9.00	3.70	0.33
Private Infrastructure	5.00	4.09	0.20
Rates	12.00	2.73	0.33
Cash & Equivalents	2.00	0.78	0.02
Hedge Funds	6.00	3.31	0.20
Special Situations	0.00	4.29	0.00
Totals	100.00%		4.57%
Inflation			2.60%
Expected Nominal Rate of Return			7.17%

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of Texas Lottery's net pension liability. The result of the analysis is presented in the table below:

1% Decrease	Current Discount Rate	1% Increase
6%	7%	8%
\$ 30,835,353.56	\$ 20,585,967.55	\$ 12,065,342.83

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the pension trust fund are reported at fair value in accordance with GASB Statement No. 72. ERS issues a stand-alone audited Annual Comprehensive Financial Report (ACFR). ERS's ACFR, information on vesting, tier requirements and other financial data is at the agency's website at www.ers.texas.gov/about-ers/reports-and-studies.

Texas Lottery's total pension liability is based on an actuarial valuation performed as of August 31, 2024. For fiscal 2025 reporting, the measurement date of Texas Lottery's net pension liability is August 31, 2024. The schedule of changes in Texas Lottery's net pension liability for the fiscal year ending August 31, 2025, is presented below:

**Schedule of Changes in Texas Lottery Net Position Liability
For Fiscal Year Ending August 31, 2025**

Total Pension Liability	2025
Service Cost	\$ 1,879,023.59
Interest on the Total Pension Liability	5,482,888.46
Benefit Changes	-
Difference between Expected and Actual Experience of the Total Pension Liability	1,127,022.87
Assumption Changes*	302,369.23
Benefit Payments and Refunds	(5,014,114.41)
Net Change in Total Pension Liability	3,777,189.74
Total Pension Liability - Beginning	79,592,154.15
Total Pension Liability - Ending	\$ 83,369,343.89
 Plan Fiduciary Net Position	
Contributions - Employer	\$ 2,381,972.05
Contributions - Member	1,349,438.39
Pension Plan Net Investment Income	7,101,022.93
Benefit Payment and Refunds	(4,444,513.50)
Pension Plan Administrative Expense	(73,661.74)
Other - Additional One-Time State Funding	-
Net Change in Plan Fiduciary Net Position	6,314,258.13
Plan Fiduciary Net Position - Beginning	56,469,118.19
Plan Fiduciary Net Position - Ending	\$ 62,783,376.32
 Net Pension Liability - Beginning	\$ 23,123,035.96
Net Pension Liability - Ending***	20,585,967.56
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	75.31%
Covered-Employee Payroll**	14,648,275.68
Net Pension Liability as a Percentage of Covered-Employee Payroll	140.54%

Notes to schedule:

* The change in the total pension liability due to the change in the Texas Lottery proportionate share of the collective net pension liability is included as an assumption change.

** The covered employee payroll disclosed above includes the impact of the legacy payment from the State, reducing disclosed amount.

*** The Texas Lottery allocates the total net pension liability to governmental and business-type activities based on their respective full-time equivalent (FTE) positions. For the year ended August 31, 2025, that ratio was 91% business-type and 9% governmental activities.

Texas Lottery's proportion of the entire ERS plan was 0.16751592% in fiscal 2025 as compared with the 0.16584307% in the prior measurement period.

For the fiscal year ending August 31, 2025, Texas Lottery recognized pension expense of \$11,212,868.81. Negative pension expense for the ERS Plan is due primarily to the recognition of deferred inflows resulting from changes in assumptions as the ERS Plan has changed from a contribution rate structure to an actuarially determined structure.

At August 31, 2025, Texas Lottery reported deferred outflows of resources and deferred inflows of resources from the following sources:

Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,251,473.83	\$ 0.00
Changes of assumptions	-	336,919.38
Net difference between projected and actual investment return	-	2,018,882.22
Change in proportion and contribution difference	169,730.68	1,416,704.62
Contributions subsequent to the measurement date	2,534,518.55	
Total	\$ 3,955,723.06	\$ 3,772,502.22
<i>Amounts may not add exactly due to rounding.</i>		

The \$2,534,518.55 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the fiscal year ending August 31, 2026.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years:

Fiscal Year ended August 31 ¹ :	
2026	(1,881,329)
2027	726,359
2028	(565,176)
2029	(631,156)
2030	0
Thereafter	0
<i>¹Positive amounts indicate an increase in pension expense; negative amounts indicate a decrease in pension expense.</i>	

NOTE 8: Deferred Compensation

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Texas Government Code, Section 609.001. The plan available for employees complies with Internal Revenue Code 457 and is accounted for by the state in accordance with

the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Neither the state nor the Texas Lottery has any liability for losses under the plan.

The state also administers another plan, “TexaSaver,” created in accordance with Internal Revenue Code Sec. 401(k). However, the assets of this plan do not belong to the state or the Texas Lottery. Accordingly, neither the state nor the Texas Lottery has a liability related to this plan.

NOTE 9: Post Employment Health Care and Life Insurance Benefits

Employees Retirement System is the administrator of the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer defined benefit OPEB plan with a special funding situation. The 61 employers of SRHP include state of Texas agencies and universities, community and junior colleges, and other entities specified by the Legislature. Benefits are provided to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551. This plan covers retired employees of the State, and other entities specified by the State legislature. Benefit and contribution provisions of the State Retiree Health Plan are authorized by State law and may be amended by the Texas Legislature. The principal participating employer is the State of Texas. The SRHP is currently funded as a pay-as-you-go plan. ERS issued a stand-alone audited Annual Comprehensive Financial Report (ACFR). The ERS ACFR may be obtained from their website at www.ers.texas.gov and searching for reports and studies.

Benefits

The SRHP provides postemployment health care, life and dental insurance benefits to retirees. The benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Legislature. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the plan. The plan does not provide automatic cost of living adjustments (COLAs).

Contributions

During the measurement period of 2024 for fiscal 2025 reporting, the amount of Texas Lottery’s contributions recognized by the plan was \$4,496,746.55. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. The contribution requirements for the state and the members in the measurement period are presented in the table below:

Employer Contribution Rates	
Retiree Health and Basic Life Premium	
Retiree Only	\$ 624.82
Retiree & Spouse	\$ 1,340.82
Retiree & Children	\$ 1,104.22
Retiree & Family	\$ 1,820.22

The total other postemployment benefits (OPEB) liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total OPEB liability as of the August 31, 2024, measurement date.

Actuarial Methods and Assumptions	
	SRHP
Actuarial Valuation Date	Aug. 31, 2024
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
Actuarial Assumptions:	
Discount Rate	3.87% *
Inflation	2.30%
Salary Increase	2.30% to 8.95%, including inflation
Healthcare Cost and Trend Rate	
HealthSelect	5.60% for FY 2026, 5.60% for FY 2027, 5.25% for FY 2028, 5.00% for FY 2029, 4.75% for FY 2030, 4.50% for FY 2031, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY 2033 and later years
HealthSelect Medicare Advantage	36.00% for FY 2026, 8.00% for FY 2027, 5.25% for FY 2028, 5.00% for FY 2029, 4.75% for FY 2030, 4.50% for FY 2031, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY 2033 and later years
Pharmacy	11.50% for FY 2026, 11.00% for FY 2027, 10.00% for FY 2028, 8.50% for FY 2029, 7.00% for FY 2030, decreasing 100 basis points per year to 5.00% for FY 2032, and 4.30% for FY 2033 and later years
Aggregate Payroll Growth	2.70%
Retirement Age	Experience-based tables of rates that are specific to the class of employee
Mortality – State Agency Members	
Service Retirees, Survivors and Other Inactive Members (Regular, Elected, CPO/CO Employee Classes)	2020 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members. Generational morality improvements in accordance with the Ultimate MP-2021 Projection Scale are projected from the year 2020
Service Retirees, Survivors and Other Inactive Members (JRS I and II Employee Classes)	2020 State Retirees of Texas Mortality table with a 2-year setback. Generational morality improvements in accordance with the Ultimate MP-2020 Projection Scale are projected from the year 2020
Disabled Retirees (Regular, Elected, CPO/CO and JRS I and II Employee Classes)	2020 State Retirees of Texas Mortality table set forward three years for males and females. Generational mortality improvements in accordance with the Ultimate MP-2021 Projection Scale are projected from the year 2020. Minimum rates of 3.0% and 2.5% apply at all ages for males and females, respectively
Active Members	Pub-2010 General Employees Active Member Mortality table for non-CPO/CO members. Pub-2010 Public Safety Active Member Mortality table for CPO/CO members. Generational morality improvements in accordance with the Ultimate MP-2021 Projection Scale are projected from the year 2010
Mortality - Higher Education Members	
Service Retirees, Survivors and Other Inactive Members	Tables based on TRS experience with Ultimate MP-2021 Projection Scale from the year 2021
Disabled Retirees	Tables based on TRS experience with Ultimate MP-2021 Projection Scale from year 2021 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct Pub-2010 Amount-Weighted Below-Median Income Teacher Mortality with a 2-year set forward for males with Ultimate MP-2021 Projection Scale from the year 2010
Ad Hoc Post-Employment Benefit Changes	None

* The source of the municipal bond rate is the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

The many actuarial assumptions used in the valuation were primarily based on the result of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the 5-year period ending August 31, 2023, for state agency members and for the 7-year period ending August 31, 2021 for higher education members. The mortality rates were based on the tables identified in the table above titled *Actuarial Methods and Assumptions*.

The following assumptions have been changed since the previous Other Postemployment Benefits valuation:

- a. The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence;
- b. Proportion of future retirees assumed to cover dependent children;
- c. The proportion of future retirees assumed to elect health coverage at retirement and proportion of future retirees expected to receive the Opt-Out Credit at retirement;
- d. Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations.
- e. The Patient-Centered Outcomes Research Institute fee payable under the Affordable Care Act and the rate of future increases in the fee have been updated to reflect recent plan experience and expected trends; and
- f. The discount rate was changed from 3.81% as of August 31, 2023, to 3.87% as of August 31, 2024 as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

The discount rate that was used to measure the total OPEB liability is the municipal bond rate of 3.87% as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 3.81%. Projected cash flows into the plan are equal to projected benefit payments out of the plan. As the plan operates on a pay-as-you-go basis and is not intended to accumulate funds in advance of retirement, there is no long-term expected rate of return. ERS’ board of trustees amended the investment policy statement in August 2022 to require that all funds in this plan be invested in cash and equivalent securities. The investment rate of return used to calculate the projected earnings on OPEB plan investments was 3.81%

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of Texas Lottery’s net OPEB liability. The result of the analysis is presented in the table below:

Sensitivity of Texas Lottery’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate		
1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
\$ 49,539,783.17	\$ 42,578,029.87	\$ 36,991,145.25

Sensitivity analysis was performed on the impact of changes in the healthcare cost trend rates on the proportionate share of Texas Lottery’s net OPEB liability. The result of the analysis is presented in the table below:

**Sensitivity of Texas Lottery's Proportionate Share of the Net OPEB Liability to
Changes in the Healthcare Cost Trend Rate**
HealthSelect (HS) or HealthSelect Medicare Advantage (HSMA)

1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
HS/HSMA/Pharmacy: 4.60/35.00/10.50 % decreasing to 3.30%	HS/HSMA/Pharmacy: 5.60/36.00/11.50 % decreasing to 4.30%	HS/HSMA/Pharmacy: 6.60/37.00/12.50 % decreasing to 5.30%
\$ 36,534,090.88	\$ 42,578,029.87	\$ 50,282,423.09

The OPEB plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the Other Employee Benefit Trust Fund are reported at fair value in accordance with GASB Statement No. 72. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. More detailed information on the plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2024 ACFR.

At August 31, 2025, Texas Lottery reported a liability of \$42,578,029.87 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of August 31, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. Texas Lottery's proportion at August 31, 2024, was 0.14528979 percent. Texas Lottery's proportion of the collective net OPEB liability was based on its contributions to the OPEB plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the period September 1, 2023, through August 31, 2024.

For the year ending August 31, 2025, Texas Lottery recognized OPEB expense of \$3,434,657.53. At August 31, 2025, Texas Lottery reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 702,487.69
Changes of assumptions	2,331,127.14	8,481,866.17
Net difference between projected and actual investment return	-	1,627.52
Effect of change in proportion and contribution difference	8,804,754.58	-
Contributions subsequent to the measurement date	4,496,746.55	-
Total	\$ 15,632,628.27	\$ 9,185,981.38

The \$4,496,746.55 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liability for the year ending August 31, 2026.

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense in the following years:

Year ended August 31:

2026	\$	211,427.32
2027		53,534.83
2028		157,176.48
2029		971,073.37
2030		556,689.34
Thereafter		-

NOTE 10: Continuance Subject to Review

Under the Texas Sunset Act and Senate Bill 3070 from the 89th Legislature, Regular Session, the Texas Lottery Commission was abolished effective September 1, 2025. All Texas Lottery Commission programs and duties transferred to the Texas Department of Licensing and Regulation effective September 1, 2025. As provided by Texas Government Code, Section 466.005, the state lottery is subject to a limited-scope review under Chapter 325, Government Code (Texas Sunset Act). Unless continued in existence, the state lottery is abolished, and Chapter 466 expires September 1, 2029.

As provided by Texas Occupations Code, Title 2, Section 51.002, the "Texas Commission of Licensing and Regulation and the Texas Department of Licensing and Regulation are subject to Chapter 325, Government Code (Texas Sunset Act). Unless continued in existence as provided by that chapter, the commission and the department are abolished September 1, 2033."

NOTE 11: Segment Information

The Texas Lottery is not required to disclose segment information because information is already provided in the basic financial statements in the form of major individual enterprise funds.

NOTE 12: Concentration and Constraints

Concentrations on Lottery Operations

The Texas Lottery entered into a contract (from September 1, 2011, through August 31, 2020) with a lottery operator as the sole provider of gaming systems, certain application control systems, scratch ticket services and warehousing of lottery tickets to the Texas Lottery. The term of the contract was extended by exercising the three two-year renewals. The six-year extension began September 1, 2020, and continues through August 31, 2026. The contract with the lottery operator represents a significant concentration of business with one vendor.

Under the authority of Senate Bill 3070 from the 89th Legislature, Regular Session, the lottery operator contract will be extended for two additional years through August 31, 2028.

Constraints on Lottery Revenue

Lottery sales and revenue are impacted by various economic factors on customers' discretionary spend. The recent passage of Senate Bill 3070 effected June 20, 2025, by the 89th Legislative Session provides some safeguards which affect lottery sales and revenue. The new statutory requirements limit the number of lottery equipment assigned to a licensed retailer, limits a single transaction to no more than 100 tickets purchased, and prohibits the use of any telephone, internet, or mobile internet device to facilitate play. Implementation of certain requirements began as early as February 2025, and management has observed a decrease in lottery sales since that time. While many states besides Texas are also reporting decreases in ticket sales and revenue, current data for Texas does not yet establish a direct link between the observed decline and these statutory changes. However, these changes may contribute to reduced overall lottery sales volume and may impact revenue trends in future reporting periods.

NOTE 13: Commitments and Contingencies

As of August 31, 2025, there is one potential loss contingencies for which the Texas Lottery does not believe a loss is probable.

***IGT Global Solutions Corp. v. Texas Lottery Commission; Ryan Mindell (official capacity as Executive Director); Robert G. Rivera (official capacity as Chairman); Cindy Lyons Fields, Mark A. Franz and Jamey Steen (official capacities as Commissioners)
Travis Co. Dist. Court, Cause No. D-1-GN-25-002225***

IGT (n/k/a Brightstar) filed suit against the Texas Lottery Commission, its executive director and commissioners on April 1, 2025. As of this date, none of the named defendants have been served. There has been no activity since late April 2025. The plaintiff is challenging contractual sanctions imposed by the Texas Lottery in the amount of \$180,000.00, seeking declaratory relief under the Uniform Declaratory Judgment Act and claiming the defendants were acting ultra vires by

imposing and threatening sanctions that are not authorized in the contract. The plaintiff is seeking to recover court costs and attorney's fees. Should this case not be dismissed, loss to the state is reasonably possible if the TLC is found to be responsible for plaintiff's costs and/or attorney's fees. Costs and attorney's fees could be in excess of \$25,000.00.

NOTE 14: Subsequent Events

The Texas Lottery Commission ceased to exist on September 1, 2025, and its operations and responsibilities were transferred to the Texas Department of Licensing & Regulation (TDLR) as enacted through S.B. 3070 of the 89th Legislative, Regular Session.

As part of this transition, TDLR will review existing contracts executed by the Texas Lottery. The scheduled 2024 Request for Proposal for the current lottery operations services contract was terminated and a new one will be released during fiscal year 2026. Legislation authorized a time extension of the existing contract through August 31, 2028, to allow time for soliciting and evaluation bid submissions, as well as vendor deployment for a successful transition on September 1, 2028. Other contracts may be terminated early and released for solicitations, in part, to streamline or consolidate with existing TDLR contracts.

NOTE 15: Risk Management

In the regular course of business, the Texas Lottery is exposed to property and casualty loss and workers' compensation claims. The Texas Lottery retains the risk to cover losses to which it may be exposed.

The Texas Lottery assumes substantially all risks with tort claims and liability claims due to the performance of its duties. Currently, there is no purchase of commercial insurance. The Texas Lottery also participates in the State Office of Risk Management's (SORM) Risk Management and Workers' Compensation Coverage Program. The Texas Lottery's assessment for fiscal year 2025 was \$26,897.85. The assessment covers workers' compensation and risk management costs.

The Texas Lottery's liabilities are reported when it is both probable that the loss has occurred, and the amount of the loss can be reasonably estimated. Potential liabilities are re-evaluated periodically to consider settlements, frequency of claims, past experience and economic factors.

Changes in the balances of the Texas Lottery's claims liabilities during fiscal years 2024 and 2025 were as follows:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2024	\$0.00	\$0.00	\$0.00	\$0.00
2025	\$0.00	\$0.00	\$0.00	\$0.00

NOTE 16: Deficit Net Position

In fiscal year 2025, the Texas Lottery reported a \$6,870,389.03 deficit in its government-wide governmental activities and a \$21,162,751.20 surplus in its government-wide business-type activities. Governmental activities impacts are primarily due to recording OPEB and pension liabilities disclosed in Note 7 and Note 9.

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TEXAS LOTTERY

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

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Texas Lottery Commission
Budgetary Comparison Schedule - General Fund
for the Fiscal Year Ended August 31, 2025
(Unaudited)

	GENERAL FUND			
	Budgetary Amounts		Actual	Variance with
	Budget (Original)	Budget (Final)	Amounts* (GAAP)	Budget
REVENUES				
Legislative Appropriations:				
Original Appropriations	\$ 2,596,625.00	\$ 2,596,625.00	\$ 2,596,625.00	\$ -
Additional Appropriations	586,829.82	535,929.32	683,750.72	147,821.40
Licenses, Fees and Permits†	-	-	16,392,830.39	16,392,830.39
Sales of Goods and Services†	-	-	581.20	581.20
Other†	-	-	250,173.16	250,173.16
Total Revenues	<u>3,183,454.82</u>	<u>3,132,554.32</u>	<u>19,923,960.47</u>	<u>16,791,406.15</u>
EXPENDITURES				
Current:				
Salaries and Wages	2,178,363.49	2,178,363.49	2,055,702.42	122,661.07
Payroll Related Costs	586,829.82	535,929.32	715,978.16	(180,048.84)
Professional Fees and Services	105,452.00	105,452.00	104,003.02	1,448.98
Travel	41,750.00	41,750.00	55,980.83	(14,230.83)
Materials and Supplies	103,150.00	103,150.00	104,957.30	(1,807.30)
Communication and Utilities	2,158.00	2,158.00	1,184.85	973.15
Repairs and Maintenance	2,550.00	2,550.00	-	2,550.00
Rentals and Leases	16,099.00	16,099.00	16,097.46	1.54
Other Expenditures	20,917.00	20,917.00	15,841.44	5,075.56
Intergovernmental Payments	-	-	-	-
Total Expenditures	<u>3,057,269.31</u>	<u>3,006,368.81</u>	<u>3,069,745.48</u>	<u>(63,376.67)</u>
Excess of Revenues Over Expenditures	<u>126,185.51</u>	<u>126,185.51</u>	<u>16,854,214.99</u>	<u>16,728,029.48</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(581.20)	(581.20)
Legislative Transfers In	-	-	1,026.86	1,026.86
Legislative Transfers Out	-	-	(16,395,102.84)	(16,395,102.84)
Total Other Financing Resources (Uses)†	<u>-</u>	<u>-</u>	<u>(16,394,657.18)</u>	<u>(16,394,657.18)</u>
Net Change in Fund Balance	126,185.51	126,185.51	459,557.81	333,372.30
FUND FINANCIAL STATEMENT-FUND BALANCES				
Fund Balance, Beginning of Year	467,820.80	467,820.80	467,820.80	-
Appropriations Lapsed	-	-	(467,916.45)	467,916.45
Fund Balance, August 31, 2025	<u>\$ 594,006.31</u>	<u>\$ 594,006.31</u>	<u>\$ 459,462.16</u>	<u>\$ 801,288.75</u>

* Actual amounts reflect expenditures paid in Fiscal Year 2025 regardless of budget appropriation year.

† Revenue collected as Unappropriated Fund Revenue represented in as both revenue and transfers.

**Schedule of Changes in
Texas Lottery Net Pension Liability**

	2025	2024	2023	2022	2021
Total Pension Liability					
Service Cost	\$ 1,879,023.59	\$ 1,702,369.94	\$ 1,657,776.94	\$ 5,992,174.77	\$ 5,219,327.40
Interest on the Total Pension Liability	5,482,888.46	5,214,316.47	5,094,604.93	6,635,550.39	7,186,314.76
Benefit Changes	-	-	-	-	-
Difference between Expected and Actual Experience of the Total Pension Liability	1,127,022.87	1,457,121.88	857,503.62	(2,087,111.20)	1,458,142.14
Assumption Changes*	302,369.23	(1,108,748.53)	(49,014,073.18)	(67,890,946.61)	15,835,526.89
Benefit Payments and Refunds	(5,014,114.41)	(4,841,409.07)	(4,785,128.02)	(7,569,641.52)	(7,486,174.02)
Net Change in Total Pension Liability	3,777,189.74	2,423,650.69	(46,189,315.71)	(64,919,974.17)	22,213,137.17
Total Pension Liability - Beginning	79,592,154.15	77,168,503.46	123,357,819.17	188,277,793.34	166,064,656.17
Total Pension Liability - Ending	\$ 83,369,343.89	\$ 79,592,154.15	\$ 77,168,503.46	\$ 123,357,819.17	\$ 188,277,793.34
Plan Fiduciary Net Position					
Contributions - Employer	\$ 2,381,972.05	\$ 2,164,393.92	\$ 2,119,887.62	\$ 2,064,836.75	\$ 2,101,180.65
Contributions - Member	1,349,438.39	1,257,190.22	1,214,034.44	2,005,604.06	2,038,730.58
Pension Plan Net Investment Income	7,101,022.93	3,419,809.05	(1,224,997.43)	19,368,227.26	5,114,241.36
Benefit Payments and Refunds	(4,444,513.50)	(5,614,688.83)	(42,067,597.13)	(9,344,043.98)	(8,604,776.18)
Pension Plan Administrative Expense	(73,661.74)	(70,170.15)	(53,240.71)	(61,005.72)	(69,051.12)
Other - Additional One-Time State Funding	-	1,492,587.63	-	-	-
Net Change in Plan Fiduciary Net Position	6,314,258.13	2,649,121.84	(40,011,913.21)	14,033,618.37	580,325.29
Plan Fiduciary Net Position - Beginning	56,469,118.19	53,819,996.35	93,831,909.56	79,798,291.19	79,217,965.90
Plan Fiduciary Net Position - Ending	\$ 62,783,376.32	\$ 56,469,118.19	\$ 53,819,996.35	\$ 93,831,909.56	\$ 79,798,291.19
Net Pension Liability - Beginning	\$ 23,123,035.96	\$ 23,348,507.11	\$ 29,525,909.61	\$ 108,479,502.15	\$ 86,846,690.27
Net Pension Liability - Ending***	20,585,967.56	23,123,035.96	23,348,507.11	29,525,909.61	108,479,502.15
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	75.31%	70.95%	69.74%	76.06%	42.38%
Covered-Employee Payroll**	14,648,275.68	13,029,297.34	12,124,200.44	20,069,428.47	20,440,373.12
Net Pension Liability as a Percentage of Covered-Employee Payroll	140.54%	177.47%	192.58%	147.12%	530.71%

Notes to schedule:

- * The change in total pension liability due to the change in the single discount rate and the change in the Texas Lottery proportionate share of the collective net pension liability is included as an assumption change.
- *** The Texas Lottery allocates the total net pension liability to governmental and business-type activities based on their respective payroll amounts. For the year ended August 31, 2025 that ratio was 91% business-type and 9% governmental activities.

**Schedule of Changes in
Texas Lottery Net Pension Liability**

2020	2019	2018	2017	2016	2015
\$ 3,901,306.58	\$ 4,205,675.60	\$ 4,165,477.34	\$ 3,378,297.09	\$ 3,737,516.40	\$ 3,359,249.42
7,802,932.39	7,447,206.76	7,175,016.34	7,431,324.81	7,206,205.45	6,851,981.12
-	-	-	-	(266,636.21)	-
(1,674,639.37)	267,316.49	330,526.66	393,441.71	(864,407.70)	(745,778.54)
23,904,248.96	(3,311,220.46)	2,477,807.70	12,272,767.75	(6,951,272.07)	3,535,005.41
(7,357,417.86)	(7,001,020.95)	(6,542,436.74)	(6,325,686.07)	(6,220,955.36)	(5,788,596.72)
26,576,430.70	1,607,957.44	7,606,391.30	17,150,145.29	(3,359,549.49)	7,211,860.69
139,488,225.47	137,880,268.03	130,273,876.73	113,123,731.44	116,483,280.93	109,271,420.24
<u>\$ 166,064,656.17</u>	<u>\$ 139,488,225.47</u>	<u>\$ 137,880,268.03</u>	<u>\$ 130,273,876.73</u>	<u>\$ 113,123,731.44</u>	<u>\$ 116,483,280.93</u>
\$ 2,064,057.39	\$ 2,028,388.94	\$ 2,001,121.83	\$ 2,023,115.15	\$ 1,519,030.24	\$ 1,421,702.86
2,012,331.85	1,989,820.49	1,959,341.36	1,987,512.94	1,402,960.32	1,269,449.32
2,196,764.19	7,070,657.56	8,096,856.94	3,751,309.63	172,852.76	9,588,545.00
(7,719,807.03)	(5,657,276.14)	(8,681,785.36)	(8,480,581.69)	(4,028,234.75)	(5,788,596.72)
(80,377.63)	(68,515.79)	(66,016.52)	(60,239.11)	(66,297.73)	(59,537.43)
(1,527,031.23)	5,363,075.06	3,309,518.25	(778,883.08)	(999,689.16)	6,431,563.03
80,744,997.13	75,381,922.07	72,072,403.82	72,851,286.90	73,850,976.06	67,419,413.03
<u>\$ 79,217,965.90</u>	<u>\$ 80,744,997.13</u>	<u>\$ 75,381,922.07</u>	<u>\$ 72,072,403.82</u>	<u>\$ 72,851,286.90</u>	<u>\$ 73,850,976.06</u>
\$ 58,743,228.33	\$ 62,498,345.95	\$ 58,201,472.90	\$ 40,272,444.54	\$ 42,632,304.87	\$ 41,852,007.21
86,846,690.27	58,743,228.33	62,498,345.95	58,201,472.90	40,272,444.54	42,632,304.87
47.70%	57.89%	54.67%	55.32%	64.40%	63.40%
20,122,561.85	19,818,479.88	19,607,965.02	19,861,472.86	18,669,914.68	17,557,466.71
431.59%	296.41%	318.74%	293.04%	215.71%	242.82%

Texas Lottery Commission
Schedule of Employer Contributions-Pension

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Actuarially determined contributions	\$ 2,534,894.13	\$ 2,384,798.76	\$ 2,164,393.92	\$ 3,594,550.40	\$ 3,207,094.67
Contributions in relation to the actuarially determined contributions	2,534,894.13	2,384,798.76	3,656,981.55 *	3,594,550.40	2,064,836.75
Contribution deficiency (excess)	-	-	(1,492,587.63)	-	1,142,257.92
Covered-employee payroll	16,299,243.18	14,665,772.02	13,029,297.34	20,558,188.61	20,069,428.47
Contributions as a percentage of covered-employee payroll	15.55%	16.26%	28.07%	17.48%	10.29%

Texas Lottery Commission
Schedule of Employer Contributions-Pension

2020	2019	2018	2017	2016	2015	2014
\$ 2,812,595.34	\$ 2,740,692.92	\$ 2,717,113.59	\$ 2,039,566.65	\$ 2,002,619.74	\$ 2,237,620.33	\$ 2,145,920.01
2,101,180.64	2,064,057.38	2,028,495.13	2,001,121.83	2,023,115.15	1,519,030.24	1,421,702.86
711,414.70	676,635.54	688,618.46	38,444.82	(20,495.41)	718,590.09	724,217.15
20,440,373.12	20,122,561.85	19,818,479.88	19,607,965.02	19,861,472.86	18,669,914.68	17,557,466.71
10.28%	10.26%	10.23%	10.21%	10.19%	8.14%	8.10%

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Notes to Schedule of Employer Contributions-Pension

Valuation Date: Actuarially determined contribution rates are calculated as of August 31. Members and employers contribute based on statutorily fixed rates. Provisions of the Legacy Payment structure adopted during the 2021 legislative session were reflected in disclosures for the fiscal years 2022 and

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll plus Level Dollar Legacy Payment
Remaining Amortization Period	UAAL to be eliminated by 2054
Asset Valuation Method	Marked to market as of August 31, 2017. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.
Inflation	2.30%
Salary Increases	0.0% to 8.80%
Investment Rate of Return	7.0%
Retirement Age	Experience-based table of rates specific to the class of employees. Updated for the 2020 valuation pursuant to an experience study of the 5-year period from September 1, 2014 through August 31, 2019.
Mortality	2020 State Retirees of Texas (SRT) mortality table. Generational mortality improvements in accordance with the ultimate rates from the scales published through 2019 by Retirement Plans Experience Committee of the Society of Actuaries ("Ultimate MP") and projected from the year 2020. Rates for male LECO members are set forward one year.

Other Information:

1. Members and employers contribute based on statutorily fixed rates.
2. The covered payroll is the actual annual payroll for the fiscal year as reported by ERS.
3. Actuarially determined contributions were determined using the actuarial valuation as of August 31, 2023 and the assumptions above. New assumptions were adopted for the actuarial valuation as of August 31, 2024 and are reflected in the Total Pension Liability.

Texas Lottery
Schedule of Proportionate Share of Net OPEB Liability*

	2025		2024		2023
Texas Lottery proportion of the net OPEB liability (asset)	0.14528979%		0.14400342%		0.14293326%
Texas Lottery proportionate share of the net OPEB liability (asset)	\$ 42,578,029.87	\$	38,474,156.30	\$	40,717,348.74
Texas Lottery covered-employee payroll	\$ 22,311,366.66	\$	19,822,288.36	\$	18,201,307.04
Texas Lottery proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	190.84%		194.10%		223.71%
Plan fiduciary net position as a percentage of the total OPEB liability	0.47%		0.63%		0.57%

* This schedule is intended to present 10 years of information. Currently only 8 years of information is available. Information for future years are added as they become available.

Texas Lottery
Schedule of Proportionate Share of Net OPEB Liability*

2022		2021		2020		2019		2018	
0.13697778%		0.13672697%		0.13757127%		0.13447433%		0.12615035%	
\$	49,141,473.61	\$	45,180,923.67	\$	47,548,310.41	\$	39,855,155.42	\$	42,983,223.56
\$	17,240,557.79	\$	17,303,135.34	\$	16,948,819.21	\$	16,200,346.65	\$	14,816,749.75
285.03%		261.11%		280.54%		246.01%		290.10%	
0.38%		0.32%		0.17%		1.27%		2.04%	

Texas Lottery
Schedule of Employer Contributions - OPEB*
(Unaudited)

	2025	2024	2023
Statutorily required contributions	\$ 2,853,867.16	\$ 3,182,786.57	\$ 2,877,775.81
Contributions in relation to the statutorily required contributions	\$ 1,373,156.49	\$ 1,217,335.54	\$ 1,207,483.11
Contribution deficiency (excess)	\$ 1,480,710.67	\$ 1,965,451.03	\$ 1,670,292.70
Covered-employee payroll	\$ 23,983,821.62	\$ 22,113,825.78	\$ 19,674,979.22
Contributions as a percentage of covered-employee payroll	5.73%	5.50%	6.14%

* This schedule is intended to present 10 years of information. Currently only eight years of information is available. Information for future years will be added when it becomes available.

Texas Lottery
Schedule of Employer Contributions - OPEB*
(Unaudited)

	2022		2021		2020		2019		2018
\$	2,891,639.14	\$	3,719,682.01	\$	3,563,421.08	\$	3,613,604.83	\$	2,942,638.19
\$	1,011,358.60	\$	1,104,017.49	\$	1,083,888.69	\$	568,755.71	\$	410,028.42
\$	1,880,280.54	\$	2,615,664.52	\$	2,479,532.39	\$	3,044,849.12	\$	2,532,609.77
\$	17,442,928.48	\$	17,208,989.86	\$	17,409,983.59	\$	16,567,275.33	\$	15,197,542.90
	5.80%		6.42%		6.23%		3.43%		2.70%

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TEXAS LOTTERY

COMPLIANCE SECTION INDEPENDENT AUDITOR'S REPORT

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Lisa R. Collier,
CPA, CFE, CIDA,
State Auditor

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 Auditor's Report

Texas Commission of Licensing and Regulation


Mr. Rick Figueroa, Chair
Mr. Thomas F. Butler, Vice Chair
Dr. Gerald R. Callas
Ms. Nora Castañeda
Mr. Sujeeth Draksharam
Ms. Lori High
Dr. Gary Wesson


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, the financial statements of the governmental activities, the business-type activities, and each major fund of the Texas Lottery at the Department of Licensing and Regulation (Department), as of and for the year ended August 31, 2025, and the related notes to the financial statements, which collectively comprise the Texas Lottery's basic financial statements, and have issued our report thereon dated January 5, 2026.

Report on Internal Control Over Financial Reporting

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

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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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Texas 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.

Lisa R. Collier

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

January 5, 2026

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