

# **Texas Lottery Commission**



## **Annual Financial Report Fiscal Year 2009**



Mary Ann Williamson  
Chairman

David J. Schenck  
Commissioner

J. Winston Krause  
Commissioner



# TEXAS LOTTERY COMMISSION

Gary Grief, Deputy Executive Director

Philip D. Sanderson, Charitable Bingo Operations Director

November 20, 2009

Honorable Rick Perry, Governor  
Honorable Susan B. Combs, Texas Comptroller  
John O'Brien, Director, Legislative Budget Board  
John Keel, CPA, State Auditor

Lady and Gentlemen:

We are pleased to submit the Annual Financial Report of the Texas Lottery Commission for the year ended August 31, 2009, in compliance with TEX.GOV'T CODE ANN §2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas *Comprehensive Annual Financial Report (CAFR)*; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions, please contact Kathy Pyka, Controller, at 344-5410.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary Grief".

Gary Grief  
Deputy Executive Director



Texas Lottery Commission

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**Annual Financial Report  
For the Year Ended August 31, 2009**



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# Texas Lottery Commission

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## **Exhibits**

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**Texas Lottery Commission (362)**

**Exhibit I - Combined Balance Sheet/Statement of Net Assets – Governmental Funds**

**For the Fiscal Year Ended August 31, 2009**

	<b>Governmental Fund Types General Funds (Exhibit A-1)</b>	<b>Governmental Funds Total</b>	<b>Capital Assets Adjustments</b>	<b>Long-Term Liabilities Adjustments</b>	<b>Statement of Net Assets</b>
<b>ASSETS</b>					
Current Assets:					
Legislative Appropriations	\$ 914,393.89	\$ 914,393.89	\$ -	\$ -	\$ 914,393.89
Total Current Assets	<u>914,393.89</u>	<u>914,393.89</u>	<u>-</u>	<u>-</u>	<u>914,393.89</u>
Non-Current Assets:					
Restricted:					
Capital Assets (Note 2):					
Depreciable:					
Furniture and Equipment	-	-	43,626.94	-	43,626.94
Less: Accumulated Depreciation	-	-	(43,626.94)	-	(43,626.94)
Total Non-Current Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 914,393.89</u>	<u>\$ 914,393.89</u>	<u>-</u>	<u>-</u>	<u>\$ 914,393.89</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Current Liabilities:					
Payables From:					
Accounts	\$ 9,212.71	\$ 9,212.71	\$ -	\$ -	\$ 9,212.71
Payroll	224,759.17	224,759.17	-	-	224,759.17
Employees Compensable Leave (Note 5)	-	-	-	159,247.91	159,247.91
Total Current Liabilities	<u>233,971.88</u>	<u>233,971.88</u>	<u>-</u>	<u>159,247.91</u>	<u>393,219.79</u>
Non-Current Liabilities:					
Employees Compensable Leave	-	-	-	117,940.07	117,940.07
Total Non-Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,940.07</u>	<u>117,940.07</u>
Total Liabilities	<u>233,971.88</u>	<u>233,971.88</u>	<u>-</u>	<u>277,187.98</u>	<u>511,159.86</u>
<b>FUND FINANCIAL STATEMENT</b>					
Fund Balances (Deficits):					
Reserved for:					
Encumbrances	5,641.03	5,641.03	-	-	5,641.03
Undesignated	674,780.98	674,780.98	-	-	674,780.98
Total Fund Balances	<u>680,422.01</u>	<u>680,422.01</u>	<u>-</u>	<u>-</u>	<u>680,422.01</u>
Total Liabilities and Fund Balances	<u>\$ 914,393.89</u>	<u>\$ 914,393.89</u>	<u>-</u>	<u>277,187.98</u>	<u>\$ 1,191,581.87</u>
<b>GOVERNMENT-WIDE STATEMENT OF NET ASSETS</b>					
Net Assets:					
Unrestricted			-	(277,187.98)	(277,187.98)
Total Net Assets			<u>\$ -</u>	<u>\$ (277,187.98)</u>	<u>\$ (277,187.98)</u>

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

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**Texas Lottery Commission (362)**

**Exhibit II - Combined Statement of Revenues, Expenditures and**

**Changes in Fund Balances/Statement of Activities – Governmental Funds**

**For the Fiscal Year Ended August 31, 2009**

	<b>General Funds (Exhibit A-2)</b>	<b>Governmental Funds Total</b>	<b>Capital Assets Adjustments</b>	<b>Long-Term Liabilities Adjustments</b>	<b>Statement of Activities</b>
<b>REVENUES:</b>					
Legislative Appropriations:					
Original Appropriations	\$ 2,660,376.00	\$ 2,660,376.00	\$ -	\$ -	\$ 2,660,376.00
Additional Appropriations	631,104.26	631,104.26	-	-	631,104.26
Licenses, Fees & Permits	12,334,670.88	12,334,670.88	-	-	12,334,670.88
Other	65,103.97	65,103.97	-	-	65,103.97
Total Revenues	<u>15,691,255.11</u>	<u>15,691,255.11</u>	<u>-</u>	<u>-</u>	<u>15,691,255.11</u>
<b>EXPENDITURES:</b>					
Salaries and Wages	2,121,753.77	2,121,753.77	-	22,819.73	2,144,573.50
Payroll Related Costs	496,705.87	496,705.87	-	-	496,705.87
Professional Fees and Services	13,999.75	13,999.75	-	-	13,999.75
Travel	55,912.05	55,912.05	-	-	55,912.05
Materials and Supplies	23,058.24	23,058.24	-	-	23,058.24
Communication and Utilities	252.72	252.72	-	-	252.72
Repairs and Maintenance	5,849.60	5,849.60	-	-	5,849.60
Rentals and Leases	8,611.11	8,611.11	-	-	8,611.11
Printing and Reproduction	8.91	8.91	-	-	8.91
Intergovernmental Payments	12,295,035.72	12,295,035.72	-	-	12,295,035.72
Other Expenditures	13,672.74	13,672.74	-	-	13,672.74
Total Expenditures/Expenses	<u>15,034,860.48</u>	<u>15,034,860.48</u>	<u>-</u>	<u>22,819.73</u>	<u>15,057,680.21</u>
Excess (Deficiency) of Revenues over Expenditures	<u>656,394.63</u>	<u>656,394.63</u>	<u>-</u>	<u>(22,819.73)</u>	<u>633,574.90</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances/Net Assets	<u>656,394.63</u>	<u>656,394.63</u>	<u>-</u>	<u>(22,819.73)</u>	<u>633,574.90</u>
<b>FUND FINANCIAL STATEMENT - FUND BALANCES</b>					
Fund Balances, September 1, 2008	643,203.29	643,203.29		-	643,203.29
Restatements	-	-			-
Fund Balances, September 1, 2008 as Restated	<u>643,203.29</u>	<u>643,203.29</u>	<u>-</u>	<u>-</u>	<u>643,203.29</u>
Appropriations Lapsed	619,175.91	619,175.91			
Fund Balances, August 31, 2009	<u>\$ 680,422.01</u>	<u>\$ 680,422.01</u>			
<b>GOVERNMENT-WIDE STATEMENT OF NET ASSETS</b>					
Net Assets/Net Change in Net Assets			<u>-</u>	<u>(22,819.73)</u>	<u>(22,819.73)</u>
Net Assets, September 1, 2008			-	(254,368.25)	(254,368.25)
Restatements			-	-	-
Net Assets, September 1, 2008 as Restated			<u>-</u>	<u>(254,368.25)</u>	<u>(254,368.25)</u>
Net Assets, August 31, 2009			<u>\$ -</u>	<u>\$ (277,187.98)</u>	<u>\$ (277,187.98)</u>

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

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**Texas Lottery Commission (362)**

**Exhibit III - Combined Statement of Net Assets - Proprietary Funds**

**For the Fiscal Year Ended August 31, 2009**

	<b>Total Enterprise Funds (Exhibit F-1)</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents:	
Cash in Bank (Note 3)	\$ 7,500.00
Cash in State Treasury	123,781,905.55
Restricted:	
Short Term Investments (Note 3)	197,687,128.64
Receivables from:	
Accounts	54,375,290.18
Other (Note 1)	817,184.00
Consumable Inventories	933,454.17
Merchandise Inventories	8,848,433.37
Deferred Charges	3,111,000.00
Total Current Assets	<u>389,561,895.91</u>
Non-Current Assets:	
Restricted:	
Investments (Note 3)	1,038,794,989.44
Capital Assets (Note 2):	
Depreciable:	
Furniture and Equipment	5,815,152.31
Less: Accumulated Depreciation	(5,058,895.83)
Vehicles, Boats, and Aircraft	32,706.57
Less: Accumulated Depreciation	(30,650.80)
Total Non-Current Assets	<u>1,039,553,301.69</u>
Total Assets	<u>\$ 1,429,115,197.60</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Payables from:	
Voucher	\$ 11,604,133.38
Accounts	15,683,827.25
Payroll	1,868,559.79
Annuities	12,173,178.83
Other	1,611,223.00
Due to Other Agencies (Note 12)	34,408,673.41
Employees' Compensable Leave (Note 5)	1,209,461.76
Payable From Restricted Assets-Current Portion	288,959,433.80
Total Current Liabilities	<u>367,518,491.22</u>
Non-Current Liabilities:	
Employees' Compensable Leave	932,775.64
Payable From Restricted Assets (Note 1)	989,522,053.40
Total Non-Current Liabilities	<u>990,454,829.04</u>
Total Liabilities	<u>\$ 1,357,973,320.26</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	758,312.25
Restricted for:	
Expendable:	
Restricted by Other	
Pooled Bond Fund	5,000,000.00
Unrestricted	65,383,565.09
<b>Total Net Assets</b>	<u><u>\$ 71,141,877.34</u></u>

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

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**Texas Lottery Commission (362)**  
**Exhibit IV - Combined Statement of Revenues, Expenses and**  
**Changes in Net Assets - Proprietary Funds**  
**For the Fiscal Year Ended August 31, 2009**

	<b>Total Enterprise Funds (Exhibit F-2)</b>
<b>OPERATING REVENUES:</b>	
Sales of Goods and Services:	
Lottery Proceeds	
Ticket Sales	\$ 3,720,113,710.95
Lottery License Application Fees	302,506.22
Lottery Security Proceeds	64,825.00
Other Operating Revenues	560,559.53
Total Operating Revenues	<u>3,721,041,601.70</u>
<b>OPERATING EXPENSES:</b>	
Salaries and Wages	17,005,478.00
Payroll Related Costs	4,016,983.41
Professional Fees and Services	5,988,486.95
Travel	246,543.72
Materials and Supplies	1,832,167.44
Communication and Utilities	789,048.15
Repairs and Maintenance	478,997.06
Rentals and Leases	5,108,147.88
Printing and Reproduction	13,741,524.34
Depreciation and Amortization	283,532.69
Bad Debt Expense	288,280.83
Interest	(383.65)
Lottery Prizes	2,299,752,566.71
Retailer Commissions	186,145,361.59
Retailer Bonuses	1,926,784.95
Other Operating Expenses:	
Lottery Operator Fees	101,527,205.82
Advertising	36,002,696.38
Other	5,136,013.65
Total Operating Expenses	<u>2,680,269,435.92</u>
Operating Income (Loss)	<u>1,040,772,165.78</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Investment Income (Expense)	1,157.05
Interest Expenses and Fiscal Charges	(40.50)
Gain/Loss Sale Capital Assets	8,734.02
Net Increase (Decrease) in Fair Value	6,414,337.22
Settlements and Judgments	(1,220.00)
Total Nonoperating Revenues (Expenses)	<u>6,422,967.79</u>
Income (Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	<u>1,047,195,133.57</u>
<b>OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:</b>	
Transfers-Out (Note 12)	<u>(1,062,154,057.79)</u>
Total Other Revenues, Expenses, Gains/Losses and Transfers	<u>(1,062,154,057.79)</u>
Change in Net Assets	<u>(14,958,924.22)</u>
Total Net Assets, September 1, 2008	120,495,370.45
Restatements	<u>(34,394,568.89)</u>
Total Net Assets, September 1, 2008, as Restated	86,100,801.56
Total Net Assets, August 31, 2009	<u><u>\$ 71,141,877.34</u></u>

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

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**Texas Lottery Commission (362)**  
**Exhibit V - Combined Statement of Cash Flows - Proprietary Funds**  
**For the Fiscal Year Ended August 31, 2009**

	<b>Total Enterprise Funds (Exhibit F-3)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 3,703,714,485.53
Payments to Suppliers for Goods and Services	(348,505,171.77)
Payments to Employees	(20,730,863.49)
Payments for Other Expenses	(2,299,753,733.38)
Net Cash Provided by Operating Activities	<u>1,034,724,716.89</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Payments for Other Uses	(176,895,000.00)
Payments for Transfers to Other Funds	(1,077,889,744.91)
Proceeds from Other Financing	67,594,000.00
Net Cash Provided by Noncapital Financing Activities	<u>(1,187,190,744.91)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Payments for Additions to Capital Assets	<u>(243,757.58)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(243,757.58)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales of Investments	176,895,000.00
Proceeds from Interest and Investment Income	1,116.55
Payments to Acquire Investments	(70,278,006.00)
Net Cash Provided by Investing Activities	<u>106,618,110.55</u>
Net (Decrease) in Cash and Cash Equivalents	(46,091,675.05)
Cash and Cash Equivalents--September 1, 2008	<u>169,881,080.60</u>
Cash and Cash Equivalents--August 31, 2009	<u><u>\$ 123,789,405.55</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ 1,040,772,165.78
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Amortization and Depreciation	283,532.69
Bad Debt Expense	288,280.83
Operating Income and Cash Flow Categories:	
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(17,327,116.17)
(Increase) Decrease in Inventories	(2,455,604.20)
(Increase) Decrease in Deferred Charges	1,556,000.00
Increase (Decrease) in Payables	11,607,457.96
Total Adjustments	<u>(6,047,448.89)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,034,724,716.89</u></u>
<b>NON CASH TRANSACTIONS</b>	
Net Increase (Decrease) in Fair Value of Investments	\$ 6,414,337.22

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

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**Texas Lottery Commission (362)**  
**Exhibit VI - Combined Statement of Fiduciary Net Assets**  
**For the Fiscal Year Ended August 31, 2009**

	<b>Agency Funds</b> <u>(Exhibit J-1)</u>	<b>Totals</b> <u></u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents:		
Cash in State Treasury	\$ 5,381.51	\$ 5,381.51
Other Current Assets	<u>950,000.00</u>	<u>950,000.00</u>
Total Assets	<u><u>\$ 955,381.51</u></u>	<u><u>\$955,381.51</u></u>
<b>LIABILITIES</b>		
Current Liabilities:		
Funds Held for Others	<u>\$ 955,381.51</u>	<u>\$955,381.51</u>
Total Liabilities	<u><u>\$ 955,381.51</u></u>	<u><u>\$955,381.51</u></u>

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

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# Texas Lottery Commission

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## **Notes to the Financial Statements**

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## Notes to the Financial Statements

<b><i>NOTE 1: Summary of Significant Accounting Policies</i></b>
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### **Entity**

The Texas Lottery Commission is an agency of the State of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Reporting Requirements for State Agencies as set forth by the Texas Comptroller of Public Accounts.

The Texas Lottery Commission serves the state by operating lottery games. The Texas Lottery 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 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. On November 9, 1993, the Governor of the State of Texas announced the appointment of three persons to the Texas Lottery Commission. The commissioners appoint the Executive Director, the Charitable Bingo Operations Director and the Internal Audit Director.

Effective April 1, 1994, House Bill No. 2771, 73<sup>rd</sup> Legislature, Regular Session, transferred Bingo operations from the Texas Alcoholic Beverage Commission to the Texas Lottery Commission. The Charitable Bingo Operations Division of the Texas Lottery Commission collects fees and regulates the operation of charitable bingo in the State of Texas. Fees collected are allocated to cities and counties with the balance being deposited in the General Revenue Fund.

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

### **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 Commission include the General Revenue Fund, two Enterprise Funds, and Agency Funds.

#### ***Governmental Fund Types***

##### General Revenue Funds

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

##### Capital Assets Adjustment Fund Type

Capital Assets Adjustment fund type will be used to convert governmental fund types’ capital assets from modified accrual to full accrual.

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#### Long-Term Liabilities Adjustment Fund Type

Long-Term Liabilities Adjustment fund type will be used to convert governmental fund types' capital assets from modified accrual to full accrual.

### ***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 Commission accounts for its proprietary activities in three separate funds, as discussed below:

GR Dedicated – Lottery Account Fund – Enterprise (06) Appd Fund, D23 Fund 5025 (1100) - This fund was used to record all transactions related to the operation of the State Lottery. Effective September 1, 2007, the Commission discontinued the use of the use of this fund and transferred all daily activity to Appd Fund, D23 Fund 5025 (5025) below. The remaining cash and net assets will be transferred during fiscal year 2010.

GR Dedicated – Lottery Account Fund – Enterprise (06) Appd Fund, D23 Fund 5025 (5025) - This fund is used to record all transactions related to the operation of the State Lottery.

Lotto Prize Trust Fund – Enterprise (06) Appd Fund, D23 Fund 0895 (0895) - This fund is used to account for investments purchased by the Texas Lottery Commission to meet future installment obligations to prize winners. In fiscal years prior to 1998, this fund was reported as an Agency Fund. Due to the implementation of GASB 31, the presentation was changed in fiscal year 1998.

### ***Fiduciary Fund Types***

#### Agency Funds

Agencies use agency funds to account for assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

The funds established by The Lottery Commission to account for such transactions are described below:

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

Suspense Fund (0900) – This fund is used to hold money prior to the ultimate disposition of the funds to other governmental entities or the General Revenue Fund.

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USPS – Direct Deposit Return Money (9014) – This fund is used to receive funds related to direct deposit returns from employees or vendors whose direct deposit instructions have changed.

Warrant Hold Offset (9016) – This fund is used to account for monies collected on behalf of the Lottery Commission for debt owed to the Lottery Commission.

Suspense Fund-Seized Funds (0362) – This fund is used to account for funds seized as a result of enforcement action taken by the Lottery Commission.

USPS – Overpayments to Employees (9015) – This fund is used to account for funds recovered due to payroll overpayments to employees.

Savings Bond Fund (0901) - This fund is used to accumulate money withheld from the salaries of employees for the purpose of purchasing United States Savings Bonds. Bonds are purchased when an individual has accumulated a sufficient amount.

Deferred Compensation 401k (0942) – This fund is used to provide a temporary depository for funds pending transmittal, by electronic means, to the administrator of the state deferred compensation 401k program.

Correction Account - Direct Deposit (0980) – This fund is used to hold money prior to the ultimate disposition of funds to vendors, employees, other governmental entities, or other funds.

Bingo Cash Bonds (1002) – This fund is used to accumulate security funds for tax on gross rentals or the fee on prizes imposed under Chapter 2001, Section 514, Texas Occupation Code.

Lottery Retailer Security Fund (1003) – This fund 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 Commission 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 Commission.

### Basis of Accounting

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 method basis of accounting. Under modified accrual, 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 Commission 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.

Governmental adjustment fund types that will build the government-wide financial statements are accounted for using the full accrual basis of accounting. This includes capital assets, accumulated depreciation, unpaid employee compensable leave, and full accrual revenues and expenses. The activity will be recognized in these fund types.

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The proprietary funds are accounted for on 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.

### 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).

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 Assets

#### ASSETS

##### Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Commission considers cash and cash equivalents to be cash in bank and cash held in State Treasury.

##### Allocation of Income

Revenues from instant and on-line 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 Commission retains 12 percent of gross Lottery revenues, subject to appropriation limitation, accruing from the sale 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.

For fiscal year 2009, unspent administrative funds were transferred to the Foundation School Fund. Net proceeds will continue to be transferred to the Foundation School Fund during fiscal year 2010. Obligated amounts in the Lottery operations account at August 31, 2009 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 \$34,408,673.41 are recorded as "Due to Other Agencies" as of August 31, 2009. \$20,292,185.12 is due to General Revenue for unclaimed prizes and the balance is due to the Foundation School Fund (Fund 0193) for August sales and unspent administrative funds.

##### Investments

Investments are stated at fair value in accordance with GASB Statement 31 – Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Investments are purchased to meet future installment payments to prize winners. The investments are shown at fair value and the related payable is reported at amortized cost. 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 Assets in the "Combined Statement of Net Assets-Proprietary Funds".

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#### 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 lotto prizes.

#### Inventories

Inventories consist of instant game tickets on hand at year-end, held for sale and consumable inventories. The instant ticket inventory, recorded as Merchandise Inventory, 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.

#### Capital Assets

Assets with an initial individual cost equal to or greater than \$5,000 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 life of the asset 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 acquisition date. Depreciation is charged to operations over the estimated useful life of each asset, using the straight-line method.

#### Accounts Receivable – Other

The balance in Accounts Receivable – Other consists of amounts owed to the Texas Lottery Commission by member states of the Mega Millions group on August 31, 2009 for their portion of fixed prizes in the amount of \$817,184.00.

### **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 the salaries and related payroll cost earned by employees at the balance sheet date for which payment is pending.

#### Employees' Compensable Leave Balances

Employees' Compensable Leave Balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or non-current in the statement of net assets.

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Prizes Payable

*Lotto Texas* and *Mega Millions* 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. *Mega Millions* jackpot prizes are paid in twenty-six annual 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 Commission's behalf, as are the installment payments for Weekly Grand, Twice as Grand, Weekly Bonus, Top Prize \$500,000, Deal or No Deal, Monthly Bonus, Win for Life, \$130,000 Bonus, Lone Star Millions, Set for Life, Super Set for Life, and Monthly Money.

The amortization of the discount of investments held for prizes payable is based on yields ranging from 1.03 percent to 9.36 percent and reflects interest rates earned by the investments held to fund the prizes payable. The prizes payable relating to annual installments consisted of the following at August 31, 2009:

<b>2009</b>	
Total Obligation	\$ 1,490,055,000.00
Less - unamortized discount	320,011,946.60
Total carrying amount	1,170,043,053.40
Less - prizes payable within one year	180,521,000.00
Long-term prizes payable	\$ 989,522,053.40

The aggregate amount of prizes payable due in each of the five fiscal years following August 31, 2009 and the total thereafter in five year increments are as follows:

Aggregate Amount of Prizes Payable	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2010 (Future Year 1)			\$180,521,000.00	
2011 (Future Year 2)			180,521,000.00	
2012 (Future Year 3)			180,521,000.00	
2013 (Future Year 4)			157,539,000.00	
2014 (Future Year 5)			125,369,000.00	
2015-2019			332,060,000.00	
2020-2024			219,286,000.00	
2025-2029			82,070,000.00	
2030-2034			32,168,000.00	
<b>Total Prizes Payable</b>			<b>\$1,490,055,000.00</b>	

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In addition to the prizes that are payable in lump sum or installments, the Commission carries \$74,043,864.91 in prizes that are payable from current assets and are liquidated daily in the normal course of business.

#### 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 on-line drawing date or 180 days after the close of an instant game. During fiscal year 2009, the Lottery transferred a total of \$62,732,496.22 in unclaimed lottery prize winnings on a quarterly basis to the following agencies: The Comptroller of Public Accounts received \$52,732,496.22 for credit to the General Revenue Fund, and Department of State Health Services received \$10,000,000.00 for credit to the Multi-categorical Teaching Hospital Account.

### **FUND BALANCE/NET ASSETS**

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary and fiduciary fund statements, and the "Fund Balance" is the difference between fund assets and liabilities on the governmental fund statements.

#### Reservation of Fund Balance

Fund balances for governmental funds are classified as either reserved or undesignated in the fund financial statements. Reservations are legally restricted to a specific future use or not available for expenditure.

#### Reserved for Encumbrances

This represents commitments for the value of contracts awarded or assets ordered prior to year-end but not received as of that date. Encumbrances are not included with expenditures or liabilities. They represent current resources designated for specific expenditures in subsequent operating periods.

#### Unreserved/Undesignated:

This represents the un-appropriated balance at year-end, which may be subject to lapse.

#### Invested In Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt 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.

#### Restricted Net Assets

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

Restricted Net Assets in the Enterprise Funds consist of the following:

#### 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 Commission 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 Commission's sales. As of August 31, 2009, the balance in the Pooled Bond Fund did not exceed the statutory cap of \$5 million.

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#### Future Lotto Prizes

The Reserve for Future Lotto Prizes consists of accumulated balances from prior years resulting from an allocation of 2 percent of the *Lotto Texas* prize pool. As a result of a rule change effective April 23, 2006, there is no longer an allocation from the prize pool into the reserve fund. The fund may only be decreased by supplements to *Lotto Texas* prizes including jackpot amounts and guaranteed prizes. During fiscal year 2009, the balance in the reserve fund was depleted completely.

#### Unrestricted Net Assets

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management but can be removed or modified.

Unrestricted Net Assets in the Enterprise Funds consist of the following:

#### Future Lottery Prizes

The Reserve for Future Lottery Prizes is used to account for the investments in enterprise fund (0895) and the difference between their fair value and amortized cost.

#### Unrestricted/Undesignated:

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

<b>Net Assets:</b>	
Invested in Capital Assets, Net of related Debt	\$758,312.25
Restricted-	
Reserved for Pooled Bond Fund	5,000,000.00
Unrestricted-	
Reserved for Future Lottery Prizes	48,760,542.42
Unrestricted/Undesignated	16,623,022.67
<b>Total Proprietary Fund Net Assets:</b>	<b>\$71,141,877.34</b>



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***INTERFUND ACTIVITIES AND BALANCES***

The agency has the following type of transaction among funds:

Operating Transfers: Legally required transfers that are reported when incurred as 'Operating Transfers In' by the recipient fund and as 'Operating Transfers Out' by the disbursing fund.

The composition of the agency's interfund receivables and payables at August 31, 2009 is presented in Note 12.

Transfers to Foundation School Fund during fiscal year 2009 are as follows:

Cash transfers	\$1,000,405,304.03
Accrued transfers at beginning of fiscal year	<u>(15,100,230.75)</u>
Amount transferred from current year revenue	985,305,073.28
Accrued transfers at end of fiscal year	<u>14,116,488.29</u>
<b>Total Transfers to Foundation School Fund</b>	<b><u>\$ 999,421,561.57</u></b>

Transfers to the Comptroller of Public Accounts – General Revenue Fund for unclaimed prizes during fiscal year 2009 are as follows:

Cash transfers	\$ 33,088,651.99
Accrued transfers at beginning of fiscal year	<u>(648,340.89)</u>
Amount transferred from current year revenue	32,440,311.10
Accrued transfers at end of fiscal year	<u>20,292,185.12</u>
<b>Total Transfers to the Comptroller of Public Accounts – General Revenue</b>	<b><u>\$ 52,732,496.22</u></b>

Transfers to the Department of State Health Services for unclaimed prizes during fiscal year 2009 are as follows:

Cash transfers	\$10,000,000.00
Accrued transfers at beginning of fiscal year	<u>0.00</u>
Amount transferred from current year revenue	10,000,000.00
Accrued transfers at end of fiscal year	<u>0.00</u>
<b>Total Transfers to the Department of State Health Services</b>	<b><u>\$10,000,000.00</u></b>

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#### REVENUES AND EXPENSES

##### Recognition of Revenue

Lottery revenues are primarily composed of instant and on-line lottery ticket sales and retailer fees. Instant ticket sales are recognized as revenue when settled with retailers. Ticket packs are considered settled on the earlier of the date when 70 percent of the low-tier prizes in the pack are validated or 45 days after the pack is activated by the retailer. On-line ticket sales are recognized as revenue when tickets are purchased by Lottery players. Revenues from retailer license and application fees are recorded when licenses are granted. 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 ("Foundation School Fund") at the end of each fiscal year.

##### Lottery Prizes

Prize expense for instant and on-line games is 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 Lottery provides retailers additional compensation in the form of Bonuses for selling high tier prizes. The following table identifies the games offering a bonus option and the amount of the bonus.

Game	Bonus Structure
<i>Lotto Texas</i>	1% bonus of advertised jackpot, capped at \$500,000; retailer bonus is pari-mutuel.
<i>Texas Two Step</i>	1% bonus of advertised jackpot, capped at \$10,000; retailer bonus is pari-mutuel.
<i>Cash Five</i>	1% of the top-prize winning ticket, no maximum; retailer bonus is pari-mutuel.
<i>Mega Millions</i>	1% bonus of advertised grand/jackpot portion won in Texas up to \$1,000,000. Retailer bonus is pari-mutuel.
Instant Games *	\$10,000 bonus on top-prize tickets of \$1,000,000 or higher

\* Not all games offer high tier prizes of \$1,000,000 or more.

##### Lottery Operator Fees

The Lottery operator received a fee of 2.6999 percent for fiscal year 2009 based on sold tickets processed by the Lottery Gaming System, less any tickets that have been canceled or returned, and less any promotional tickets or promotional coupons and less any retailer adjustments. In addition to the operator, the Texas Lottery Commission contracts for other goods and services in the ordinary course of business. Payments under such contracts are charged to expense as the goods and services are received.

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**NOTE 2: Capital Assets**

A summary of changes in Capital Assets for the year ended August 31, 2009, is presented below:

GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT							
	Balance 9/1/2008	Adjustments	Reclassifications			Additions	Deletions	Balance 8/31/2009
			Completed CIP	Increase Int'agy Trans	Decrease Int'agy Trans			
Depreciable Assets								
Furniture and Equipment	\$ 43,626.94	-	-	-	-	-	-	\$ 43,626.94
Vehicle, Boats & Aircraft								
Other Assets								
Total Depreciable Assets at Historical Costs	\$ 43,626.94	-	-	-	-	-	-	\$ 43,626.94
Less Accumulated Depreciation for:								
Furniture and Equipment	\$ (43,626.94)	-	-	-	-	-	-	\$ (43,626.94)
Total Accumulated Depreciation	(43,626.94)	-	-	-	-	-	-	(43,626.94)
Depreciable Assets, Net	-							-
Governmental Activities Capital Assets, Net	\$ -	-	-	-	-	-	-	\$ -

BUSINESS-TYPE ACTIVITIES	Balance 9/1/2008	Adjustments	Reclassifications			Additions	Deletions	Balance 8/31/2009
			Completed CIP	Increase Int'agy Trans	Decrease Int'agy Trans			
	Depreciable Assets							
Furniture and Equipment	\$ 5,828,207.27	-	-	-	-	262,531.57	(275,586.53)	\$ 5,815,152.31
Vehicle, Boats & Aircraft	32,706.57	-	-	-	-	-	-	32,706.57
Other Assets								
Total Depreciable Assets at Historical Costs	\$ 5,860,913.84	-	-	-	-	262,531.57	(275,586.53)	\$ 5,847,858.88
Less Accumulated Depreciation for:								
Furniture and Equipment	\$ (5,042,807.27)	1,686.65	-	-	-	(283,321.78)	265,546.57	\$ (5,058,895.83)
Vehicles, Boats & Aircraft	(28,753.24)	-	-	-	-	(1,897.56)	-	(30,650.80)
Other Capital Assets								
Total Accumulated Depreciation	(5,071,560.51)	1,686.65	-	-	-	(285,219.34)	265,546.57	(5,089,546.63)
Depreciable Assets, Net	789,353.33	1,686.65	-	-	-	(22,687.77)	(10,039.96)	758,312.25
Business-Type Activities Capital Assets, Net	\$ 789,353.33	1,686.65	-	-	-	(22,687.77)	(10,039.96)	\$ 758,312.25

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

Description	Life
Furniture & Equipment	3-10
Vehicles, Boats & Aircraft	5-7
Leasehold Improvements	Life of the Lease

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#### **NOTE 3: Deposits, Investments, & Repurchase Agreements**

The Commission'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 were covered by depository insurance or fully collateralized at August 31, 2009.

#### **Deposits of Cash in Bank**

As of August 31, 2009, the carrying amount of deposits was \$7,500.00 as presented below:

<b>Governmental and Business Type Activities</b>	
Cash in Bank – Carrying Amount	\$7,500.00
<b>Total Cash in Bank per AFR</b>	<b>\$7,500.00</b>
Proprietary Funds Current Assets Cash in Bank	\$7,500.00
<b>Total Cash in Bank per AFR</b>	<b>\$7,500.00</b>

These amounts consist of all cash in local banks. These amounts are included on the Combined Statement of Net assets as part of the "Cash and Cash Equivalents" account.

As of August 31, 2009, the total bank balance was as follows:

<b>Governmental and Business Type Activities</b>	<b>\$6,897.14</b>
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#### **Investments**

The Commission'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* and *Mega Millions* jackpot prizes that are payable annually to the winners over a nineteen-year, twenty-four year or twenty-six year period, as well as the installment payments for several instant ticket games. All investments are held to maturity; therefore, fluctuations in market price have no effect on the ability of the Commission to meet installment payment obligations as they become due. The Commission's investments are held by the Texas Treasury Safekeeping Trust Company or its agent in the Texas Treasury Safekeeping Trust Company's name.

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As of August 31, 2009, the fair value of investments is as presented below:

<b>Governmental and Business Type Activities</b>	<b>Fair Value</b>
U.S. Government	
U.S. Treasury Strips	\$130,182,772.15
Resolution Funding Corporation Strips	1,088,620,823.67
Repurchase Agreement (Texas Safekeeping Trust Co.)	17,678,522.26
Total Investments	\$1,236,482,118.08
Reconciliation of Investments per Exhibits – Governmental and Business – Type Activities	
Proprietary Funds Current Assets Restricted Short-Term Investments	\$197,687,128.64
Proprietary Funds Non-Current Restricted Investments	1,038,794,989.44
Investments per Exhibits	\$1,236,482,118.08

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. By rule, the Commission, through the Texas Treasury Safekeeping Trust Company, can only invest in U.S. Government Securities. These investments are explicitly guaranteed by the U.S. Government and as such are not subject to credit risk. As of August 31, 2009, the Commission's credit quality distribution for securities with credit risk exposure was as follows:

**Unrated**

05	5025	Repurchase Agreement (Texas Safekeeping Trust Co.)	\$17,678,522.26
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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 Commission, 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.

Texas Lottery Commission	
U.S. Government -	
U.S. Treasury Strips	9.569
Resolution Funding Corporation Strips	4.401

**Reverse Repurchase Agreements**

At August 31, 2009, 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 Commission. 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.

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The amount of investments subject to reverse repurchase agreements at August 31, 2009 was approximately \$91,481,626.17, at book value. The fair value of the securities underlying these agreements at August 31, 2009 was approximately \$92,801,509.30.

**NOTE 4: Short-Term Debt**

Not Applicable

**NOTE 5: Summary of Long-Term Liabilities**

**Changes in Long-Term Liabilities**

During the year ended August 31, 2009, the following changes occurred in liabilities.

<b>Governmental Activities</b>	<b>Balance 09-01-2008</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 08-31-2009</b>	<b>Amounts Due Within One Year</b>
Compensable Leave	\$254,368.25	271,681.80	248,862.07	277,187.98	\$159,247.91
<b>Total Governmental Activities</b>	<b>\$254,368.25</b>	<b>\$271,681.80</b>	<b>\$248,862.07</b>	<b>\$277,187.98</b>	<b>\$159,247.91</b>

<b>Business-Type Activities</b>	<b>Balance 09-01-2008</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 08-31-2009</b>	<b>Amounts Due Within One Year</b>
Compensable Leave	\$2,086,012.58	2,083,998.60	2,027,773.78	2,142,237.40	\$1,209,461.76
Long-Term Prizes Payable	\$1,348,008,394.82	80,934,779.49	150,461,687.11	1,278,481,487.20	\$288,959,433.80
<b>Total Business-Type Activities</b>	<b>\$1,350,094,407.40</b>	<b>\$83,018,778.09</b>	<b>\$152,489,460.89</b>	<b>\$1,280,623,724.60</b>	<b>\$290,168,895.56</b>

**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 annual leave balances 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 Assets. An expense and liability for proprietary fund types are recorded as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**Long-Term Prizes Payable**

Certain Lottery games provide prize winners the ability to receive winnings over time. Maturity of these prizes range from 1 year to 26 years. The Long-Term Prizes Payable balance represents future installments due to winners. These prizes are paid weekly, monthly, quarterly and annually. An expense and liability for proprietary fund types are recorded as the prizes are claimed.

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**NOTE 6: Bonded Indebtedness**

Not Applicable

**NOTE 7: Capital Leases**

Not Applicable

**NOTE 8: Operating Lease Obligations**

The Texas Lottery Commission leases its central office, which includes the lottery drawing studio and a claim center, a parking garage for the central office and Houston claim/regional center, and a warehouse/disaster recovery center in Austin. Also, ten claim centers and five regional offices throughout the State are under the terms of operating leases expiring at various dates through 2020. Rent expense for Charitable Bingo and Lottery operations under these and other leases amounted to \$4,875,072.50 in fiscal year 2009. These lease agreements generally do not require payment of taxes, insurance and maintenance by the Commission, except for utility costs directly attributable to computer equipment at the central office and utility and janitorial costs at some claim/regional centers. The Lottery also leases office equipment under a month-to-month master-operating lease negotiated by the Texas Facilities Commission. Generally, management expects that leases will be renewed or replaced by other leases in the normal course of business.

<b>Fund Type</b>	<b>Amount</b>
General Revenue	\$7,997.85
GR Dedicated – Lottery Account No. 5025	\$4,867,074.65

Future minimum lease rental payments under non-cancelable operating leases having an initial term of more than one year are as follows:

<b>Year Ended August 31,</b>	
2010	\$3,809,632.92
2011	2,461,298.90
2012	2,398,028.47
2013	2,364,721.24
2014	2,252,714.52
2015-2020	11,628,747.92
<b>Total Minimum Future Lease Rental Payments</b>	<b>\$24,915,143.97</b>

**NOTE 9: Retirement Plans**

Not Applicable

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**NOTE 10: Deferred Compensation**

Not Applicable

**NOTE 11: Post Employment Health Care and Life Insurance Benefits**

Not Applicable

**NOTE 12: Interfund Activity and Transactions**

As explained in Note 1 on Interfund Activities and Balances, there are numerous transactions between funds and agencies. At year-end, amounts to be received or paid are reported as:

- Due From Other Agencies or Due To Other Agencies
- Due From Other Funds or Due To Other Funds
- Transfers In or Transfers Out

The agency experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of interfund balances will occur within one year from the date of the financial statement.

Individual balances and activity at August 31, 2009 follows:

	<b>DUE FROM Other Agencies</b>	<b>DUE TO Other Agencies</b>	<b>Source</b>
ENTERPRISE (05) Appd Fund 5025, D23 Fund 5025			
(Agency 902 D23 Fund 0001)		\$20,292,185.12	Revenue
(Agency 701 D23 Fund 0193)		14,116,488.29	Revenue
<b>Total Due From/To Other Agencies (Exh III)</b>		<b>\$34,408,673.41</b>	

	<b>Operating TRANSFERS IN</b>	<b>Operating TRANSFERS OUT</b>	<b>Purpose</b>
ENTERPRISE (05) Appd Fund 5025, D23 Fund 5025			
Agency 701, D23 Fund 0193		\$ 999,421,561.57	Operating
Agency 537, D23 Fund 5049		10,000,000.00	Operating
Agency 902, D23 Fund 0001		52,732,496.22	Operating
<b>Total Transfers</b>		<b>\$1,062,154,057.79</b>	



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**NOTE 13: Continuance Subject to Review**

Under the Texas Sunset Act, the Agency will be abolished effective September 1, 2013, unless continued in existence by the 83<sup>rd</sup> Legislature as provided by the Act. If abolished, the Agency may continue until September 1, 2014 to close out its operations.

**NOTE 14: Adjustments to Fund Balances and Net Assets**

During fiscal year 2009, adjustments were made that required the restatement of the amount in fund balance as shown and discussed below:

- (a) Correction of an error in the financial statements of a prior period.

	Enterprise Funds
Fund Balance/Net Assets August 31, 2008	\$120,495,370.45
Restatements:	
(a)	(34,394,568.89)
Net Restatements	(34,394,568.89)
Fund Balance/Net Assets August 31, 2008 as Restated	\$ 86,100,801.56

**NOTE 15: Contingent Liabilities**

The following is a pending lawsuit seeking monetary damages against the Commission. It is unlikely that this matter will result in a recovery against the Commission in a material amount, as "material" includes only amounts exceeding \$5,000,000 individually or in the aggregate.

- (1) *James T. Jongebloed v. Texas Lottery Commission*; Cause No. GN0304825; In the 353<sup>rd</sup> District Court of Travis County Texas, was filed in 2004, seeking judicial review of an administrative contested case order denying the Petitioner's request for a refund of approximately \$40,000. The district court granted the Commission's Motion for Summary Judgment, affirming the refund. The case is currently pending before the 3<sup>rd</sup> Court of Appeals for the State of Texas where the court recently reversed the district court's ruling. The Commission filed a motion for rehearing on September 30, 2009.

As of August 31, 2009, the Commission has no pending claims.

**NOTE 16: Subsequent Events**

On October 12, 2009, the Commission announced that an agreement in principle was reached between the *Mega Millions*® consortium and the Multi-State Lottery Association to allow for the sale of both *Mega Millions* and *Powerball*® tickets in all U.S. lottery jurisdictions. Texas is a member of *Mega Millions*, which is currently offered in 12 states. *Powerball* is currently available in 33 other lotteries (31 states plus the District of Columbia and U.S. Virgin Islands).

The Commission voted favorably on November 17, 2009 to publish proposed *Powerball* on-line game rules for public comment.

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While no firm date has been set for the introduction of *Powerball* in Texas, sales could begin in early calendar year 2010. It is expected that the selling of *Powerball* tickets in Texas will generate incremental revenue growth for the Foundation School Fund; however, determination of revenue impact is dependent on the start date.

#### **NOTE 17: Risk Management**

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

The Commission assumes substantially all risks with tort claims and liability claims due to the performance of its duties. The Commission also participates in the State Office of Risk Management's (SORM) Risk Management and Workers' Compensation Coverage Program. The Commission's assessment for fiscal year 2009 was \$29,472.12. The assessment covers workers' compensation and risk management costs.

The Commission'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 Commission's claims liabilities during fiscal years 2008 and 2009 were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2008	\$41,707.58	\$98,425.00	\$140,132.58	\$0.00
2009	\$0.00	\$0.00	\$0.00	\$0.00

#### **NOTE 18: Management Discussion and Analysis**

##### **Financial Highlights:**

- Total sales for the fiscal year ended August 31, 2009 totaled \$3.72 billion. Fiscal year 2009 sales were \$48.6 million, or 1.3%, above fiscal year 2008 sales. This represents the fourth best year of sales since the start of selling tickets in 1992.
- During the year ended August 31, 2009, The Commission again processed cash transfers of over \$1 billion to the State's Foundation School Fund. The \$1.004 billion transferred represents a 1.8% increase or \$17.2 million from fiscal year 2008's transfer of \$983.1 million.
- Instant ticket sales for the fiscal year ended August 31, 2009 increased by \$7.7 million, or 0.3%, from fiscal year 2008. This represents the third highest level of instant ticket sales in the Agency's history.
- *Lotto Texas* sales for the fiscal year ended August 31, 2009 decreased from fiscal year 2008 by \$4.1 million, or 2.0%.
- *Pick 3* sales for the fiscal year ended August 31, 2009 decreased from fiscal year 2008 by \$1.5 million, or 0.5%. *Pick 3 Sum It Up* sales for the fiscal year ended August 31, 2009 decreased by \$4.6 million, or 8.8%.
- *Daily 4* sales for the fiscal year ending August 31, 2009 increased from fiscal year 2008 by \$4.6 million, or 10.9%. *Daily 4 Sum It Up* sales for the fiscal year ended August 31, 2009 decreased from fiscal year 2008 by \$2.9 million, or 35.1%.

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- *Texas Two Step* sales for the fiscal year ended August 31, 2009 increased from fiscal year 2008 by \$3.6 million, or 7.5%. This represents the best year for *Texas Two Step* since 2003.
- *Cash Five* sales for the fiscal year ended August 31, 2009 decreased from fiscal year 2008 by \$5.0 million, or 6.6%.
- *Mega Millions*' sales for the fiscal year ended August 31, 2009 increased from fiscal year 2008 by \$40.9 million, or 23.4%. *Megaplier* sales for the fiscal year ended August 31, 2009 increased from fiscal year 2008 by \$6.0 million, or 14.5%. This represents the best year for *Mega Millions* and *Megaplier* since Texas joined the multi-state game in 2003.
- Total prize expense for the fiscal year ended August 31, 2009 increased from fiscal year 2008 by \$18.3 million, or 0.8%. The prizes paid to players is the third highest in the Agency's history.
- Commissions paid to Retailers for the fiscal year ended August 31, 2009 were \$186.1 million.

#### **NOTE 19: The Financial Reporting Entity**

Not Applicable

#### **NOTE 20: Stewardship, Compliance and Accountability**

Not Applicable

#### **NOTE 21: N/A (Not Applicable to the Reporting Requirement Process)**

#### **NOTE 22: Donor-Restricted Endowments**

Not Applicable

#### **NOTE 23: Extraordinary and Special Items**

Not Applicable

#### **NOTE 24: Disaggregation of Receivable and Payable Balances**

Not Applicable

#### **NOTE 25: Termination Benefits**

Not Applicable

#### **NOTE 26: Segment Information**

The Texas Lottery Commission 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.

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Texas Lottery Commission

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**Combining Fund Exhibits**

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**Texas Lottery Commission (362)**

**Exhibit A-1 - Combining Balance Sheet - All General Funds**

**August 31, 2009**

	<b>General Revenue Fund 0001 U/F (0001)</b>	<b>Total (Exhibit I)</b>
<b>ASSETS</b>		
Current Assets:		
Legislative Appropriations	\$ 914,393.89	\$ 914,393.89
Total Current Assets	<u>914,393.89</u>	<u>914,393.89</u>
Total Assets	<u><u>\$ 914,393.89</u></u>	<u><u>\$ 914,393.89</u></u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Current Liabilities:		
Payables From:		
Accounts	\$ 9,212.71	\$ 9,212.71
Payroll	224,759.17	224,759.17
Total Current Liabilities	<u>233,971.88</u>	<u>233,971.88</u>
Total Liabilities	<u>233,971.88</u>	<u>233,971.88</u>
<b>FUND FINANCIAL STATEMENT - FUND BALANCES</b>		
Fund Balances (Deficits):		
Reserved for:		
Encumbrances	5,641.03	5,641.03
Undesignated	674,780.98	674,780.98
Total Fund Balances	<u>680,422.01</u>	<u>680,422.01</u>
Total Liabilities and Fund Balances	<u><u>\$ 914,393.89</u></u>	<u><u>\$ 914,393.89</u></u>

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

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**Texas Lottery Commission (362)**  
**Exhibit A-2 - Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – All General Funds**  
**For the Fiscal Year Ended August 31, 2009**

	<b>General Revenue Fund 0001 U/F (0001)</b>	<b>Total (Exhibit II)</b>
<b>REVENUES:</b>		
Legislative Appropriations:		
Original Appropriations	\$ 2,660,376.00	\$ 2,660,376.00
Additional Appropriations	631,104.26	631,104.26
Licenses, Fees & Permits	12,334,670.88	12,334,670.88
Other	65,103.97	65,103.97
Total Revenues	<u>15,691,255.11</u>	<u>15,691,255.11</u>
<b>EXPENDITURES:</b>		
Salaries and Wages	2,121,753.77	2,121,753.77
Payroll Related Costs	496,705.87	496,705.87
Professional Fees and Services	13,999.75	13,999.75
Travel	55,912.05	55,912.05
Materials and Supplies	23,058.24	23,058.24
Communication and Utilities	252.72	252.72
Repairs and Maintenance	5,849.60	5,849.60
Rentals and Leases	8,611.11	8,611.11
Printing and Reproduction	8.91	8.91
Intergovernmental Payments	12,295,035.72	12,295,035.72
Other Expenditures	13,672.74	13,672.74
Total Expenditures/Expenses	<u>15,034,860.48</u>	<u>15,034,860.48</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>656,394.63</u>	<u>656,394.63</u>
<b>OTHER FINANCING SOURCES (USES):</b>		
Total Other Financing Sources and (Uses)	<u>-</u>	<u>-</u>
Net Change in Fund Balances/Net Assets	<u>656,394.63</u>	<u>656,394.63</u>
<b>FUND FINANCIAL STATEMENT - FUND BALANCES</b>		
Fund Balances, September 1, 2008,	643,203.29	643,203.29
Restatements	-	-
Fund Balances, September 1, 2008, as Restated	<u>643,203.29</u>	<u>643,203.29</u>
Appropriations Lapsed	619,175.91	619,175.91
Fund Balances, August 31, 2009	<u>\$ 680,422.01</u>	<u>\$ 680,422.01</u>

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

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Texas Lottery Commission (362)

Exhibit F-1 - Combining Statement of Net Assets - Proprietary Funds

For the Fiscal Year Ended August 31, 2009

	Texas Lottery Commission Fund 5025 U/F (5025)	Texas Lottery Commission Fund 5025 U/F (1100)	Lotto Prize Trust Fund 0895 U/F (0895)	Totals (Exhibit III)
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents:				
Cash in Bank (Note 3)	\$ -	\$ 7,500.00	\$ -	\$ 7,500.00
Cash in State Treasury	118,834,003.37	4,947,902.18	-	123,781,905.55
Restricted:				
Short Term Investments (Note 3)	17,678,522.26	-	180,008,606.38	197,687,128.64
Receivables from:				
Accounts	54,375,290.18	-	-	54,375,290.18
Other (Note 1)	817,184.00	-	-	817,184.00
Consumable Inventories	933,454.17	-	-	933,454.17
Merchandise Inventories	8,848,433.37	-	-	8,848,433.37
Deferred Charges	3,111,000.00	-	-	3,111,000.00
Total Current Assets	<u>204,597,887.35</u>	<u>4,955,402.18</u>	<u>180,008,606.38</u>	<u>389,561,895.91</u>
Non-Current Assets:				
Restricted:				
Investments (Note 3)	-	-	1,038,794,989.44	1,038,794,989.44
Capital Assets (Note 2):				
Depreciable:				
Furniture and Equipment	5,815,152.31	-	-	5,815,152.31
Less: Accumulated Depreciation	(5,058,895.83)	-	-	(5,058,895.83)
Vehicles, Boats, and Aircraft	32,706.57	-	-	32,706.57
Less: Accumulated Depreciation	(30,650.80)	-	-	(30,650.80)
Total Non-Current Assets	<u>758,312.25</u>	<u>-</u>	<u>1,038,794,989.44</u>	<u>1,039,553,301.69</u>
Total Assets	<u>\$ 205,356,199.60</u>	<u>\$ 4,955,402.18</u>	<u>\$ 1,218,803,595.82</u>	<u>\$ 1,429,115,197.60</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Payables from:				
Voucher	\$ 11,604,133.38	\$ -	\$ -	\$ 11,604,133.38
Accounts	15,683,827.25	-	-	15,683,827.25
Payroll	1,868,559.79	-	-	1,868,559.79
Annuities	12,173,178.83	-	-	12,173,178.83
Other	1,611,223.00	-	-	1,611,223.00
Due to Other Agencies (Note 12)	34,408,673.41	-	-	34,408,673.41
Employees' Compensable Leave (Note 5)	1,209,461.76	-	-	1,209,461.76
Payable From Restricted Assets-Current Portion (Note 1)	108,438,433.80	-	180,521,000.00	288,959,433.80
Total Current Liabilities	<u>186,997,491.22</u>	<u>-</u>	<u>180,521,000.00</u>	<u>367,518,491.22</u>
Non-Current Liabilities:				
Employees' Compensable Leave	932,775.64	-	-	932,775.64
Payable From Restricted Assets (Note 1)	<u>932,775.64</u>	<u>-</u>	<u>989,522,053.40</u>	<u>989,522,053.40</u>
Total Non-Current Liabilities	<u>932,775.64</u>	<u>-</u>	<u>989,522,053.40</u>	<u>990,454,829.04</u>
Total Liabilities	<u>\$ 187,930,266.86</u>	<u>\$ -</u>	<u>\$ 1,170,043,053.40</u>	<u>\$ 1,357,973,320.26</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	758,312.25	-	-	758,312.25
Restricted for:				
Expendable:				
Restricted by Other				
Pooled Bond Fund	5,000,000.00	-	-	5,000,000.00
Unrestricted	11,667,620.49	4,955,402.18	48,760,542.42	65,383,565.09
Total Net Assets	<u>\$ 17,425,932.74</u>	<u>\$ 4,955,402.18</u>	<u>\$ 48,760,542.42</u>	<u>\$ 71,141,877.34</u>

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

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**Texas Lottery Commission (362)**  
**Exhibit F-2 - Combining Statement of Revenues, Expenses and**  
**Changes in Net Assets - Proprietary Funds**  
**For the Fiscal Year Ended August 31, 2009**

	Texas Lottery Commission Fund 5025 U/F (5025)	Texas Lottery Commission Fund 5025 U/F (1100)	Lotto Prize Trust Fund 0895 U/F (0895)	Totals (Exhibit IV)
<b>OPERATING REVENUES:</b>				
Sales of Goods and Services:				
Lottery Proceeds				
Ticket Sales	\$ 3,720,113,710.95	\$ -	\$ -	\$ 3,720,113,710.95
Lottery License Application Fees	302,506.22	-	-	302,506.22
Lottery Security Proceeds	64,825.00	-	-	64,825.00
Other Operating Revenues	119,710,773.67	(119,150,214.14)	-	560,559.53
Total Operating Revenues	<u>3,840,191,815.84</u>	<u>(119,150,214.14)</u>	<u>-</u>	<u>3,721,041,601.70</u>
<b>OPERATING EXPENSES:</b>				
Salaries and Wages	17,005,478.00	-	-	17,005,478.00
Payroll Related Costs	4,016,983.41	-	-	4,016,983.41
Professional Fees and Services	5,988,486.95	-	-	5,988,486.95
Travel	246,543.72	-	-	246,543.72
Materials and Supplies	1,832,167.44	-	-	1,832,167.44
Communication and Utilities	789,048.15	-	-	789,048.15
Repairs and Maintenance	478,997.06	-	-	478,997.06
Rentals and Leases	5,108,147.88	-	-	5,108,147.88
Printing and Reproduction	13,741,524.34	-	-	13,741,524.34
Depreciation and Amortization	283,532.69	-	-	283,532.69
Bad Debt Expense	288,280.83	-	-	288,280.83
Interest	(383.65)	-	-	(383.65)
Lottery Prizes	2,299,752,566.71	-	-	2,299,752,566.71
Retailer Commissions	186,145,361.59	-	-	186,145,361.59
Retailer Bonuses	1,926,784.95	-	-	1,926,784.95
Other Operating Expenses				
Lottery Operator Fees	101,527,205.82	-	-	101,527,205.82
Advertising	36,002,696.38	-	-	36,002,696.38
Other	5,136,013.65	-	-	5,136,013.65
Total Operating Expenses	<u>2,680,269,435.92</u>	<u>-</u>	<u>-</u>	<u>2,680,269,435.92</u>
Operating Income (Loss)	<u>1,159,922,379.92</u>	<u>(119,150,214.14)</u>	<u>-</u>	<u>1,040,772,165.78</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment Income (Expense)	1,157.05	-	-	1,157.05
Interest Expenses and Fiscal Charges	(40.50)	-	-	(40.50)
Gain/Loss Sale Capital Assets	8,734.02	-	-	8,734.02
Net Increase (Decrease) in Fair Value	-	-	6,414,337.22	6,414,337.22
Settlements and Judgments	(1,220.00)	-	-	(1,220.00)
Total Nonoperating Revenues (Expenses)	<u>8,630.57</u>	<u>-</u>	<u>6,414,337.22</u>	<u>6,422,967.79</u>
Income (Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	<u>1,159,931,010.49</u>	<u>(119,150,214.14)</u>	<u>6,414,337.22</u>	<u>1,047,195,133.57</u>
<b>OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:</b>				
Transfers-Out (Note 12)	(1,062,154,057.79)	-	-	(1,062,154,057.79)
Total Other Revenue, Expenses, Gains/Losses and Transfers	<u>(1,062,154,057.79)</u>	<u>-</u>	<u>-</u>	<u>(1,062,154,057.79)</u>
Change in Net Assets	<u>97,776,952.70</u>	<u>(119,150,214.14)</u>	<u>6,414,337.22</u>	<u>(14,958,924.22)</u>
Total Net Assets, September 1, 2008	(45,956,451.07)	124,105,616.32	42,346,205.20	120,495,370.45
Restatements	(34,394,568.89)	-	-	(34,394,568.89)
Total Net Assets, September 1, 2008, as Restated	<u>(80,351,019.96)</u>	<u>124,105,616.32</u>	<u>42,346,205.20</u>	<u>86,100,801.56</u>
Total Net Assets, August 31, 2009	<u>\$ 17,425,932.74</u>	<u>\$ 4,955,402.18</u>	<u>\$ 48,760,542.42</u>	<u>\$ 71,141,877.34</u>

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

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Texas Lottery Commission (362)

**Exhibit F-3 - Combining Statement of Cash Flows - Proprietary Funds**  
**For the Fiscal Year Ended August 31, 2009**

	Texas Lottery Commission Fund 5025 U/F (5025)	Texas Lottery Commission Fund 5025 U/F (1100)	Lotto Prize Trust Fund 0895 U/F (0895)	Totals (Exhibit V)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers	\$ 3,822,864,699.67	\$ (119,150,214.14)	\$ -	\$ 3,703,714,485.53
Payments to Suppliers for Goods and Services	(348,505,171.77)	-	-	(348,505,171.77)
Payments to Employees	(20,730,863.49)	-	-	(20,730,863.49)
Payments for Other Expenses	(2,299,753,733.38)	-	-	(2,299,753,733.38)
Net Cash Provided by Operating Activities	<u>1,153,874,931.03</u>	<u>(119,150,214.14)</u>	<u>-</u>	<u>1,034,724,716.89</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Payments for Other Uses	-	-	(176,895,000.00)	(176,895,000.00)
Payments for Transfers to Other Funds	(1,077,889,744.91)	-	-	(1,077,889,744.91)
Proceeds from other Financing	-	-	67,594,000.00	67,594,000.00
Net Cash Provided by Noncapital Financing Activities	<u>(1,077,889,744.91)</u>	<u>-</u>	<u>(109,301,000.00)</u>	<u>(1,187,190,744.91)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Payments for Additions to Capital Assets	(243,757.58)	-	-	(243,757.58)
Net Cash Provided by Capital and Related Financing Activities	<u>(243,757.58)</u>	<u>-</u>	<u>-</u>	<u>(243,757.58)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from Sales of Investments	-	-	176,895,000.00	176,895,000.00
Proceeds from Interest and Investment Income	1,116.55	-	-	1,116.55
Payments to Acquire Investments	(2,684,006.00)	-	(67,594,000.00)	(70,278,006.00)
Net Cash Provided by Investing Activities	<u>(2,682,889.45)</u>	<u>-</u>	<u>109,301,000.00</u>	<u>106,618,110.55</u>
Net (Decrease) in Cash and Cash Equivalents	73,058,539.09	(119,150,214.14)	-	(46,091,675.05)
Cash and Cash Equivalents--September 1, 2008	<u>45,775,464.28</u>	<u>124,105,616.32</u>	<u>-</u>	<u>169,881,080.60</u>
Cash and Cash Equivalents--August 31, 2009	<u>\$ 118,834,003.37</u>	<u>\$ 4,955,402.18</u>	<u>\$ -</u>	<u>\$ 123,789,405.55</u>

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

UNAUDITED

Texas Lottery Commission (362)

Exhibit F-3 - Combining Statement of Cash Flows - Proprietary Funds (continued)

For the Fiscal Year Ended August 31, 2009

	Texas Lottery Commission Fund 5025 U/F (5025)	Texas Lottery Commission Fund 5025 U/F (1100)	Lotto Prize Trust Fund 0895 U/F (0895)	Totals (Exhibit V)
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 1,159,922,379.92	\$ (119,150,214.14)	\$ -	\$ 1,040,772,165.78
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Amortization and Depreciation	283,532.69	-	-	283,532.69
Bad Debt Expense	288,280.83	-	-	288,280.83
Operating Income and Cash Flow Categories:				
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	(17,327,116.17)	-	-	(17,327,116.17)
(Increase) Decrease in Inventories	(2,455,604.20)	-	-	(2,455,604.20)
(Increase) Decrease in Deferred Charges	1,556,000.00	-	-	1,556,000.00
Increase (Decrease) in Payables	11,607,457.96	-	-	11,607,457.96
Total Adjustments	(6,047,448.89)	-	-	(6,047,448.89)
Net Cash Provided by Operating Activities	<u>\$ 1,153,874,931.03</u>	<u>\$ (119,150,214.14)</u>	<u>\$ -</u>	<u>\$ 1,034,724,716.89</u>
<b>NON CASH TRANSACTIONS</b>				
Net Increase (Decrease) in Fair Value of Investments				\$ 6,414,337.22

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

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Texas Lottery Commission (362)

Exhibit J-1 - Combining Statement of Changes in Assets and Liabilities - Agency Fund:

For the Fiscal Year Ended August 31, 2009

	Beginning Balance September 1, 2008	Additions	Deductions	Ending Balance August 31, 2009
<b>Child Support Employ Deduct (0807) Fund (8070)</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 5,325.91	\$ 269.40	\$ 5,056.51
Total Assets	<u>\$ -</u>	<u>\$ 5,325.91</u>	<u>\$ 269.40</u>	<u>\$ 5,056.51</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	-	5,325.91	269.40	5,056.51
Total Liabilities	<u>\$ -</u>	<u>\$ 5,325.91</u>	<u>\$ 269.40</u>	<u>\$ 5,056.51</u>
<b>Suspense Fund Seized Funds (0900) U/F (0362)</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 24,136.28	\$ 48,272.56	\$ 72,408.84	\$ -
Total Assets	<u>\$ 24,136.28</u>	<u>\$ 48,272.56</u>	<u>\$ 72,408.84</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 24,136.28	\$ 48,272.56	\$ 72,408.84	\$ -
Total Liabilities	<u>\$ 24,136.28</u>	<u>\$ 48,272.56</u>	<u>\$ 72,408.84</u>	<u>\$ -</u>
<b>Suspense Fund (0900) U/F (0900)</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 980.17	\$ 980.17	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 980.17</u>	<u>\$ 980.17</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 980.17	\$ 980.17	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 980.17</u>	<u>\$ 980.17</u>	<u>\$ -</u>
<b>USPS - Overpayments to Employees (0900) U/F (9015)</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 96.07	\$ 96.07	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 96.07</u>	<u>\$ 96.07</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 96.07	\$ 96.07	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 96.07</u>	<u>\$ 96.07</u>	<u>\$ -</u>
<b>Warrant Hold Offset (0900) U/F (9016)</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 31,440.07	\$ 31,440.07	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 31,440.07</u>	<u>\$ 31,440.07</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 31,440.07	\$ 31,440.07	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 31,440.07</u>	<u>\$ 31,440.07</u>	<u>\$ -</u>
<b>Savings Bond Fund (0901) U/F (0901)</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 375.00	\$ 3,825.00	\$ 3,875.00	\$ 325.00
Total Assets	<u>\$ 375.00</u>	<u>\$ 3,825.00</u>	<u>\$ 3,875.00</u>	<u>\$ 325.00</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 375.00	\$ 3,825.00	\$ 3,875.00	\$ 325.00
Total Liabilities	<u>\$ 375.00</u>	<u>\$ 3,825.00</u>	<u>\$ 3,875.00</u>	<u>\$ 325.00</u>

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



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Texas Lottery Commission (362)

Exhibit J-1 - Combining Statement of Changes in Assets and Liabilities - Agency Funds (Continued)

For the Fiscal Year Ended August 31, 2009

	Beginning Balance September 1, 2008	Additions	Deductions	Ending Balance August 31, 2009
<b>Deferred Compensation 401K (0942) U/F (0942)</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 578,857.75	\$ 578,857.75	\$ -
Other Receivables	-	630,273.97	630,273.97	-
Total Assets	<u>\$ -</u>	<u>\$ 1,209,131.72</u>	<u>\$ 1,209,131.72</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 630,273.97	\$ 630,273.97	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 630,273.97</u>	<u>\$ 630,273.97</u>	<u>\$ -</u>
<b>Correction Account - Direct Deposit (0980) U/F (0980)</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 3,304.80	\$ 3,304.80	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 3,304.80</u>	<u>\$ 3,304.80</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 3,304.80	\$ 3,304.80	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 3,304.80</u>	<u>\$ 3,304.80</u>	<u>\$ -</u>
<b>USPS - Direct Deposit Return Money (0980) U/F (9014)</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 8,618.47	\$ 8,618.47	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 8,618.47</u>	<u>\$ 8,618.47</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 8,618.47	\$ 8,618.47	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 8,618.47</u>	<u>\$ 8,618.47</u>	<u>\$ -</u>
<b>Bingo Cash Bonds (0001) Fund (1002)</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 99,504.45	\$ 99,504.45	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 99,504.45</u>	<u>\$ 99,504.45</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	-	99,504.45	99,504.45	-
Total Liabilities	<u>\$ -</u>	<u>\$ 99,504.45</u>	<u>\$ 99,504.45</u>	<u>\$ -</u>
<b>Lottery Retailer Security Fund (1000) Fund (1003)</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ -	\$ -	\$ -
Other Current Assets	\$ -	\$ 950,000.00	\$ -	\$ 950,000.00
Total Assets	<u>\$ -</u>	<u>\$ 950,000.00</u>	<u>\$ -</u>	<u>\$ 950,000.00</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	-	950,000.00	-	950,000.00
Total Liabilities	<u>\$ -</u>	<u>\$ 950,000.00</u>	<u>\$ -</u>	<u>\$ 950,000.00</u>
<b>Totals - All Agency Funds</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 24,511.28	\$ 780,225.25	\$ 799,355.02	\$ 5,381.51
Receivables:				
Other	-	630,273.97	630,273.97	-
Other Current Assets	-	950,000.00	-	950,000.00
Total Assets	<u>\$ 24,511.28</u>	<u>\$ 2,360,499.22</u>	<u>\$ 1,429,628.99</u>	<u>\$ 955,381.51</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	24,511.28	1,781,641.47	850,771.24	955,381.51
Total Liabilities	<u>\$ 24,511.28</u>	<u>\$ 1,781,641.47</u>	<u>\$ 850,771.24</u>	<u>\$ 955,381.51</u>

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

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# Texas Lottery Commission

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## **Addendum**

## UNAUDITED

### Texas Lottery Commission (362)

#### ADDENDUM Organizational and General Comments

##### Functions & Operations

The Texas Lottery Commission has two main functions:

The Texas Lottery Commission is charged under the State Lottery Act with administering Texas Lottery games in an efficient and secure manner using appropriate marketing tools and innovative technology to generate revenue for the State of Texas while enhancing public confidence in the integrity and fairness of the games.

The Charitable Bingo Operations Division is charged under the Bingo Enabling Act with the regulation and administration of all charitable bingo-related activities in the state of Texas and contributes to the regulatory and tax and revenue collection functions of the agency. The Division licenses all bingo-related activities; collects taxes and prize fees generated from the conduct of charitable bingo; audits bingo licensees; conducts tests on bingo products intended for use in Texas, such as bingo paper, pull-tabs and electronic equipment; and makes quarterly allocations to local units of government for their share of the prize fees collected.

##### Organization and Governing Board

The three-member Texas Lottery Commission sets policy, promulgates rules for the agency, and performs all other duties required by law. The Governor appoints Commission members, with the advice and consent of the state Senate, to staggered six-year terms. The officials, their terms of office and hometowns are:

Mary Ann Williamson	October 7, 2008 - February 1, 2015	Weatherford, Texas
David J. Schenck	October 17, 2007 - February 1, 2013	Dallas, Texas
J. Winston Krause	March 27, 2009 - February 1, 2011	Austin, Texas

The Executive Director, the Charitable Bingo Operations Division Director, and the Internal Audit Director are appointed by and report to the three-member Commission. The Texas Lottery Commission Executive Director provides leadership to nine divisions within the agency, ensuring that staff carries out applicable state law and Commission policies. The Charitable Bingo Operations Director is responsible for the day-to-day operations relating to the regulation of charitable bingo, ensuring that the staff carries out applicable state law and Commission policies. The Internal Audit Director works to ensure that internal and external controls are adequate to improve the efficiency and effectiveness the Texas Lottery Commission.

##### Service Responsibilities

The agency serves a number of direct and indirect customers. The primary direct customers of the Texas Lottery Commission include lottery players and licensed retailers, charitable bingo players and licensees, the Texas Lottery Commissioners, and agency staff. Indirect customers are those Texas populations that benefit from the conduct of the *Games of Texas* and charitable bingo, from the agency's net revenue contributions to the state of Texas, and from associated agency activities that serve the public good.

The agency is divided into 11 divisions: Executive, Charitable Bingo Operations, Internal Audit, Administration, Enforcement, Governmental Affairs, Human Resources, Legal Services, Lottery Operations, Media Relations, and Office of the Controller.

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### Texas Lottery Commission (362)

Executive Division— The Executive Division refers to the Executive Director, Deputy Executive Director, Ombudsman, and administrative staff. The division is the focal point for the decision-making and strategic planning related to the day-to-day operation and administration of the Texas Lottery.

Charitable Bingo Operations Division— The Charitable Bingo Operations Division is responsible for the regulation of all activities relating to the conduct of charitable bingo games in the State of Texas. The division is organized into two departments: Audit Services and Taxpayer Services. While each section of the Charitable Bingo Operations Division performs a distinct function, they also interact frequently with each other as well as other divisions of the Texas Lottery Commission in the regulation of charitable bingo activities in Texas. The division is managed by a Director, who reports to the three-member Commission.

Internal Audit Division— The Internal Audit Division serves as an independent appraisal function within the agency. The purpose is to provide independent, objective assurance and consulting/advisory services designed to add value and improve the agency's operations. The division is managed by a Director, who reports to the three-member Commission.

Administration Division—The Administrative Division serves the needs of the commission in the areas of information resources and support services. Information Resources is responsible for managing the agency's network infrastructure, which includes the local- and wide- area networks, telecommunications, the Intranet site and the agency's Web site and supporting a variety of software applications. Support Services is responsible for property and facilities management, purchasing and contracts, publications and graphics, research and records management. In addition, the division coordinates the development, review and adoption of internal policies and procedures. The division is managed by a Director, who reports to the Deputy Executive Director.

Enforcement Division— The Enforcement Division conducts background investigations of Texas Lottery applicants, bingo and lottery licensees, contract vendors, and contract vendor employees. Enforcement Division investigators investigate allegations of administrative and criminal violations of the rules and laws governing bingo and lottery. In order to more effectively conduct their investigations, Enforcement personnel work closely with state and local law enforcement agencies, as well as the Charitable Bingo Operations Division and the Lottery Operations Division. The division is managed by a Director, who reports to the Executive Director.

Governmental Affairs Division— The Governmental Affairs Division serves as the agency's primary liaison with the legislative and executive branches of state government. The division coordinates and implements legislative strategy and initiatives to further enhance the agency's goals. Its actions are designed to assist the Commissioners, the Executive Director, and the Charitable Bingo Operations Director, as well as all divisions of the agency, by providing legislative tracking analysis, representation, recommendations, and information. The Governmental Affairs Division is managed by a Director, who reports to the Executive Director.

Human Resources Division— The Human Resources Division assists the agency in recruiting and hiring the best qualified workforce available. Human Resources also serves the agency by providing and coordinating the compensation, benefit, workforce management and training programs necessary to support its employees and managers. The division is managed by a Director, who reports to the Deputy Executive Director.

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### Texas Lottery Commission (362)

Legal Services Division—The Legal Services Division serves the agency and provides legal advice, assistance and services to the Commissioners, the Executive Director, the Charitable Bingo Operations Director, the Internal Audit Director, and agency staff. The General Counsel Section provides legal services to the agency in connection with transactional matters such as procurements and contracts, processing lottery prize claimants, and rulemaking. The Section's enforcement attorneys also assist the agency in administrative enforcement actions for alleged violations of the State Lottery Act, Charitable Bingo Enabling Act, and administrative rules. The Office of Special Counsel provides personnel and employment law advice to the agency. The division is managed by the General Counsel, who reports directly to the Executive Director and serves as the attorney for the agency, Commissioners, Executive staff, and, when requested, other agency staff.

Lottery Operations Division— The Lottery Operations Division is responsible for player, retailer and vendor compliance with the requirements of Chapter 466 of the Government Code and Chapter 401 of the Texas Administrative Code, as well as game security, drawings and validations and marketing functions. The Division serves the needs of the Commission and its customers in the areas of vendor and licensee compliance; jurisdictional complaint monitoring; instant ticket printing, testing, security, warehousing and distribution; retailer recruitment and development; retailer licensing and accounting; customer service through the operation of a toll-free hotline, a customer service email box on the agency's Web site, and oversight of the agency's correspondence functions; product development and product marketing; lottery drawings; claims processing; retailer surveys and inspections; security of lottery drawings and claim validation processing; promotional events; and the oversight of mass-media advertising. The division is organized into five distinct functional areas: Advertising and Promotions, Drawings and Validations, Retailer Services, Products, and Security. The division is managed by a Director, who reports to the Deputy Executive Director.

Media Relations Division—The Media Relations Division is the first point of contact for all inquiries from local, state and national news media. The Media Relations Director works in conjunction with the Executive Director, Deputy Executive Director, Charitable Bingo Operations Director and Commissioners to develop and execute a media relations strategy that supports the agency's mission and vision. The division is managed by a Director, who reports to the Executive Director.

Office of the Controller— The Office of the Controller provides financial services and reporting functions for the commission in accordance with statutes and requirements. The primary functions include administration of the development, submission, and management of agencies financial statements, financial reports, payroll, accounts payable, sales reports, revenue projections, allocations, fiscal notes, performance measures, annual and biennial budgets, and IRS tax reporting. The division is managed by a Director, who reports to the Deputy Executive Director.

### General Comments

At August 31, 2009, there were 325 employees on the Commission's payroll. A listing of the Commission's administrative and key personnel at August 31, 2009, is presented at the end of this addendum.

Administrative personnel of the Commission are aware of and adhere to the records retention period guidelines prepared by the Records Preservation Advisory Committee and approved by the Texas State Library and Archives Commission.

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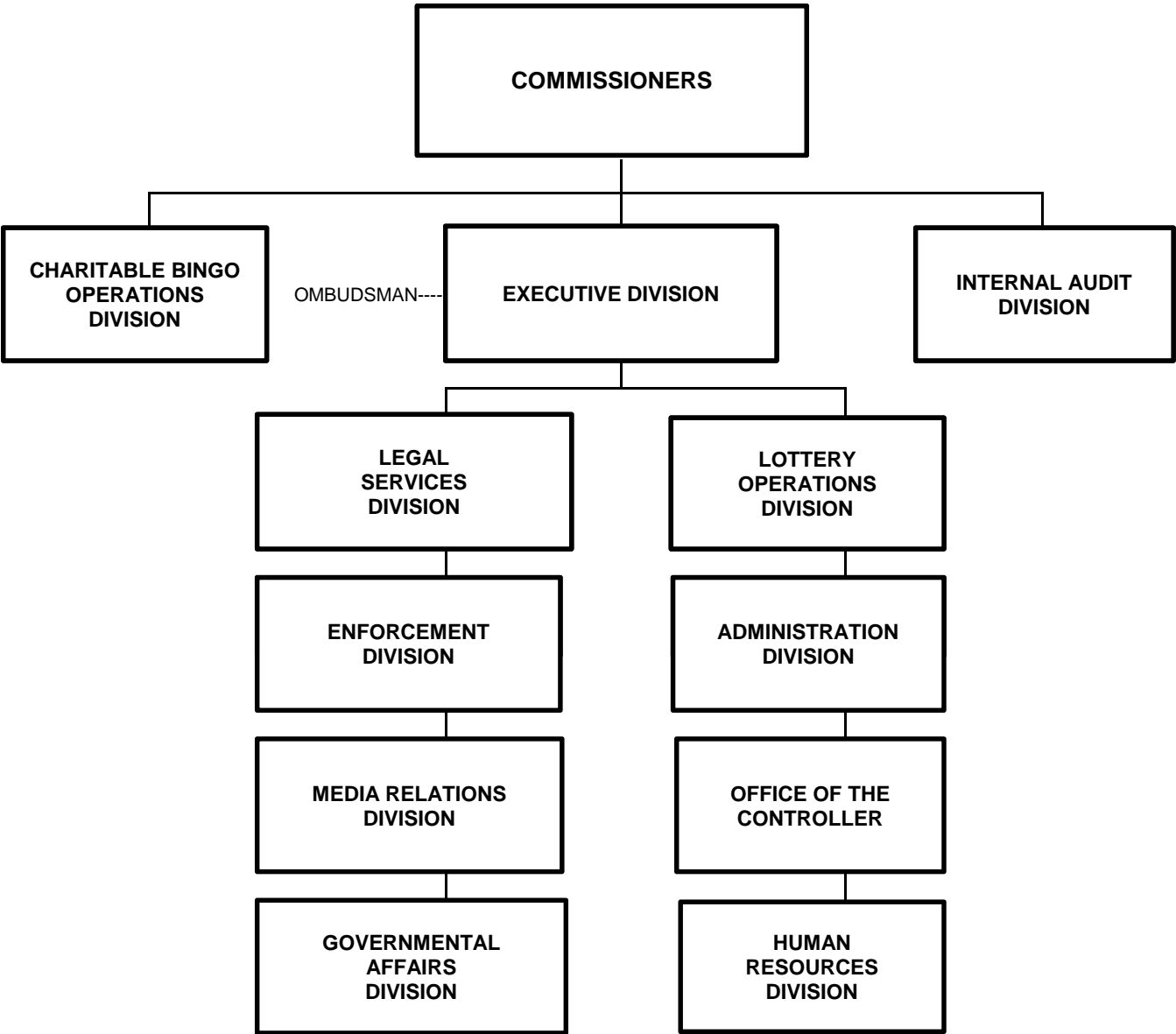
**Texas Lottery Commission (362)**

**SCHEDULE OF ADMINISTRATIVE AND KEY PERSONNEL**

For the Fiscal Year ended August 31, 2009

<b>Division</b>	<b>Director</b>
Executive	
Executive Director	Vacant
Deputy Executive Director	Gary Grief
Charitable Bingo Operations	Phil Sanderson
Internal Audit	Catherine Melvin
Administration	Mike Fernandez
Enforcement	Jim Carney
Governmental Affairs	Nelda Treviño
Human Resources	Janine Mays
Legal Services	Kim Kiplin
Lottery Operations	Michael Anger
Media Relations	Robert Heith
Office of the Controller	Kathy Pyka

ORGANIZATIONAL STRUCTURE









**Texas Lottery Commission**

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