



# 2016



## ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED AUGUST 31, 2016 AND INDEPENDENT AUDITOR'S REPORT



AN AGENCY OF THE  
STATE OF TEXAS

TEXAS LOTTERY COMMISSION

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*Commissioners:*

J. Winston Krause,  
*Chairman*

Carmen Arrieta-Candelaria

Peggy A. Heeg

Doug Lowe

Robert Rivera



# TEXAS LOTTERY COMMISSION

Gary Grief, *Executive Director*

Alfonso D. Royal III, *Charitable Bingo Operations Director*

December 20, 2016

Honorable Greg Abbott, Governor  
Honorable Glenn Hegar, Texas Comptroller  
Ursula Parks, Director, Legislative Budget Board  
Lisa Collier, First Assistant State Auditor

Ladies and Gentlemen:

We are pleased to submit the annual financial report of the Texas Lottery Commission for the year ended August 31, 2016, in compliance with Texas Government Code Annotated, Section 2101.011, and in accordance with the requirements established by the Texas Comptroller of Public Accounts.

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

If you have any questions, please contact Kathy Pyka, Controller, at (512) 344-5410.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary Grief", is written over the word "Sincerely,".

Gary Grief  
Executive Director



# TEXAS LOTTERY COMMISSION

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## FINANCIAL SECTION



## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the  
Texas Lottery Commission

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Lottery Commission (the Commission), an agency of the State of Texas, as of and for the year ended August 31, 2016, and the related notes to the basic financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Commissioners of the  
Texas Lottery Commission

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### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Commission, as of August 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and schedule of employer contributions on pages 7-15 and 65-69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The letter of transmittal and combining financial statement are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statement is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally

To the Board of Commissioners of the  
Texas Lottery Commission

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accepted in the United States of America. In our opinion, the combining financial statement is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The letter of transmittal has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Austin, Texas  
December 16, 2016

**Texas Lottery Commission**  
**Management's Discussion and Analysis**  
**For the Year Ended August 31, 2016**  
(Unaudited)

This section of the Texas Lottery Commission's (Commission) annual financial report presents a comparative discussion and analysis of the Commission's financial performance for the fiscal year ended August 31, 2016, with summarized comparative totals for the fiscal year ended August 31, 2015. This analysis is to be considered in conjunction with the transmittal letter at the front of this report and the Commission's basic financial statements to provide an objective analysis of the Commission's financial activities based on facts, decisions, and conditions currently facing management.

*Financial Highlights*

**Government-wide:**

- The assets and deferred outflows of resources of the Commission exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2016 by \$31.0 million (reported as *net position*), an increase of \$22.7 million from the previous fiscal year.

**Fund Level:**

- As of the close of fiscal year 2016, the Commission's governmental funds reported unassigned fund balance of \$0.6 million. This amount in fund balance reflects no significant change from fiscal year 2015.
- The proprietary funds reported net position at fiscal year-end 2016 of \$34.3 million, an increase of \$22.9 million during the year.

More detailed information regarding these activities and funds begins on page 22.

*Understanding the Commission's Financial Statements*

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

**Government-wide Statements (Reporting the Commission as a whole)**

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

The Statement of Net Position on page 18 presents all of the Commission's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as "net position". Over time, increases and decreases in net position measures whether the Commission's financial position is improving or deteriorating.

The Statement of Activities on page 20 presents information showing how the Commission's net position changed during fiscal year 2016. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in changes in cash flows in future fiscal periods (e.g. earned but unused compensatory leave).

Both statements report two activities:

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

This report includes two schedules (pages 23 and 25) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the appropriate government-wide statements. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

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

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 37 of this report.

### **Fund Financial Statements (Reporting the Commission's Major Funds)**

Because the Commission operates with few funds, management determined that, for fair presentation, all funds except for the fiduciary funds would be considered major. The fund financial statements begin on page 22 and provide detailed information about all the individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Commission uses to keep track of specific sources of funding and spending for a particular purpose. The Commission's funds are divided into three categories: governmental, proprietary, and fiduciary, and use different accounting methods.

- *Governmental funds* – The Commission's Charitable Bingo Operations Division and its services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the Commission's Charitable Bingo Operations Division operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Charitable Bingo programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund and the General Fund Consolidated Account.

- *Proprietary funds* – Proprietary funds utilize accrual accounting - the same method used by private sector businesses. There are two types of proprietary funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the government’s other programs and activities. The Commission records all transactions related to the operation of the State Lottery and its investment activities in Enterprise Funds.
- *Fiduciary funds* – The Commission acts as a trustee or fiduciary for its Direct Deposit Correction Account and Suspense Fund. The Commission's fiduciary activities are reported in the Statement of Fiduciary Assets and Liabilities – Fiduciary Funds and Combining Statement of Changes in Assets and Liabilities – Agency Funds beginning on page 33, and 73 and 75, respectively. These funds, which include agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the Commission to finance its operations.

### *Additional Required Supplementary Information*

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

### **Financial Analysis of the Government as a Whole**

#### *Statement of Net Position* (in millions)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>						
Current and Other Non-current Assets	\$ 0.82	\$ 1.17	\$ 920.98	\$ 987.52	\$ 921.80	\$ 988.69
Capital Assets	1.03	1.30	0.43	0.52	1.46	1.82
<b>Total Assets</b>	<b>1.85</b>	<b>2.47</b>	<b>921.41</b>	<b>988.04</b>	<b>923.26</b>	<b>990.51</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>0.67</b>	<b>0.44</b>	<b>5.61</b>	<b>3.53</b>	<b>6.28</b>	<b>3.97</b>
<b>LIABILITIES</b>						
Long-term Liabilities	4.59	4.81	559.55	601.27	564.14	606.08
Other Liabilities	0.40	0.72	325.93	375.35	326.33	376.07
<b>Total Liabilities</b>	<b>4.99</b>	<b>5.53</b>	<b>885.48</b>	<b>976.62</b>	<b>890.47</b>	<b>982.15</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>0.85</b>	<b>0.44</b>	<b>7.21</b>	<b>3.54</b>	<b>8.06</b>	<b>3.98</b>
<b>NET POSITION</b>						
Invested in Capital Assets	1.03	1.30	0.43	0.52	1.46	1.82
Restricted	-	-	5.00	5.00	5.00	5.00
Unrestricted	(4.35)	(4.36)	28.90	5.89	24.55	1.53
<b>Total Net Position</b>	<b>\$ (3.32)</b>	<b>\$ (3.06)</b>	<b>\$ 34.33</b>	<b>\$ 11.41</b>	<b>\$ 31.01</b>	<b>\$ 8.35</b>

Unrestricted net position is reflected at \$24.6 million, which may be used at the Commission’s discretion, but often have limitations on use based on State statutes. Restricted net position comprising \$5.0 million represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion represents the amount invested in capital assets. The Commission uses these capital assets to provide services; consequently, these assets are *not* available for future spending.

The majority of the Commission’s assets consist of cash, cash equivalents and investments used to fund future installment payments. At August 31, 2016, the Commission’s assets included \$214.3 million in cash and cash equivalents as compared with \$219.0 million at August 31, 2015. The Commission’s short

and long-term investments approximated \$672.5 and \$712.5 million, respectively, at August 31, 2016 and 2015.

The Commission's liabilities included at the balance sheet date are amounts owed to the State's lottery beneficiaries for August accrued sales for fiscal year 2016, vendor payables, and prize payment obligations. The amount due to the Foundation School Fund was approximately \$118.8 million at August 31, 2016, as compared with \$125.9 million at August 31, 2015.

The amount due to the Texas Veterans Commission was approximately \$2.7 million at August 31, 2016 compared to \$1.7 million at August 31, 2015. Prize obligations, made up largely of scratch ticket installment payments, were \$695.6 million and \$775.9 million at August 31, 2016 and 2015, respectively. Vendor payables were \$27.7 million at August 31, 2016, as compared to \$31.1 million at August 31, 2015. Other payable balances totaled \$126.9 million and \$132.5 million, at August 31, 2016 and 2015, respectively.

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

***Statement of Activities and Changes in Net Position*** (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program Revenue						
Governmental Activities						
General Revenue	\$ 3.50	\$ 4.65	\$ -	\$ -	\$ 3.50	\$ 4.65
Other Income						
Bingo Prize Fee Collections and Accounting	13.87	13.75	-	-	13.87	13.75
Bingo Licensing	-	0.02	-	-	-	0.02
Bingo Law Compliance Field Operations	-	-	-	-	-	-
Bingo Education and Development	-	-	-	-	-	-
Business-type Activities						
Lottery Operations	-	-	5,068.21	4,530.47	5,068.21	4,530.47
Other Income						
Central Administration	-	-	0.42	0.44	0.42	0.44
Lottery Prize Investments	-	-	11.96	(3.69)	11.96	(3.69)
Total Revenue	<u>17.37</u>	<u>18.42</u>	<u>5,080.59</u>	<u>4,527.22</u>	<u>5,097.96</u>	<u>4,545.64</u>
Program Expense:						
Governmental Activities						
Bingo Prize Fee Collections and Accounting	(14.17)	(14.04)	-	-	(14.17)	(14.04)
Bingo Licensing	(1.37)	(1.44)	-	-	(1.37)	(1.44)
Bingo Law Compliance Field Operations	(1.88)	(2.37)	-	-	(1.88)	(2.37)
Bingo Education and Development	(0.21)	(0.10)	-	-	(0.21)	(0.10)
Business-type Activities						
Lottery Operations	-	-	(3,637.32)	(3,270.74)	(3,637.32)	(3,270.74)
Marketing, Research, and Promotions	-	-	(5.27)	(4.67)	(5.27)	(4.67)
Central Administration	-	-	(20.93)	(20.98)	(20.93)	(20.98)
Enforcement	-	-	(1.85)	(1.79)	(1.85)	(1.79)
Intergovernmental	-	-	(1,392.31)	(1,242.70)	(1,392.31)	(1,242.70)
Lottery Prize Investments	-	-	-	-	-	-
Total Expense	<u>(17.63)</u>	<u>(17.94)</u>	<u>(5,057.68)</u>	<u>(4,540.88)</u>	<u>(5,075.31)</u>	<u>(4,558.82)</u>
Change in Net Position	(0.26)	0.48	22.91	(13.66)	22.65	(13.18)
Beginning Net Position	<u>(3.06)</u>	<u>0.91</u>	<u>11.42</u>	<u>61.06</u>	<u>8.36</u>	<u>61.97</u>
Restatements	-	(4.45)	-	(35.98)	-	(40.43)
Ending Net Position	<u>\$ (3.32)</u>	<u>\$ (3.06)</u>	<u>\$ 34.33</u>	<u>\$ 11.42</u>	<u>\$ 31.01</u>	<u>\$ 8.36</u>

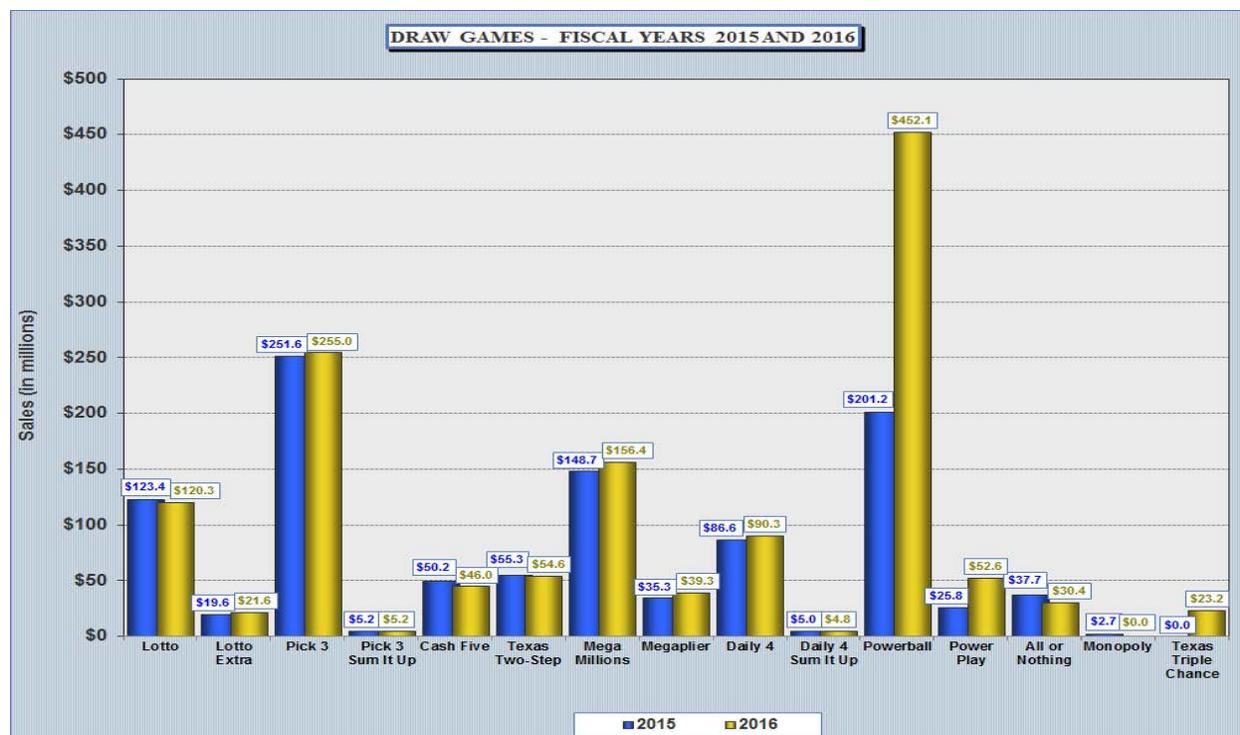
## Sales

Lottery sales consist of draw and scratch ticket lottery games. The first category is draw games, which included *Lotto Texas* with *Lotto Extra*, *Pick 3* with *Sum It Up*, *Daily 4* with *Sum It Up*, *Cash Five*, *Texas Two Step*, *Mega Millions* with *Megaplier*, *Powerball* with *Power Play*, *All or Nothing* and *Texas Triple Chance* at August 31, 2016. In total, draw games sales increased by \$303.4 million from the prior year's sales total. *Texas Triple Chance*, a new draw game was introduced on September 27, 2015.

The majority of the increase in draw games sales is attributable to *Powerball* and *Power Play*, which experienced an increase of \$277.7 million as compared to fiscal year 2015 sales following the record setting \$1.5 billion jackpot in January 2016. Sales for *Powerball* for the fiscal year ended August 31, 2016 totaled \$452.1 million and sales for *Power Play* totaled \$52.6 million. *Mega Millions* and *Megaplier* sales for the fiscal year ended August 31, 2016 increased by \$11.8 million, an increase of 6.4% compared to fiscal year 2015 sales. Other draw games with an increase in sales as compared to fiscal year 2015 as well, include *Lotto Extra*, *Pick 3*, *Daily 4*, and *Triple Chance*.

Other draw games experienced a decrease in sales as compared to fiscal year 2015 sales. *Lotto Texas* sales for the fiscal year ended August 31, 2016 decreased from fiscal year 2015 by \$3.1 million, or 2.5%. *Cash Five* sales for the fiscal year ended August 31, 2016 decreased from fiscal year 2015 by \$4.2 million, or 8.4%. *Texas Two Step* sales for the fiscal year ended August 31, 2016 decreased from fiscal year 2015 by \$0.7 million, or 1.3%. *Daily 4 Sum It Up* sales for the fiscal year ended August 31, 2016 decreased from fiscal year 2015 by \$0.1 million, or 2.5%. *All or Nothing* sales for the fiscal year ended August 31, 2016 decreased from fiscal year 2015 by \$7.4 million, or 19.6%.

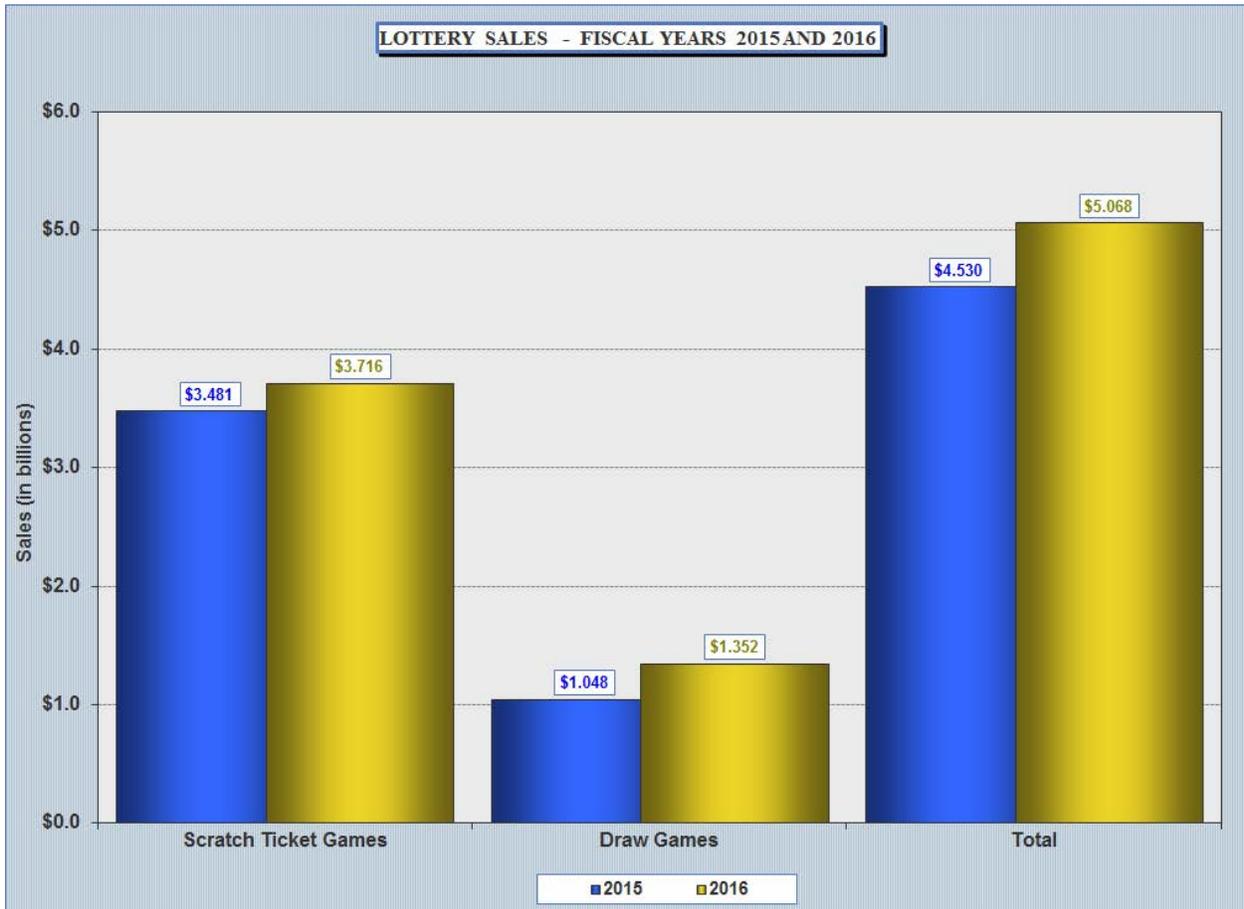
The following graph depicts the Commission's draw sales for the fiscal years ended August 31, 2016 and 2015.



Source: Texas Lottery Commission

Scratch tickets are the other category of Lottery games offered to the public. Scratch ticket sales for the fiscal year ended August 31, 2016 increased by \$234.4 million or 6.7% over the preceding fiscal year's sales. These sales represent the highest level of scratch ticket sales in the Commissions' history.

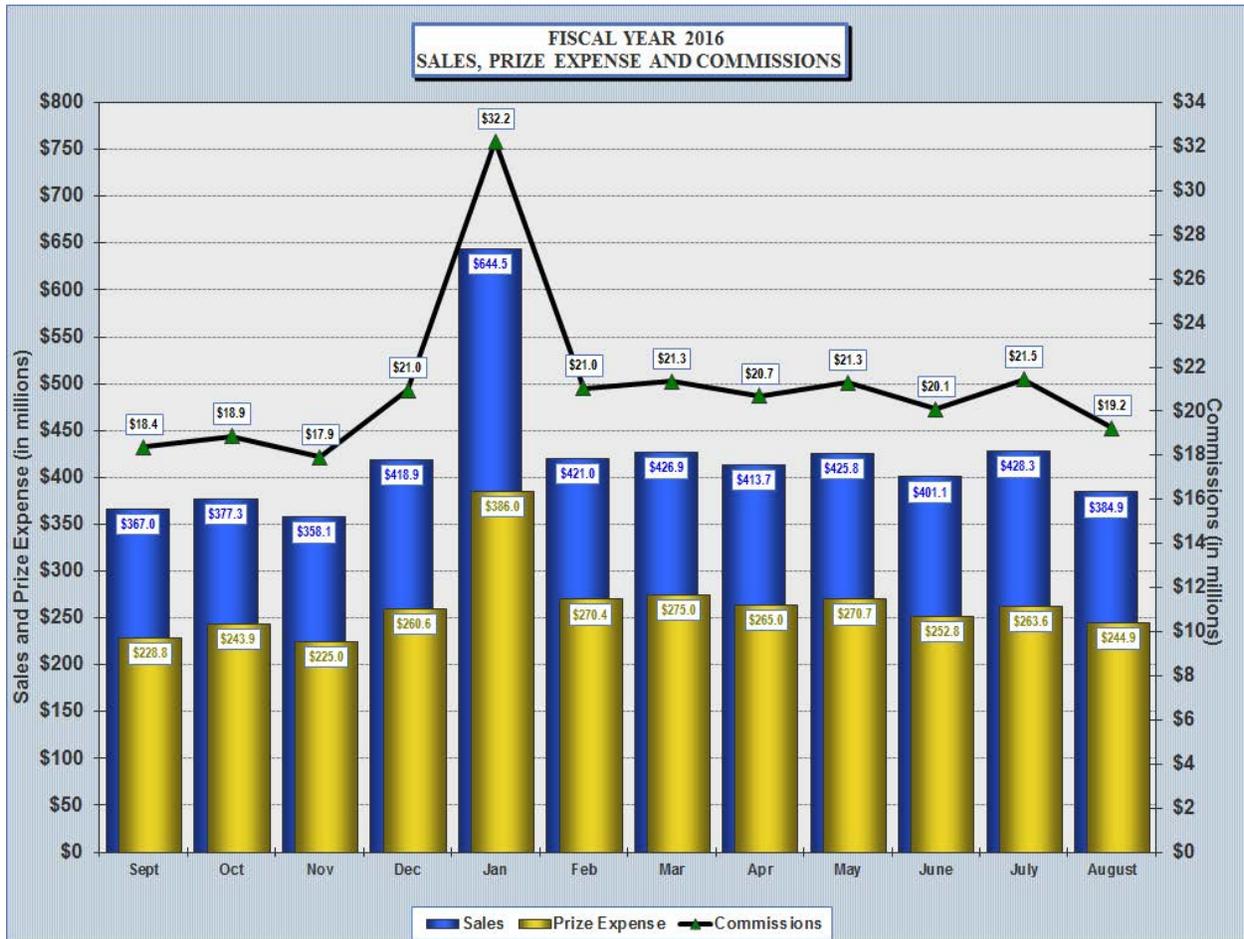
The following graph depicts the Commission's draw, scratch and total lottery sales for the fiscal year ended August 31, 2016 in comparison to the fiscal year ended August 31, 2015.



Source: Texas Lottery Commission

## Commissions and Prize Awards Expense

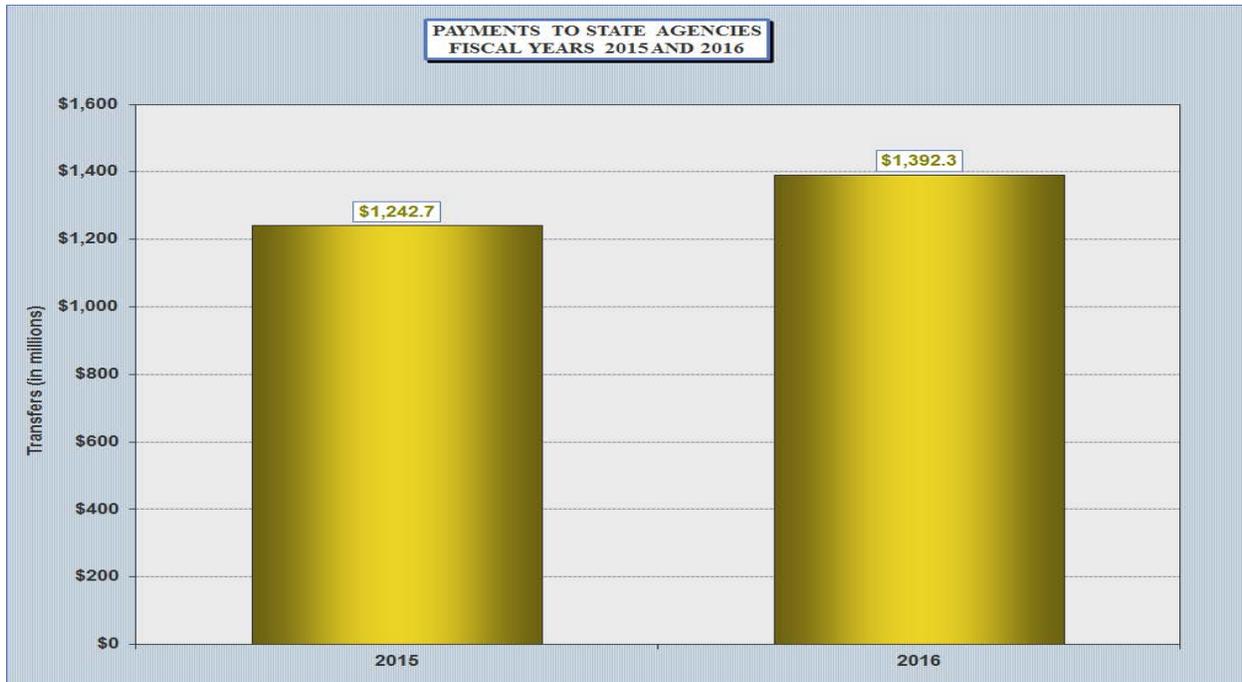
As the following graph depicts, the Commission's most significant expenses (commissions and prize expense) are predictable because they have a direct correlation to sales. As lottery sales increase, so do the related prizes and commissions paid by the Commission. While each lottery game has a predetermined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



Source: Texas Lottery Commission

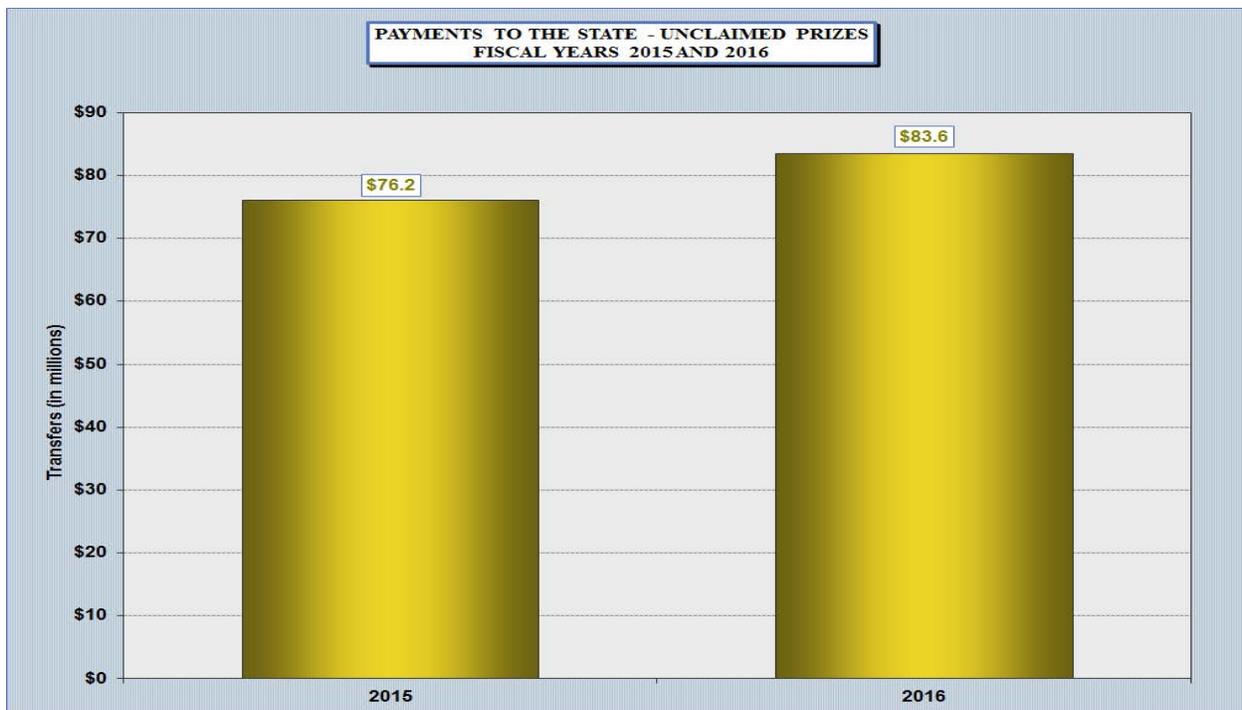
## Payments to the State

The Commission recorded its highest level of total sales in its 20-plus year history during the current fiscal year. Lottery sales for the fiscal year ended August 31, 2016 totaled \$5,067.5 million, an increase of 11.9% over the previous year's total of \$4,529.7 million. Payments to state agencies for the period totaled \$1,392.3 million, as compared to \$1,242.7 million for the fiscal year ended August 31, 2015, representing a 12.0% increase, the highest level of revenue transfers in the Commission's history.



Source: Texas Lottery Commission

During fiscal years 2016 and 2015, the Commission transferred unclaimed lottery prize winnings totaling \$83.6 million and \$76.2 million, respectively. This represents an increase of \$7.3 million or 9.6% as compared to prior year.



Source: Texas Lottery Commission

### General Fund Budgetary Highlights

During the year there were no significant changes between the “Original” and “Final” budgets as approved by the Commission.

### Capital Assets

As of August 31, 2016, the Commission had \$1.46 million in net capital assets, of which \$0.41 million was furniture and equipment. This represents a decrease of 19.8% in net capital assets from fiscal year 2015. The Commission’s capital assets include furniture and equipment, vehicles, and computer software. The details of capital assets are shown in Note 2.

### Contacting the Commission’s Financial Management

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

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# TEXAS LOTTERY COMMISSION

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## BASIC FINANCIAL STATEMENTS

**Texas Lottery Commission**  
**Government-wide Statement of Net Position**  
**August 31, 2016**  
**With Summarized Comparative Totals for August 31, 2015**

	<b>Primary Government</b>			<b>Total 2015</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total 2016</b>	
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents:				
Cash in Bank	\$ -	\$ 7,500.00	\$ 7,500.00	\$ 7,500.00
Cash in State Treasury	-	214,246,881.20	214,246,881.20	218,998,399.89
Restricted:				
Short Term Investments	-	80,417,928.24	80,417,928.24	92,865,787.35
Legislative Appropriations	820,859.35	-	820,859.35	1,161,384.57
Receivables from:				
Accounts	-	18,792,810.37	18,792,810.37	41,567,679.47
Other	-	130,729.00	130,729.00	751,078.34
Interfund Receivable		25.00	25.00	-
Consumable Inventories	-	1,698,449.51	1,698,449.51	1,320,808.69
Merchandise Inventories	-	12,806,275.56	12,806,275.56	11,443,235.08
Prepaid Items	-	788,979.76	788,979.76	986,224.70
<b>Total Current Assets</b>	<b>820,859.35</b>	<b>328,889,578.64</b>	<b>329,710,437.99</b>	<b>369,102,098.09</b>
Non-Current Assets:				
Restricted:				
Investments	-	592,086,607.24	592,086,607.24	619,593,494.48
Capital Assets:				
Depreciable:				
Furniture and Equipment	50,458.37	5,968,603.93	6,019,062.30	5,872,753.94
Less Accumulated Depreciation	(50,458.37)	(5,556,665.49)	(5,607,123.86)	(5,371,622.44)
Vehicles, Boats, and Aircraft	-	48,176.20	48,176.20	48,176.20
Less Accumulated Depreciation	-	(27,879.87)	(27,879.87)	(19,740.99)
Computer Software	1,313,072.30	69,837.23	1,382,909.53	1,382,909.53
Less Accumulated Amortization	(284,498.89)	(69,837.23)	(354,336.12)	(91,721.76)
<b>Total Non-Current Assets</b>	<b>1,028,573.41</b>	<b>592,518,842.01</b>	<b>593,547,415.42</b>	<b>621,414,248.96</b>
<b>Total Assets</b>	<b>1,849,432.76</b>	<b>921,408,420.65</b>	<b>923,257,853.41</b>	<b>990,516,347.05</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Outflows of Resources	668,059.04	5,615,897.28	6,283,956.32	3,966,341.68
<b>Total Deferred Outflows of Resources</b>	<b>668,059.04</b>	<b>5,615,897.28</b>	<b>6,283,956.32</b>	<b>3,966,341.68</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Payables from:				
Accounts	28,295.24	16,003,091.78	16,031,387.02	21,098,586.92
Vouchers	9,111.48	10,454,633.77	10,463,745.25	9,053,772.66
Payroll	223,755.40	2,152,948.45	2,376,703.85	2,197,880.73
Annuities	-	7,887,766.00	7,887,766.00	9,482,726.00
Other	-	1,248,560.35	1,248,560.35	931,896.52
Interfund Payable	25.00	-	25.00	-
Due to Other Agencies	-	121,542,330.45	121,542,330.45	127,576,150.78
Employees' Compensable Leave	138,432.19	1,450,211.23	1,588,643.42	1,524,412.47
Payable From Restricted Assets	-	165,193,244.79	165,193,244.79	204,206,693.29
<b>Total Current Liabilities</b>	<b>399,619.31</b>	<b>325,932,786.82</b>	<b>326,332,406.13</b>	<b>376,072,119.37</b>
Non-Current Liabilities:				
Employees' Compensable Leave	138,633.20	1,222,395.70	1,361,028.90	1,226,687.95
Net Pension Liability	4,453,567.50	35,818,877.04	40,272,444.54	42,632,304.87
Payable From Restricted Assets	-	522,504,266.90	522,504,266.90	562,223,675.80
<b>Total Non-Current Liabilities</b>	<b>4,592,200.70</b>	<b>559,545,539.64</b>	<b>564,137,740.34</b>	<b>606,082,668.62</b>
<b>Total Liabilities</b>	<b>4,991,820.01</b>	<b>885,478,326.46</b>	<b>890,470,146.47</b>	<b>982,154,787.99</b>

**Texas Lottery Commission**  
**Government-wide Statement of Net Position**  
**August 31, 2016**  
**With Summarized Comparative Totals for August 31, 2015**

	<b>Primary Government</b>			<b>Total 2015</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total 2016</b>	
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Inflows of Resources	\$ 845,706.82	\$ 7,214,028.79	\$ 8,059,735.61	\$ 3,973,325.20
<b>Total Deferred Inflows of Resources</b>	<u>845,706.82</u>	<u>7,214,028.79</u>	<u>8,059,735.61</u>	<u>3,973,325.20</u>
<b>NET POSITION</b>				
Invested in Capital Assets	1,028,573.41	432,234.77	1,460,808.18	1,820,754.48
Expendable Restricted for:				
Pooled Bond Fund	-	5,000,000.00	5,000,000.00	5,000,000.00
Unrestricted	(4,348,608.44)	28,899,727.91	24,551,119.47	1,533,821.06
<b>Total Net Position</b>	<u>\$ (3,320,035.03)</u>	<u>\$ 34,331,962.68</u>	<u>\$ 31,011,927.65</u>	<u>\$ 8,354,575.54</u>

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

**Texas Lottery Commission**  
**Government-wide Statement of Activities**  
**For the Fiscal Year Ended August 31, 2016**  
**With Summarized Comparative Totals for the Year Ended August 31, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Primary government:</b>			
Governmental Activities:			
Bingo Prize Fee Collections and Accounting	\$ 14,177,531.81	\$ 13,872,875.14	\$ -
Bingo Licensing	1,372,005.46	-	-
Bingo Law Compliance Field Operations	1,878,165.08	432.21	-
Bingo Education and Development	210,524.18	996.67	-
Total Governmental Activities	<u>17,638,226.53</u>	<u>13,874,304.02</u>	<u>-</u>
Business-type Activities:			
Lottery Operations	3,637,318,966.83	5,068,214,669.72	-
Marketing, Research, and Promotion	5,267,606.30	288.99	-
Central Administration	20,934,136.37	425,417.34	-
Enforcement	1,854,783.29	45.09	-
Intergovernmental	1,392,305,848.65	-	-
Lottery Prize Investments	-	11,957,511.36	-
Total Business-type Activities	<u>5,057,681,341.44</u>	<u>5,080,597,932.50</u>	<u>-</u>
Total Primary Government	<u>\$ 5,075,319,567.97</u>	<u>\$ 5,094,472,236.52</u>	<u>\$ -</u>

General Revenues - Detailed  
Legislative Appropriations

Change in Net Position

Net Position, Beginning of Year

Restatement (Note 15)  
Net Position, Beginning of Year, as Restated

Net Position, End of Year

**Net (Expense) Revenue and Changes in Net Assets**

**Primary Government**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total 2016</b>	<b>Total 2015</b>
\$ (304,656.67)	\$ -	\$ (304,656.67)	\$ (288,804.29)
(1,372,005.46)	-	(1,372,005.46)	(1,418,459.80)
(1,877,732.87)	-	(1,877,732.87)	(2,367,328.11)
(209,527.51)	-	(209,527.51)	(99,572.44)
<u>(3,763,922.51)</u>	<u>-</u>	<u>(3,763,922.51)</u>	<u>(4,174,164.64)</u>
-	1,430,895,702.89	1,430,895,702.89	1,259,732,536.48
-	(5,267,317.31)	(5,267,317.31)	(4,670,599.36)
-	(20,508,719.03)	(20,508,719.03)	(20,538,183.22)
-	(1,854,738.20)	(1,854,738.20)	(1,793,509.55)
-	(1,392,305,848.65)	(1,392,305,848.65)	(1,242,701,622.93)
-	11,957,511.36	11,957,511.36	(3,692,571.95)
-	<u>22,916,591.06</u>	<u>22,916,591.06</u>	<u>(13,663,950.53)</u>
<u>\$ (3,763,922.51)</u>	<u>\$ 22,916,591.06</u>	<u>\$ 19,152,668.55</u>	<u>\$ (17,838,115.17)</u>
\$ 3,504,683.56	\$ -	\$ 3,504,683.56	\$ 4,647,893.97
(259,238.95)	22,916,591.06	22,657,352.11	(13,190,221.20)
<u>(3,060,796.08)</u>	<u>11,415,371.62</u>	<u>8,354,575.54</u>	<u>61,975,101.09</u>
-	-	-	(40,430,304.35)
<u>(3,060,796.08)</u>	<u>11,415,371.62</u>	<u>8,354,575.54</u>	<u>21,544,796.74</u>
<u>\$ (3,320,035.03)</u>	<u>\$ 34,331,962.68</u>	<u>\$ 31,011,927.65</u>	<u>\$ 8,354,575.54</u>

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

**Texas Lottery Commission**  
**Balance Sheet – Governmental Fund**  
**August 31, 2016**  
**With Summarized Comparative Totals for August 31, 2015**

	<b>General Fund</b>	<b>Total Governmental Fund</b>	
		<b>2016</b>	<b>2015</b>
<b>ASSETS</b>			
Current Assets:			
Legislative Appropriations	\$ 820,859.35	\$ 820,859.35	\$ 1,161,384.57
Receivables From:			
Accounts Receivable	-	-	13,669.19
Total Current Assets	820,859.35	820,859.35	1,175,053.76
Total Assets	\$ 820,859.35	\$ 820,859.35	\$ 1,175,053.76
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Current Liabilities:			
Payables From:			
Accounts	\$ 28,295.24	\$ 28,295.24	\$ 368,260.26
Vouchers	9,111.48	9,111.48	-
Payroll	223,755.40	223,755.40	219,048.83
Interfund Payables	25.00	25.00	-
Total Current Liabilities	261,187.12	261,187.12	587,309.09
Total Liabilities	261,187.12	261,187.12	587,309.09
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>			
Fund Balances:			
Unassigned	559,672.23	559,672.23	587,744.67
Total Fund Balances	559,672.23	559,672.23	587,744.67
Total Liabilities and Fund Balances	\$ 820,859.35	\$ 820,859.35	\$ 1,175,053.76

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

**Texas Lottery Commission**  
**Reconciliation of Total Governmental Fund Balance**  
**to Net Position of Governmental Activities**  
**August 31, 2016**

**Total Governmental Fund Balance** \$ 559,672.23

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

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

Furniture and equipment	50,458.37	
Accumulated depreciation	(50,458.37)	
Computer Software	1,313,072.30	
Accumulated amortization	<u>(284,498.89)</u>	
Total capital assets		1,028,573.41

Some liabilities are not due and payable in the current period and therefore are not reported in the fund.

Those liabilities consist of:

Employee compensable leave	(277,065.39)	
Net Pension Liability	<u>(4,453,567.50)</u>	
Total long-term liabilities		<u>(4,730,632.89)</u>

Amounts reported as deferred outflows and inflows of resources related to pensions are not reported in the fund.

These deferred amounts consist of:

Deferred outflows of resources	668,059.04	
Deferred inflows of resources	<u>(845,706.82)</u>	
Total pension amounts		<u>(177,647.78)</u>

**Net Position of Governmental Activities** \$ (3,320,035.03)

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

**Texas Lottery Commission**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance – Governmental Fund**  
**for the Fiscal Year Ended August 31, 2016**  
**With Summarized Comparative Totals for the Year Ended August 31, 2015**

	<u>General Fund</u>	<u>Total Governmental Fund</u>	
		<u>2016</u>	<u>2015</u>
<b>REVENUES</b>			
Legislative Appropriations:			
Original Appropriations	\$ 2,772,945.00	\$ 2,772,945.00	\$ 3,983,744.00
Additional Appropriations	731,738.56	731,738.56	664,149.97
Licenses, Fees and Permits	13,873,871.81	13,873,871.81	13,747,452.27
Other	432.21	432.21	21,888.99
Total Revenues	<u>17,378,987.58</u>	<u>17,378,987.58</u>	<u>18,417,235.23</u>
<b>EXPENDITURES</b>			
Current:			
Salaries and Wages	1,998,399.92	1,998,399.92	2,085,273.14
Payroll Related Costs	707,162.57	707,162.57	656,619.03
Professional Fees and Services	281,077.00	281,077.00	526,521.80
Travel	30,791.54	30,791.54	31,402.42
Materials and Supplies	21,541.62	21,541.62	25,487.60
Communication and Utilities	896.62	896.62	431.29
Repairs and Maintenance	3,283.54	3,283.54	9,263.00
Rentals and Leases	15,214.00	15,214.00	15,856.00
Other Expenditures	16,867.20	16,867.20	9,347.83
Appropriations Lapsed	510,516.61	510,516.61	558,245.56
Intergovernmental Payments	13,821,309.40	13,821,309.40	13,761,633.95
Capital Outlay	-	-	753,800.76
Total Expenditures	<u>17,407,060.02</u>	<u>17,407,060.02</u>	<u>18,433,882.38</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(28,072.44)</u>	<u>(28,072.44)</u>	<u>(16,647.15)</u>
<b>FUND FINANCIAL STATEMENT-FUND BALANCE</b>			
Fund Balance, Beginning of Year	<u>587,744.67</u>	<u>587,744.67</u>	<u>604,391.82</u>
Fund Balance, End of Year	<u>\$ 559,672.23</u>	<u>\$ 559,672.23</u>	<u>\$ 587,744.67</u>

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

**Texas Lottery Commission**  
**Reconciliation of Changes in Fund Balance of Governmental Fund**  
**to Changes in Net Position of Governmental Activities**  
**for the Fiscal Year Ended August 31, 2016**

**Net Change in Fund Balance Total - Governmental Fund** \$ (28,072.44)

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

Capital outlays are reported as expenditures in governmental funds.

However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital outlay	-		
Depreciation expense	(270,763.55)		
Excess of capital outlay over depreciation expense			(270,763.55)

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

Change in pension liability and related deferred inflows and outflows	59,106.45		
Change in compensable leave	(19,509.41)		
Total long-term liabilities			39,597.04

**Change in Net Position of Governmental Activities** \$ (259,238.95)

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

**Texas Lottery Commission**  
**Statement of Net Position - Proprietary Fund**  
**August 31, 2016**  
**With Summarized Comparative Totals for August 31, 2015**

	<b>Enterprise</b>		
	<b>Lottery Fund</b>	<b>Total Proprietary Fund</b>	
		<b>2016</b>	<b>2015</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents:			
Cash in Bank	\$ 7,500.00	\$ 7,500.00	\$ 7,500.00
Cash in State Treasury	214,246,881.20	214,246,881.20	218,998,399.89
Restricted:			
Short Term Investments	80,417,928.24	80,417,928.24	92,865,787.35
Receivables from:			
Accounts	18,792,810.37	18,792,810.37	41,554,010.28
Other	130,729.00	130,729.00	751,078.34
Interfund Receivable	25.00	25.00	-
Consumable Inventories	1,698,449.51	1,698,449.51	1,320,808.69
Merchandise Inventories	12,806,275.56	12,806,275.56	11,443,235.08
Prepaid Items	788,979.76	788,979.76	986,224.70
<b>Total Current Assets</b>	<b>328,889,578.64</b>	<b>328,889,578.64</b>	<b>367,927,044.33</b>
Non-Current Assets:			
Restricted:			
Investments	592,086,607.24	592,086,607.24	619,593,494.48
Capital Assets:			
Depreciable:			
Furniture and Equipment	5,968,603.93	5,968,603.93	5,822,295.57
Less Accumulated Depreciation	(5,556,665.49)	(5,556,665.49)	(5,329,313.26)
Vehicles, Boats, and Aircraft	48,176.20	48,176.20	48,176.20
Less Accumulated Depreciation	(27,879.87)	(27,879.87)	(19,740.99)
Computer Software	69,837.23	69,837.23	69,837.23
Less Accumulated Amortization	(69,837.23)	(69,837.23)	(69,837.23)
<b>Total Non-Current Assets</b>	<b>592,518,842.01</b>	<b>592,518,842.01</b>	<b>620,114,912.00</b>
<b>Total Assets</b>	<b>921,408,420.65</b>	<b>921,408,420.65</b>	<b>988,041,956.33</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows of Resources	5,615,897.28	5,615,897.28	3,530,044.10
<b>Total Deferred Outflows of Resources</b>	<b>5,615,897.28</b>	<b>5,615,897.28</b>	<b>3,530,044.10</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Payables from:			
Accounts	16,003,091.78	16,003,091.78	20,730,326.66
Vouchers	10,454,633.77	10,454,633.77	9,053,772.66
Payroll	2,152,948.45	2,152,948.45	1,978,831.90
Annuities	7,887,766.00	7,887,766.00	9,482,726.00
Other	1,248,560.35	1,248,560.35	931,896.52
Due to Other Agencies	121,542,330.45	121,542,330.45	127,576,150.78
Employees' Compensable Leave	1,450,211.23	1,450,211.23	1,391,116.78
Payable from Restricted Assets	165,193,244.79	165,193,244.79	204,206,693.29
<b>Total Current Liabilities</b>	<b>325,932,786.82</b>	<b>325,932,786.82</b>	<b>375,351,514.59</b>
Non-Current Liabilities:			
Employees' Compensable Leave	1,222,395.70	1,222,395.70	1,102,427.66
Net Pension Liability	35,818,877.04	35,818,877.04	37,942,751.33
Payable from Restricted Assets	522,504,266.90	522,504,266.90	562,223,675.80
<b>Total Non-Current Liabilities</b>	<b>559,545,539.64</b>	<b>559,545,539.64</b>	<b>601,268,854.79</b>
<b>Total Liabilities</b>	<b>885,478,326.46</b>	<b>885,478,326.46</b>	<b>976,620,369.38</b>

**Texas Lottery Commission**  
**Statement of Net Position - Proprietary Fund**  
**August 31, 2016**  
**With Summarized Comparative Totals for August 31, 2015**

	<b>Enterprise</b>		
	<b>Lottery</b>	<b>Total Proprietary Fund</b>	
	<b>Fund</b>	<b>2016</b>	<b>2015</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows of Resources	7,214,028.79	7,214,028.79	3,536,259.43
<b>Total Deferred Inflows of Resources</b>	<b>7,214,028.79</b>	<b>7,214,028.79</b>	<b>3,536,259.43</b>
<b>NET POSITION</b>			
Invested in Capital Assets	432,234.77	432,234.77	521,417.52
Restricted for:			
Expendable:			
Restricted by Other:			
Pooled Bond Fund	5,000,000.00	5,000,000.00	5,000,000.00
Unrestricted	28,899,727.91	28,899,727.91	5,893,954.10
<b>Total Net Position</b>	<b>\$ 34,331,962.68</b>	<b>\$ 34,331,962.68</b>	<b>\$ 11,415,371.62</b>

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

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**Texas Lottery Commission**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Position - Proprietary Fund**  
**for the Fiscal Year Ended August 31, 2016**  
**With Summarized Comparative Totals for the Year Ended August 31, 2015**

	Enterprise Lottery Fund	Total Proprietary Fund	
		2016	2015
<b>OPERATING REVENUES:</b>			
Sales of Goods and Services:			
Lottery Proceeds:			
Ticket Sales	\$ 5,067,517,922.50	\$ 5,067,517,922.50	\$ 4,529,700,425.00
Lottery License Application Fees	290,233.27	290,233.27	299,492.02
Lottery Security Proceeds	55,675.00	55,675.00	57,250.00
Interest and Investment Income	410.43	410.43	-
Other Operating Revenues	776,179.94	776,179.94	857,281.87
Total Operating Revenues	<u>5,068,640,421.14</u>	<u>5,068,640,421.14</u>	<u>4,530,914,448.89</u>
<b>OPERATING EXPENSES:</b>			
Salaries and Wages	19,365,628.24	19,365,628.24	18,484,771.30
Payroll Related Costs	5,846,578.26	5,846,578.26	7,482,474.56
Professional Fees and Services	5,789,091.31	5,789,091.31	5,542,676.01
Travel	345,735.60	345,735.60	362,575.51
Materials and Supplies	2,051,189.21	2,051,189.21	1,581,226.71
Communication and Utilities	518,620.07	518,620.07	514,632.03
Repairs and Maintenance	532,603.66	532,603.66	778,440.59
Rentals and Leases	5,069,683.52	5,069,683.52	4,278,824.17
Printing and Reproduction	23,708,830.18	23,708,830.18	20,357,247.26
Depreciation and Amortization	235,491.11	235,491.11	171,808.78
Bad Debt Expense	171,575.36	171,575.36	373,183.03
Interest	28.28	28.28	366.49
Lottery Prizes	3,186,430,315.60	3,186,430,315.60	2,858,319,408.66
Retailer Commissions	253,512,424.15	253,512,424.15	226,667,063.70
Retailer Bonuses	19,793,946.11	19,793,946.11	21,897,293.28
Other Operating Expenses:			
Lottery Operator Fees	104,764,110.91	104,764,110.91	94,579,923.87
Advertising	33,020,457.58	33,020,457.58	31,644,935.85
Other	4,219,183.64	4,219,183.64	5,147,352.74
Intergovernmental Payments	1,392,305,848.65	1,392,305,848.65	1,242,701,622.93
Total Operating Expenses	<u>5,057,681,341.44</u>	<u>5,057,681,341.44</u>	<u>4,540,885,827.47</u>
Operating Income (Loss)	<u>10,959,079.70</u>	<u>10,959,079.70</u>	<u>(9,971,378.58)</u>
<b>NON-OPERATING REVENUES:</b>			
Net Increase (Decrease) Fair Value	<u>11,957,511.36</u>	<u>11,957,511.36</u>	<u>(3,692,571.95)</u>
Total Non-operating Revenues	<u>11,957,511.36</u>	<u>11,957,511.36</u>	<u>(3,692,571.95)</u>
Change in Net Position	22,916,591.06	22,916,591.06	(13,663,950.53)
Total Net Position, Beginning of Year	11,415,371.62	11,415,371.62	61,062,293.02
Restatement (Note 15)	-	-	(35,982,970.87)
Total Net Position, Beginning of Year, as Restated	<u>11,415,371.62</u>	<u>11,415,371.62</u>	<u>25,079,322.15</u>
Total Net Position, End of Year	<u>\$ 34,331,962.68</u>	<u>\$ 34,331,962.68</u>	<u>\$ 11,415,371.62</u>

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

**Texas Lottery Commission**  
**Statement of Cash Flows - Proprietary Fund**  
**For the Fiscal Year Ended August 31, 2016**  
**With Summarized Comparative Totals for the Year Ended August 31, 2015**

	<u>Enterprise</u>	<u>Total Proprietary Fund</u>	
	<u>Lottery</u> <u>Fund</u>	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from Customers	\$ 5,091,850,395.03	\$ 5,091,850,395.03	\$ 4,525,166,019.87
Payments to Suppliers for Goods and Services	(458,196,021.09)	(458,196,021.09)	(406,323,967.56)
Payments to Employees	(25,390,678.83)	(25,390,678.83)	(23,713,753.32)
Payments for Other Expenses	(4,612,769,754.25)	(4,612,769,754.25)	(4,086,436,502.05)
Net Cash Provided by (Used in) Operating Activities	<u>(4,506,059.14)</u>	<u>(4,506,059.14)</u>	<u>8,691,796.94</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Payments for Other Uses	(83,085,000.00)	(83,085,000.00)	(110,440,000.00)
Proceeds from Other Financing	7,410,000.00	7,410,000.00	2,470,000.00
Net Cash Used in Noncapital Financing Activities	<u>(75,675,000.00)</u>	<u>(75,675,000.00)</u>	<u>(107,970,000.00)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Payments for Additions to Capital Assets	(146,308.36)	(146,308.36)	(317,046.04)
Net Cash Used in Capital and Related Financing Activities	<u>(146,308.36)</u>	<u>(146,308.36)</u>	<u>(317,046.04)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from Sales of Investments	83,085,000.00	83,085,000.00	110,440,000.00
Payments to Acquire Investments	(7,509,151.19)	(7,509,151.19)	(3,198,471.14)
Net Cash Provided by Investing Activities	<u>75,575,848.81</u>	<u>75,575,848.81</u>	<u>107,241,528.86</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,751,518.69)	(4,751,518.69)	7,646,279.76
Cash and Cash Equivalents, Beginning of Year	<u>219,005,899.89</u>	<u>219,005,899.89</u>	<u>211,359,620.13</u>
Cash and Cash Equivalents, End of Year	<u>\$ 214,254,381.20</u>	<u>\$ 214,254,381.20</u>	<u>\$ 219,005,899.89</u>

**Texas Lottery Commission**  
**Statement of Cash Flows - Proprietary Fund**  
**For the Fiscal Year Ended August 31, 2016**  
**With Summarized Comparative Totals for the Year Ended August 31, 2015**

	<b>Enterprise</b>	<b>Total Proprietary Fund</b>	
	<b>Lottery Fund</b>	<b>2016</b>	<b>2015</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>			
<b>Operating Income (Loss)</b>	\$ 10,959,079.70	\$ 10,959,079.70	\$ (9,971,378.58)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>			
Amortization and Depreciation	235,491.11	235,491.11	171,808.78
Bad Debt Expense	171,575.36	171,575.36	373,183.03
Pension Expense	(531,651.37)	(531,651.37)	1,965,995.79
Other	(306.74)	(306.74)	-
Operating Income and Cash Flow Categories:			
Changes in Assets and Liabilities:			
(Increase) Decrease in Receivables	23,209,973.89	23,209,973.89	(5,748,429.02)
(Increase) Decrease in Inventories	(1,740,681.30)	(1,740,681.30)	2,006,714.05
(Increase) Decrease in Prepaid Items	197,244.94	197,244.94	197,244.94
Increase (Decrease) in Payables	(37,006,784.73)	(37,006,784.73)	19,696,657.95
Total Adjustments	<u>(15,465,138.84)</u>	<u>(15,465,138.84)</u>	<u>18,663,175.52</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>\$ (4,506,059.14)</u>	<u>\$ (4,506,059.14)</u>	<u>\$ 8,691,796.94</u>
<b>Non Cash Transactions</b>			
Net Increase (Decrease) in Fair Value of Investments	<u>\$ 11,957,511.36</u>	<u>\$ 11,957,511.36</u>	<u>\$ (3,692,571.95)</u>

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

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**Texas Lottery Commission**  
**Statement of Fiduciary Assets and Liabilities - Fiduciary Funds**  
**August 31, 2016**  
**With Summarized Comparative Totals for August 31, 2015**

	<u>Agency Funds</u>	<u>Total</u>	
		<u>2016</u>	<u>2015</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents:			
Cash in State Treasury	\$ 32,867.00	\$ 32,867.00	\$ 5,153.51
Other Current Assets	989,000.00	989,000.00	922,000.00
Total Assets	<u>\$ 1,021,867.00</u>	<u>\$ 1,021,867.00</u>	<u>\$ 927,153.51</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Payable:			
Vouchers Payable	\$ 8,150.00	\$ 8,150.00	\$ -
Funds Held for Others	1,013,717.00	1,013,717.00	927,153.51
Total Liabilities	<u>\$ 1,021,867.00</u>	<u>\$ 1,021,867.00</u>	<u>\$ 927,153.51</u>

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

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# TEXAS LOTTERY COMMISSION

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## NOTES TO THE BASIC FINANCIAL STATEMENTS

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# TEXAS LOTTERY COMMISSION

## Notes to the Basic Financial Statements

For The Year Ended August 31, 2016

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

The Texas Lottery Commission (the “Commission”) is an agency of the state of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts’ Reporting Requirements for State Agencies.

The 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 Commission was formed by state lawmakers during the 1993 legislative session and became effective September 1, 1993. The five-member Texas Lottery Commission sets policy, promulgates rules for the agency, and performs all other duties required by the law. The commissioners appoint the Executive Director and the Charitable Bingo Operations Director. The Internal Audit function is outsourced to an independent contractor and reports to the five-member commission.

Effective April 1, 1994, House Bill No. 2771 transferred Bingo operations from the Texas Alcoholic Beverage Commission to the Commission. The Charitable Bingo Operations Division of the Commission collects fees and regulates the operations of charitable bingo in the state of Texas. Fees collected are allocated to cities and counties with the balance deposited in the General Revenue Fund.

The Commission includes within this report all components as determined by an analysis of their relationship to the Commission. No component units have been identified as defined by Generally Accepted Accounting Principles (GAAP).

### BASIS OF PRESENTATION

The accompanying financial statements of the Commission have been prepared to conform to GAAP as prescribed by the GASB.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and as amended by GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, was adopted during fiscal year 2015. GASB Statement No. 68 superseded both GASB No. 27 and GASB No. 50 for employers participating in pension plans administered through trust or equivalent arrangements.

GASB Statement No. 72, *Fair Value Measurement and Application*, issued in February 2015, was effective for the Commission for the year ending August 31, 2016. A doption of this guidance resulted in enhanced disclosures related to investments, See note 3.

## **FINANCIAL REPORTING STRUCTURE**

The basic financial statements include both government-wide (based on the Commission as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The prior year summarized comparative totals column may not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Commission's financial statements for the year ended August 31, 2015, from which the summarized information was derived.

### **Government-wide Financial Statements**

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

The focus of the government-wide statements is on the sustainability of the Commission as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

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

The government-wide Statement of Activities reflects both the gross and net cost per functional category (Bingo Operations, Bingo Education, etc.), which are otherwise supported by general government revenues (General Appropriations). The Statement of Activities reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, if any. Depreciation expense and other related payroll costs for both the business-type activities and governmental activities are allocated to functional categories based on full time equivalent units of employees. The program revenues must be directly associated with the function, or with a business-type activity. The operating grants column includes operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants. The Commission does not use capital grants to finance any of its operations.

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

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

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

The Commission's fiduciary funds are presented in the fund financial statements by type (pension, private-purpose, and agency). Because the assets are held for the benefit of others and cannot be used to address activities or obligations of the government, the funds are not incorporated into the government-wide statements.

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

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

#### General Revenue Fund

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.

### ***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 Commission accounts for its proprietary activities in separate sub-funds, which are presented as one fund for financial reporting purposes, as discussed below:

GR Dedicated – Lottery Fund – Enterprise (05) Appd Fund, D23 Fund 5025 (5025) - This fund is used to record all transactions related to the operation of the Texas Lottery.

Lotto Prize Trust Fund – Enterprise (05) Appd Fund, D23 Fund 0895 (0895) - This fund is used to account for investments purchased by the Commission to meet future installment obligations to prize winners.

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

#### Agency Funds

The Commission uses agency funds to account for assets the government 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 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.

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

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

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.

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.

Unappropriated Receipts (1981) – This fund is used to account for monies collected by the Commission for which it has no appropriation authority to spend.

### ***Fund Financial Statements***

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

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

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

## **BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FUND FINANCIAL STATEMENT PRESENTATION**

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

The governmental fund types that build the fund financial statements are accounted for using the modified accrual method basis of accounting. Under modified accrual accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The 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.

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

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

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

Fiduciary funds are reported using the economic resources measurement focus.

### **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 Position**

#### ***ASSETS***

##### Cash and Cash Equivalents

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

During fiscal year 2017, net proceeds from sales will continue to be transferred to the Foundation School Fund and the Texas Veterans Commission. Obligated amounts in the Lottery operations account at August 31, 2016 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 \$121,542,330.45 are recorded as "Due to Other Agencies" as of August 31, 2016. \$2,743,307.78 is due to the Texas Veterans Commission (Fund 0030) for August sales and unclaimed prizes. The remaining balance is due to the Foundation School Fund (Fund 0193) for August sales and unclaimed prizes.

### Investments

Investments are measured at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement 72, *Fair Value Measurement and Application*. Investments are purchased to meet future installment payments to prize winners. The investments are measured at fair value and the related payable is reported at par value. The net unrealized gain (loss) on investment securities, which is the difference between the fair value and the amortized cost, is reflected as Unrestricted-Net Position in the "Statement of Net Position – Proprietary Fund".

### Restricted Assets

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

### Inventories

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

### Capital Assets

Assets with an initial individual cost equal to or greater than \$5,000.00 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. Assets are depreciated over the estimated useful lives of the assets using the straight-line method.

All capital assets acquired by proprietary funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the donation date. Depreciation is charged to operations over the estimated useful life of each asset, using the straight-line method.

#### Accounts Receivable – Other

The balance in Accounts Receivable – Other consists of the following: amounts owed to the Texas Lottery Commission from third parties for services performed on behalf of the Commission in the amount of \$130,729.00.

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

#### Employees' Compensable Leave Balances

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

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

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

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

*Sick leave* is accrued at a rate of 8 hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. An employee who retires based on service or a disability is entitled to service credit in the retirement system for unused sick leave on the last day of employment. The maximum amount of the Commission's contingent obligation for sick leave has not been determined. However, the probability of a material impact on agency operations in any given fiscal year is considered remote.

Liabilities Payable from Restricted Assets

*Lotto Texas*, *Mega Millions*, and *Powerball* jackpots are payable in a lump sum or in annual installments. Prior to February 1997, the *Lotto Texas* prizes were paid in twenty installments. Beginning in February 1997, the players were given a choice at the time of purchase of receiving either a lump sum payment or twenty-five annual installments. Beginning in April, 2013, *Lotto Texas* prizes are paid in thirty annual installments instead of twenty-five annual payments. Beginning in October, 2013, *Mega Millions* jackpot prizes are paid in thirty annual graduated installments, unless the lump sum option is selected by the player. *Powerball* jackpot prizes are paid in thirty annual graduated installments, unless the lump sum option is selected by the player. The first installment is processed on the day the prize is claimed. The subsequent installments are funded with United States Guaranteed Securities purchased by the Texas Treasury Safekeeping Trust Company on the Commission's behalf, as are the installment payments for Weekly Grand, Super Weekly Grand, Weekly Half Grand, Bonus Weekly Grand, Twice as Grand, Weekly Bonus, Top Prize \$500,000, Deal or No Deal, Monthly Bonus, Win for Life, Set for Life, and Super Set for Life.

The amortization of the discount of investments held for prizes payable is based on yields ranging from 0.62 percent to 7.10 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, 2016:

	<b>2016</b>
Total Obligation	\$ 738,835,000.00
Less – unamortized discount	145,537,733.10
Total carrying amount	593,297,266.90
Less – prizes payable within one year	70,793,000.00
Long-term prizes payable	<u>\$ 522,504,266.90</u>

The aggregate amount of prizes payable due in each of the five fiscal years following August 31, 2016 and 2015, and the total thereafter are as follows:

**Aggregate Amount of Prizes Payable  
Business-Type Activities**

	<u>Principal 2016</u>		<u>Principal 2015</u>
2017 (Future Year 1)	\$70,793,000.00	2016 (Future Year 1)	\$83,085,000.00
2018 (Future Year 2)	70,329,000.00	2017 (Future Year 2)	70,403,000.00
2019 (Future Year 3)	69,863,000.00	2018 (Future Year 3)	69,939,000.00
2020 (Future Year 4)	69,603,000.00	2019 (Future Year 4)	69,473,000.00
2021 (Future Year 5)	69,291,000.00	2020 (Future Year 5)	69,213,000.00
2022-2026	225,526,000.00	2021-2025	259,585,000.00
2027-2031	118,184,000.00	2026-2030	128,336,000.00
2032-2036	45,086,000.00	2031-2035	62,802,000.00
2037	160,000.00	2036-2037	1,674,000.00
<b>Total Prizes Payable</b>	<b><u>\$738,835,000.00</u></b>	<b>Total Prizes Payable</b>	<b><u>\$814,510,000.00</u></b>

There were no prizes payable for the governmental activities as of August 31, 2016 and 2015.

Unclaimed Prizes

In accordance with Subsection 466.408 of the State Lottery Act, the ticket holder forfeits prizes that remain unclaimed for 180 days after the drawing date or 180 days after the close of a scratch game. During fiscal year 2016, the Commission transferred a total of \$83,552,790.63 in unclaimed lottery prize winnings on a quarterly basis to the following agencies: The Texas Education Agency received \$77,691,721.18 for credit to the Foundation School Fund, the Texas Veterans Commission received \$956,186.45 for credit to the Fund for Veterans Assistance, and the Department of State Health Services received \$4,904,883.00 for credit to the Multi-categorical Teaching Hospital Account.

***DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES***

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

The Commission's deferred outflows and deferred inflows are related to its net pension amounts. Refer to Note 7 for additional information and description of these amounts.

***FUND BALANCE/NET POSITION***

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

Fund Balance Components

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

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

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

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

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

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

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

#### Invested In Capital Assets

Invested in capital assets consists of capital assets is presented 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. No related debt was noted to affect net of debt. Net position invested in capital assets at August 31, 2016, was \$1,460,808.18.

#### Restricted Net Position

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

Restricted Net Position in the Proprietary Fund consists of the following:

	<b>2016</b>
Reserved for Pooled Bond Fund	\$ 5,000,000.00

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

Pooled Bond Fund

The Reserve for Pooled Bond Fund is established in accordance with the Texas Government Code, Chapter 466. Specifically, Texas Government Code, Section 466.156 authorizes the executive director of the 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, 2016, the balance in the Pooled Bond Fund did not exceed the statutory cap of \$5 million.

Unrestricted Net Position

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

Unrestricted net position in the Proprietary Fund consists of the following:

	<b>2016</b>
Unrestricted	\$ 28,899,727.91

Unrestricted

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

***INTERAGENCY TRANSACTIONS AND BALANCES***

The Commission has the following types of transactions:

Intergovernmental Payments: Legally required payments that are reported when incurred by the Commission.

Payments to Foundation School Fund during fiscal year 2016 were as follows:

	<b>2016</b>
Cash payments	\$1,379,789,547.89
Accrued payments at beginning of fiscal year	(125,868,578.89)
Amount paid from current year revenue	1,253,920,969.00
Accrued payments at end of fiscal year	118,799,022.67
<b>Total Payments to Foundation School Fund</b>	<b>\$1,372,719,991.67</b>

Payments to the Texas Veterans Commission during fiscal year 2016 were as follows:

	<b>2016</b>
Cash payments	\$ 13,645,238.09
Accrued payments at beginning of fiscal year	(1,707,571.89)
Amount paid from current year revenue	11,937,666.20
Accrued payments at end of fiscal year	2,743,307.78
<b>Total Payments to Texas Veterans Commission</b>	<b>\$ 14,680,973.98</b>

Payments to the Department of State Health Services for credit to the Multicategorical Teaching Hospital Account for unclaimed prizes during fiscal year 2016 were as follows:

	<u>2016</u>
Cash payments	\$ 4,904,883.00
Accrued payments at beginning of fiscal year	-
Amount paid from current year revenue	4,904,883.00
Accrued payments at end of fiscal year	-
<b>Total Payments to Department of State Health Services</b>	<b><u>\$ 4,904,883.00</u></b>

## ***REVENUES AND EXPENSES***

### Operating and Non-Operating Revenues or Expenses

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

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

### Recognition of Revenue

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

### Lottery Prizes

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

### Retailer Commissions

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

### Retailer Bonuses

The Commission provides retailers additional compensation in the form of Retailer Bonuses for selling high tier prizes. The following table identifies the games offering a bonus option and the amount of the bonus.

<b>Game</b>	<b>Bonus Structure</b>
Lotto Texas	1% bonus of advertised jackpot or jackpot based on sales (whichever is greater), capped at \$500,000; retailer bonus is pari-mutuel.
Texas Two Step	1% bonus of advertised jackpot, capped at \$10,000; retailer bonus is pari-mutuel.
Cash Five	1% of the top-prize winning ticket, no cap; retailer bonus is pari-mutuel.
Texas Triple Chance	\$1,000 per top prizewinning Chance; \$10,000 cap; retailer bonus is pari-mutuel if more than ten (10) top prize-winning Chances are sold.
All or Nothing	\$2,500 per top prizewinning ticket; \$50,000 cap; retailer bonus is pari-mutuel if more than twenty (20) top prize-winning tickets are sold.
Mega Millions	1% bonus of grand/jackpot portion won in Texas capped at \$1,000,000; retailer bonus is pari-mutuel.
Powerball	1% bonus of grand/jackpot portion won in Texas capped at \$1,000,000; retailer bonus is pari-mutuel.
Scratch Games *	\$10,000 bonus on prize winning tickets of \$1,000,000 or higher.

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

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

### Lottery Operator Fees

The lottery operator received a fee of 2.2099 percent for fiscal year 2016, based on the total lottery tickets sold, as defined in Attachment H of the contract for Lottery Operations and Services, dated December 14, 2010. In addition to the operator, the Commission contracts for other goods and services in the ordinary course of business. Payments under such contracts, less rebates, credits, and sanctions, are charged to expense as the goods and services are received.

### Use of Estimates

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

**NOTE 2: Capital Assets**

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

The following schedules present the composition of the Commission's capital assets, adjustments, reclassifications, additions, and deletions during fiscal year 2016. The reclassifications column shows completed construction projects and transfers of capital assets between agencies, if any. The additions column includes current year purchases and depreciation. The deletions column shows assets removed during a fiscal year.

A summary of changes in Capital Assets and useful lives for the year ended August 31, 2016 is presented below:

**Fiscal Year 2016**

GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT							
	Balance 9/1/2015	Adjustments	Reclassifications			Additions	Deletions	Balance 8/31/2016
			Completed CIP	Increase Int'gy Trans	Decrease Int'gy Trans			
Depreciable Assets								
Furniture and Equipment	\$ 50,458.37	-	-	-	-	-	-	\$ 50,458.37
<b>Total Depreciable Assets at Historical Costs</b>	<b>\$ 50,458.37</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 50,458.37</b>
Less Accumulated Depreciation for:								
Furniture and Equipment	\$ (42,309.18)	-	-	-	(8,149.19)	-	-	\$ (50,458.37)
Total Accumulated Depreciation	(42,309.18)	-	-	-	(8,149.19)	-	-	(50,458.37)
Depreciable Assets, Net	8,149.19	-	-	-	(8,149.19)	-	-	-
Intangible Capital Assets - Amortizable								
Computer Software - Intangible	\$ 1,313,072.30	-	-	-	-	-	-	1,313,072.30
<b>Total Intangible Capital Assets - Amortizable</b>	<b>\$ 1,313,072.30</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 1,313,072.30</b>
Less Accumulated Amortization for:								
Computer Software - Intangible	\$ (21,884.53)	-	-	-	(262,614.36)	-	-	\$ (284,498.89)
Total Accumulated Amortization	(21,884.53)	-	-	-	(262,614.36)	-	-	(284,498.89)
Intangible Capital Assets - Amortizable, Net	1,291,187.77	-	-	-	(262,614.36)	-	-	1,028,573.41
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 1,299,336.96</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$(270,763.55)</b>	<b>-</b>	<b>-</b>	<b>\$ 1,028,573.41</b>
<b>BUSINESS-TYPE ACTIVITIES</b>								
Depreciable Assets								
Furniture and Equipment	\$ 5,822,295.57	-	-	-	146,308.36	-	-	\$ 5,968,603.93
Vehicle, Boats & Aircraft	48,176.20	-	-	-	-	-	-	48,176.20
<b>Total Depreciable Assets at Historical Costs</b>	<b>\$ 5,870,471.77</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 146,308.36</b>	<b>-</b>	<b>-</b>	<b>\$ 6,016,780.13</b>
Less Accumulated Depreciation for:								
Furniture and Equipment	\$ (5,329,313.26)	-	-	-	(227,352.23)	-	-	\$ (5,556,665.49)
Vehicles, Boats & Aircraft	(19,740.99)	-	-	-	(8,138.88)	-	-	(27,879.87)
Total Accumulated Depreciation	(5,349,054.25)	-	-	-	(235,491.11)	-	-	(5,584,545.36)
Depreciable Assets, Net	521,417.52	-	-	-	(89,182.75)	-	-	432,234.77
Intangible Capital Assets - Amortizable								
Computer Software - Intangible	\$ 69,837.23	-	-	-	-	-	-	\$ 69,837.23
<b>Total Intangible Capital Assets - Amortizable</b>	<b>\$ 69,837.23</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 69,837.23</b>
Less Accumulated Amortization for:								
Computer Software - Intangible	\$ (69,837.23)	-	-	-	-	-	-	\$ (69,837.23)
Total Accumulated Amortization	(69,837.23)	-	-	-	-	-	-	(69,837.23)
Intangible Capital Assets - Amortizable, Net	-	-	-	-	-	-	-	-
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 521,417.52</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$(89,182.75)</b>	<b>-</b>	<b>-</b>	<b>\$ 432,234.77</b>

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 and Equipment	3-10
Vehicles, Boats, & Aircraft	5-7
Leasehold Improvements	Life of the Lease
Intangibles-Purchased Software	5

**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 in the Lottery Prize Payment account were fully collateralized at August 31, 2016.

**Deposits of Cash in Bank**

As of August 31, 2016, the carrying amount of deposits was \$7,500.00 as presented below:

Governmental and Business-Type Activities	
Cash in Bank - Carrying Value	7,500.00
<b>Total Cash in Bank</b>	<b>\$7,500.00</b>
Proprietary Fund Current Assets Cash in Bank	
	7,500.00
Governmental Fund Current Assets Cash in Bank	0.00
<b>Total Cash in Bank</b>	<b>\$7,500.00</b>

As of August 31, 2016, the total bank balance was as follows:

Governmental and Business Type Activities	\$6,735.75
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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*, *Mega Millions*, and *Powerball* jackpot prizes that are payable annually to the winners over a nineteen-year, twenty-four year, twenty-six year, or twenty-nine year period, as well as the installment payments for several scratch 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.

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

The Commission had the following recurring fair value measurements as of August 31, 2016:

Governmental and Business-Type Activities	Fair Value Hierarchy				(Fair Value)
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Net Asset Value	
U.S. Government					
U.S. Treasury Strips	\$ 240,510,249.94				\$ 240,510,249.94
Resolution Funding Corporation Strips		\$ 421,908,501.38			421,908,501.38
Repurchase Agreement (Texas Treasury Safekeeping Trust Co.)	10,085,784.16				10,085,784.16
Total Investments	\$ 250,596,034.10	\$ 421,908,501.38			\$ 672,504,535.48
Reconciliation of Investments per Exhibits - Governmental and Business-Type Activities					
Proprietary Funds Current Assets Restricted Short-Term Investments					\$ 80,417,928.24
Proprietary Funds Non-Current Assets Restricted Investments					592,086,607.24
Investments per Exhibits					\$ 672,504,535.48

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

Investment Type	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1 – 5	6 – 10	More Than 10
U.S. Government Investments	\$662,418,751.32	\$70,332,144.08	\$324,275,222.98	\$166,382,782.34	\$101,428,601.92
Repurchase Agreement	10,085,784.16	10,085,784.16	-	-	-
Total	\$672,504,535.48	\$80,417,928.24	\$324,275,222.98	\$166,382,782.34	\$101,428,601.92

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 Agency Obligations. These investments are explicitly guaranteed by the U.S. Government and therefore are not rated by nationally recognized statistical rating organizations.

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 -	Modified Duration Years
U.S. Treasury Strips	8.753
Resolution Funding Corporation Strips	4.293

### Reverse Repurchase Agreements

At August 31, 2016, 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.

The amount of investments subject to reverse repurchase agreements at August 31, 2016, was approximately \$41,501,955.20, at book value. The fair value of the securities underlying these agreements at August 31, 2016, was \$44,118,668.99.

**NOTE 4: Summary of Long Term Liabilities**

**Changes in Long-Term Liabilities**

During the year ended August 31, 2016, the following changes occurred in long-term liabilities.

**Year Ended August 31, 2016**

<b>Governmental Activities</b>	<b>Balance 09-01-2015</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 08-31-2016</b>	<b>Amounts Due Within One Year</b>
Compensable Leave	\$257,555.98	222,961.20	203,451.79	277,065.39	\$138,432.19
<b>Total Governmental Activities</b>	<b>\$257,555.98</b>	<b>222,961.20</b>	<b>203,451.79</b>	<b>277,065.39</b>	<b>\$138,432.19</b>

<b>Business-Type Activities</b>	<b>Balance 09-01-2015</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 08-31-2016</b>	<b>Amounts Due Within One Year</b>
Compensable Leave	\$2,493,544.44	2,562,300.90	2,383,238.41	2,672,606.93	\$1,450,211.23
Prizes Payable	\$766,430,369.09	73,402,246.16	152,135,103.56	687,697,511.69	\$165,193,244.79
<b>Total Business-Type Activities</b>	<b>\$768,923,913.53</b>	<b>\$75,964,547.06</b>	<b>\$154,518,341.97</b>	<b>\$690,370,118.62</b>	<b>\$166,643,456.02</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 Position. An expense and liability for proprietary fund types are recorded in the proprietary funds 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 Texas Lottery games provide prize winners the ability to receive winnings over time. Maturity of these prizes range from 1 year to 29 years. The 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 tickets are sold.

**NOTE 5: Operating Lease Obligations**

The Texas Lottery Commission has a total of 16 leased buildings and 2 parking garages in the state under the terms of operating leases expiring at various dates through 2025. The Commission leases its central office which includes administrative offices, a lottery drawing studio, and a claim center. The remaining 15 leases consist of a warehouse/disaster recovery center in Austin as well as claim centers in Abilene, Amarillo, Beaumont, Corpus Christi, Dallas, Fort Worth, Houston, Laredo, Lubbock, McAllen, Odessa, San Antonio, Tyler, and Victoria. The Austin, Dallas, Houston, Odessa, and San Antonio offices also house 5 Bingo regional offices. The parking garage leases are located in Austin and Houston. Rent expense for Charitable Bingo and Lottery operations under these and other leases amounted to \$5,084,897.52 in fiscal year 2016. 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. Generally, management expects that leases will be renewed or replaced by other leases in the normal course of business.

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>	
2017	\$3,072,420.19
2018	3,054,717.36
2019	3,006,225.84
2020	2,076,378.18
2021	92,361.70
2022 and beyond	178,176.14
<b>Total Minimum Future Lease Rental Payments</b>	<b>\$11,480,279.41</b>

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

**NOTE 6: Interfund Balances/Activities**

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

As of August 31, 2016, there were no significant Interfund payables or receivables.

**NOTE 7: Pension**

The Board of Trustees of ERS is the administrator of four pension plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. In addition to the state of Texas, the employers of the ERS plan include various component units of the state. The Employees Retirement System and the Texas Treasury Safekeeping Trust company, which are blended component units, and the State Bar of Texas, which is a discrete component unit, are also employers of the ERS plan. The Employees Retirement System of Texas Plan (ERS Plan) is considered a single employer defined benefit plan under GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*.

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

The benefit and contribution provisions of the ERS Plan are authorized by state law and may be amended by the Legislature. The monthly benefit may vary by membership class:

The monthly standard annuity of the employee class is determined by a statutory percentage of 2.3 percent of a member's average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the employee class may vary depending on the hire date. For members hired on or before August 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after September 1, 2009 and before September 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after September 1, 2013, the average monthly compensation is the average of highest 60 months of compensation.

The monthly standard annuity of the elected class equals the statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change.

The ERS plan's membership as of the measurement date of August 31, 2015 is presented in the table below:

<b>Employees Retirement System's Membership</b>		<b>ERS</b>
<hr/>		
Retirees and Beneficiaries Currently		
Receiving Benefits		100,003
Terminated Employees Entitled to		
Benefits But Not Yet Receiving Them		101,122
Current Employees		
Vested and Non-Vested		142,409
Total Members		343,534

The contribution rates for the state and the members for the ERS plan for the measurement period of fiscal 2015 are presented in the table below:

### Required Contribution Rates

Plan	Employer			Members		
	Employee Class	Elected Class – Legislators	Elected Class – Other	Employee Class	Elected Class – Legislators	Elected Class – Other
ERS	8.0%	8.0%	8.0%	6.9%	8.0%	6.9%

The amount of Texas Lottery Commission's contributions recognized by the ERS plan during the fiscal 2015 measurement period was \$1,519,030.24.

The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied, except discount rate, in the actuarial valuation were based on an experience study covering the five-year period from September 1, 2006 through August 31, 2011. There is a slight modification in the assumption of withdraw rate of member contributions in the fiscal year 2015 valuation. Higher percentage of individuals was assumed to withdraw their contributions when terminating due to higher member contribution level. Additionally, the actuarial valuation as of August 31, 2015 also incorporates the most significant across-the-board pay increases budgeted by the state Legislature for the current fiscal year 2014-2015 biennium. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of August 31, 2015:

### ***Actuarial Methods and Assumptions***

	ERS Plan
Actuarial Valuation Date	August 31, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open
Actuarial Assumptions:	
Discount Rate	6.86%
Investment Rate of Return	8.0%
Inflation	3.5%
Salary Increase	0% to 11.5%
Mortality	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Cost-of-living Adjustments	None - Employee 3.5% - Elected

A single blended discount rate of 6.86% was applied to measure the total pension liability. The 6.86% discount rate incorporated an 8% long-term expected rate of return on pension plan investments and 3.79% 20-year municipal bond rate based on Federal Reserve Statistical Release H. 15. The long-term expected investment rate of return was applied to projected benefit payments through fiscal 2053 and the municipal bond rate was applied to all benefit payments thereafter.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employers are based on contributions for the most recent five year period as of the measurement date, adjusted on consideration of subsequent events. There have been indicators of Legislature's commitment to increase funding for the pension fund. The Legislature passed House Bill No. 9 in the 84<sup>th</sup> legislative session during fiscal year 2015 to increase the member contribution rates for fiscal years 2016 and 2017. The state contribution rates also increased as the result of this legislative session. The Legislature also maintained some changes made by Senate Bill 1459 in the 83<sup>rd</sup> legislative session. Considering these above events, the projected employer contributions are based on fiscal 2015 funding level.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of

investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Global Equity	55%	4.02%
Global Credit	10%	0.19%
Intermediate Treasuries	15%	0.18%
Real Estate	10%	0.43%
Infrastructure	4%	0.25%
Hedge Funds	5%	0.35%
Cash	1%	0.00%
Total	100%	

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

**Sensitivity of Texas Lottery Commission's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

1% Decrease (5.86%)	Current Discount Rate (6.86%)	1% Increase (7.86%)
\$ 53,775,801.24	\$ 40,272,444.54	\$ 28,952,138.64

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by Employees Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the pension trust fund are reported at fair value in accordance with GASB Statement No. 67 and 31. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. Employees Retirement System issues stand-alone audited Comprehensive Annual Financial Report (CAFR). More detailed information on the plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2015 CAFR:

Employees Retirement System of Texas  
P. O. Box 13207  
Austin, Texas 78711-3207

Texas Lottery Commission's total pension liability is based on an actuarial valuation performed as of August 31, 2015. For fiscal 2016 reporting, the measurement date of Texas Lottery Commission's net pension liability is August 31, 2015. The schedule of changes in Texas Lottery Commission's net pension liability for the fiscal year ending August 31, 2016 is presented below:

**Schedule of Changes in  
Texas Lottery Commission's Net Pension Liability  
For Fiscal Year Ending August 31, 2016**

<b>Total Pension Liability</b>	
Service Cost	\$ 3,737,516.40
Interest on the Total Pension Liability	7,206,205.45
Benefit Changes	(266,636.21)
Difference between Expected and Actual Experience of the Total Pension Liability	(864,407.70)
Assumption Changes	(6,951,272.07) *
Benefit Payments and Refunds	(6,220,955.36)
<b>Net Change in Total Pension Liability</b>	<u>(3,359,549.49)</u>
<b>Total Pension Liability - Beginning</b>	<u>116,483,280.93</u>
<b>Total Pension Liability - Ending</b>	<u><u>\$ 113,123,731.44</u></u>
 <b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 1,519,030.24
Contributions - Member	1,402,960.32
Pension Plan Net Investment Income	172,852.76
Benefit Payments and Refunds	(4,028,234.75)
Pension Plan Administrative Expense	(66,297.73)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>(999,689.16)</u>
 <b>Plan Fiduciary Net Position - Beginning</b>	<u>73,850,976.06</u>
<b>Plan Fiduciary Net Position - Ending</b>	<u><u>\$ 72,851,286.90</u></u>
 <b>Net Pension Liability - Beginning</b>	\$ 42,632,304.87
<b>Net Pension Liability - Ending</b>	40,272,444.54 ****
 <b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	
	64.40%
<b>Covered-Employee Payroll</b>	18,669,914.68
<b>Net Pension Liability as a Percentage of Covered-Employee Payroll</b>	215.71%

**Notes to schedule:**

- \* The change in the total pension liability due to the change in the single discount rate is included as an assumption change.
- \*\* The covered employee payroll is the actual annual payroll for fiscal 2015 - the measurement period.
- \*\*\* The impact of House Bill 9 passed by the 84th Legislature is included as a benefit change.
- \*\*\*\* The Texas Lottery Commission allocates the total net pension liability to governmental and business-type activities based on their respective payroll amounts. At August 31, 2016 that ratio was 90% business-type and 10% governmental activities.

The change of discount rate and a slight change in the assumption of the withdraw rate of member contributions at termination are the assumption changes during the current measurement period. There have been no changes to the benefit terms of the plan since the prior measurement date. The Texas Lottery Commission's proportion to the entire ERS plan was 0.30356624% in fiscal year 2016 as compared with the 0.294812905% in the prior measurement period.

For the fiscal year ending August 31, 2016, Texas Lottery Commission recognized pension expense of \$1,432,619.68. At August 31, 2016, Texas Lottery Commission reported deferred outflows of resources and deferred inflows of resources from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience		\$ 882,796.00
Changes of assumptions	\$ 1,359,617.47	7,176,939.61
Net difference between projected and actual investment return	2,028,063.48	
Change in proportion and contribution difference	872,931.95	
Contributions subsequent to the measurement date	2,023,343.42	
Total	6,283,956.32	8,059,735.61

The \$2,023,343.42 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2017.

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

Year ended August 31:

2017	\$ (1,958,918.14)
2018	(2,602,585.88)
2019	(392,824.98)
2020	1,155,192.43
2021	0
Thereafter	0

***NOTE 8: Deferred Compensations***

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in TEX. GOV'T CODE ANN., Sec. 609.001. The plan available for employees complies with Internal Revenue Code 457 and is accounted for by the state in accordance with the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Neither the state nor the Commission has any liability for losses under the plan.

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

***NOTE 9: Continuance Subject to Review***

Under the Texas Sunset Act, the Commission will be abolished effective September 1, 2025, unless continued by the 89<sup>th</sup> Legislature as provided by the Act. If abolished, the Commission may continue until September 1, 2026 to close out its operations.

***NOTE 10: Segment Information***

The 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.

***NOTE 11: Concentration***

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

***NOTE 12: Commitments and Contingencies***

As of August 31, 2016, there are no potential loss contingencies to report. In the interest of full disclosure, the following summary discusses the resolution of the lawsuit and claim reported in the Annual Financial Report-Note 15 for Fiscal Year 2015. Because the Dallas County District Court in that case has ruled the Commission has sovereign immunity, and the Plaintiff has dismissed her appeal of this ruling, there is no probable loss due to Commission liability.

Dallas Co. District Court Cause No. DC-14-14838, Fifth District Court of Appeals Cause No. 05-15-01559-CV (Dawn Nettles v. GTECH Corporation and the Texas Lottery Commission). This case is one of three lawsuits filed in December 2014, in which over 900 Plaintiffs and Intervenors (collectively, Plaintiffs), sued GTECH Corp. (the Commission's lottery operator currently known as IGT), alleging that misleading instructions in the "Fun 5's" scratch ticket game offered in the fall of 2014 led some players to believe they had won as much as \$500,000 when they had not. Plaintiffs seek damages based on the apparent value of the tickets had they been programmed to validate as winning tickets, plus exemplary damages based on fraud and, in one case, tortious interference with contract and "expectancy".

The Plaintiffs in two of the cases (filed in Travis County and El Paso County) have not sued the Commission. However, in 2015, the sole Plaintiff in the Dallas County case (Dawn Nettles) added the Commission as a Defendant, and requested the Court to issue a declaratory order that IGT must pay any judgment against the Commission based on an indemnity provision in two contracts between the Commission and IGT. In this lawsuit, Nettles sought monetary relief of over \$1 million. The Office of the Attorney General represented the Commission.

Plaintiff's specific causes of action in the Dallas County case included common law fraud, fraud by nondisclosure, and aiding and abetting fraud (against IGT only). Further, as noted above, Plaintiff requested a declaratory order that IGT is obligated to pay any judgment rendered against the Commission and any expenses the Commission incurs in defending against Plaintiff's claims.

The Commission filed a Plea to the Jurisdiction asking the Court to dismiss Nettles' claims against the Commission, which the Court granted in an order issued November 17, 2015. The Commission argued it has sovereign immunity and thus cannot be sued without legislative permission. On December 4, the Court heard IGT's First Amended Plea to the Jurisdiction based on IGT's claim of derivative sovereign immunity. On December 15, the Court issued an order granting IGT's Plea. Thus, all of Plaintiff's claims were dismissed.

On December 31, 2015, Plaintiff filed a Notice of Appeal of both of the Court's orders with the Fifth District Court of Appeals. Plaintiff subsequently voluntarily moved to dismiss her appeal against the Commission, and on May 23, 2016, the Court of Appeals dismissed that appeal. As of August 31, 2016, Plaintiff's appeal regarding IGT remains pending and is in the briefing stage, and a date for oral argument has not been set.

***NOTE 13: Subsequent Events***

The Texas Lottery Commission extended the term of the contract for lottery operations and services with IGT Global Solutions Corporation by voting to exercise three two-year renewals at its October 13, 2016 meeting. The six-year extension period will begin September 1, 2020 and continue through August 31, 2026. The current Base System and Services Pricing rate of 2.2099% will continue through the initial contract period ending August 31, 2020. The Base System and Service Pricing rates for the extension period shall be as follows:

<b>Base System and Services Pricing:</b>	
<b>Contract Extension Period</b>	<b>Rate as a Percentage of Sales</b>
September 1, 2020 – August 31, 2022	2.0773%
September 1, 2022 – August 31, 2024	2.0331%
September 1, 2024 – August 31, 2026	1.9889%

Based on projected sales, it is estimated that the reduced contract rate will result in total savings of approximately \$64.94 million to the State over the 6-year extension period beginning September 1, 2020.

***NOTE 14: Risk Financing***

In the regular course of business, the 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. Currently, there is no purchase of commercial insurance. 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 2016 was \$33,968.30. 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 2015 and 2016 were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2015	\$0.00	\$0.00	\$0.00	\$0.00
2016	\$0.00	\$0.00	\$0.00	\$0.00

***NOTE 15: Prior Period Adjustment***

**Change in Accounting Principle**

In accordance with GASB 68, Accounting and Financial Reporting for Pensions and as amended by GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, governments participating in defined benefit pensions are required to recognize the present value of the projected benefit payments to be provided through the pension plan. The Commission has retroactively implemented this change, which resulted in a restatement of beginning net position as of August 31, 2015, the effect of which was a decrease of \$40,430,304.35.

# TEXAS LOTTERY COMMISSION

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## REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

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**Texas Lottery Commission**  
**Budgetary Comparison Schedule - General Fund**  
**for the Fiscal Year Ended August 31, 2016**  
**(Unaudited)**

	<b>GENERAL FUND</b>			
	<b>Budgetary Amounts</b>		<b>Actual Amounts*</b> <b>(GAAP)</b>	<b>Variance with</b> <b>Budget</b>
	<b>Budget</b> <b>(Original)</b>	<b>Budget</b> <b>(Final)</b>		
<b>REVENUES</b>				
Legislative Appropriations:				
Original Appropriations	\$ 2,772,945.00	\$ 2,772,945.00	\$ 2,772,945.00	\$ -
Additional Appropriations	729,153.76	673,724.43	731,738.56	58,014.13
Licenses, Fees and Permits	12,635,500.00	13,821,309.40	13,873,871.81	52,562.41
Sales of Goods and Services	-	-	-	-
Other	-	-	432.21	432.21
<b>Total Revenues</b>	<b>16,137,598.76</b>	<b>17,267,978.83</b>	<b>17,378,987.58</b>	<b>111,008.75</b>
<b>EXPENDITURES</b>				
Current:				
Salaries and Wages	2,475,962.00	2,485,852.28	1,998,399.92	487,452.36
Payroll Related Costs	729,153.76	673,724.43	707,162.57	(33,438.14)
Professional Fees and Services	102,114.00	110,094.00	281,077.00	(170,983.00)
Travel	75,540.00	75,540.00	30,791.54	44,748.46
Materials and Supplies	3,850.00	3,850.00	21,541.62	(17,691.62)
Communication and Utilities	394.00	394.00	896.62	(502.62)
Repairs and Maintenance	4,803.00	4,803.00	3,283.54	1,519.46
Rentals and Leases	15,535.00	15,535.00	15,214.00	321.00
Printing and Reproduction	-	-	-	-
Claims and Judgments	-	-	-	-
Other Expenditures	37,125.00	37,125.00	16,867.20	20,257.80
Capital Outlay	-	-	-	-
Appropriations Lapsed	-	-	510,516.61	(510,516.61)
Intergovernmental Payments	12,635,500.00	13,821,309.40	13,821,309.40	-
<b>Total Expenditures</b>	<b>16,079,976.76</b>	<b>17,228,227.11</b>	<b>17,407,060.02</b>	<b>(178,832.91)</b>
Excess of Revenues Over Expenditures	57,622.00	39,751.72	(28,072.44)	(67,824.16)
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>				
Fund Balance, Beginning of Year	587,744.67	587,744.67	587,744.67	-
Fund Balance, August 31, 2016	<b>\$ 645,366.67</b>	<b>\$ 627,496.39</b>	<b>\$ 559,672.23</b>	<b>\$ (67,824.16)</b>

\* Actual amounts reflect expenditures paid in Fiscal Year 2016 regardless of budget appropriation year.

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**Schedule of Changes in  
Texas Lottery Commission's Net Pension Liability  
For Fiscal Year Ending August 31, 2016**

<b>Total Pension Liability</b>	
Service Cost	\$ 3,737,516.40
Interest on the Total Pension Liability	7,206,205.45
Benefit Changes	(266,636.21)
Difference between Expected and Actual Experience of the Total Pension Liability	(864,407.70)
Assumption Changes	(6,951,272.07) *
Benefit Payments and Refunds	(6,220,955.36)
<b>Net Change in Total Pension Liability</b>	<u>(3,359,549.49)</u>
<b>Total Pension Liability - Beginning</b>	<u>116,483,280.93</u>
<b>Total Pension Liability - Ending</b>	<u><u>\$ 113,123,731.44</u></u>
 <b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 1,519,030.24
Contributions - Member	1,402,960.32
Pension Plan Net Investment Income	172,852.76
Benefit Payments and Refunds	(4,028,234.75)
Pension Plan Administrative Expense	(66,297.73)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>(999,689.16)</u>
 <b>Plan Fiduciary Net Position - Beginning</b>	 <u>73,850,976.06</u>
<b>Plan Fiduciary Net Position - Ending</b>	<u><u>\$ 72,851,286.90</u></u>
 <b>Net Pension Liability - Beginning</b>	 \$ 42,632,304.87
<b>Net Pension Liability - Ending</b>	40,272,444.54 ****
 <b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	
	64.40%
<b>Covered-Employee Payroll</b>	18,669,914.68
<b>Net Pension Liability as a Percentage of Covered-Employee Payroll</b>	215.71%

**Notes to schedule:**

- \* The change in the total pension liability due to the change in the single discount rate is included as an assumption change.
- \*\* The covered employee payroll is the actual annual payroll for fiscal 2015 - the measurement period.
- \*\*\* The impact of House Bill 9 passed by the 84th Legislature is included as a benefit change.
- \*\*\*\* The Texas Lottery Commission allocates the total net pension liability to governmental and business-type activities based on their respective payroll amounts. At August 31, 2016 that ratio was 90% business-type and 10% governmental activities.

**Texas Lottery Commission**  
**Schedule of Employer Contributions**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contributions	\$ 2,002,619.74	\$ 2,237,620.33	\$ 2,145,920.01
Contributions in relation to the actuarially determined contributions	2,023,115.15	1,519,030.24	1,421,702.86
Contribution deficiency (excess)	(20,495.41)	718,590.09	724,217.15
Covered-employee payroll	19,861,472.86	18,669,914.68	17,557,466.71
Contributions as a percentage of covered-employee payroll	10.19%	8.14%	8.10%

## Notes to Schedule of Employer Contributions

**Valuation Date** Actuarially determined contribution rates are calculated as of August 31, 2015.

### Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	31 years
Asset Valuation Method	20% of market plus 80% of expected actuarial value
Inflation	3.5%
Salary Increases	0% to 11.5%
Investment Rate of Return	8.0%
Retirement Age	Experience-based rates specific to the class of employees. Last updated for the 2013 valuation based on an experience study of the 5-year period from Sept. 1, 2006 through Aug. 31, 2011
Mortality	1994 Group Annuity Mortality with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.

### Other Information:

1. Actuarially determined contributions are adjusted for actual payroll and administrative expenses.
2. Members and employers contribute based on statutorily fixed rates.
3. Beginning in fiscal year 2016, the Actuarially Determined Contribution will include the impact of House Bill 9 passed by the 84th Legislature.
4. This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.

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# TEXAS LOTTERY COMMISSION

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## OTHER SUPPLEMENTARY INFORMATION – COMBINING FINANCIAL STATEMENT

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**Texas Lottery Commission**  
**Combining Statement of Changes in Assets and Liabilities -**  
**Agency Funds**  
**For the Fiscal Year Ended August 31, 2016**

	Beginning Balance September 1, 2015	Additions	Deductions	Ending Balance August 31, 2016
<b>UNAPPROPRIATED RECEIPTS</b>				
<b><u>Child Support Employee Deduct (0807) U/F (8070)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 4,553.51	\$ 61,651.02	\$ 61,853.53	\$ 4,351.00
Total Assets	<u>\$ 4,553.51</u>	<u>\$ 61,651.02</u>	<u>\$ 61,853.53</u>	<u>\$ 4,351.00</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 4,553.51	\$ 61,651.02	\$ 61,853.53	\$ 4,351.00
Total Liabilities	<u>\$ 4,553.51</u>	<u>\$ 61,651.02</u>	<u>\$ 61,853.53</u>	<u>\$ 4,351.00</u>
<b><u>Suspense Fund (0900) U/F (0900)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 600.00	\$ 22,925.00	\$ 3,159.00	\$ 20,366.00
Total Assets	<u>\$ 600.00</u>	<u>\$ 22,925.00</u>	<u>\$ 3,159.00</u>	<u>\$ 20,366.00</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 600.00	\$ 22,325.00	\$ 2,559.00	\$ 20,366.00
Total Liabilities	<u>\$ 600.00</u>	<u>\$ 22,325.00</u>	<u>\$ 2,559.00</u>	<u>\$ 20,366.00</u>
<b><u>Warrant Hold Offset (0900) U/F (9016)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 8,941.62	\$ 8,941.62	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 8,941.62</u>	<u>\$ 8,941.62</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 8,941.62	\$ 8,941.62	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 8,941.62</u>	<u>\$ 8,941.62</u>	<u>\$ -</u>
<b><u>Correction Account - Direct Deposit (0980) U/F (0980)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 2,663.00	\$ 2,663.00	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 2,663.00</u>	<u>\$ 2,663.00</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 2,663.00	\$ 2,663.00	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 2,663.00</u>	<u>\$ 2,663.00</u>	<u>\$ -</u>
<b><u>USPS - Direct Deposit Return Money (0980) U/F (9014)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 551.00	\$ 551.00	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 551.00</u>	<u>\$ 551.00</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 551.00	\$ 551.00	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 551.00</u>	<u>\$ 551.00</u>	<u>\$ -</u>

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**Texas Lottery Commission**  
**Combining Statement of Changes in Assets and Liabilities -**  
**Agency Funds**  
**For the Fiscal Year Ended August 31, 2016**

	<b>Beginning Balance September 1, 2015</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance August 31, 2016</b>
<b><u>Bingo Cash Bonds (0001) Fund (1002)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 103,587.85	\$ 95,437.85	\$ 8,150.00
Total Assets	<u>\$ -</u>	<u>\$ 103,587.85</u>	<u>\$ 95,437.85</u>	<u>\$ 8,150.00</u>
<b>LIABILITIES</b>				
Current				
Vouchers Payable	\$ -	\$ 12,450.00	\$ 4,300.00	\$ 8,150.00
Funds Held for Others	-	37,410.00	37,410.00	-
Total Liabilities	<u>\$ -</u>	<u>\$ 49,860.00</u>	<u>\$ 41,710.00</u>	<u>\$ 8,150.00</u>
<b><u>Lottery Retailer Security Fund (1000) Fund (1003)</u></b>				
<b>ASSETS</b>				
Current				
Other Current Assets	\$ 922,000.00	\$ 67,000.00	\$ -	\$ 989,000.00
Total Assets	<u>\$ 922,000.00</u>	<u>\$ 67,000.00</u>	<u>\$ -</u>	<u>\$ 989,000.00</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 922,000.00	\$ 67,000.00	\$ -	\$ 989,000.00
Total Liabilities	<u>\$ 922,000.00</u>	<u>\$ 67,000.00</u>	<u>\$ -</u>	<u>\$ 989,000.00</u>
<b><u>Unappropriated Receipts (1000) U/F (1981)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 19,403,034.82	\$ 19,403,034.82	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 19,403,034.82</u>	<u>\$ 19,403,034.82</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 19,403,034.82	\$ 19,403,034.82	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 19,403,034.82</u>	<u>\$ 19,403,034.82</u>	<u>\$ -</u>
<b>Totals - All Agency Funds</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 5,153.51	\$ 19,603,354.31	\$ 19,575,640.82	\$ 32,867.00
Other Current Assets	922,000.00	67,000.00	-	989,000.00
Total Assets	<u>\$ 927,153.51</u>	<u>\$ 19,670,354.31</u>	<u>\$ 19,575,640.82</u>	<u>\$ 1,021,867.00</u>
<b>LIABILITIES</b>				
Current				
Vouchers Payable	\$ -	\$ 12,450.00	\$ 4,300.00	\$ 8,150.00
Funds Held for Others	927,153.51	19,603,576.46	19,517,012.97	1,013,717.00
Total Liabilities	<u>\$ 927,153.51</u>	<u>\$ 19,616,026.46</u>	<u>\$ 19,521,312.97</u>	<u>\$ 1,021,867.00</u>

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# TEXAS LOTTERY COMMISSION

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## COMPLIANCE SECTION – INDEPENDENT AUDITOR’S REPORT

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

To the Board of Commissioners of the  
Texas Lottery Commission

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Lottery Commission (the Commission) as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 16, 2016.

***Internal Control over Financial Reporting***

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with

To the Board of Commissioners of the  
Texas Lottery Commission

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Austin, Texas  
December 16, 2016



# 2016



## TEXAS LOTTERY COMMISSION

P.O. BOX 16630  
AUSTIN, TEXAS 78761-6630  
PHONE 512.344.5000  
FAX 512.478.3682

[TXLOTTERY.ORG](http://TXLOTTERY.ORG)

[TXBINGO.ORG](http://TXBINGO.ORG)



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STATE OF TEXAS