

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Texas Lottery Commission
Austin, Texas

We have performed the procedures enumerated below, which were agreed to by the Texas Lottery Commission (the "Commission"), solely to assist you with respect to procedures surrounding Mega Millions accounting and reporting by the Commission. The Commission's management is responsible for the Commission's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Commission and Mega Millions member lotteries, who are the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

- A. Obtain from the Texas Lottery Commission the "Texas Draw Activity" and the "Fixed Prize Analysis" for the period April 1, 2003 through March 31, 2004 and attach those as Exhibits I and II, respectively. Prove the mathematical accuracy of the schedules and note any exceptions.
 1. **Finding** – No exceptions noted although the reports listed in Exhibits I and II cover the period April 1, 2003 through March 30, 2004, rather than March 31, 2004, since March 30th was the last draw date of the period.
- B. Randomly select five (5) draw dates from the period (as agreed to by member lotteries).
 1. **Finding** – Selected the following dates for testing:
 - December 5, 2003
 - December 30, 2003
 - January 27, 2004
 - February 20, 2004
 - March 12, 2004

C. For each draw date selected in step “B” above, compare the total amount of sales as shown on the daily sales report produced by Texas Lottery Commission’s gaming system and the total amount of sales shown on the related daily sales report produced by Internal Control System (“ICS”), with the balance listed in the “sales” column for the respective draw date on the “Texas Draw Activity” report attached as Exhibit I and ensure they are in agreement.

1. **Finding** – No exceptions noted.

D. Calculate the total dollar amount of the fixed prizes for the draw dates selected in step “B” above, based on the total number of winners from the Texas Lottery Commission’s gaming system for each prize level and the prize structure of the Mega Millions’ fixed prizes (as defined in the official game rules). Compare the calculated expense with the amount listed in the “Actual Fixed Prizes” column for the respective draw date on the “Texas Draw Activity” report attached as Exhibit I and ensure they are in agreement.

1. **Finding** – No exceptions noted.

E. For each draw date selected in step “B” above, compare the amount of sales, actual fixed prizes, and share of fixed prizes shown on the “Texas Draw Activity” report attached as Exhibit I to the amounts shown on the applicable Mega Millions Prize Settlement Reports and ensure they are in agreement.

1. **Finding** – No exceptions noted.

F. For the period identified, randomly select two months and obtain the “Expired Prize Settlement Report” distributed by the Virginia Lottery. For the two months selected, obtain from the Texas Lottery Commission ICS the actual fixed prizes awarded and the prizes unclaimed. Compare the ICS data back to the data reported from the Virginia Lottery for each draw of the subject months to ensure they are in agreement.

1. **Finding** – Selected January 2004 and March 2004 Expired Prize Settlement reports to examine, noting that Texas was not included in the reports.

2. **Texas Lottery Commission’s Response** – Prizes must be claimed by the winner within 180 days of the draw date; however, Mega Millions requires that states wait one year from the draw date to claim unclaimed prizes. Since Texas commenced sales on December 3, 2003 for the Mega Millions draw date of December 5, 2003, the state is unable to claim unclaimed prizes until December 2004. Therefore, Texas was not included in the January 2004 and March 2004 Expired Prize Settlement reports distributed by the Virginia Lottery.

- G.** Compare the amounts shown as the total of the actual fixed prizes and the total of the share of fixed prizes on the “Texas Draw Activity” report attached as Exhibit I to the applicable amounts shown on the “Fixed Prize Analysis” report attached as Exhibit II and ensure they are in agreement.
1. **Finding** – No exceptions noted.
- H.** For the amount (if any) listed in the “Cost of the Jackpot Prizes” column of the “Texas Draw Activity” report attached as Exhibit I, obtain and compare the “cost of the jackpot prize” amount to the Texas Lottery Commission’s cash disbursement subsidiary records which summarize the funds disbursed to the prize winner and/or the broker from which the jackpot annuities were purchased and verify agreement.
1. **Finding** – There was not a column titled “Cost of the Jackpot Prizes” in the “Texas Draw Activity” report.
 2. **Texas Lottery Commission’s Response** – Texas did not have a jackpot winner during the period December 5, 2003 through March 31, 2004. Therefore, this information was not included in the “Texas Draw Activity” report and no jackpot prizes were purchased.
- I.** For each purchase (if any) of investments associated with the jackpot prizes:
- i. Review broker confirmations to verify that investments are funded in accordance with allowed investment vehicles per the multi-state rules, regulations or procedures.
 - ii. Obtain the bid sheets and supporting documentation and verify the investments were purchased through a competitive bidding process involving a minimum of three brokerage firms.
 - iii. Obtain the Security Purchase report which lists the results of the security purchase and verify that the information reported to the group is accurate, including the annuity factor for the non-winning bidders.
 - iv. Compare the total of the period transfers from the Texas Lottery Commission to the Virginia Lottery for settlement of the fixed prize liability as shown in the Texas Lottery Commission’s cash disbursement subsidiary records to the amount listed in the “Qtrly/Yrly Settlements Transfers In (Out)” column on the “Fixed Prize Analysis” report attached as Exhibit II and ensure they are in agreement.
 - v. Compare the balance listed as the Texas Lottery Commission’s receivable as of March 31, 2004 for the fixed prizes as shown on the “Fixed Prize Analysis” report attached as Exhibit II to the Texas Lottery Commission’s financial accounting records and to the Mega Millions Prize Settlement Report as of March 31, 2004 and ensure they are in agreement.
1. **Finding** – Since Texas did not have a jackpot prize winner during the period December 5, 2003 through March 31, 2004, steps I(i) - I(iii) are not applicable. No exceptions were noted with regards to steps I(iv) and I(v).

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users listed above and is not intended to be and should not be used by those who did not agree to the procedures and take responsibility for the sufficiency of the procedures for their purpose.

maxwell loebe + Ritter LLP

November 12, 2004

MS400
MS400F1
SYS71/VLTFRD

TEXAS MEGA MILLIONS
DRAW ACTIVITY
From 04/01/2003 To 03/30/2004

Date: 7/09/04
Time: 14:58:53
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Draw Date	Sales	Actual Fixed Prizes	Share of Fixed Prizes	Annuitized JP Amount	Cash Options Amount
12/05/2003	2,838,669	507,937	543,824		
12/09/2003	1,975,414	230,717	304,624		
12/12/2003	2,144,109	422,109	346,973		
12/16/2003	2,225,199	574,970	391,313		
12/19/2003	2,544,889	290,772	491,716		
12/23/2003	3,618,188	588,395	635,102		
12/26/2003	3,715,396	805,839	754,589		
12/30/2003	4,848,243	1,234,530	909,672		
1/02/2004	1,672,559	197,196	272,878		
1/06/2004	1,558,701	214,803	309,612		
1/09/2004	1,681,979	190,779	277,772		
1/13/2004	1,647,155	229,805	257,219		
1/16/2004	1,739,303	194,756	223,151		
1/20/2004	1,744,815	398,543	416,626		
1/23/2004	1,942,951	570,355	357,146		
1/27/2004	1,952,436	240,873	331,861		
1/30/2004	2,344,109	439,451	418,761		
2/03/2004	2,584,916	471,628	467,046		
2/06/2004	3,357,223	408,124	749,639		
2/10/2004	3,714,574	1,085,414	872,906		
2/13/2004	4,381,166	469,653	749,387		
2/17/2004	5,052,575	1,259,839	909,253		
2/20/2004	10,212,362	2,288,363	2,162,522		
2/24/2004	1,616,389	181,421	244,663		
2/27/2004	1,797,849	249,638	257,787		
3/02/2004	1,834,056	563,254	442,633		
3/05/2004	1,678,566	344,968	347,828		
3/09/2004	1,532,004	147,009	218,379		
3/12/2004	1,703,617	202,442	282,927		
3/16/2004	1,673,132	195,491	264,504		
3/19/2004	1,825,199	216,074	299,311		
3/23/2004	1,838,620	397,780	322,114		
3/26/2004	2,030,252	239,166	333,948		
3/30/2004	2,047,083	239,773	391,618		
	89,073,698	16,291,867	16,559,304		

* Totals *

	Receivable (Payable)	Actual Fixed Prizes	Share of Fixed Prizes	Otrly/Yrly Settlements Transfers In(Out)	Receivable (Payable)
Georgia	308,599-	30,824,782	32,215,274	1,427,321-	271,770-
Illinois	305,081-	39,170,314	41,126,792	2,553,037-	291,478
Massachusetts	120,656	16,303,463	16,282,628	343,010	201,519-
Maryland	211,486-	14,389,926	15,411,447	1,530,532-	297,525
Michigan	307,065-	36,330,293	34,892,477	1,625,283	494,532-
New Jersey	847,049	44,841,385	45,322,933	199,037-	564,538
New York	104,397-	85,771,699	87,042,469	935,911-	439,256-
Ohio	47,961-	36,147,850	33,872,645	2,684,310	457,066-
Texas	341,489	16,291,867	16,559,304	98,017	365,454-
Virginia	24,605-	25,695,894	22,458,038	2,946,365	632,980
Washington State		9,632,013	10,215,479	1,051,147-	443,076
** Totals **		355,399,486	355,399,486		