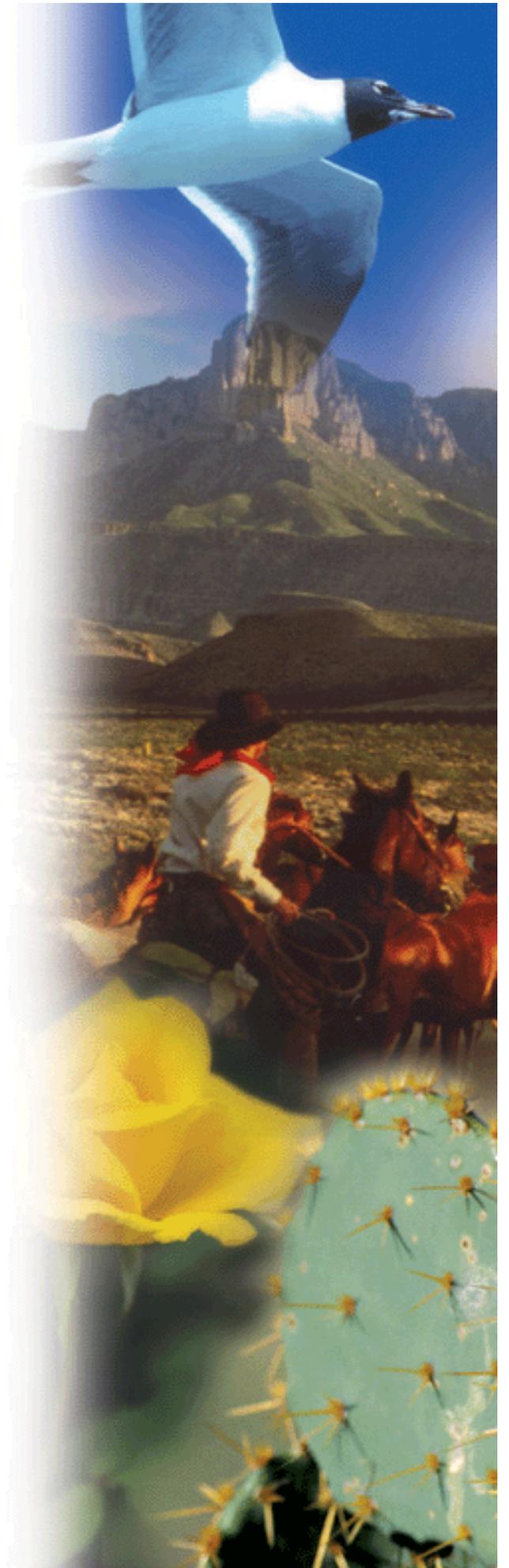


Financial Section





McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Texas Lottery Commission:

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund and fiduciary fund information of the Texas Lottery Commission (the "Commission"), an agency of the State of Texas, as of and for the years ended August 31, 2003 and 2002, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund and fiduciary fund information of the Commission as of August 31, 2003 and 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2003, 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, and contracts.

The Management's Discussion and Analysis and budgetary comparison information on pages 13 through 19 and 52, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The statistical sections on pages 54 through 67 has been furnished to us and was not subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion on the statistical sections.

A handwritten signature in black ink, appearing to read "McDonald & Sons, LLP". The signature is written in a cursive, stylized font.

Houston, Texas
November 7, 2003, except for
Note 11, as to which the date is December 4, 2003

**Texas Lottery Commission
Management's Discussion and Analysis
For the Year Ended August 31, 2003
(Unaudited)**

This section of the Texas Lottery Commission's (Commission) comprehensive annual financial report presents a comparative discussion and analysis of the Commissions' financial performance for the fiscal years ended August 31, 2003 and 2002. This analysis is to be considered in conjunction with the transmittal letter at the front of this report and the Commissions' 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 of the Commission exceeded its liabilities at the close of fiscal year 2003 by \$86.5 million (reported as *net* assets), a decrease of \$15.2 million from the previous fiscal year.

Fund Level:

- As of the close of fiscal year 2003, the Commission's governmental funds reported a combined ending fund balance of \$80,499, with \$18,018 reported as *reserved fund balance*; earmarked for specific purposes such as vendor payables. The unreserved balance at fiscal year end was \$62,481.
- The proprietary funds reported net assets at year-end 2003 of \$86.7 million, a decrease of \$14.7 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 financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

The Statement of Net Assets 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 Assets on page 20 presents all of the Commission's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets measure whether the Commission's financial position is improving or deteriorating.

The Statement of Activities on page 21 presents information showing how the Commission's net assets changed during fiscal year 2003. All changes in net assets 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 the change in net assets 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 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 31 of this report.

Fund Financial Statements (Reporting the Commission’s Major Funds)

Because the Commission operates with seven funds, management determined that for fair presentation, all 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 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 service for the governments 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 employee Savings Bond Account, Direct Deposit Correction Account and Suspense Fund. The Commission's fiduciary activities are reported in separate Statements of Fiduciary Assets and Liabilities beginning on page 30. 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.

Financial Analysis of the Government as a Whole

Statement of Net Assets (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other non-current Assets	\$ 0.3	\$ 0.7	\$ 1,695.7	\$ 1,756.0	\$ 1,696.0	\$ 1,756.7
Capital Assets	0.0	0.0	1.1	1.3	1.1	1.3
Total Assets	0.3	0.7	1,696.8	1,757.3	1,697.1	1,758.0
Long-term liabilities	0.1	0.1	1,328.7	1,364.1	1,328.8	1,364.2
Other liabilities	0.3	0.3	281.4	291.8	281.7	292.1
Total Liabilities	0.4	0.4	1,610.1	1,655.9	1,610.5	1,656.3
Net Assets:						
Invested in capital assets, net of related debt	0.0	0.0	1.1	1.3	1.1	1.3
Restricted	0.0	0.0	11.1	9.5	11.1	9.5
Unrestricted	(0.1)	0.3	74.5	90.6	74.4	90.9
Total Net Assets	\$ (0.1)	\$ 0.3	\$ 86.7	\$ 101.4	\$ 86.6	\$ 101.7

The largest component (86.0%) of the Commission's net assets is comprised of **unrestricted net assets** of \$74.4 million, which may be used at the Commission's discretion, but often have limitations on use based on State statutes. **Restricted net assets** are the next largest component, comprising 12.8%. These net assets represent 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, net of related debt. 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, 2003, the Commission's assets included \$94.9 million in cash and cash equivalents as compared with \$105.4 million at August 31, 2002. The Commission's short and long-term investments approximated \$1,555.5 and \$1,617.7 million, respectively, at August 31, 2003 and 2002.

The Commission's liabilities included at the balance sheet date are amounts owed to the State's Foundation School Fund for unspent administrative funds for fiscal year 2003, vendor payables, and prize obligations. The amount due to the Foundation School Fund was approximately \$9.4 million at August 31, 2003 as compared with \$15.5 million at August 31, 2002. Prize obligations, made up largely of instant ticket games and *Lotto Texas* installment payments, were \$1,574.1 million and \$1,620.3 million at August 31, 2003 and 2002, respectively. Vendor payables were \$24.1 million at August 31, 2003 as compared to \$18.1 million at August 31, 2002.

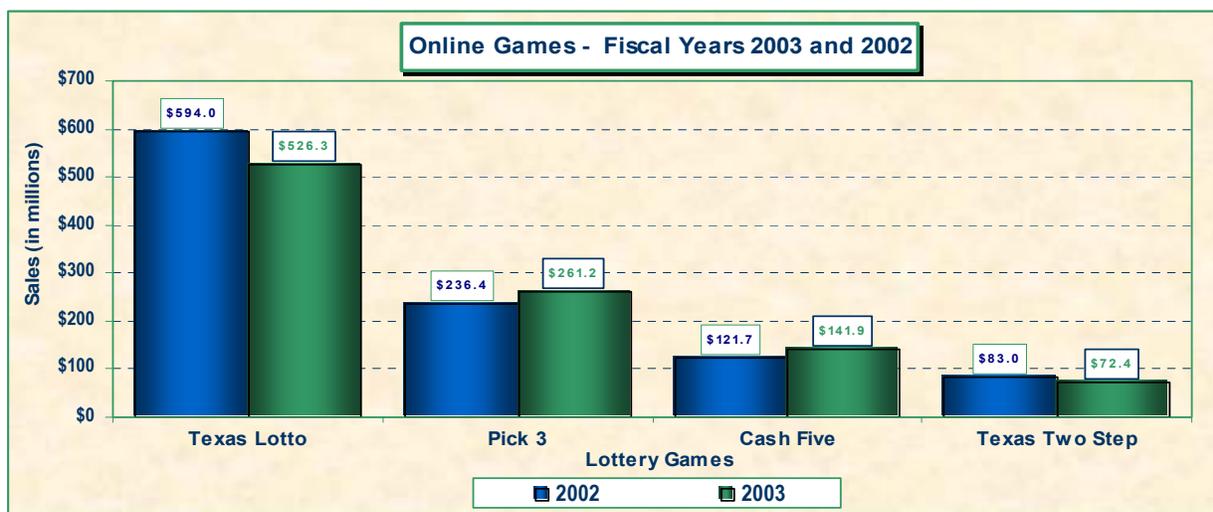
The majority of the Commission's assets represent current resources necessary to pay the current liabilities owed to vendors, prizewinners, and ultimately the State's Foundation School Fund.

Statement of Activities and Changes in Net Assets (in millions)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Sales	\$ 0.0	\$ 0.0	\$ 3,130.7	\$ 2,966.3	\$ 3,130.7	\$ 2,966.3
Intergovernmental revenue	3.3	3.3	0.0	0.0	3.3	3.3
Prize expense	0.0	0.0	(1,845.2)	(1,715.4)	(1,845.2)	(1,715.4)
Commissions	0.0	0.0	(156.6)	(148.4)	(156.6)	(148.4)
Operating and other expense	(13.0)	(12.4)	(162.0)	(170.9)	(175.0)	(183.3)
Operating income	(9.7)	(9.1)	966.9	931.6	957.2	922.5
Other income (loss)	9.3	9.2	(29.1)	61.2	(19.8)	70.4
Transfer to State's general fund	0.0	0.0	(949.1)	(928.9)	(949.1)	(928.9)
Change in net assets	(0.4)	0.1	(11.3)	63.9	(11.7)	64.0
Beginning net assets, as restated	0.3	0.2	98.0	37.5	98.3	37.7
Ending net assets	\$ (0.1)	\$ 0.3	\$ 86.7	\$ 101.4	\$ 86.6	\$ 101.7

Sales

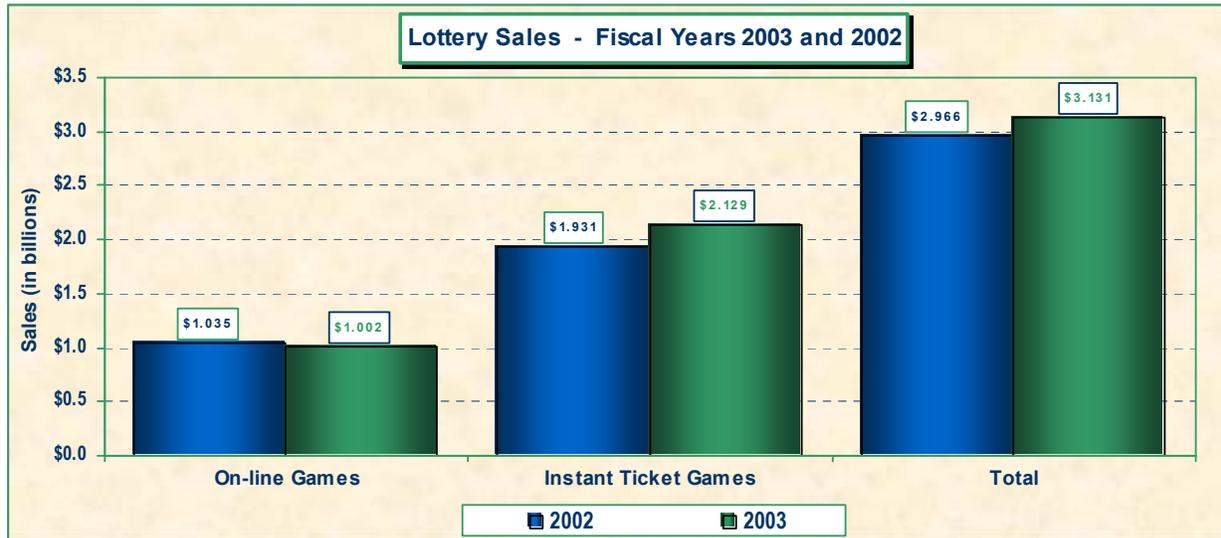
Lottery sales consist of on-line and instant lottery games. The first category is on-line games, which included *Lotto Texas*, *Pick 3*, *Cash Five* and *Texas Two Step* at August 31, 2003. In total, on-line sales declined by \$33.3 million, which is mostly attributable to a decrease in *Lotto Texas* sales. Other on-line games such as *Pick 3* and *Cash Five* proved to be more successful during fiscal year 2003. The matrix change to *Pick 3*, which was implemented during fiscal year 2002 continued to produce favorable results. *Pick 3* sales increased by 10.5%, marking the ninth consecutive year of increased sales. Sales for *Pick 3*, at August 31, 2003, totaled \$261.2 million. *Cash Five* sales increased by \$20.2 million at August 31, 2003. This represents an increase of 16.6% over fiscal year 2002. The following graph depicts the Commission's on-line sales for the fiscal year ended August 31, 2003 and 2002.



Source: Texas Lottery Commission

Instant tickets or “scratch-off” tickets is the other category of Lottery games offered to the public. Instant ticket sales for the fiscal year ended August 31, 2003 increased by \$197.7 million or 10.2% over the preceding fiscal year's sales. The new instant ticket production plan, implemented by management in fiscal year 2002, continues to be the reason for the increase in sales. The plan called for fewer tickets per production, but a higher variety of instant games, including offering more popular and higher price point games (\$20 and \$10 tickets) to the public.

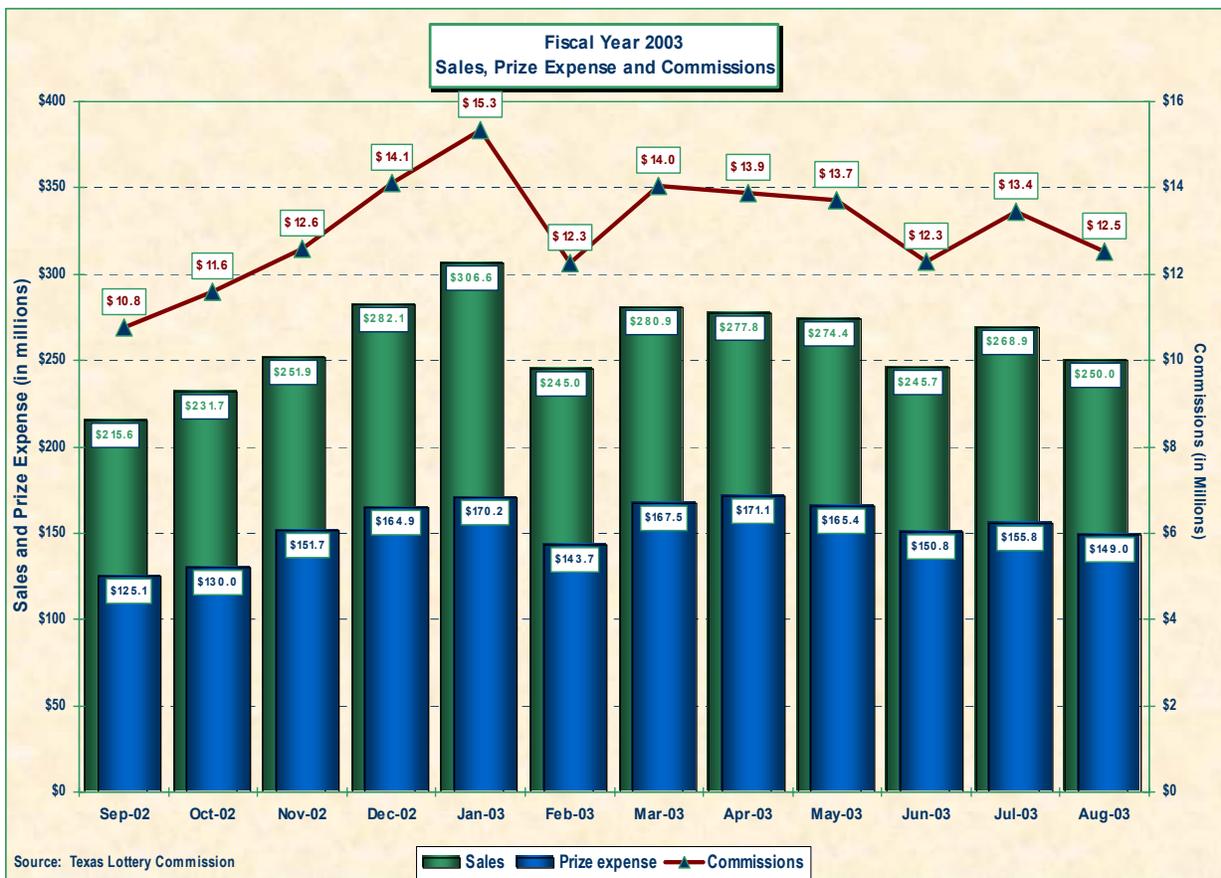
The following graph depicts the Lottery's on-line, instant and total lottery sales for the fiscal year ended August 31, 2003 in comparison to the fiscal year ended August 31, 2002.



Source: Texas Lottery Commission

Commissions and Prize Awards Expense

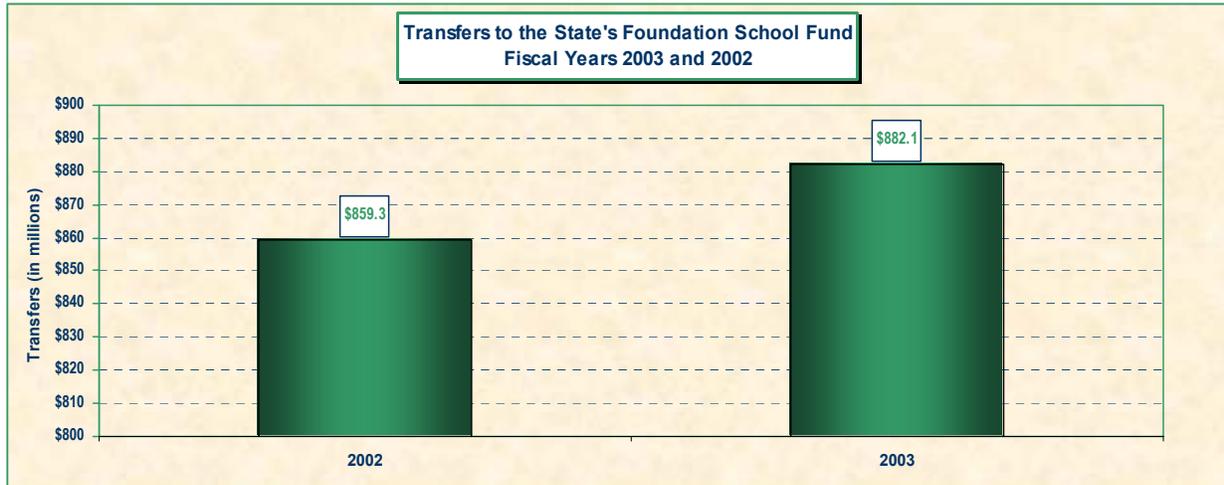
As the following graph depicts, the Commission's most significant expenses (commissions and prize expense) are predictable because they have a direct correlation to sales. As Lottery sales increase, so do the related prizes and commissions paid by the Commission. While each Lottery game has a predetermined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



Source: Texas Lottery Commission

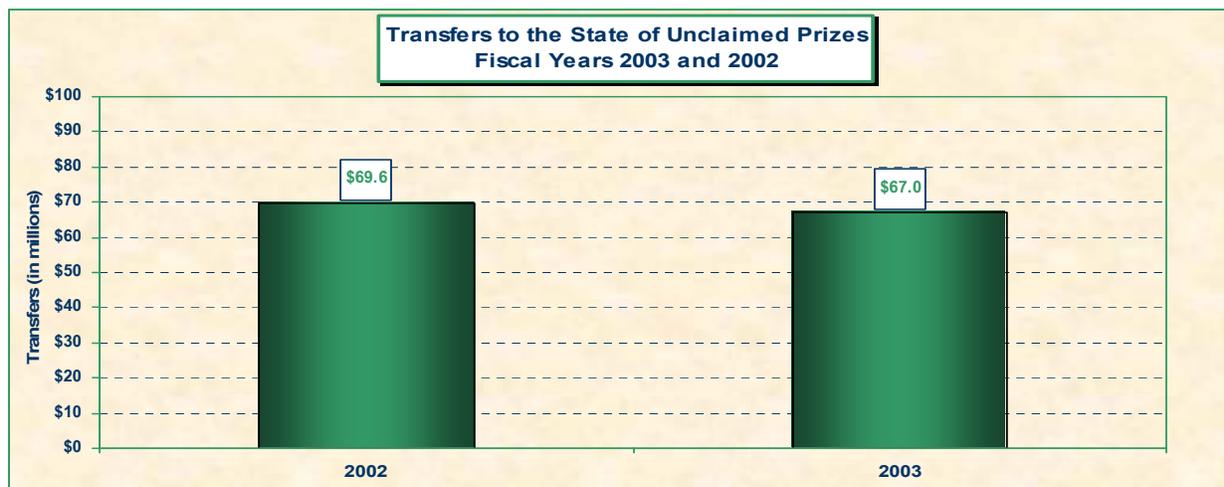
Payments to the State

The Commission recorded its fourth consecutive year of Lottery sales growth during the fiscal year ended August 31, 2003. Lottery sales for the fiscal year ended August 31, 2003 totaled \$3,130.7 million; an increase of 5.5% over the previous year's total of \$2,966.3 million. The increase allowed transfers to the Foundation School Fund to increase by \$23 million to \$882.1 million for the period, as compared to \$859.3 million for the fiscal year ended August 31, 2002.



Source: Texas Lottery Commission

In addition to the transfers to the Foundation School Fund, the Commission also transferred unclaimed prizes to the State's Multicategorical Teaching Hospital (Hospital) and Tertiary Care Facility during fiscal year 2003. A maximum of \$40 million for the 2002-2003 biennium was earmarked for the benefit of the Hospital. For the fiscal year ended August 31, 2003, total unclaimed prizes were \$67 million representing a decrease of \$2.6 million or 3.8% as compared to the previous year's amount. As of fiscal 2002, the Commission transferred \$40 million to the Hospital bringing the total to the statutory limit for the 2002 - 2003 biennium. The \$67 million of unclaimed prizes for fiscal year 2003 was transferred to the Tertiary Care Facility Account.



Source: Texas Lottery Commission

Potential Factors Impacting Future Operations

The Commission has two missions: 1) Administer and market state Lottery games in an efficient and secure manner using appropriate marketing tools and innovative technology to generate revenue for the State of Texas while enhancing public confidence in the integrity and fairness of the games 2) Provide authorized organizations the opportunity to raise funds for their charitable purposes by conducting bingo. Determine that all charitable bingo funds are used for a lawful purpose. Promote and maintain the integrity of the charitable bingo industry throughout Texas.

A continuous assessment of the State's economic environment and the Commission's own product lines and operations are essential to accomplish these missions. The following considerations have been presented to inform those interested in the Commission's operations about potential factors that could affect future operations:

- A continued decline in sales of the Lotto Texas online game, prompted management to implement changes to the game's matrix. Changes to the matrix were adopted by management in order to renew player interest and increase revenues. However, the matrix changes have not performed as expected. That coupled with the addition of a multijurisdiction lottery game, may result in additional changes to the Lotto Texas online game.
- The Texas Legislature, 78th Regular Session passed a bill authorizing Texas Lottery Commission to participate in a multijurisdiction lottery game. In December 2003, the Commission began participating in the multijurisdiction lottery game known as Mega Millions. The Comptroller of Public Accounts has estimated that the participation in a multijurisdiction lottery game will generate an additional \$101 million in net revenues to the State for the 2004-2005 fiscal biennium.

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: Director of Financial Administration, P.O. Box 16630, Austin, Texas 78761-6630.

Basic Financial Statements

Texas Lottery Commission
Government-wide Statements of Net Assets
August 31, 2003 and 2002

	<u>Primary Government</u>			<u>Total 2002</u>
	<u>Current Year</u>			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total 2003</u>	
ASSETS				
Current Assets:				
Cash and Cash Equivalents:				
Cash in Bank	\$ -	\$ 7,500.00	\$ 7,500.00	\$ 6,597.64
Cash in State Treasury	-	94,877,324.17	94,877,324.17	105,358,533.84
Restricted:				
Cash in State Treasury	-	-	-	38,369.83
Short Term Investments	-	171,213,695.58	171,213,695.58	167,783,613.46
Internal Balances	(74,212.23)	74,212.23	-	-
Legislative Appropriations	388,658.62	-	388,658.62	862,133.35
Accounts Receivable	-	25,842,601.85	25,842,601.85	27,381,154.52
Merchandise Inventories	-	7,022,318.30	7,022,318.30	5,442,560.87
Other Current Assets	-	12,444,000.00	12,444,000.00	-
Total Current Assets	<u>314,446.39</u>	<u>311,481,652.13</u>	<u>311,796,098.52</u>	<u>306,872,963.51</u>
Non-Current Assets:				
Restricted:				
Investments	-	1,384,236,901.52	1,384,236,901.52	1,449,872,948.09
Capital Assets:				
Furniture and Equipment	207,457.13	5,140,508.40	5,347,965.53	5,262,965.28
Accumulated Depreciation	(187,250.63)	(4,086,305.38)	(4,273,556.01)	(4,017,693.73)
Vehicles, Boats, and Aircraft	-	133,747.72	133,747.72	133,747.72
Accumulated Depreciation	-	(86,362.16)	(86,362.16)	(76,732.02)
Total Non-Current Assets	<u>20,206.50</u>	<u>1,385,338,490.10</u>	<u>1,385,358,696.60</u>	<u>1,451,175,235.34</u>
Total Assets	<u>\$ 334,652.89</u>	<u>\$ 1,696,820,142.23</u>	<u>\$ 1,697,154,795.12</u>	<u>\$ 1,758,048,198.85</u>
LIABILITIES				
Current Liabilities:				
Payables from:				
Accounts Payable	\$ 22,022.28	\$ 16,264,604.20	\$ 16,286,626.48	\$ 12,529,458.68
Other Intergovernmental	-	-	-	38,369.83
Vouchers Payable	1,192.32	7,821,708.50	7,822,900.82	5,530,696.90
Payroll	205,749.56	1,348,415.63	1,554,165.19	1,168,830.77
Other	4,982.80	10,891,000.78	10,895,983.58	10,790,380.60
Due to Other Agencies	-	9,356,175.88	9,356,175.88	15,453,851.20
Employees' Compensable Leave	131,338.48	817,827.39	949,165.87	831,252.55
Payable From Restricted Assets-Current	-	234,923,037.67	234,923,037.67	245,785,943.54
Total Current Liabilities	<u>365,285.44</u>	<u>281,422,770.05</u>	<u>281,788,055.49</u>	<u>292,128,784.07</u>
Non-Current Liabilities:				
Employees' Compensable Leave	88,260.58	433,859.04	522,119.62	517,030.04
Payable From Restricted Assets	-	1,328,286,219.12	1,328,286,219.12	1,363,685,782.55
Total Non-Current Liabilities	<u>88,260.58</u>	<u>1,328,720,078.16</u>	<u>1,328,808,338.74</u>	<u>1,364,202,812.59</u>
Total Liabilities	<u>453,546.02</u>	<u>1,610,142,848.21</u>	<u>1,610,596,394.23</u>	<u>1,656,331,596.66</u>
NET ASSETS				
Invested in Capital Assets, Net of Debt	20,206.50	1,101,588.58	1,121,795.08	1,302,287.25
Expendable restricted for:				
Pooled Bond Fund	-	5,000,000.00	5,000,000.00	5,000,000.00
Prize Reserve Fund	-	6,089,256.57	6,089,256.57	4,562,632.52
Unrestricted	(139,099.63)	74,486,448.87	74,347,349.24	90,851,682.42
Total Net Assets	<u>\$ (118,893.13)</u>	<u>\$ 86,677,294.02</u>	<u>\$ 86,558,400.89</u>	<u>\$ 101,716,602.19</u>
Total Liabilities and Net Assets	<u>\$ 334,652.89</u>	<u>\$ 1,696,820,142.23</u>	<u>\$ 1,697,154,795.12</u>	<u>\$ 1,758,048,198.85</u>

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

**Texas Lottery Commission
Government-wide Statements of Activities
For the Fiscal Years Ended August 31, 2003 and 2002**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Total 2002
					Governmental Activities	Business-type Activities	Total 2003	
Primary government:								
Governmental Activities:								
Bingo licensing	\$ 11,348,578.33	\$ 126,505.26	\$ -	\$ -	\$ (11,222,073.07)	\$ -	\$ (11,222,073.07)	\$ (10,603,413.48)
Bingo law enforcement	1,607,377.15	-	-	-	(1,607,377.15)	-	(1,607,377.15)	(1,774,841.89)
Unallocated depreciation	7,647.90	-	-	-	(7,647.90)	-	(7,647.90)	(16,040.71)
Total governmental activities	<u>12,963,603.38</u>	<u>126,505.26</u>	<u>-</u>	<u>-</u>	<u>(12,837,098.12)</u>	<u>-</u>	<u>(12,837,098.12)</u>	<u>(12,394,296.08)</u>
Business-type activities:								
Lottery operations	110,513,452.69	817,836.32	-	-	-	(109,695,616.37)	(109,695,616.37)	(121,548,414.57)
Marketing, research, and promotion	5,065,432.69	-	-	-	-	(5,065,432.69)	(5,065,432.69)	(3,770,353.83)
Advertising	27,987,069.15	-	-	-	-	(27,987,069.15)	(27,987,069.15)	(29,745,177.08)
Security	5,460,480.42	-	-	-	-	(5,460,480.42)	(5,460,480.42)	(3,383,815.05)
Central administration	12,904,535.59	60,980.48	-	-	-	(12,843,555.11)	(12,843,555.11)	(11,442,542.35)
Lottery prize payments and sales	1,845,198,256.92	3,130,692,602.20	-	-	-	1,285,494,345.28	1,285,494,345.28	1,250,896,618.94
Retailer Commissions	156,554,910.59	-	-	-	-	(156,554,910.59)	(156,554,910.59)	(148,359,044.45)
Settlement of Claims	5,134.30	-	-	-	-	(5,134.30)	(5,134.30)	(1,455.67)
Lottery prize investments	-	-	(30,162,753.24)	-	-	(30,162,753.24)	(30,162,753.24)	59,860,020.00
Total business-type activities	<u>2,163,689,272.35</u>	<u>3,131,571,419.00</u>	<u>(30,162,753.24)</u>	<u>-</u>	<u>-</u>	<u>937,719,393.41</u>	<u>937,719,393.41</u>	<u>992,505,835.94</u>
Total primary government	<u>\$ 2,176,652,875.73</u>	<u>\$ 3,131,697,924.26</u>	<u>\$ (30,162,753.24)</u>	<u>\$ -</u>	<u>\$ (12,837,098.12)</u>	<u>\$ 937,719,393.41</u>	<u>\$ 924,882,295.29</u>	<u>\$ 980,111,539.86</u>
General Revenues - detailed								
Legislative appropriations					\$ 3,254,718.67	\$ -	\$ 3,254,718.67	\$ 3,334,634.80
Bingo Licensing and prize fees					9,349,196.39	-	9,349,196.39	9,175,954.82
Interest and dividends					-	-	-	271,528.23
Special Items-gain(loss) on sale of fixed assets					-	8,000.00	8,000.00	-
Transfers-external activities					8,370.44	(949,088,064.48)	(949,079,694.04)	(928,881,809.01)
Total General revenues, special items, and transfers					<u>12,612,285.50</u>	<u>(949,080,064.48)</u>	<u>(936,467,778.98)</u>	<u>(916,099,691.16)</u>
Change in net assets					(224,812.62)	(11,360,671.07)	(11,585,483.69)	64,011,848.70
Net assets, beginning of year					319,030.49	101,397,571.70	101,716,602.19	38,454,872.39
Adjustments to beginning net assets					-	(3,359,606.61)	(3,359,606.61)	(702,703.43)
Legislative appropriations lapsed					(213,111.00)	-	(213,111.00)	(47,415.47)
Net assets, end of year					<u>\$ (118,893.13)</u>	<u>\$ 86,677,294.02</u>	<u>\$ 86,558,400.89</u>	<u>\$ 101,716,602.19</u>

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

Texas Lottery Commission
Balance Sheets – Governmental Funds
August 31, 2003 and 2002

	General Fund	Governmental Funds Total 2003	Governmental Funds Total 2002
ASSETS			
Current Assets:			
Restricted:			
Cash and Cash Equivalents:			
Cash in State Treasury	\$ -	\$ -	\$ 38,369.83
Legislative Appropriations	388,658.62	388,658.62	862,133.35
Total Current Assets	388,658.62	388,658.62	900,503.18
Non-Current Assets:	-	-	-
Total Assets	\$ 388,658.62	\$ 388,658.62	\$ 900,503.18
LIABILITIES AND FUND BALANCES			
Liabilities:			
Current Liabilities:			
Payables From:			
Accounts Payable	\$ 22,022.28	\$ 22,022.28	\$ 7,437.64
Vouchers Payable	1,192.32	1,192.32	-
Other Intergovernmental	-	-	38,369.83
Payroll Payable	205,749.56	205,749.56	176,984.10
Due To Other Funds	74,212.23	74,212.23	174,198.61
Funds Held for Others	4,982.80	4,982.80	-
Total Current Liabilities	308,159.19	308,159.19	396,990.18
Non-Current Liabilities:	-	-	-
Total Liabilities	308,159.19	308,159.19	396,990.18
FUND FINANCIAL STATEMENT-FUND BALANCES			
Fund Balances:			
Reserved for:			
Encumbrances	18,017.94	18,017.94	499,625.42
Undesignated	62,481.49	62,481.49	3,887.58
Total Fund Balances	80,499.43	80,499.43	503,513.00
Total Liabilities and Fund Balances	\$ 388,658.62	\$ 388,658.62	\$ 900,503.18

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

Texas Lottery Commission
Reconciliation of Total Governmental Funds Balance
to Net Assets of Governmental Activities
August 31, 2003

Total Governmental Funds Balance \$ 80,499.43

Amounts reported for governmental activities in the statement of net assets 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	207,457.13	
Accumulated depreciation	(187,250.63)	
Total Capital Assets		20,206.50

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

Employee compensated leave	(219,599.06)	
Total long-term liabilities		(219,599.06)

Net assets of governmental activities \$ (118,893.13)

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

Texas Lottery Commission
Statements of Revenues, Expenditures, and
Changes in Fund Balances – Governmental Funds
For the Fiscal Years Ended August 31, 2003 and 2002

	General Fund	Governmental Funds Total 2003	Governmental Funds Total 2002
REVENUES			
Legislative Appropriations:			
Original Appropriations	\$ 2,674,932.00	\$ 2,674,932.00	\$ 2,785,997.00
Additional Appropriations	579,786.67	579,786.67	548,637.80
Licenses, Fees & Permits	9,349,196.39	9,349,196.39	9,175,955
Other	126,505.26	126,505.26	30,786
Total Revenues	<u>12,730,420.32</u>	<u>12,730,420.32</u>	<u>12,541,375.22</u>
EXPENDITURES			
Salaries and Wages	2,312,622.61	2,312,622.61	2,040,223
Payroll Related Costs	472,463.04	472,463.04	444,265
Professional Fees and Services	458,430.02	458,430.02	185,775
Travel	59,112.66	59,112.66	88,811
Materials and Supplies	37,815.95	37,815.95	165,280
Communication and Utilities	252.72	252.72	33,657
Repairs and Maintenance	2,400.00	2,400.00	45,110
Rentals & Leases	175,165.09	175,165.09	167,958
Printing and Reproduction	52,516.85	52,516.85	29,511
Intergovernmental Payments	9,349,196.39	9,349,196.39	9,175,955
Other Expenditures	28,717.70	28,717.70	31,309
Capital Outlay	-	-	22,893
Total Expenditures/Expenses	<u>12,948,693.03</u>	<u>12,948,693.03</u>	<u>12,430,747.46</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(218,272.71)</u>	<u>(218,272.71)</u>	<u>110,627.76</u>
OTHER FINANCING SOURCES (USES)			
Legislative Transfers-in	<u>8,370.44</u>	<u>8,370.44</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>8,370.44</u>	<u>8,370.44</u>	<u>-</u>
Net Change in Fund Balances	(209,902.27)	(209,902.27)	110,627.76
FUND FINANCIAL STATEMENT-FUND BALANCES			
Fund Balances, Beginning of Year	503,513.00	503,513.00	440,300.71
Appropriations Lapsed	(213,111.00)	(213,111.00)	47,415
Fund Balances, End of Year	<u>\$ 80,499.43</u>	<u>\$ 80,499.73</u>	<u>\$ 503,513.00</u>

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

Texas Lottery Commission
Reconciliation of Changes in Fund Balances of Governmental Funds
to Changes in Net Assets of Governmental Activities
For the Fiscal Year Ended August 31, 2003

Net Change In Fund Balance Total - Governmental Fund \$ (209,902.27)

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

Capital outlays are reported 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	(7,647.90)		
Excess of capital outlay over depreciation expense			(7,647.90)

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:

Increase in compensated leave	(7,262.15)		
Total long-term liabilities			(7,262.15)

Change in Net Assets of Governmental Activities \$ (224,812.32)

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

**Texas Lottery Commission
Statements of Net Assets
Proprietary Funds
August 31, 2003 and 2002**

	Enterprise Fund (5025) U/F (1100)	Enterprise Fund (0895) U/F (0895)	Totals 2003	Total 2002
ASSETS				
Current Assets:				
Cash and Cash Equivalents:				
Cash in Bank	\$ 7,500.00	\$ -	\$ 7,500.00	\$ 6,597.64
Cash in State Treasury	94,877,324.17	-	94,877,324.17	105,358,533.84
Restricted:				
Short Term Investments	10,872,185.76	160,341,509.82	171,213,695.58	167,783,613.46
Receivables from:				
Accounts	25,842,601.85	-	25,842,601.85	27,381,154.52
Interfund Receivables	74,212.23	-	74,212.23	174,198.61
Merchandise Inventories	7,022,318.30	-	7,022,318.30	5,442,560.87
Other Current Assets	12,444,000.00	-	12,444,000.00	-
Total Current Assets	151,140,142.31	160,341,509.82	311,481,652.13	306,146,658.94
Non-Current Assets:				
Restricted:				
Investments	-	1,384,236,901.52	1,384,236,901.52	1,449,872,948.09
Capital Assets:				
Depreciable:				
Furniture and Equipment	5,140,508.40	-	5,140,508.40	5,049,341.90
Accumulated Depreciation	(4,086,305.38)	-	(4,086,305.38)	(3,831,924.75)
Vehicles, Boats, and Aircraft	133,747.72	-	133,747.72	133,747.72
Accumulated Depreciation	(86,362.16)	-	(86,362.16)	(76,732.02)
Total Non-Current Assets	1,101,588.58	1,384,236,901.52	1,385,338,490.10	1,451,147,380.94
Total Assets	\$ 152,241,730.89	\$ 1,544,578,411.34	\$ 1,696,820,142.23	\$ 1,757,294,039.88
LIABILITIES				
Current Liabilities:				
Voucher Payable	\$ 7,821,708.50	\$ -	\$ 7,821,708.50	\$ 5,530,696.90
Accounts Payable	16,264,604.20	-	16,264,604.20	12,522,021.04
Payroll	1,348,415.63	-	1,348,415.63	991,846.67
Annuities	10,722,979.00	-	10,722,979.00	10,790,380.60
Due to Other Agencies	9,356,175.88	-	9,356,175.88	15,453,851.20
Employees' Compensable Leave	817,827.39	-	817,827.39	706,311.96
Payable From Restricted Assets	73,586,037.67	161,337,000.00	234,923,037.67	245,785,943.54
Total Current Liabilities	120,085,770.05	161,337,000.00	281,422,770.05	291,781,051.91
Non-Current Liabilities:				
Employees' Compensable Leave	433,859.04	-	433,859.04	429,633.72
Payable From Restricted Assets	-	1,328,286,219.12	1,328,286,219.12	1,363,685,782.55
Total Non-Current Liabilities	433,859.04	1,328,286,219.12	1,328,720,078.16	1,364,115,416.27
Total Liabilities	120,519,629.09	1,489,623,219.12	1,610,142,848.21	1,655,896,468.18
NET ASSETS				
Invested in Capital Assets, Net of Debt	1,101,588.58	-	1,101,588.58	1,274,432.85
Restricted for:				
Expendable:				
Restricted by Other				
Pooled Bond Fund	5,000,000.00	-	5,000,000.00	5,000,000.00
Prize Reserve Fund	6,089,256.57	-	6,089,256.57	4,562,632.52
Unrestricted	19,531,256.65	54,955,192.22	74,486,448.87	90,560,506.33
Total Net Assets	31,722,101.80	54,955,192.22	86,677,294.02	101,397,571.70
Total Liabilities and Net Assets	\$ 152,241,730.89	\$ 1,544,578,411.34	\$ 1,696,820,142.23	\$ 1,757,294,039.88

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

Texas Lottery Commission
Statements of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
For the Fiscal Years Ended August 31, 2003 and 2002

	Enterprise Fund (5025) U/F (1100)	Enterprise Fund (0895) U/F (0895)	Total Proprietary Funds 2003	Total Proprietary Funds 2002
OPERATING REVENUES:				
Sales of Goods and Services:				
Lottery Proceeds				
Ticket Sales	\$ 3,130,692,602.20	\$ -	\$ 3,130,692,602.20	\$ 2,966,262,258.55
Lottery License Application Fees	243,320.00	-	243,320.00	227,687.50
Lottery Security Proceeds	127,032.50	-	127,032.50	133,857.50
Other Sales	-	-	-	157,900.09
Other Operating Revenues	474,626.63	-	474,626.63	500,034.05
Total Operating Revenues	<u>3,131,537,581.33</u>	<u>-</u>	<u>3,131,537,581.33</u>	<u>2,967,281,737.69</u>
OPERATING EXPENSES:				
Cost of Goods Sold:				
Salaries and Wages	12,367,347.23	-	12,367,347.23	11,632,271.98
Payroll Related Costs	2,957,372.55	-	2,957,372.55	2,655,390.63
Professional Fees and Services	5,452,769.93	-	5,452,769.93	4,428,396.63
Travel	258,995.56	-	258,995.56	306,650.93
Materials and Supplies	2,081,923.34	-	2,081,923.34	2,333,709.67
Communication and Utilities	394,325.44	-	394,325.44	391,055.37
Repairs and Maintenance	587,307.55	-	587,307.55	596,753.44
Rentals and Leases	5,886,915.12	-	5,886,915.12	6,196,420.78
Printing and Reproduction	14,521,222.80	-	14,521,222.80	14,836,395.65
Depreciation and Amortization	385,657.77	-	385,657.77	757,034.34
Bad Debt Expense	639,870.38	-	639,870.38	566,073.10
Interest	786.02	-	786.02	-
Lottery Prizes	1,845,198,256.92	-	1,845,198,256.92	1,715,355,957.61
Other Operating Expenses				
Retailer Commissions	156,554,910.59	-	156,554,910.59	148,359,044.45
Lottery Operator Fees	83,408,526.67	-	83,408,526.67	90,168,388.63
Advertising	28,106,543.78	-	28,106,543.78	30,140,361.72
Retailer Bonuses	3,606,783.55	-	3,606,783.55	4,172,483.05
Other	1,239,094.85	-	1,239,094.85	1,738,078.31
Total Operating Expenses	<u>2,163,648,610.05</u>	<u>-</u>	<u>2,163,648,610.05</u>	<u>2,034,634,466.29</u>
Operating Income (Loss)	<u>967,888,971.28</u>	<u>-</u>	<u>967,888,971.28</u>	<u>932,647,271.40</u>
NONOPERATING REVENUES (EXPENSES):				
Investment Income (Expense)	33,837.67	-	33,837.67	271,528.23
Gain/Loss Sale Capital Assets (GR)	8,000.00	-	8,000.00	-
Net Increase (Decrease) Fair Value	-	69,919,763.13	69,919,763.13	56,892,719.33
Settlement of Claims	(40,662.30)	-	(40,662.30)	(1,455.67)
Amortization of Investments Held for Prizes Payable	-	(100,082,516.37)	(100,082,516.37)	2,967,300.67
Total Nonoperating Revenues (Expenses)	<u>1,175.37</u>	<u>(30,162,753.24)</u>	<u>(30,161,577.87)</u>	<u>60,130,092.56</u>
Income (loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	967,890,146.65	(30,162,753.24)	937,727,393.41	992,777,363.96
OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:				
Transfers-Out	(949,088,064.48)	-	(949,088,064.48)	(928,881,809.01)
Total Other Revenue, Expenses, Gains/Losses and Transfers	<u>(949,088,064.48)</u>	<u>-</u>	<u>(949,088,064.48)</u>	<u>(928,881,809.01)</u>
Change in Net Assets	<u>18,802,082.17</u>	<u>(30,162,753.24)</u>	<u>(11,360,671.07)</u>	<u>63,895,554.95</u>
Total Net Assets, September 1, 2002	16,279,626.24	85,117,945.46	101,397,571.70	38,014,571.68
Restatements (Note 12)	(3,359,606.61)	-	(3,359,606.61)	(512,555.14)
Total Net Assets, September 1, 2002, as Restated	<u>12,920,019.63</u>	<u>85,117,945.46</u>	<u>98,037,965.09</u>	<u>37,502,016.54</u>
Total Net Assets, August 31, 2003	<u>\$ 31,722,101.80</u>	<u>\$ 54,955,192.22</u>	<u>\$ 86,677,294.02</u>	<u>\$ 101,397,571.49</u>

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

**Texas Lottery Commission
Statements of Cash Flows
Proprietary Funds
For the Fiscal Years Ended August 31, 2003 and 2002**

	Enterprise Fund (5025) U/F (1100)	Enterprise Fund (0895) U/F (0895)	Total Proprietary Funds 2003	Total Proprietary Funds 2002
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 3,133,076,134.00	\$ -	\$ 3,133,076,134.00	\$ 2,958,429,636.41
Payments to Suppliers for Goods and Services	(313,922,434.40)	-	(313,922,434.40)	(304,714,419.60)
Payments to Employees	(14,852,410.07)	-	(14,852,410.07)	(14,883,601.04)
Payments for Other Expenses	(1,858,534,542.61)	-	(1,858,534,542.61)	(1,744,224,454.44)
Net Cash Provided by Operating Activities	<u>945,766,746.92</u>	<u>-</u>	<u>945,766,746.92</u>	<u>894,607,161.33</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payments of Lottery Prize Annuities	-	(158,763,000.00)	(158,763,000.00)	(154,303,000.00)
Payments for Transfers to Other Funds	(955,285,726.18)	-	(955,285,726.18)	(956,477,825.28)
Proceeds from Other Financing Activities	-	34,446,469.80	34,446,469.80	58,841,576.00
Net Cash Used in Noncapital Financing Activities	<u>(955,285,726.18)</u>	<u>(124,316,530.20)</u>	<u>(1,079,602,256.38)</u>	<u>(1,051,939,249.28)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payments for Additions to Capital Assets	(212,813.50)	-	(212,813.50)	(490,311.10)
Net Cash Used in Capital and Related Financing Activities	<u>(212,813.50)</u>	<u>-</u>	<u>(212,813.50)</u>	<u>(490,311.10)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sales of Investments	-	158,763,000.00	158,763,000.00	154,303,000.00
Proceeds from Interest and Investment Income	33,837.67	-	33,837.67	270,072.56
Payments to Acquire Investments	(782,352.22)	(34,446,469.80)	(35,228,822.02)	(60,191,225.86)
Net Cash (Used in) / Provided by Investing Activities	<u>(748,514.55)</u>	<u>124,316,530.20</u>	<u>123,568,015.65</u>	<u>94,381,846.70</u>
Net Decrease in Cash and Cash Equivalents	(10,480,307.31)	-	(10,480,307.31)	(63,440,552.35)
Cash and Cash Equivalents, Beginning of Year	<u>105,365,131.48</u>	<u>-</u>	<u>105,365,131.48</u>	<u>168,805,683.83</u>
Cash and Cash Equivalents, End of Year	<u>\$ 94,884,824.17</u>	<u>\$ -</u>	<u>\$ 94,884,824.17</u>	<u>\$ 105,365,131.48</u>

(continued)

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

Texas Lottery Commission
Statements of Cash Flows
Proprietary Funds
For the Fiscal Years Ended August 31, 2003 and 2002
(continued)

	Enterprise Fund (5025) U/F (1100)	Enterprise Fund (0895) U/F (0895)	Total Proprietary Funds 2003	Total Proprietary Funds 2002
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income	\$ 967,888,971.28	\$ -	\$ 967,888,971.28	\$ 932,647,271.61
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Amortization and Depreciation	385,657.77	-	385,657.77	757,034.34
Bad Debt Expense	639,870.38	-	639,870.38	566,073.10
Operating Income and Cash Flow Categories:				
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	1,538,552.67	-	1,538,552.67	(8,852,101.28)
(Increase) Decrease in Inventories	(1,579,757.43)	-	(1,579,757.43)	33,265.36
Increase in Prepaid Expenses	(12,444,000.00)	-	(12,444,000.00)	-
Decrease in Payables	(10,662,547.75)	-	(10,662,547.75)	(30,544,381.80)
Total Adjustments	(22,122,224.36)	-	(22,122,224.36)	(38,040,110.28)
Net Cash Provided by Operating Activities	<u>\$ 945,766,746.92</u>	<u>\$ -</u>	<u>\$ 945,766,746.92</u>	<u>\$ 894,607,161.33</u>
Non Cash Transactions				
Net Increase in Fair Value of Investments			\$ 75,846,149.88	

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

Texas Lottery Commission
Statements of Fiduciary Assets and Liabilities
Fiduciary Funds
August 31, 2003 and 2002

	Agency Funds	Total 2003	Total 2002
ASSETS			
Current Assets:			
Cash and Cash Equivalents:	\$ 75,064.24	\$ 75,064.24	\$ 1,726.16
Cash in State Treasury			
Total Assets	\$ 75,064.24	\$ 75,064.24	\$ 1,726.16
LIABILITIES			
Current Liabilities:			
Funds Held for Others	\$ 75,064.24	\$ 75,064.24	\$ 1,726.16
Total Liabilities	\$ 75,064.24	\$ 75,064.24	\$ 1,726.16

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

Notes to the Financial Statements

TEXAS LOTTERY COMMISSION

Notes to the Financial Statements

For The Year Ended August 31, 2003

NOTE 1: Summary of Significant Accounting Policies

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 12, 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 7, 1991, and commenced operations on November 20, 1991. The Commission was formed by the State lawmakers during the 1993 legislative session and became effective September 1, 1993. On November 9, 1993, the Governor of the State of Texas announced the appointment of three persons as the initial Commissioners. The commissioners appoint the Executive Director of the Texas Lottery Commission and the Director of Charitable Bingo.

Effective April 1, 1994, House Bill No. 2771 transferred Bingo operations from the Texas Alcoholic Beverage Commission to the Texas Lottery Commission. The Charitable Bingo 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 being deposited in the General Revenue Fund.

The Commission includes within this report all components as determined by an analysis of their relationship to the Texas Lottery Commission. No component units have been identified as defined by GASB Statement No. 14, which should have been blended or presented by discrete columns into an appropriate fund.

BASIS OF PRESENTATION

The accompanying financial statements of the Commission have been prepared to conform with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This statement provides for the most significant change in financial reporting in over twenty years. Statement No. 38, *Certain Financial Statement Note Disclosures* establishes and modifies certain disclosure requirements. The Commission beginning September 1, 2001, implemented these statements.

Financial reporting for the Commission is based on all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, the Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.

FINANCIAL REPORTING STRUCTURE

The basic financial statements include both government-wide (based on the Commission as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), the new reporting model focuses on the Commission as a whole in the government-wide financial statements and major individual funds in the fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Totals on the business-type activities fund statements directly reconcile to the business-type activities column in the government-wide statements.

Government-wide Financial Statements

The government-wide financial statements (Statement of Net Assets 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 Assets, 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 Licensing, Central Administration, 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. Depreciation expense for the business-type activities is allocated to functional categories based on full time equivalent units of number of employees. The program revenues must be directly associated with the function, or with a business-type activity. The operating grants include 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 third parties outside of the Commission 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 normally covered by general revenues. The previous reporting model did not present net cost by function or activity.

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). Since 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 Texas Lottery Commission include the General Fund, General Fund Consolidated Account, two Enterprise Funds, and three Agency Funds.

Governmental Fund Types

General Fund

The general fund is used to account for all financial resources of the state except those required to be accounted for in another fund. The General Fund is used to account for Charitable Bingo Operations. The general fund is also used to account for the City and County portion of the Bingo Prize Fee (5% of prizes paid) collected by the Charitable Bingo Operations Division of the Commission. The funds are allocated to the localities on a quarterly basis. In prior fiscal years, the Bingo Prize Fee was reported in an Agency Fund. Due to the implementation of GASB 34, the presentation and classification were changed for fiscal years ending after August 31, 2001.

Proprietary Fund Types

Enterprise Funds

Enterprise funds are used to account for operations financed and operated in a manner similar to a private business. The intent is to recover costs through user charges or to determine periodically if revenues earned, expenses incurred, and/or net income is appropriate for management control, accountability, and other purposes. The Lottery operations and investment activities are accounted for in Enterprise Funds, which account for operations in a manner similar to private business.

Lottery – Enterprise (05) Appd Fund, D23 Fund 1100 (5025) - This fund is used to record all transactions related to the operation of the State Lottery.

Lotto Prize Trust – 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. Before fiscal year 1998, this fund was reported as an Agency Fund. Due to the implementation of GASB 31, the presentation was changed in fiscal year 1998.

Fiduciary Fund Types

Agency Funds

Agency funds are used to account for assets held as an agent for individuals, other government entities, and/or other funds. These funds are custodial in nature and do not involve measurement of results of operations.

Suspense Fund (900) - This fund is used to hold funds prior to the ultimate disposition of the funds to other governmental entities or the General Revenue Fund.

U.S. Savings Bond Fund (901) - This fund is used to accumulate money withheld from the salaries of employees for the purpose of purchasing United States Savings Bonds. Bonds are purchased when an individual has accumulated a sufficient amount.

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

Fund Financial Statements

The fund financial statements are similar to the financial statements presented in the previous model. The new emphasis is on the major funds in either the 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 basis of accounting. Under modified accrual, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The 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 basis of accrual. Expenditures and other uses of financial resources are recognized when their related liability is incurred.

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

The proprietary funds are accounted for on the full 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 nonoperating 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). Encumbrance accounting is employed for budgetary control purposes only for the General Fund.

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

Assets, Liabilities, and Fund Balances/Net Assets

ASSETS

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Commission considers cash and cash equivalents to be Cash in Bank and Cash in State Treasury.

Allocation of Income

Revenues from instant and on-line lottery ticket sales, and fees, net of retailer commissions and direct retailer prize payments are deposited directly into an account in the Enterprise Fund (5025) Fund. 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 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. For fiscal year 2003, the remainder of unspent administrative funds will be transferred to the Foundation School Fund. Net proceeds will continue to be transferred to the Foundation School Fund during fiscal year 2004. Unexpended amounts in the Lottery operations account at August 31, 2003 and 2002, respectively, are included as Cash in State Treasury on the Commission's balance sheets, since the use of such funds is necessary to cover the Commission's expenditures and prize payment obligations.

Accrued transfers in the amounts of \$9,356,175.88 and \$15,453,851.20 are recorded as "Due to Other Agencies" as of August 31, 2003 and 2002, respectively. All accrued transfers are due to the Foundation School Fund.

Investments

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

Restricted Assets

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

Inventories

Merchandise Inventories include instant game tickets on hand at year end and for sale. The inventory is carried at cost, as determined by the weighted average cost method.

Other Current Assets

Other Current Assets consists of certain payments to vendors, which reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Assets with an initial, individual cost of \$5,000 or higher 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 their estimated useful life using the Modified Straight-Line method.

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

LIABILITIES

Accounts Payable

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

Payroll Payable

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

Employees' Compensable Leave Balances

Employees' Compensable Leave balances represent the liability that becomes “due” upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or non-current in the Statement of Net Assets.

Liabilities Payable From Restricted Assets - Current

Lotto Texas jackpot prizes of \$4 million or more 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. The first installment is processed on the day the prize is claimed. The subsequent installments are funded with United States securities purchased by the Texas Treasury Safekeeping Trust Company on the Commission’s behalf, as are the installment payments for *Weekly Grand*, *Weekly Bonus*, *Monthly Money*, *Win for Life*, and *Twice as Grand* prizes.

The amortization of the discount of investments held for prizes payable is based on yields ranging from 0.98 percent to 7.33 percent and 1.20 percent to 5.81 percent for fiscal years 2003 and 2002, respectively 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, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Total obligation	\$ 2,074,225,000	\$ 2,173,292,000
Less - unamortized discount	584,601,781	650,843,217
Total carrying amount	1,489,623,219	1,522,448,783
Less - prize annuities payable within one year	161,337,000	158,763,000
Long-term prizes payable	<u>\$ 1,328,286,219</u>	<u>\$ 1,363,685,783</u>

The aggregate amounts of prizes payable due in each of the five fiscal years following August 31, 2003 and 2002, and the total thereafter are as follows:

Aggregate Amount of Prizes Payables	Business-Type Activities		Business-Type Activities	
	Principal 2003	Interest 2003	Principal 2002	Interest 2002
2004 (Future Year 1)	\$161,337,000		\$158,763,000	
2005 (Future Year 2)	161,187,000		158,763,000	
2006 (Future Year 3)	161,097,000		158,613,000	
2007 (Future Year 4)	161,097,000		158,523,000	
2008 (Future Year 5)	161,097,000		158,523,000	
2009-2013	782,503,000		792,615,000	
2014-2018	305,818,000		394,480,000	
2019-2023	150,617,000		157,544,000	
2024-2025	29,472,000		35,468,000	
Total Prizes Payable	\$2,074,225,000		\$2,173,292,000	

There were no prizes payable for the governmental activities, as of August 31, 2003 and 2002.

Unclaimed Prizes

The ticket holder forfeits prizes that remain unclaimed for 180 days after the on-line drawing date or 180 days after the close of an instant game. During fiscal years 2003 and 2002, the Lottery transferred unclaimed lottery prize winnings on a quarterly basis to the Texas Department of Health's account in General Revenue for credit to the Tertiary Care Facility Account in the amount of \$66,993,269.00 and \$29,618,383.00, respectively. No unclaimed prizes were transferred to the Multicategorical Teaching Hospital Account during fiscal year 2003 as the statutory limit of \$40 million per biennium was reached during fiscal year 2002.

FUND BALANCE/NET ASSETS

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

Reservation of Fund Balances

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

Reserved for Encumbrances

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

Unreserved/Undesignated:

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

Invested In Capital Assets, Net of Debt

Invested in capital assets, net of debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bond, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Net assets invested in capital assets, net of related debt at August 31, 2003 and 2002 were \$1,121,795.08 and \$1,302,287.25 respectively.

Restricted Net Assets

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

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

	2003	2002
Reserved for Pooled Bond Fund	\$5,000,000.00	\$5,000,000.00
Prize Reserve Fund (Reserved For Future Lotto Prizes)	\$6,089,256.57	\$4,562,632.52

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, 2003 and 2002, the balance in the Pooled Bond Fund did not exceed the statutory cap of \$5 million. During the years ended August 31, 2003 and 2002, no reimbursement of losses were made to the State, from the Pooled Bond Fund.

Prize Reserve Fund (Reserved For Future Lotto Prizes)

The Reserve for Future Lotto Prizes consists of 2 percent of the *Lotto Texas* prize pool allocation. The Lotto Texas Prize Reserve Fund may only be increased by the 2 percent allocation. The Lotto Texas Prize Reserve Fund may be decreased, for example, by rounding down or by supplementing Lotto Texas prizes. The Lotto Texas Prize Reserve Fund may be used only for the Lotto Texas game.

Unrestricted Net Assets

Unrestricted Net Assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted Net Assets often have constraints on resources, which are imposed by management, but can be removed or modified. Unrestricted Net Assets in the Proprietary Funds consist of the following:

	2003	2002
Future Lottery Prizes	\$54,955,192.22	\$85,117,945.46
Unrestricted/Undesignated	\$19,531,256.65	\$ 5,442,560.87

Future Lottery Prizes

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

Unreserved/Undesignated:

This category represents any un-appropriated balances at year-end.

INTERFUND TRANSACTIONS AND BALANCES

The agency has the following types of transactions among funds:

- (1) Transfers: Legally required transfers that are reported when incurred as ‘transfers in’ by the recipient fund and as ‘transfers out’ by the disbursing fund.
- (2) Reimbursements: Reimbursements of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

The composition of the agency’s interfund receivables and payables at August 31, 2003 and 2002 is presented in Note 6. Transfers to Foundation School Fund during fiscal year 2003 and 2002 were as follows:

	2003	2002
Cash transfers	\$888,192,470.80	\$ 869,700,799.00
Accrued transfers at beginning of fiscal year	<u>(15,453,851.20)</u>	<u>(25,891,224.19)</u>
Amount transferred from current year revenue	872,738,619.60	843,809,574.81
Accrued transfers at end fiscal year	<u>9,356,175.88</u>	<u>15,453,851.20</u>
Total transfers to Foundation School Fund	<u><u>882,094,795.48</u></u>	<u><u>859,263,426.01</u></u>

Transfers to the Multicategorical Teaching Hospital Account for unclaimed prizes during fiscal years 2003 and 2002 were as follows:

	2003	2002
Cash transfers	\$ -	\$ 40,000,000.00
Accrued transfers at beginning of fiscal year	-	-
Amount transferred from current year unclaimed prizes	-	40,000,000.00
Accrued transfers at end fiscal year	-	-
Total transfers to Multicategorical Teaching Hospital Account	<u>\$ -</u>	<u>\$ 40,000,000.00</u>

Transfers to the Tertiary Care Facility Account for unclaimed prizes during fiscal years 2003 and 2002 are as follows:

	2003	2002
Cash transfers	\$ 66,993,269.00	\$ 46,886,590.00
Accrued transfers at beginning of fiscal year	-	(17,268,207.00)
Amount transferred from current year unclaimed prizes	66,993,269.00	29,618,383.00
Accrued transfers at end fiscal year	-	-
Total transfers to Tertiary Care Facility Account	<u>\$ 66,993,269.00</u>	<u>\$ 29,618,383.00</u>

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 properties 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 comprised of revenues from instant and on-line lottery ticket sales and retailer fees. Instant ticket sales are recognized as revenue when settled with retailers. Ticket packs are considered settled on the earliest of the date when 50 percent of the low tier prizes in the pack are validated or 45 days after the pack is activated by the retailer. On-line ticket sales are recognized as revenue when tickets are purchased by lottery players. Revenues from retailer license and application fees are recorded when licenses are granted.

Lottery revenues are used for payments of prizes and to pay costs incurred in the operation and administration of the Commission's lottery related activities, such costs being limited to 12 percent of gross revenues accruing from the sale of lottery tickets, including not less than 5 percent for lottery ticket retailer commissions.

Lottery Prizes

Prize expense for instant and on-line games is estimated as a function of sales based on the predetermined prize structure for each game.

Retailer Commissions

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

Retailer Bonuses

A retailer who sells a Lotto jackpot prize is eligible to receive a bonus of one percent of the Lotto jackpot ticket the retailer sold, not to exceed \$500,000. Retailers are also eligible to receive a one percent bonus for selling winning top-prize instant game tickets of \$1,000,000 or higher, with a maximum bonus payable of \$10,000. A one percent bonus, not to exceed \$10,000, is available for a retailer selling a Texas Two Step winning jackpot ticket. A one percent bonus can also be earned by a retailer for selling a "5 of 5" Cash Five prize. In the event that more than one winning top-tier ticket is sold in connection with any of the games referenced above, the retailers that sold the winning tickets will share equally in the bonus.

Lottery Operator Fees

The Lottery Operator received a fee of 2.6999 percent and 3.05 percent for fiscal years 2003 and 2002, respectively, based on the total lottery tickets sold, as defined in Section 7.3 of the RFP for Lottery Operator, dated December 21, 1991. In addition to the operator, the Commission contracts for other goods and services in the ordinary course of business. Payments under such contracts are charged to expense as the goods and services are received.

NOTE 2: Fixed Assets

A summary of changes in Capital Assets for the year ended August 31, 2003, is presented below:

	PRIMARY GOVERNMENT					Balance 8/31/03
	Balance 9/1/02	Adjustments	Reclassifications	Additions	Deletions	
Governmental activities:						
Depreciable Assets:						
Furniture and Equipment	\$ 213,623.38				\$(6,166.25)	\$ 207,457.13
Total depreciable assets at historical cost	213,623.38				(6,166.25)	207,457.13
Less accumulated depreciation for:						
Furniture and Equipment	(185,768.98)			(7,647.90)	6,166.25	(187,250.63)
Total accumulated depreciation	(185,768.98)			(7,647.90)	6,166.25	(187,250.63)
Depreciable assets, net	27,854.40			(7,647.90)		20,206.50
Governmental activities capital assets, net:	\$ 27,854.40	\$	\$	\$(7,647.90)	\$	\$20,206.50

PRIMARY GOVERNMENT						
	Balance 9/1/02	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/03
Business-type activities						
Depreciable Assets:						
Furniture and Equipment	\$5,049,341.90			\$212,813.50	\$(121,647.00)	\$5,140,508.40
Vehicles, Boats, & Aircraft	133,747.72					133,747.72
Total depreciable assets at historical cost	5,183,089.62			212,813.50	(121,647.00)	5,274,256.12
Less accumulated depreciation for:						
Furniture and Equipment	(3,831,924.75)			(376,027.63)	121,647.00	(4,086,305.38)
Vehicles, Boats, & Aircraft	(76,732.02)			(9,630.14)		(86,362.16)
Total accumulated depreciation	(3,908,656.77)			(385,657.77)	121,647.00	(4,172,667.54)
Depreciable assets, net	1,274,432.85			(172,844.27)		1,101,588.58
Business-Type activities capital assets, net:	\$ 1,274,432.85	\$	\$	\$(172,844.27)	\$	\$1,101,588.58

The Fixed Assets of the Texas Lottery Commission are depreciated by using the Modified Straight-Line method. Fixed 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

A summary of changes in Capital Assets for the year ended August 31, 2002, is presented below:

PRIMARY GOVERNMENT						
	Balance 9/1/01	Adjustments*	Reclassifications	Additions	Deletions	Balance 8/31/02
Governmental activities:						
Depreciable Assets:						
Buildings and Building Improvements						
Furniture and Equipment	490,525.27	(286,978.70)		22,893.00	(12,816.19)	213,623.38
Total depreciable assets at historical cost	490,525.27	(286,978.70)		22,893.00	(12,816.19)	213,623.38
Less accumulated depreciation for:						
Furniture and Equipment		(182,544.46)		(16,040.71)	12,816.19	(185,768.98)
Total accumulated depreciation	0.00	(182,544.46)	0.00	(16,040.71)	12,816.19	(185,768.98)
Depreciable assets, net	490,525.27	(469,523.16)		6,852.29	0.00	27,854.40
Governmental activities capital assets, net:	\$ 490,525.27	\$ (469,523.16)	\$ 0.00	\$ 6,852.29	\$ 0.00	\$ 27,854.40

PRIMARY GOVERNMENT						
	Balance 9/1/01	Adjustments*	Reclassifications	Additions	Deletions	Balance 8/31/02
Business-type activities						
Depreciable Assets:						
Furniture and Equipment	7,006,474.79	(2,420,957.99)		474,131.10	(10,306.00)	5,049,341.90
Vehicles, Boats, & Aircraft	133,747.72					133,747.72
Total depreciable assets at historical cost	7,140,222.51	(2,420,957.99)		474,131.10	(10,306.00)	5,183,089.62
Less accumulated depreciation for:						
Furniture and Equipment	(4,999,399.56)	1,899,645.95		(742,477.14)	10,306.00	(3,831,924.75)
Vehicles, Boats, & Aircraft	(70,931.72)	8,756.90		(14,557.20)		(76,732.02)
Total accumulated depreciation	(5,070,331.28)	1,908,402.85		(757,034.34)	10,306.00	(3,908,656.77)
Depreciable assets, net	2,069,891.23	(512,555.14)		(282,903.24)		1,274,432.85
Business-Type activities capital assets, net:	\$ 2,069,891.23	\$ (512,555.14)		\$(282,903.24)		\$ 1,274,432.85

* Adjustment column includes GASB 34 fund type changes, capitalization threshold changes, assets that were not previously recorded and accumulated depreciation.

The Fixed Assets of the Texas Lottery Commission are depreciated by using the Modified Straight-Line method. Fixed 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

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, 2003 and 2002.

Deposits of Cash in Bank

- A. The carrying amount of \$7,500.00 for fiscal year 2003 and \$6,597.64 for fiscal year 2002, for Cash in Bank (including restricted assets) are presented below.
- B. The bank balances of the Commission have been classified according to the following risk categories:
 - Category 1: Insured or collateralized with securities held by the governmental entity or by its agent in the name of the governmental entity.
 - Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the governmental entity's name.
 - Category 3: Uncollateralized (which would include any deposits collateralized with securities held by the pledging financial institutions or by its trust department or agent but not in the governmental entity's name).

Year	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
2003	\$ 7,500.00	\$	\$	\$ 7,500.00	\$ 7,500.00
2002	\$ 6,557.55	\$	\$	\$ 6,557.55	\$ 6,597.64
Consisting of the following:					
2003	Cash in Bank				\$ 7,500.00
2002	Demand Deposits				\$ 6,797.64

Investments

The Commission's investments consist of United States Government Securities. These investments have been purchased to provide for the payment of the *Lotto Texas* jackpot prizes that are payable annually to the winners over a nineteen-year or twenty-four year period, as well as, the installment payments for *Weekly Grand*, *Weekly Bonus*, *Monthly Money*, *Win for Life*, and *Twice as Grand* prizes, as the investments mature. 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, which are held by the Texas Treasury Safekeeping Trust Company, are categorized to give an indication of the level of risk assumed by the Commission at year end. All of the Commission's investments at August 31, 2003 and 2002, with the exception of reverse repurchase agreements, are included in category 1, the lowest risk, as defined by Governmental Accounting Standards Board Statement No. 3, and include investments that are insured or registered or securities held

by the Texas Treasury Safekeeping Trust Company or its agent in the Texas Treasury Safekeeping Trust Company's name.

The fair value of investments as of the balance sheet dates (including both short-term and long-term) are shown below. Investments are categorized to give an indication of the level of risk assumed by the Commission at year-end. The three categories are:

- Category 1: Investments that are insured or registered, or for which the Commission, or its agent in the Commission's name holds the securities.
- Category 2: Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Commission's name.
- Category 3: Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Commission's name.

Categorized Investments, August 31, 2003:

Type of Security	Category			Fair Value
	1	2	3	
U.S. Government and Agency Obligations	\$1,382,744,471.97			\$1,382,744,471.97
Totals	\$1,382,744,471.97			\$1,382,744,471.97

Uncategorized Investments:

Investments held by broker-dealers under reverse repurchase agreements: U.S. Government Securities and Agency Obligations	\$ 172,706,125.13
Total Investments, August 31, 2003	\$ 1,555,450,597.10

Consisting of the following:	
Proprietary Funds Current Restricted Short Term Investments	\$ 171,213,695.58
Proprietary Funds Non-Current Restricted Investments	1,384,236,901.52
Total Investments per Financial Statements, August 31, 2003	\$1,555,450,597.10

Categorized Investments, August 31, 2002:

Type of Security	Category			Fair Value
	1	2	3	
Govt. Investments	\$1,484,110,372.00			\$1,484,110,372.00
Totals	\$1,484,110,372.00			\$1,484,110,372.00

Uncategorized Investments:

Investments held by broker-dealers under reverse repurchase agreements: U.S. Government Securities	133,546,189.55
Total Investments, August 31, 2002	\$1,617,656,561.55

Consisting of the following:	
Proprietary Funds Current Restricted Short Term Investments	\$ 167,783,613.46
Proprietary Funds Non-Current Restricted Investments	1,449,872,948.09
Total Investments per Financial Statements, August 31, 2002	\$1,617,656,561.55

Reverse Repurchase Agreements

At August 31, 2003 and 2002, 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 repurchaser 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 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 Texas Treasury Safekeeping Trust Company.

The amount of investments subject to reverse repurchase agreements at August 31, 2003 and 2002 were approximately \$86,432,634.00 and \$73,762,879.00, respectively, at cost. The fair value of the securities underlying these agreements at August 31, 2003 and 2002 were approximately \$172,706,125.13 and \$133,546,189.55, respectively.

<i>NOTE 4: Summary of Long Term Liabilities</i>
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Changes in Long-Term Liabilities

During the years ended August 31, 2003 and 2002, the following changes occurred in long-term liabilities.

Year Ended August 31, 2003

Governmental Activities	Balance 09-1-02	Additions	Deductions	Balance 08-31-03	Amounts Due Within One Year
Compensable Leave	\$212,336.91	\$217,789.80	\$210,527.65	\$219,599.06	\$131,338.48
Total Governmental Activities	\$212,336.91	\$217,789.80	\$210,527.65	\$219,599.06	\$131,338.48

Business-Type Activities	Balance 09-1-02	Additions	Deductions	Balance 08-31-03	Amounts Due Within One Year
Compensable Leave	\$1,135,945.48	\$1,514,973.98	\$1,399,233.23	\$1,251,686.43	\$817,827.39
Total Business-Type Activities	\$1,135,945.68	\$1,514,973.98	\$1,399,233.23	\$1,251,686.43	\$817,827.39

Year Ended August 31, 2002

Governmental Activities	Balance 09-1-01	Additions	Deductions	Balance 08-31-02	Amounts Due Within One Year
Compensable Leave	\$211,150.40	\$203,584.94	\$202,398.43	\$212,336.91	\$124,940.59
Total Governmental Activities	\$211,150.40	\$203,584.94	\$202,398.43	\$212,336.91	\$124,940.59

Business-Type Activities	Balance 09-1-01	Additions	Deductions	Balance 08-31-02	Amounts Due Within One Year
Compensable Leave	\$1,232,226.07	\$1,737,933.39	\$1,834,213.78	\$1,135,945.68	\$706,311.96
Total Business-Type Activities	\$1,232,226.07	\$1,737,933.39	\$1,834,213.78	\$1,135,945.68	\$706,311.96

Employees' Compensable Leave

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's separation from State employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. An expense and liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

NOTE 5: Operating Lease Obligations

The Commission leases its headquarters facility in Austin, Texas, twenty-one claim centers throughout Texas, and five regional offices under the terms of operating leases expiring at various dates through 2010. Rent expense for Charitable Bingo and Lottery operations under these and other leases, including the rental of instant ticket vending machines, amounted to \$5,183,549.34 in fiscal year 2003 and \$5,374,810.46 in fiscal year 2002. 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. The Commission also leases office equipment under a month-to-month master-operating lease negotiated by the Texas Building and Procurement Commission. Generally, management expects that leases will be renewed or replaced by other leases in the normal course of business.

Included in the expenditures or expenses reported in the financial statements are the following amounts of rent paid or due under operating leases:

Fund Type	2003	2002
General Revenue Fund	\$ 175,016.28	\$ 165,417.02
General Revenue - Dedicated	2,230,127.28	2,150,712.60
Totals - Memorandum Only	\$ 2,405,143.56	\$ 2,316,129.62

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

Year Ended August 31,	2003	2002
2003	\$ 0.00	\$ 2,315,875.00
2004	2,414,191.26	2,232,055.17
2005	2,607,452.43	2,160,519.34
2006	2,525,510.96	2,223,381.36
2007	2,202,398.96	2,370,484.48
2008	2,124,256.01	0.00
2008 through 2010	0.00	6,317,692.52
2009 through 2010	3,428,686.64	0.00
Total Minimum Future Lease Rental Payments	\$15,302,496.20	\$17,620,007.87

NOTE 6: Interfund Balances/Activities

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

- Interfund Receivables or Interfund Payables – (See Note 6 Presentation below)
- Due From Other Agencies or Due To Other Agencies
- Due From Other Funds or Due To Other Funds
- Transfers In or Transfers Out – (See Note 6 Presentation below)
- Legislative Transfers In or Legislative Transfer Out – (See Note 6 Presentation below)

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

Individual balances and activity at August 31, 2003 and 2002 are as follows:

Note 6 Presentation:				
Current Portion	2003		2002	
	Current Interfund Receivable	Current Interfund Payable	Current Interfund Receivable	Current Interfund Payable
GENERAL REVENUE (01) Appd Fund 0001, D23 Fund 0001				
(Agency 362, D23 Fund 1100)		\$74,212.23		\$174,198.61
ENTERPRISE (05) Appd Fund 5025, D23 Fund 1100				
(Agency 362, D23 Fund 0001)	\$74,212.23		\$174,198.61	
Total Interfund Receivable/Payable (Exh. I & III)	\$74,212.23	\$74,212.23	\$174,198.61	\$174,198.61

Note 6 Presentation:				
	2003		2002	
	DUE FROM Other Agencies	DUE TO Other Agencies	DUE FROM Other Agencies	DUE TO Other Agencies
ENTERPRISE (05) Appd Fund 5025, D23 Fund 1100				
(Agency 701, D23 Fund 0193). Source: Transfer		\$ 9,356,175.88		\$ 15,453,851.20
Total Due From/To Other Agencies (Exh. III)		\$ 9,356,175.88		\$ 15,453,851.20

Note 6 Presentation:				
	2003		2002	
	Transfers In	Transfers Out	Transfers In	Transfers Out
ENTERPRISE (05) Appd Fund 5025, D23 Fund 1100				
Agy 701, D23 Fund 0193. Purpose: Revenue		\$882,094,795.48		\$859,263,426.01
Agy 501, D23 Fund 5049. Purpose: Revenue		66,993,269.00		29,618,383.00
GENERAL REVENUE (01) Appd Fund 0001, D23 Fund 0001				40,000,000.00
Agy 479, D23 Fund 0001. Purpose: Revenue	8,370.44			
Total Transfer	\$ 8,370.44	\$949,088,064.48		\$928,881,809.01

NOTE 7: Employees Retirement Plans

The State of Texas has joint contributory retirement plans for substantially all of its employees. The Commission participates in the defined benefit pension plans administered by the Employees Retirement System of Texas (the "System"). Each participating employee and the State separately contribute six percent (6%) of the employee's annual salary to the plans. Future pension costs are the liabilities of the System. The System does not account for each State agency separately. Annual financial reports prepared by the System include audited financial statements and actuarial assumptions and conclusions. The audited financial report for the Employees Retirement Plan is available by writing: Employees Retirement System of Texas, P.O. Box 13207, Austin, Texas, 78711.

NOTE 8: Deferred Compensation

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX.GOV'T CODE ANN., sec 609.001. Two plans are available for employees to defer compensation. Both plans are administered by the Employees Retirement System. The State also administers another plan: "TexaSaver", created in accordance with Internal Revenue Code Sec. 401(K). The assets of this plan do not belong to the state. The state has no liability related to this plan.

NOTE 9: Continuance Subject to Review

The Texas Lottery Commission is subject to the Texas Sunset Act. During fiscal years 2002 and 2003, the Commission underwent Sunset Review and was continued in existence through September 1, 2005. The Commission is on the Sunset Advisory Commission's review schedule for fiscal years 2004 and 2005. Unless continued in existence as provided by the Texas Sunset Act, the Lottery Division will be abolished and Chapter 466, Texas Government Code, will expire on September 1, 2005. Additionally, unless continued in existence as provided by the Texas Sunset Act, the Commission is abolished and Chapter 467, Texas Government Code, will expire on September 1, 2005.

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: Subsequent Events

On December 3, 2003, the Texas Lottery Commission commenced the sales of *Mega Millions* on-line lottery game. The Commission entered into an agreement with the *Mega Millions* group on October 16th, 2003 to participate in the multi-jurisdiction lottery game. The 78th Legislature passed House Bill 3459, which included a provision authorizing the Commission to participate in a multi-jurisdiction lottery game.

Presently, the other member lotteries of the Mega Millions Group include Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Virginia, and Washington.

Effective January 30, 2004, the Commission will be closing the claim centers located in Wichita Falls, Sherman, San Angelo, Waco, and Bryan. This decision is in response to recent legislative actions related to budgetary controls in the State of Texas.

NOTE 12: Restatement of Fund Balances / Retained Earnings

During fiscal year 2003, the Commission recognized that Accounts Payable and corresponding expenditure accounts were understated; therefore, an adjustment was made to reduce previously reported Proprietary Fund balance by \$3,359,606.61 as follows:

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

	General Revenue	Enterprise Fund	Totals
Fund Bal/Equity August 31, 2002	\$ 503,513.00	\$ 101,397,571.70	\$ 101,901,084.70
Restatements:			
a.		(3,359,606.61)	(3,359,606.61)
Net Restatements		(3,359,606.61)	(3,359,606.61)
Fund Bal/Equity September 1, 2002, as restated	\$ 503,513.00	\$ 98,037,965.09	\$ 98,541,478.09

(b) Change in method of applying a principle – Proprietary Fund

During fiscal year 2002, the Commission changed its asset capitalization threshold from \$1,000 to \$5,000 for each item. Accordingly, an adjustment was made to reduce previously reported Proprietary Fund balance by \$512,555.14 as follows:

	Enterprise Fund
Fund Bal/Equity August 31, 2001	\$38,014,571.68
GASB 34/35 Fund Type Changes	
Fund Bal/Equity August 31, 2001	\$38,014,571.68
Restatements:	
b.	\$(512,555.14)
Net Restatements	\$(512,555.14)
Fund Bal/Equity August 31, 2001	\$37,502,016.54

(c) Change in accounting basis and method of applying a principle – Governmental Fund

The implementation of GASB 34 in fiscal year 2002 resulted in certain changes in the accounting basis previously applied by the Commission to its Governmental Fund. Those changes included the elimination of the Account Groups and the recognition of depreciation on capital assets. Further, the Commission increased its asset capitalization threshold from \$1,000 to \$5,000 for each item. The effect of these changes was to restate and reduce the previously reported Governmental Fund balance by \$190,148.29 as follows:

	Governmental Funds
Net Assets – Beginning	\$ 440,300.71
Adjustments:	
FY01 Capital Assets Balance in General Fixed Asset Account Group	490,525.27
Reduction for increase in capitalization threshold for fixed assets	(286,978.70)
Accumulated depreciation from prior year	(182,544.46)
FY01 compensable lease balance in General Long Term Debt Account Group	(211,150.40)
Total adjustment	(190,148.29)
Net Assets, September 1, 2001, as restated and adjusted	\$ 250,152.42

NOTE 13: Concentration

The Commission entered into a contract (from October 10, 2001 through August 31, 2011) with a lottery operator as the sole provider of gaming systems, certain application control systems, instant ticket services and warehousing of lottery tickets to the Commission. The contract with the lottery operator represents a significant concentration of business with one vendor.

Required Supplementary Information

**Texas Lottery Commission
Budgetary Comparison Schedule
For the Fiscal Year Ended August 31, 2003
(Unaudited)**

GENERAL FUND				
Budgetary Amounts				
	Budget (Original)	Budget (Final)	Actual Amounts (Budgetary Basis)	Variance with Budget
REVENUES				
Legislative Appropriations:				
Original Appropriations (GR)	\$ 2,785,997.00	\$ 2,785,997.00	\$ 2,674,932.00	\$ (111,065.00)
Additional Appropriations (GR)	112,423.00	112,423.00	579,786.67	467,363.67
Other (GR)	-	374,785.00	126,505.26	(248,279.74)
Total Revenues	2,898,420.00	3,273,205.00	3,381,223.93	108,018.93
EXPENDITURES				
Salaries and Wages	2,308,343.00	2,307,009.00	2,312,622.91	(5,613.91)
Payroll Related Costs	30,000.00	30,000.00	472,463.04	(442,463.04)
Professional Fees and Services	161,258.00	480,383.00	458,430.02	21,952.98
Travel	86,800.00	74,800.00	59,112.66	15,687.34
Materials and Supplies	28,600.00	18,200.00	66,549.74	(48,349.74)
Communication and Utilities	687.00	687.00	(28,481.07)	29,168.07
Repairs and Maintenance	-	-	2,400.00	(2,400.00)
Rentals & Leases	165,403.00	165,403.00	175,165.09	(9,762.09)
Printing and Reproduction	15,900.00	10,900.00	52,516.85	(41,616.85)
Other Expenditures	15,610.00	18,980.00	28,717.70	(9,737.70)
Capital Outlay	60,000.00	60,000.00	-	60,000.00
Total Expenditures/Expenses	2,872,601.00	3,166,362.00	3,599,496.94	(433,134.94)
Excess (Deficiency) of Revenues Over Expenditures	25,819.00	106,843.00	(218,273.01)	(325,116.01)
OTHER FINANCING SOURCES (USES)				
Legislative Transfers-In	-	-	8,370.44	-
Total Other Financing Sources and Uses	-	-	8,370.44	-
SPECIAL ITEMS				
	-	-	-	-
EXTRAORDINARY ITEMS				
	-	-	-	-
Net Change in Fund Balances/Net Assets	25,819.00	106,843.00	(209,902.57)	(325,116.01)
FUND FINANCIAL STATEMENT-FUND BALANCES				
Fund Balances, September 1, 2002	503,513.00	503,513.00	503,513.00	-
Appropriations Lapsed	-	-	(213,111.00)	-
Fund Balances--August 31, 2002	\$ 529,332.00	\$ 610,356.00	\$ 80,499.43	\$ (325,116.01)

RECONCILIATION OF BUDGETARY ACCOUNTING TO GAAP

Total Fund Balance - Governmental Funds (Above) \$ 80,499.43

Amounts reported for governmental activities in the statement of net assets 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	\$ 207,457.13	
Accumulated depreciation	(187,250.63)	
Total Capital Assets		20,206.50

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

	(219,599.06)	
Employee compensated leave		(219,599.06)
Total long-term liabilities		(219,599.06)

Net Assets of Governmental Activities \$ (118,893.13)

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

Combining Statements

Texas Lottery Commission
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Fiscal Year Ended August 31, 2003

	Beginning Balance September 1, 2002	Additions	Deductions	Ending Balance August 31, 2003
UNAPPROPRIATED RECEIPTS				
<u>Suspense Fund (0900) U/F (0362)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ -	\$ 76,415.09	\$ 2,977.01	\$ 73,438.08
Total Assets	<u>\$ -</u>	<u>\$ 76,415.09</u>	<u>\$ 2,977.01</u>	<u>\$ 73,438.08</u>
LIABILITIES				
Current				
Funds Held for Others	\$ -	\$ 76,415.09	\$ 2,977.01	\$ 73,438.08
Total Liabilities	<u>\$ -</u>	<u>\$ 76,415.09</u>	<u>\$ 2,977.01</u>	<u>\$ 73,438.08</u>
<u>Employee Savings Bond Account (0901) U/F (0901)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ 1,726.16	\$ 18,276.16	\$ 18,376.16	\$ 1,626.16
Total Assets	<u>\$ 1,726.16</u>	<u>\$ 18,276.16</u>	<u>\$ 18,376.16</u>	<u>\$ 1,626.16</u>
LIABILITIES				
Current				
Funds Held for Others	\$ 1,726.16	\$ 18,276.16	\$ 18,376.16	\$ 1,626.16
Total Liabilities	<u>\$ 1,726.16</u>	<u>\$ 18,276.16</u>	<u>\$ 18,376.16</u>	<u>\$ 1,626.16</u>
<u>Direct Deposit Correction Account (0980) U/F (0980)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ -	\$ 2,300.00	\$ 2,300.00	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 2,300.00</u>	<u>\$ 2,300.00</u>	<u>\$ -</u>
LIABILITIES				
Current				
Funds Held for Others	\$ -	\$ 2,300.00	\$ 2,300.00	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 2,300.00</u>	<u>\$ 2,300.00</u>	<u>\$ -</u>
Totals - All Agency Funds				
ASSETS				
Current				
Cash in State Treasury	\$ 1,726.16	\$ 96,991.25	\$ 23,653.17	\$ 75,064.24
Total Assets	<u>\$ 1,726.16</u>	<u>\$ 96,991.25</u>	<u>\$ 23,653.17</u>	<u>\$ 75,064.24</u>
LIABILITIES				
Current				
Funds Held for Others	\$ 1,726.16	\$ 96,991.25	\$ 23,653.17	\$ 75,064.24
Total Liabilities	<u>\$ 1,726.16</u>	<u>\$ 96,991.25</u>	<u>\$ 23,653.17</u>	<u>\$ 75,064.24</u>