

# FINANCIAL SECTION



## INDEPENDENT AUDITOR'S REPORT

Members of the Texas Lottery Commission:

Mr. C. Tom Clowe, Jr., Chair

Mr. James A. Cox, Jr.

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Texas Lottery Commission (Commission), an agency of the State of Texas, as of and for the year ended August 31, 2005, 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 opinions on these basic financial statements based on our audit. The prior year summarized, comparative information has been derived from the Commission's 2004 financial statements that were audited by other auditors whose report dated November 5, 2004, expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinions.

As discussed in Note 1 (in the section titled "Entity"), the financial statements of the Commission are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Commission. They do not purport to and do not present fairly the financial position of the State as of August 31, 2005, and the changes in the State's financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Commission as of August 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule on pages 14 through 21 and page 55, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The introductory and statistical sections and the combining financial statement are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statement has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2005, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



John Keel, CPA  
State Auditor

December 14, 2005

**Texas Lottery Commission**  
**Management's Discussion and Analysis**  
**For the Year Ended August 31, 2005**  
(Unaudited)

This section of the Texas Lottery Commission's (the "Commission") comprehensive annual financial report presents a comparative discussion and analysis of the Commissions' financial performance for the fiscal year ended August 31, 2005, with summarized comparative totals for the year ended August 31, 2004. This analysis is to be considered in conjunction with the transmittal letter at the front of this report and the Commission's basic financial statements to provide an objective analysis of the Commission's financial activities based on facts, decisions, and conditions currently facing management.

*Financial Highlights*

**Government-wide:**

- The assets of the Commission exceeded its liabilities at the close of fiscal year 2005 by \$92.2 million (reported as *net assets*), a decrease of \$13.9 million from the previous fiscal year.

**Fund Level:**

- As of the close of fiscal year 2005, the Commission's governmental funds reported a combined ending fund balance of \$222,617, with \$22,194 reported as *reserved fund balance*; earmarked for specific purposes such as vendor payables. The unreserved balance at fiscal year end was \$200,423.
- The proprietary funds reported net assets at year-end 2005 of \$92.2 million, a decrease of \$13.9 million during the year.

More detailed information regarding these activities and funds begins on page 25.

*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 22 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 23 presents information showing how the Commission's net assets changed during fiscal year 2005. 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 lottery 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 of Texas Foundation School Fund, rather than the change in net assets of the Commission.

This report includes two schedules (pages 26 and 28) 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 35 of this report.

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

Because the Commission operates with few funds, management determined that for fair presentation, all funds except for the fiduciary funds, would be considered major. The fund financial statements begin on page 25 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 Operation 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 an Enterprise Fund.

*Fiduciary funds* – The Commission acts as a trustee or fiduciary for the Suspense Fund, Warrant Hold Offset Fund, Suspense Fund,-Seized Funds, USPS – Overpayments to Employees Fund, U.S. Savings Bond Fund, Deferred Compensation 401k Fund, Direct Deposit Correction Fund, Bingo Cash Fund. The Commission's fiduciary activities are reported in separate Statements of Fiduciary Assets and Liabilities and Changes in Fiduciary Net Assets beginning on page 34 and 56 through 57, respectively. These funds, which include agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the Commission to finance its operations.

### *Additional Required Supplementary Information*

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

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

	<i>Statement of Net Assets</i> (in millions)					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other non-current Asssets	\$ 0.50	\$ 0.50	\$ 1,578.50	\$ 1,655.00	\$1,579.00	\$ 1,655.50
Capital Assets	-	-	0.80	1.00	0.80	1.00
<b>Totals Assets</b>	<b>0.50</b>	<b>0.50</b>	<b>1,579.30</b>	<b>1,656.00</b>	<b>1,579.80</b>	<b>1,656.50</b>
Long-term liabilities	0.10	0.10	1,185.60	1,258.80	1,185.70	1,258.90
Other liabilities	0.40	0.50	301.50	291.00	301.90	291.50
<b>Total Liabilities</b>	<b>0.50</b>	<b>0.60</b>	<b>1,487.10</b>	<b>1,549.80</b>	<b>1,487.60</b>	<b>1,550.40</b>
Net Assets:						
Invested in capital assets, net of related debt	-	-	0.80	1.00	0.80	1.00
Restricted	-	-	18.80	15.90	18.80	15.90
Unrestricted	-	(0.10)	72.60	89.30	72.60	89.20
<b>Total Net Assets</b>	<b>-</b>	<b>(0.10)</b>	<b>92.20</b>	<b>106.20</b>	<b>92.20</b>	<b>106.10</b>

The largest component 78.7% of the Commission's net assets is comprised of **unrestricted net assets** of \$72.6 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 20.4%. 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, 2005, the Commission's assets included \$137.2 million in cash and cash equivalents as compared with \$106.7 million at August 31, 2004. The Commission's short and long-term investments approximated \$1,409.2 and \$1,493.6 million, respectively, at August 31, 2005 and 2004.

The Commission's liabilities included at the balance sheet date are amounts owed to the State of Texas Foundation School Fund for unspent administrative funds for fiscal year 2005, vendor payables, and prize payment obligations. The amount due to the State of Texas Foundation School Fund was approximately \$9.7 million at August 31, 2005 as compared with \$16.2 million at August 31, 2004. Prize obligations, made up largely of instant ticket games and *Lotto Texas* installment payments, were \$1,446.3 million and \$1,504.6 million at August 31, 2005 and 2004, respectively. Vendor payables were \$28.2 million at August 31, 2005 as compared to \$26.4 million at August 31, 2004.

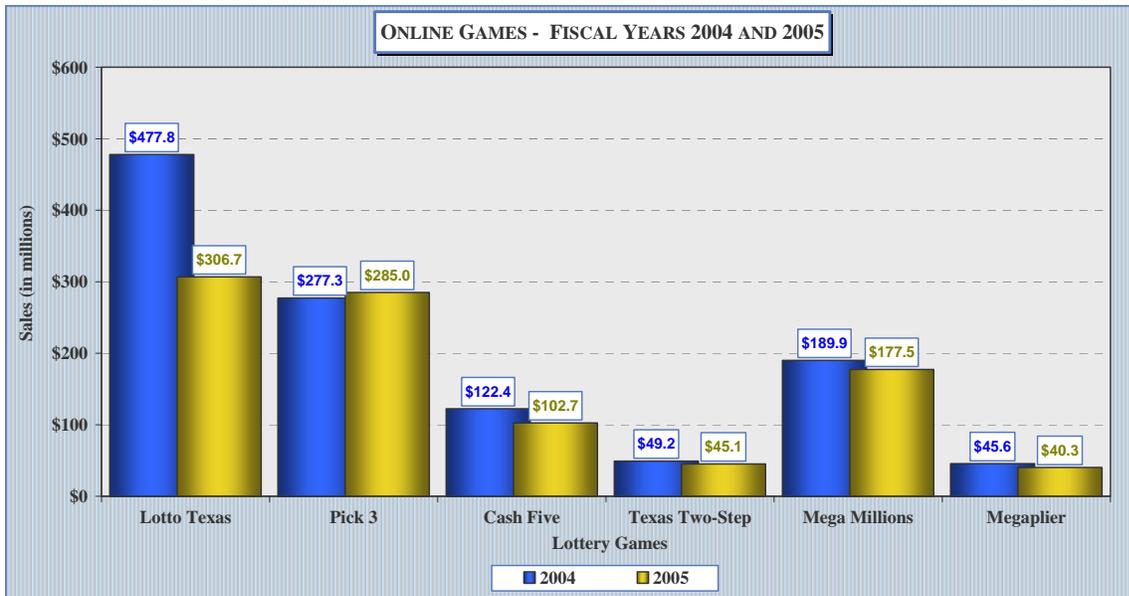
The majority of the Commission's assets represent current resources necessary to pay the current liabilities owed to vendors, prizewinners, and ultimately the State's Foundation School Fund.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Program Revenue - Lottery Sales	\$ -	\$ -	\$ 3,662.50	\$ 3,488.00	\$ 3,662.50	\$ 3,488.00
General Revenue:					-	-
Intergovernmental	3.20	3.10	-	-	3.20	3.10
Other income (loss)	10.70	10.20	1.00	9.40	11.70	19.60
Total Revenue	<u>13.90</u>	<u>13.30</u>	<u>3,663.50</u>	<u>3,497.40</u>	<u>3,677.40</u>	<u>3,510.70</u>
					-	-
Program Expense:					-	-
Prize expense	-	-	(2,228.00)	(2,068.60)	(2,228.00)	(2,068.60)
Commissions	-	-	(183.20)	(174.40)	(183.20)	(174.40)
Operating and other expense	(13.90)	(13.40)	(1,266.30)	(1,234.00)	(1,280.20)	(1,247.40)
Total Expense	<u>(13.90)</u>	<u>(13.40)</u>	<u>(3,677.50)</u>	<u>(3,477.00)</u>	<u>(3,691.40)</u>	<u>(3,490.40)</u>
					-	-
Change in net assets	-	(0.10)	(14.00)	20.40	(14.00)	20.30
Beginning net assets, as restated	-	-	106.20	85.80	106.20	85.80
Ending net assets	<u>\$ -</u>	<u>\$ (0.10)</u>	<u>\$ 92.20</u>	<u>\$ 106.20</u>	<u>\$ 92.20</u>	<u>\$ 106.10</u>

**Sales**

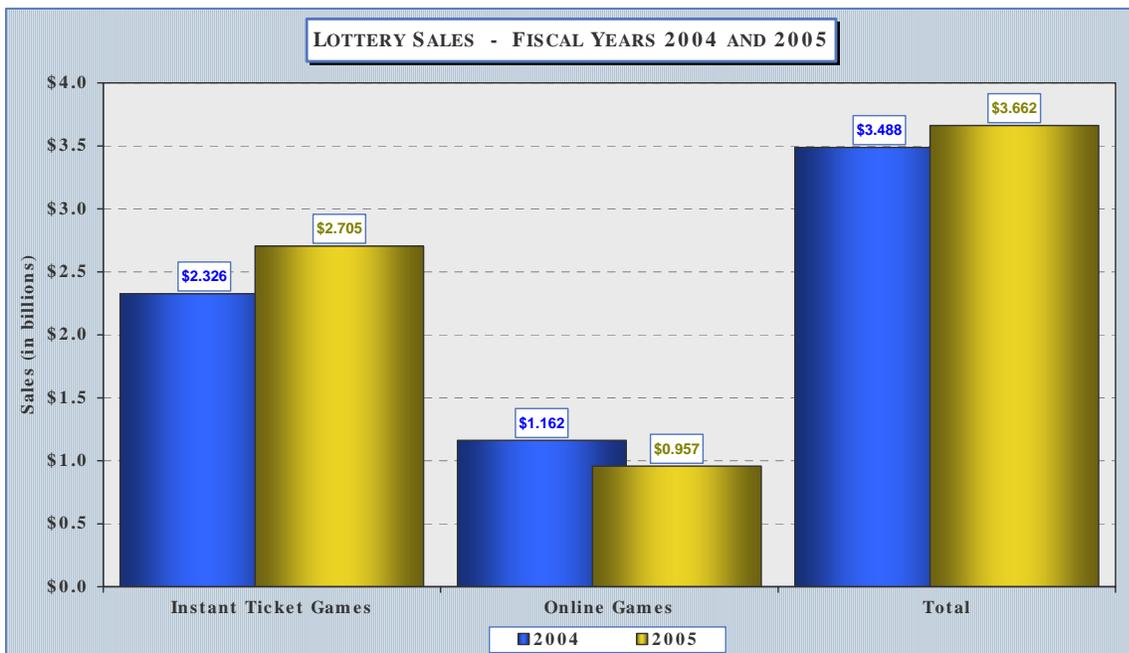
Lottery sales consist of on-line and instant lottery games. The first category is on-line games, which included *Lotto Texas*, *Pick 3*, *Cash Five*, *Texas Two Step* and *Mega Million* at August 31, 2005. In total, on-line sales decreased by \$205 million, which is mostly attributable to declines in sales of both jackpot games, *Lotto Texas* and *Mega Million*. *Pick 3* sales increased by 2.8%, marking the eleventh consecutive year of increased sales. Sales for *Pick 3*, at August 31, 2005, totaled \$285 million. The matrix change to *Pick 3* along with the addition of a day draw, which were both implemented during fiscal year 2002, continued to produce favorable results. Other on-line games such as *Cash Five* and *Texas Two Step* were not as successful during fiscal year 2005. These games decreased in total by \$23.8 million at August 31, 2005. The following graph depicts the Commission's on-line sales for the fiscal year ended August 31, 2005 and 2004.



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, 2005 increased by \$379.5 million or 16.3% over the preceding fiscal year’s sales. Several factors contributed to this increase, however, the most notable are the continuing introduction of higher price point games (i.e. \$30.00, \$25.00, and \$20.00, etc.), coupled with increased variety of play types.

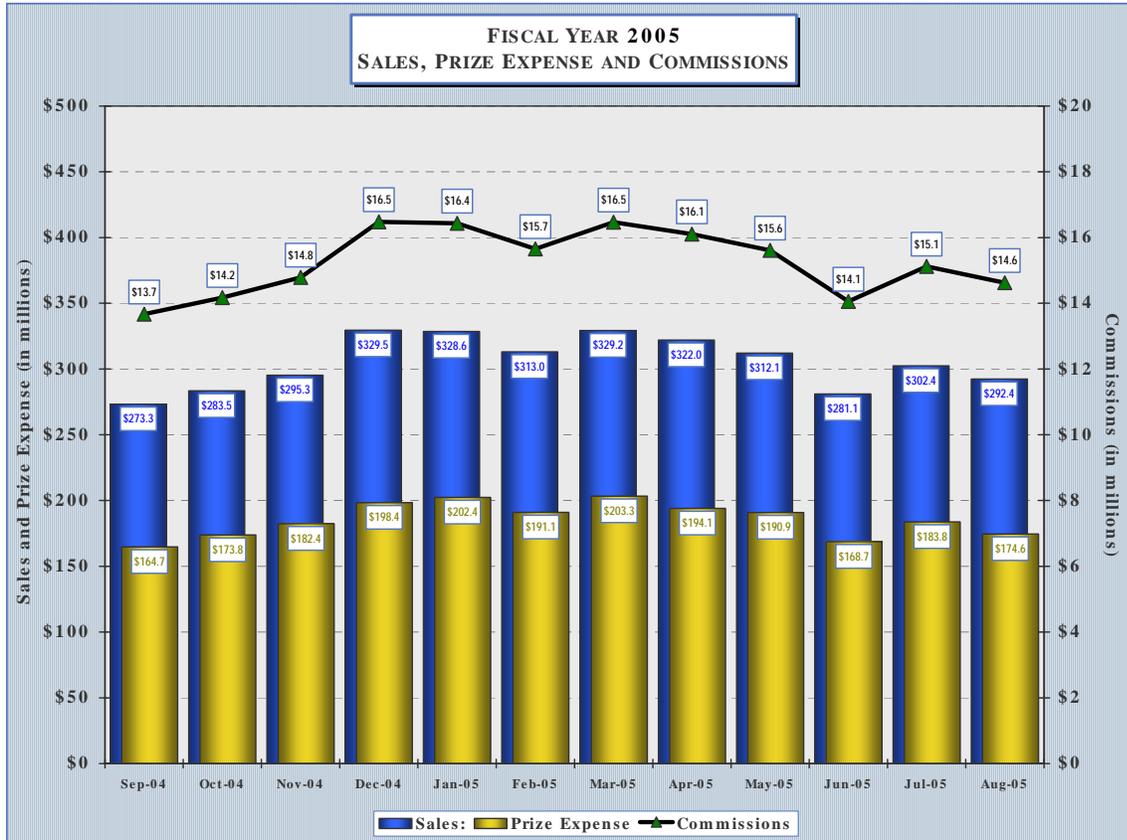
The following graph depicts the Lottery’s on-line, instant and total lottery sales for the fiscal year ended August 31, 2005 in comparison to the fiscal year ended August 31, 2004.



Source: Texas Lottery Commission

Commissions and Prize Awards Expense

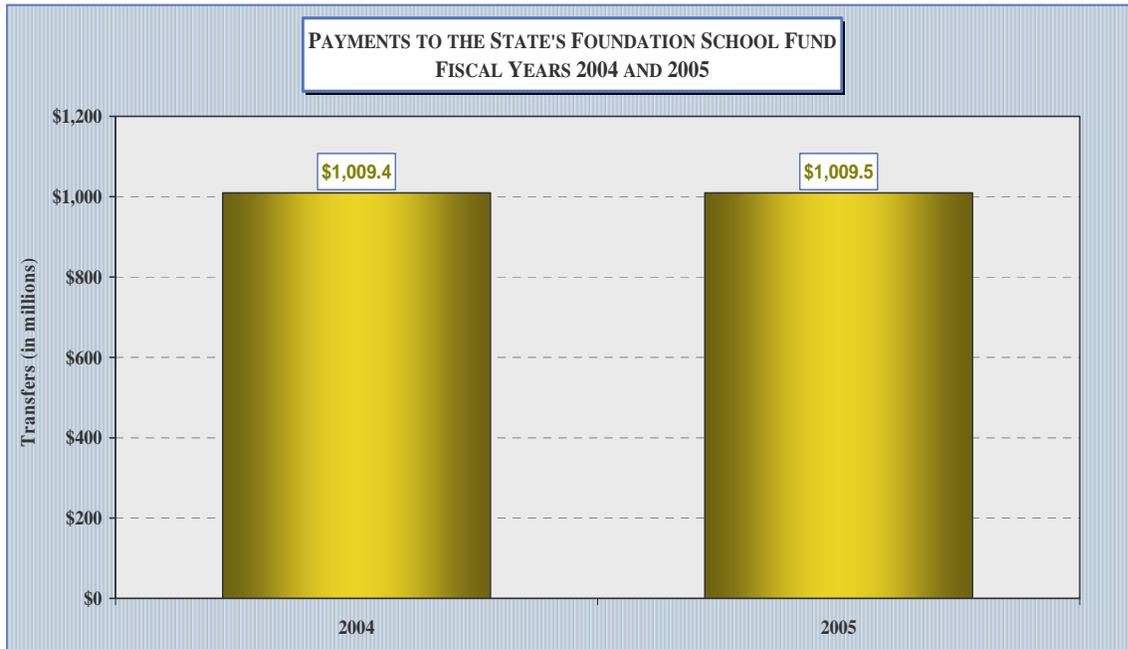
As the following graph depicts, the Commission's most significant expenses (commissions and prize expense) are predictable because they have a direct correlation to sales. As Lottery sales increase, so do the related prizes and commissions paid by the Commission. While each Lottery game has a predetermined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



Source: Texas Lottery Commission

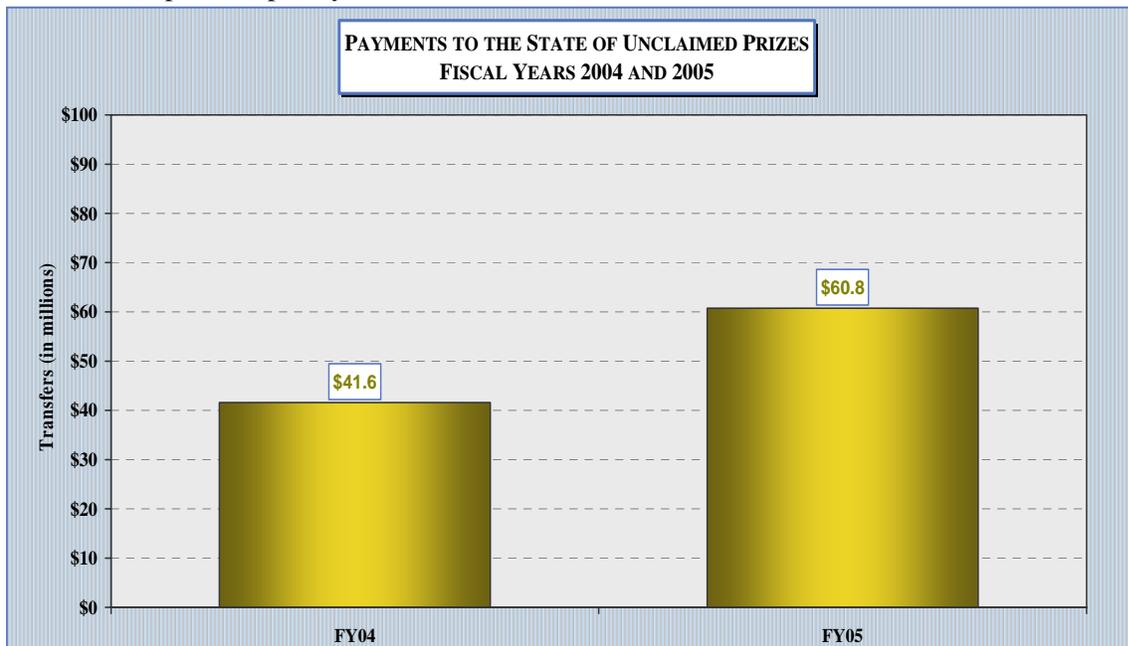
## Payments to the State

The Commission recorded its sixth consecutive year of Lottery sales growth during the current fiscal year and the second highest since Fiscal Year 1997. Lottery sales for the fiscal year ended August 31, 2005 totaled \$3,662.5 million; an increase of 5% over the previous year's total of \$3,488 million. However, despite the increase in sales, payments to the State of Texas Foundation School Fund only increased slightly. Payments for the period totaled \$1,009.5 million, as compared to \$1,009.4 million for the fiscal year ended August 31, 2004.



Source: Texas Lottery Commission

During fiscal years 2005 and 2004, the Commission made payments to the State of unclaimed lottery prize winnings totaling \$60,764,140 and \$41,581,437, respectively. This represents an increase of \$19.2 million or 46.1% as compared to prior year.



Source: Texas Lottery Commission

### Budgetary Highlights

There were no significant variances between the General Fund Final Budget compared to the Original Budget. A comparison of the Final Budget to Actual Amounts shows several differences with the material differences being in additional appropriations and payroll related costs.

The Commission does not budget funds to cover payroll related costs and fringe benefits up front, because these funds are not appropriated to the Commission during the statewide budgeting process. Rather, each agency is appropriated funds on a “pay as you go” basis. The Commission draws down appropriated cash equaling the amount need to cover expenses incurred each month.

### Capital Assets

As of August 31, 2005, the Commission had \$826,753 in net capital assets, of which \$817,107 was Furniture and Equipment. This represents a decrease of 21.2% in net capital assets from fiscal year 2004. The Commission’s capital assets include furniture and equipment and vehicles. The details of capital assets are shown in Note 2.

### Contacting the Commission’s Financial Management

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

# **Basic Financial Statements**

**Texas Lottery Commission**  
**Government-wide Statement of Net Assets**  
**August 31, 2005**  
**With Summarized Comparative Totals for August 31, 2004**

	<b>Primary Government</b>			<b>Total 2004</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total 2005</b>	
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents:				
Cash in Bank	\$ -	\$ 7,500.00	\$ 7,500.00	\$ 7,500.00
Cash in State Treasury	-	137,165,895.21	137,165,895.21	106,733,880.23
Restricted:				
Short Term Investments	-	170,732,249.99	170,732,249.99	170,504,780.53
Legislative Appropriations	474,505.67	-	474,505.67	464,056.70
Accounts Receivable	254.83	16,599,704.36	16,599,959.19	37,934,969.60
Internal Balances	(6,217.00)	6,217.00	-	-
Merchandise Inventories	-	6,163,662.25	6,163,662.25	5,735,689.73
Other Current Assets	-	9,333,000.00	9,333,000.00	10,888,500.00
<b>Total Current Assets</b>	<b>468,543.50</b>	<b>340,008,228.81</b>	<b>340,476,772.31</b>	<b>332,269,376.79</b>
Non-Current Assets:				
Restricted:				
Investments	-	1,238,430,139.33	1,238,430,139.33	1,323,120,977.52
Capital Assets:				
Furniture and Equipment	207,457.13	5,907,996.93	6,115,454.06	5,914,565.08
Accumulated Depreciation	(202,878.05)	(5,095,468.84)	(5,298,346.89)	(4,906,608.69)
Vehicles, Boats, and Aircraft	-	32,706.57	32,706.57	125,366.72
Accumulated Depreciation	-	(23,060.56)	(23,060.56)	(85,921.85)
<b>Total Non-Current Assets</b>	<b>4,579.08</b>	<b>1,239,252,313.43</b>	<b>1,239,256,892.51</b>	<b>1,324,168,378.78</b>
<b>Total Assets</b>	<b>\$ 473,122.58</b>	<b>\$ 1,579,260,542.24</b>	<b>\$ 1,579,733,664.82</b>	<b>\$ 1,656,437,755.57</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Payables from:				
Accounts Payable	\$ 34,368.03	\$ 20,753,269.95	\$ 20,787,637.98	\$ 20,909,628.08
Vouchers Payable	588.00	6,877,079.73	6,877,667.73	4,985,915.22
Payroll	210,970.57	1,324,385.53	1,535,356.10	1,487,875.17
Annuities Payable	-	11,064,805.59	11,064,805.59	10,874,302.00
Other	-	553,337.23	553,337.23	459,855.90
Due to Other Agencies	-	9,729,466.51	9,729,466.51	16,249,720.10
Employees' Compensable Leave	154,328.77	980,883.72	1,135,212.49	1,041,988.98
Payable From Restricted Assets-Current	-	250,186,941.43	250,186,941.43	235,412,636.07
<b>Total Current Liabilities</b>	<b>400,255.37</b>	<b>301,470,169.69</b>	<b>301,870,425.06</b>	<b>291,421,921.52</b>
Non-Current Liabilities:				
Employees' Compensable Leave	104,496.27	519,222.80	623,719.07	567,044.91
Payable From Restricted Assets	-	1,185,077,777.74	1,185,077,777.74	1,258,309,359.82
<b>Total Non-Current Liabilities</b>	<b>104,496.27</b>	<b>1,185,597,000.54</b>	<b>1,185,701,496.81</b>	<b>1,258,876,404.73</b>
<b>Total Liabilities</b>	<b>504,751.64</b>	<b>1,487,067,170.23</b>	<b>1,487,571,921.87</b>	<b>1,550,298,326.25</b>
<b>NET ASSETS</b>				
Invested in Capital Assets	4,579.08	822,174.10	826,753.18	1,047,401.26
Expendable restricted for:				
Pooled Bond Fund	-	5,000,000.00	5,000,000.00	5,000,000.00
Prize Reserve Fund	-	13,774,176.83	13,774,176.83	10,898,145.81
Unrestricted	(36,208.14)	72,597,021.08	72,560,812.94	89,193,882.25
<b>Total Net Assets</b>	<b>\$ (31,629.06)</b>	<b>\$ 92,193,372.01</b>	<b>\$ 92,161,742.95</b>	<b>\$ 106,139,429.32</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 473,122.58</b>	<b>\$ 1,579,260,542.24</b>	<b>\$ 1,579,733,664.82</b>	<b>\$ 1,656,437,755.57</b>

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

**Texas Lottery Commission**  
**Government-wide Statement of Activities**  
**For the Fiscal Year Ended August 31, 2005**  
**With Summarized Comparative Totals for the Year Ended August 31, 2004**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Primary government:</b>			
Governmental Activities:			
Bingo administration and allocation	\$ 10,887,111.93	\$ 10,715,557.44	\$ -
Bingo operations	1,405,790.55	1,500.00	-
Bingo audit	1,391,118.04	28,500.00	-
Bingo education	156,598.63	3,693.07	-
Other	-	-	-
Lapsed appropriations	20,735.31	-	-
Total governmental activities	<u>13,861,354.46</u>	<u>10,749,250.51</u>	<u>-</u>
Business-type activities:			
Lottery operations	130,376,599.39	842,633.38	-
Marketing, research, and promotion	4,388,066.17	-	-
Advertising	32,557,797.12	-	-
Security	4,471,298.85	-	-
Central administration	11,287,950.82	141,810.15	-
Lottery prize payments and sales	2,228,000,418.94	3,662,462,837.50	-
Retailer commissions	183,176,006.39	-	-
Settlement of claims	840.00	-	-
Intergovernmental Payments	1,070,302,868.51	-	-
Lottery prize investments	12,873,963.41	-	-
Total business-type activities	<u>3,677,435,809.60</u>	<u>3,663,447,281.03</u>	<u>-</u>
Total primary government	<u>\$ 3,691,297,164.06</u>	<u>\$ 3,674,196,531.54</u>	<u>\$ -</u>

<b>Functions/Programs</b>	<b>Net (Expense) Revenue and Changes in Net Assets</b>			
	<b>Primary Government</b>			<b>Total 2004</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total 2005</b>	
<b>Primary government:</b>				
Governmental Activities:				
Bingo administration and allocation	\$ (171,554.49)	\$ -	\$ (171,554.49)	\$ (163,844.87)
Bingo operations	(1,404,290.55)	-	(1,404,290.55)	(1,090,873.43)
Bingo audit	(1,362,618.04)	-	(1,362,618.04)	(1,508,152.80)
Bingo education	(152,905.56)	-	(152,905.56)	(151,731.44)
Other	-	-	-	12,082.93
Lapsed appropriations	(20,735.31)	-	(20,735.31)	(60,000.00)
Total governmental activities	<u>(3,112,103.95)</u>	<u>-</u>	<u>(3,112,103.95)</u>	<u>(2,962,519.61)</u>
Business-type activities:				
Lottery operations	-	(129,533,966.01)	(129,533,966.01)	(124,917,418.29)
Marketing, research, and promotion	-	(4,388,066.17)	(4,388,066.17)	(5,219,676.84)
Advertising	-	(32,557,797.12)	(32,557,797.12)	(36,358,864.49)
Security	-	(4,471,298.85)	(4,471,298.85)	(5,324,734.69)
Central administration	-	(11,146,140.67)	(11,146,140.67)	(10,124,517.44)
Lottery prize payments and sales	-	1,434,462,418.56	1,434,462,418.56	1,419,280,902.84
Retailer commissions	-	(183,176,006.39)	(183,176,006.39)	(174,413,286.93)
Settlement of Claims	-	(840.00)	(840.00)	-
Intergovernmental Payments	-	(1,070,302,868.51)	(1,070,302,868.51)	(1,051,041,006.96)
Lottery prize investments	-	(12,873,963.41)	(12,873,963.41)	8,508,477.95
Total business-type activities	<u>-</u>	<u>(13,988,528.57)</u>	<u>(13,988,528.57)</u>	<u>20,389,875.15</u>
Total primary government	<u>\$ (3,112,103.95)</u>	<u>\$ (13,988,528.57)</u>	<u>\$ (17,100,632.52)</u>	<u>\$ 17,427,355.54</u>
General Revenues - detailed				
Legislative appropriations	<u>\$ 3,122,946.15</u>	<u>\$ -</u>	<u>\$ 3,122,946.15</u>	<u>\$ 3,067,683.82</u>
Total General Revenues,	<u>3,122,946.15</u>	<u>-</u>	<u>3,122,946.15</u>	<u>3,067,683.82</u>
Change in net assets	<u>10,842.20</u>	<u>(13,988,528.57)</u>	<u>(13,977,686.37)</u>	<u>20,495,039.36</u>
Net Assets, Beginning of Year, as Restated	<u>(42,471.26)</u>	<u>106,181,900.58</u>	<u>106,139,429.32</u>	<u>85,644,389.96</u>
Net Assets, End of Year	<u>\$ (31,629.06)</u>	<u>\$ 92,193,372.01</u>	<u>\$ 92,161,742.95</u>	<u>\$ 106,139,429.32</u>

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

**Texas Lottery Commission**  
**Balance Sheet – Governmental Funds**  
**August 31, 2005**  
**With Summarized Comparative Totals for August 31, 2004**

	<u>General Fund</u>	<u>Total Governmental Funds</u>	
		<u>2005</u>	<u>2004</u>
<b>ASSETS</b>			
Current Assets -			
Legislative Appropriations	\$ 474,505.67	\$ 474,505.67	\$ 464,056.70
Total Current Assets	<u>474,505.67</u>	<u>474,505.67</u>	<u>464,056.70</u>
Restricted:			
Receivables	254.83	254.83	-
Total Assets	<u>\$ 474,760.50</u>	<u>\$ 474,760.50</u>	<u>\$ 464,056.70</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Current Liabilities -			
Payables From:			
Accounts Payable	\$ 34,368.03	\$ 34,368.03	\$ 45,867.63
Vouchers Payable	588.00	588.00	14,267.70
Payroll Payable	210,970.57	210,970.57	212,399.77
Due To Other Funds	6,217.00	6,217.00	-
Total Current Liabilities	<u>252,143.60</u>	<u>252,143.60</u>	<u>272,535.10</u>
Total Liabilities	<u>252,143.60</u>	<u>252,143.60</u>	<u>272,535.10</u>
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>			
Fund Balances:			
Reserved for -			
Encumbrances	22,193.83	22,193.83	23,341.00
Unreserved-Undesignated	200,423.07	200,423.07	168,180.60
Total Fund Balances	<u>222,616.90</u>	<u>222,616.90</u>	<u>191,521.60</u>
Total Liabilities and Fund Balances	<u>\$ 474,760.50</u>	<u>\$ 474,760.50</u>	<u>\$ 464,056.70</u>

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

**Texas Lottery Commission  
Reconciliation of Total Governmental Funds Balance  
to Net Assets of Governmental Activities  
August 31, 2005**

**Total Governmental Funds Balance** \$ 222,616.90

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	<u>(202,878.05)</u>	
Total Capital Assets		4,579.08

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

Employee compensable leave	<u>(258,825.04)</u>	
Total long-term liabilities		<u>(258,825.04)</u>

**Net Assets of Governmental Activities** \$ (31,629.06)

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

**Texas Lottery Commission**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – Governmental Funds**  
**for the Fiscal Year Ended August 31, 2005**  
**With Summarized Comparative Totals for the Year Ended August 31, 2004**

	<u>General Fund</u>	<u>Total Governmental Funds</u>	
		<u>2005</u>	<u>2004</u>
<b>REVENUES</b>			
Legislative Appropriations:			
Original Appropriations	\$ 2,590,379.00	\$ 2,590,379.00	\$ 2,559,266.00
Additional Appropriations	532,567.15	532,567.15	508,417.82
Licenses, Fees & Permits	10,717,449.28	10,717,449.28	10,219,807.78
Other	31,801.23	31,801.23	83,747.25
Total Revenues	<u>13,872,196.66</u>	<u>13,872,196.66</u>	<u>13,371,238.85</u>
<b>EXPENDITURES</b>			
Salaries and Wages	2,113,428.08	2,113,428.08	2,065,698.41
Payroll Related Costs	505,160.61	505,160.61	483,773.18
Professional Fees and Services	41,000.00	41,000.00	167,795.12
Travel	76,792.29	76,792.29	71,996.36
Materials and Supplies	86,811.34	86,811.34	47,229.73
Communication and Utilities	1,452.72	1,452.72	252.72
Repairs and Maintenance	3,322.00	3,322.00	3,040.00
Rentals & Leases	180,103.85	180,103.85	177,079.61
Printing and Reproduction	20,608.71	20,608.71	26,997.79
Other Expenditures	70,363.32	70,363.32	38,824.07
Appropriations Lapsed	20,735.31	20,735.31	60,000.00
Intergovernmental Payments	10,721,323.13	10,721,323.13	10,088,787.35
Total Expenditures	<u>13,841,101.36</u>	<u>13,841,101.36</u>	<u>13,231,474.34</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>31,095.30</u>	<u>31,095.30</u>	<u>139,764.51</u>
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>			
Fund Balances, Beginning of Year, as Restated	191,521.60	191,521.60	51,757.09
Fund Balances, End of Year	<u>\$ 222,616.90</u>	<u>\$ 222,616.90</u>	<u>\$ 191,521.60</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, 2005**

**Net Change In Fund Balance Total - Governmental Fund** \$ 31,095.30

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	(4,578.48)	
	(4,578.48)	
Excess of capital outlay over depreciation expense		(4,578.48)

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	(15,674.62)	
	(15,674.62)	
Total long-term liabilities		(15,674.62)

**Change in Net Assets of Governmental Activities** **\$ 10,842.20**

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

**Texas Lottery Commission**  
**Statement of Net Assets - Proprietary Funds**  
**August 31, 2005**  
**With Summarized Comparative Totals for August 31, 2004**

	<b>Enterprise</b>		
	<b>Lottery Fund</b>	<b>Total Proprietary Funds</b>	
		<b>2005</b>	<b>2004</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents:			
Cash in Bank	\$ 7,500.00	\$ 7,500.00	\$ 7,500.00
Cash in State Treasury	137,165,895.21	137,165,895.21	106,733,880.23
Restricted:			
Short Term Investments	170,732,249.99	170,732,249.99	170,504,780.53
Receivables from:			
Accounts	16,599,704.36	16,599,704.36	37,934,969.60
Due from Other Funds	6,217.00	6,217.00	-
Merchandise Inventories	6,163,662.25	6,163,662.25	5,735,689.73
Other Current Assets	9,333,000.00	9,333,000.00	10,888,500.00
<b>Total Current Assets</b>	<b>340,008,228.81</b>	<b>340,008,228.81</b>	<b>331,805,320.09</b>
Non-Current Assets:			
Restricted:			
Investments	1,238,430,139.33	1,238,430,139.33	1,323,120,977.52
Capital Assets:			
Depreciable:			
Furniture and Equipment	5,907,996.93	5,907,996.93	5,707,107.95
Accumulated Depreciation	(5,095,468.84)	(5,095,468.84)	(4,708,309.12)
Vehicles, Boats, and Aircraft	32,706.57	32,706.57	125,366.72
Accumulated Depreciation	(23,060.56)	(23,060.56)	(85,921.85)
<b>Total Non-Current Assets</b>	<b>1,239,252,313.43</b>	<b>1,239,252,313.43</b>	<b>1,324,159,221.22</b>
<b>Total Assets</b>	<b>\$ 1,579,260,542.24</b>	<b>\$ 1,579,260,542.24</b>	<b>\$ 1,655,964,541.31</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Voucher Payable	\$ 6,877,079.73	\$ 6,877,079.73	\$ 4,971,647.52
Accounts Payable	20,753,269.95	20,753,269.95	20,863,760.45
Payroll	1,324,385.53	1,324,385.53	1,275,475.40
Annuities	11,064,805.59	11,064,805.59	10,874,302.00
Other Payables	553,337.23	553,337.23	459,855.90
Due to Other Agencies	9,729,466.51	9,729,466.51	16,249,720.10
Employees' Compensable Leave	980,883.72	980,883.72	891,594.29
Payable From Restricted Assets	250,186,941.43	250,186,941.43	235,412,636.07
<b>Total Current Liabilities</b>	<b>301,470,169.69</b>	<b>301,470,169.69</b>	<b>290,998,991.73</b>
Non-Current Liabilities:			
Employees' Compensable Leave	519,222.80	519,222.80	474,289.18
Payable From Restricted Assets	1,185,077,777.74	1,185,077,777.74	1,258,309,359.82
<b>Total Non-Current Liabilities</b>	<b>1,185,597,000.54</b>	<b>1,185,597,000.54</b>	<b>1,258,783,649.00</b>
<b>Total Liabilities</b>	<b>1,487,067,170.23</b>	<b>1,487,067,170.23</b>	<b>1,549,782,640.73</b>
<b>NET ASSETS</b>			
Invested in Capital Assets	822,174.10	822,174.10	1,038,243.70
Restricted for:			
Expendable:			
Restricted by Other:			
Pooled Bond Fund	5,000,000.00	5,000,000.00	5,000,000.00
Prize Reserve Fund	13,774,176.83	13,774,176.83	10,898,145.81
Unrestricted	72,597,021.08	72,597,021.08	89,245,511.07
<b>Total Net Assets</b>	<b>92,193,372.01</b>	<b>92,193,372.01</b>	<b>106,181,900.58</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,579,260,542.24</b>	<b>\$ 1,579,260,542.24</b>	<b>\$ 1,655,964,541.31</b>

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

**Texas Lottery Commission**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Assets - Proprietary Funds**  
**for the Fiscal Year Ended August 31, 2005**  
**With Summarized Comparative Totals for the Year Ended August 31, 2004**

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>	
	<u>Lottery Fund</u>	<u>2005</u>	<u>2004</u>
<b>OPERATING REVENUES:</b>			
Sales of Goods and Services:			
Lottery Proceeds:			
Ticket Sales	\$3,662,462,837.50	\$3,662,462,837.50	\$3,487,924,569.50
Lottery License Application Fees	305,977.50	305,977.50	325,375.00
Lottery Security Proceeds	71,970.00	71,970.00	84,975.00
Other Operating Revenues	573,103.03	573,103.03	606,004.41
Total Operating Revenues	<u>3,663,413,888.03</u>	<u>3,663,413,888.03</u>	<u>3,488,940,923.91</u>
<b>OPERATING EXPENSES:</b>			
Cost of Goods Sold:			
Salaries and Wages	12,844,028.62	12,844,028.62	12,577,037.12
Payroll Related Costs	2,886,159.86	2,886,159.86	2,990,829.22
Professional Fees and Services	4,929,007.83	4,929,007.83	4,716,056.50
Travel	248,432.24	248,432.24	329,236.80
Materials and Supplies	2,014,222.14	2,014,222.14	2,591,037.18
Communication and Utilities	325,861.79	325,861.79	479,854.58
Repairs and Maintenance	746,419.63	746,419.63	477,389.83
Rentals and Leases	6,012,433.25	6,012,433.25	6,076,106.90
Printing and Reproduction	13,114,597.06	13,114,597.06	16,845,098.02
Depreciation and Amortization	404,550.08	404,550.08	736,386.78
Bad Debt Expense	558,293.79	558,293.79	411,000.34
Interest	526.23	526.23	1,162.73
Lottery Prizes:	2,228,000,418.94	2,228,000,418.94	2,068,643,666.66
Retailer Commissions	183,176,006.39	183,176,006.39	174,413,286.93
Retailer Bonuses	4,286,557.85	4,286,557.85	2,143,102.57
Other Operating Expenses:			
Lottery Operator Fees	99,750,079.26	99,750,079.26	95,007,546.87
Advertising	32,557,797.12	32,557,797.12	36,364,991.25
Other	2,384,549.10	2,384,549.10	1,214,729.47
Intergovernmental Payments	1,070,302,868.51	1,070,302,868.51	1,051,041,006.96
Total Operating Expenses	<u>3,664,542,809.69</u>	<u>3,664,542,809.69</u>	<u>3,477,059,526.71</u>
Operating Income (Loss)	<u>(1,128,921.66)</u>	<u>(1,128,921.66)</u>	<u>11,881,397.20</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment Income (Expense)	33,393.00	33,393.00	-
Gain (Loss) on Disposal of Capital Assets	(18,196.50)	(18,196.50)	-
Net Increase (Decrease) Fair Value	(12,873,963.41)	(12,873,963.41)	8,508,477.95
Settlement of Claims	(840.00)	(840.00)	-
Total Nonoperating Revenues (Expenses)	<u>(12,859,606.91)</u>	<u>(12,859,606.91)</u>	<u>8,508,477.95</u>

**Texas Lottery Commission  
Statement of Revenues, Expenses, and  
Changes in Net Assets - Proprietary Funds  
for the Fiscal Year Ended August 31, 2005  
With Summarized Comparative Totals for the Year Ended August 31, 2004**

	<b>Enterprise Fund</b>	<b>Total Proprietary Funds</b>	
	<b>Lottery Fund</b>	<b>2005</b>	<b>2004</b>
Change in Net Assets	(13,988,528.57)	(13,988,528.57)	20,389,875.15
Total Net Assets, Beginning of Year, as Restated	106,181,900.58	106,181,900.58	85,792,025.43
Total Net Assets, End of Year	92,193,372.01	92,193,372.01	106,181,900.58

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

**Texas Lottery Commission**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Fiscal Year Ended August 31, 2005**  
**With Summarized Comparative Totals for the Year Ended August 31, 2004**

	<u>Enterprise</u>	<u>Total Proprietary Funds</u>	
	<u>Lottery Fund</u>	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers	\$3,684,190,859.48	\$ 3,684,190,859.48	\$ 3,476,848,556.16
Payments to Suppliers for Goods and Services	(346,624,020.70)	(346,624,020.70)	(336,320,492.12)
Payments to Employees	(15,547,055.30)	(15,547,055.30)	(15,526,609.53)
Payments for Other Expenses	(3,290,513,250.76)	(3,290,513,250.76)	(3,112,458,586.11)
Net Cash Provided by Operating Activities	<u>31,506,532.72</u>	<u>31,506,532.72</u>	<u>12,542,868.40</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Payments for Other Uses	(161,863,000.00)	(161,863,000.00)	(161,337,000.00)
Proceeds from Other Financing	16,996,943.00	16,996,943.00	9,412,000.00
Net Cash Used in Noncapital Financing Activities	<u>(144,866,057.00)</u>	<u>(144,866,057.00)</u>	<u>(151,925,000.00)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Payments for Additions to Capital Assets	(206,676.98)	(206,676.98)	(683,501.45)
Net Cash Used in Capital and Related Financing Activities	<u>(206,676.98)</u>	<u>(206,676.98)</u>	<u>(683,501.45)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from Sales of Investments	161,863,000.00	161,863,000.00	161,337,000.00
Proceeds from Interest and Investment Income	33,393.00	33,393.00	882,457.70
Payments to Acquire Investments	(17,898,176.76)	(17,898,176.76)	(9,412,000.00)
Net Cash Provided by Investing Activities	<u>143,998,216.24</u>	<u>143,998,216.24</u>	<u>152,807,457.70</u>
Net Increase (Decrease) in Cash and Cash Equivalents	30,432,014.98	30,432,014.98	12,741,824.65
Cash and Cash Equivalents, Beginning of Year	<u>106,741,380.23</u>	<u>106,741,380.23</u>	<u>93,999,555.58</u>
Cash and Cash Equivalents, End of Year	<u>\$ 137,173,395.21</u>	<u>\$ 137,173,395.21</u>	<u>\$ 106,741,380.23</u>

**Texas Lottery Commission**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Fiscal Year Ended August 31, 2005**  
**With Summarized Comparative Totals for the Year Ended August 31, 2004**

	<u>Enterprise</u>		
	<u>Lottery</u>	<u>Total Proprietary Funds</u>	
	<u>Fund</u>	<u>2005</u>	<u>2004</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
<b>Operating Income</b>	\$ (1,128,921.66)	\$ (1,128,921.66)	\$ 11,881,397.20
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>			
Amortization and Depreciation	404,550.08	404,550.08	736,386.78
Bad Debt Expense	558,293.79	558,293.79	411,000.34
Operating Income and Cash Flow Categories:			
Changes in Assets and Liabilities:			
(Increase) Decrease in Receivables	20,776,971.45	20,776,971.45	(12,092,367.75)
(Increase) Decrease in Inventories	(427,972.52)	(427,972.52)	1,286,628.57
Increase (Decrease) in Prepaid Expenses	1,555,500.00	1,555,500.00	1,555,500.00
Increase (Decrease) in Payables	9,768,111.58	9,768,111.58	8,764,323.26
Total Adjustments	<u>32,635,454.38</u>	<u>32,635,454.38</u>	<u>661,471.20</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 31,506,532.72</u>	<u>\$ 31,506,532.72</u>	<u>\$ 12,542,868.40</u>
<b>Non Cash Transactions</b>			
Net Increase (Decrease) in Fair Value of Investments		(12,873,963.41)	

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

**Texas Lottery Commission**  
**Statement of Fiduciary Assets and Liabilities -Fiduciary Funds**  
**August 31, 2005**  
**With Summarized Comparative Totals for August 31, 2004**

	<u>Agency Funds</u>	<u>Total</u>	
		<u>2005</u>	<u>2004</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents -			
Cash in State Treasury	\$ 28,734.08	\$ 28,734.08	\$ 9,102.49
Other Receivables	29,432.80	29,432.80	33,726.75
	<u>58,166.88</u>	<u>58,166.88</u>	<u>42,829.24</u>
Total Assets	<u>\$ 58,166.88</u>	<u>\$ 58,166.88</u>	<u>\$ 42,829.24</u>
<b>LIABILITIES</b>			
Current Liabilities -			
Funds Held for Others	58,166.88	58,166.88	42,829.24
	<u>58,166.88</u>	<u>58,166.88</u>	<u>42,829.24</u>
Total Liabilities	<u>\$ 58,166.88</u>	<u>\$ 58,166.88</u>	<u>\$ 42,829.24</u>

The accompanying notes to the financial statement 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, 2005

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

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

The Commission serves the State by operating Lottery games. The Texas Lottery was created on August 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 commissioners. The commissioners appoint the Executive Director of the Texas Lottery Commission and the Director of Charitable Bingo Operations.

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

The Commission includes within this report all components as determined by an analysis of their relationship to the Texas Lottery Commission. No component units have been identified as defined by the Governmental Accounting Standards Board (“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 Texas Lottery Commission have been prepared to conform with Generally Accepted Accounting Principles (“GAAP”) as prescribed by the GASB.

### FINANCIAL REPORTING STRUCTURE

The basic financial statements include both government-wide (based on the Commission as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The prior year summarized comparative totals column do not include sufficient detail to constitute a presentation in conformity with accounting principals generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the commission’s financial statements for the year ended August 31, 2004, from which the summarized information was derived.

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

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

The net costs (program expenses less program revenues) of all activities are 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, Enterprise Funds, and 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.

## ***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 Fund – This fund is used to record all transactions related to the operation of the State Lottery.

Lotto Prize Trust Fund - This fund is used to account for investments purchased by the Commission to meet future installment obligations to prize winners.

## ***Fiduciary Fund Types***

### Agency Funds

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

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

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

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

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

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

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

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

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

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

### ***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 susceptible to accrual and so have been recognized as revenues of the current fiscal period 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 accrual basis of accounting. Under 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. As required under GASB 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Commission will continue to apply all applicable GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, the Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBS) issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. The Commission has elected under GASB 20 to not apply FASB pronouncements issued after November 30, 1989, due to the governmental nature of the Commission's operations.

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

Fiduciary funds are reported using the economic resources measurement focus.

## **Budgets and Budgetary Accounting**

The budget is prepared biennially and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriations Act). Encumbrance accounting is employed for budgetary control purposes for the General Fund only.

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

The Budgetary Comparison Schedule, in the Required Supplementary Information Other Than MD&A, presents the original budget, the final budget and the actual expenditures of the major governmental funds, in conformity with GAAP.

## **Assets, Liabilities, and Fund Balances/Net Assets**

### ***ASSETS***

#### Cash and Cash Equivalents

For reporting purposes, the Commission considers cash and cash equivalents to be Cash in Bank and Cash in State Treasury. Any interest earned is deposited in the General Revenue Fund as required by statute.

The statement of cash flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and that are used for cash management rather than investing activities

are considered cash equivalents. Restricted short-term investments are not included as cash equivalents on the Statement of Cash Flows.

#### Allocation of Income

Revenues from instant and on-line lottery ticket sales and fees, net of retailer commissions and direct retailer prize payments, are deposited directly into an account in the Enterprise Fund (5025). From this account, prize payment reimbursements are made to a separate local bank account ("Lottery Prize Payment Account") to provide for prize payments. The Texas Lottery Commission retains 12 percent of gross Lottery revenues 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 2005, unspent administrative funds were transferred to the State of Texas Foundation School Fund. Net proceeds will continue to be transferred to the State of Texas Foundation School Fund during fiscal year 2006. Obligated amounts in the Lottery operations account at August 31, 2005 are included as Cash in State Treasury on the Lottery's balance sheet because the use of such funds is necessary to cover the Lottery's expenditures and prize payment obligations.

Accrued transfers in the amount of \$9,729,466.51 are recorded as "Due to Other Agencies" as of August 31, 2005. Of that amount \$8,796,526.52 is due to the State of Texas Foundation School Fund (Fund 0193). The remaining \$932,939.99 is due to State of Texas General Revenue Fund (Fund 0001).

#### Investments

Investments are stated at fair value in accordance with GASB Statement 31 – Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Investments are purchased to meet future installment payments to prize winners. The investments are shown at fair value and the related payable is reported at amortized cost. The net unrealized gain (loss) on investment securities, which is the difference between the fair value and the amortized cost, is reflected as Unrestricted-Net Assets in the "Combined Statement of Net Assets-Proprietary Funds".

#### 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 consist of instant game tickets on hand at year-end, held for sale. The inventory is carried at cost, as determined by the weighted average method.

#### Other Current Assets

Prepaid assets reflect payments for costs applicable to future accounting periods.

#### Capital Assets

Assets with an initial individual cost equal to or greater than \$5,000 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. "Inexhaustible" assets

such as works of art and historical treasures are not depreciated. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

All capital assets acquired by proprietary funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the donation date. Depreciation is charged to operations over the estimated useful life of each asset, using the 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 and related payroll cost earned by employees at the balance sheet date for which payment is pending.

### Employees' Compensable Leave Balances

GASB Statement No. 16, *Accounting for Compensated Absences*, establishes standards of accounting and reporting for compensated absences (vacation, unpaid overtime and sick leave) by state and local governmental entities. GASB Statement No. 34 requires governments to report and disclose the portion of compensated absences that is due within one year of the statement date.

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

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

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

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

agency's contingent obligation for sick leave has not been determined. However, the probability of a material impact on agency operations in any given fiscal year is considered remote.

Liabilities Payable from Restricted Assets - Current

**Lotto Texas and Mega Millions** jackpots are payable in a lump sum or in annual installments. Prior to February 1997, the *Lotto Texas* prizes were paid in twenty installments. Beginning in February 1997, the players were given a choice at the time of purchase of receiving either a lump sum payment or twenty-five annual installments. *Mega Millions* jackpot prizes are paid in twenty-six annual installments, unless the lump sum option is selected by the player. The first installment is processed on the day the prize is claimed. The subsequent installments are funded with United States Guaranteed Securities purchased by the Texas Treasury Safekeeping Trust Company on the Commission's behalf, as are the installment payments for Weekly Grand, Weekly Bonus, Monthly Money, Win for Life, Twice as Grand, Monthly Bonus and \$130,000 bonus prizes.

The amortization of the discount of investments held for prizes payable is based on yields ranging from 1.39 percent to 7.33 percent and reflects interest rates earned by the investments held to fund the prizes payable. The prizes payable relating to annual installments consisted of the following at August 31, 2005 and 2004:

	<b>2005</b>	<b>2004</b>
Total Obligation	\$1,777,519,000.00	\$1,922,300,000.00
Less - unamortized discount	429,830,222.26	502,127,640.18
Total carrying amount	1,347,688,777.74	1,420,172,359.82
Less - prizes payable within one year	162,611,000.00	161,863,000.00
Long-term prizes payable	<u>\$1,185,077,777.74</u>	<u>\$1,258,309,359.82</u>

The aggregate amount of prizes payable due in each of the five fiscal years following August 31, 2005 and 2004, and the total thereafter are as follows:

<b>Aggregate Amount of Prizes Payables</b>	<b>Business-Type Activities</b>	
	<b>Principal 2005</b>	<b>Principal 2004</b>
		2005 (Future Year 1) \$ 161,863,000.00
2006 (Future Year 1)	\$ 162,611,000.00	2006 (Future Year 2) 161,669,000.00
2007 (Future Year 2)	162,611,000	2007 (Future Year 3) 161,669,000.00
2008 (Future Year 3)	162,611,000	2008 (Future Year 4) 161,669,000.00
2009 (Future Year 4)	162,481,000	2009 (Future Year 5) 161,565,000.00
2010 (Future Year 5)	162,481,000	2010 - 2014 729,691,000.00
2011-2015	650,038,000	2015-2019 238,380,000.00
2016-2020	202,003,000	2020-2024 128,750,000.00
2021-2025	104,167,000	2025-2026 17,044,000.00
2026	8,516,000	
<b>Total Prizes Payable</b>	<u>\$ 1,777,519,000.00</u>	<u>\$ 1,922,300,000.00</u>

There were no prizes payable for the governmental activities, as of August 31, 2005 and 2004.

### 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 2005 and 2004, the Commission paid a total of \$60,764,139.99 and \$41,581,437.45 respectively in unclaimed lottery prize winnings on a quarterly basis to the following agencies: In fiscal year 2005, the Comptroller of Public Account received \$22,880,576.99 for credit to the General Revenue Fund, the Health and Human Services Commission received \$28,665,905.00 for credit to the Graduate Medical Education Program and the Department of State Health Services received \$9,217,658.00 for credit to the Multi-categorical Teaching Hospital Account.

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

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

### 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

Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities since the commitments represent current resources designated for specific expenditures in subsequent operating periods. Encumbrances represent commitments related to unperformed contracts for goods or services awarded or assets ordered prior to year-end but yet not received as of that date.

### Unreserved/Undesignated:

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

### Invested In Capital Assets

Invested in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bond, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. No related debt was noted to affect net of debt. Net assets invested in capital assets at August 31, 2005 and 2004 were \$826,753.18 and \$1,047,401.26, 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:

	<b>2005</b>	<b>2004</b>
Reserved for Pooled Bond Fund	\$5,000,000.00	\$5,000,000.00
Prize Reserve Fund (Reserved for Future Lotto Prizes)	\$13,774,176.83	\$10,898,145.81

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, 2005 and 2004, the balance in the Pooled Bond Fund did not exceed the statutory cap of \$5 million. During the years ended August 31, 2005 and 2004, no reimbursement of losses was 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:

Unrestricted:	<b>2005</b>	<b>2004</b>
Designated Future Lottery Prizes	\$50,589,706.76	\$63,463,670.17
Undesignated	\$22,007,314.32	\$26,667,109.49

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 unappropriated balances at year-end.

**INTERGOVERNMENTAL TRANSACTIONS AND BALANCES**

The Commission has the following types of intergovernmental transactions:

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

Payments to the State of Texas Foundation School Fund during fiscal year 2005 and 2004 were as follows:

	<b>2005</b>	<b>2004</b>
Cash payments	\$1,016,209,580.10	\$1,003,336,284.36
Accrued payments at beginning of fiscal year	(15,467,378.10)	(9,356,175.88)
Amount paid from current year revenue	1,000,742,202.00	993,980,108.48
Accrued payments at end of fiscal year	8,796,526.52	15,467,378.10
<b>Total Payments to Foundation School Fund</b>	<b>\$1,009,538,728.52</b>	<b>\$1,009,447,486.58</b>

Payments to the Department of State Health Services for credit to the Multicategorical Teaching Hospital Account for unclaimed prizes during fiscal years 2005 and 2004 were as follows:

	<b>2005</b>	<b>2004</b>
Cash payments	\$10,000,000.00	\$10,000,000.00
Accrued payments at beginning of fiscal year	(782,342.00)	0.00
Amount paid from current year revenue	9,217,658.00	10,000,000.00
Accrued payments at end of fiscal year		782,342.00
<b>Total Payments to Multicategorical Teaching Hospital</b>	<b>\$9,217,658.00</b>	<b>\$10,782,342.00</b>

Payments to the Comptroller of Public Accounts for credit to the General Revenue Fund for unclaimed prizes during fiscal years 2005 and 2004 were as follows:

	<b>2005</b>	<b>2004</b>
Cash payments	\$21,947,637.00	\$19,465,000.00
Accrued payments at beginning of fiscal year	0.00	0.00
Amount paid from current year revenue	21,947,637.00	19,465,000.00
Accrued payments at end of fiscal year	932,939.99	0.00
<b>Total Payments to the Comptroller of Public Accounts – General Revenue</b>	<b>\$22,880,576.99</b>	<b>\$19,465,000.00</b>

Payments to the Health and Human Services Commission for credit to the Graduate Medical Education Program for unclaimed prizes during fiscal years 2005 and 2004 were as follows:

	<b>2005</b>	<b>2004</b>
Cash payments	\$28,665,905.00	\$11,334,095.45
Accrued payments at beginning of fiscal year	0.00	0.00
Amount paid from current year revenue	28,665,905.00	11,334,095.45
Accrued payments at end of fiscal year	0.00	0.00
<b>Total Payments to the Health and Human Services Commission</b>	<b>\$28,665,905.00</b>	<b>\$11,334,095.45</b>

## ***REVENUES AND EXPENSES***

### Operating and Non-operating Revenues or Expenses

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

Operating expenses are those costs that are either directly connected to the operation of lottery activities or necessary for the maintenance of the business enterprise. Expenses incurred for non-operating 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 composed 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 earlier of the date when 70 percent of the low-tier prizes in the pack are validated or 45 days after the pack is activated by the retailer. On-line ticket sales are recognized as revenue when tickets are purchased by Lottery players. Revenues from retailer license and application fees are recorded when licenses are granted.

Lottery revenues are used for payments of prizes and to pay costs incurred in the operation and administration of the lottery, such costs being limited to 12 percent of gross Lottery revenues accruing from the sales of tickets, including not less than 5 percent for retailer commissions. Any funds not used for these purposes are transferred to the State of Texas Foundation School Fund at the end of each fiscal year.

### Lottery Prizes

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

### Retailer Commissions

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

### Retailer Bonuses

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

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

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

#### Lottery Operator Fees

A Lottery Operator received a fee of 2.6999 percent and 2.6999 percent for fiscal years 2005 and 2004, respectively, based on the total lottery tickets sold, as defined in Section 10.3 of the contract for Lottery Operations and Services, dated October 10, 2001. 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.

#### Use of Estimates

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

<b><i>NOTE 2: Capital Assets</i></b>
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Assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Based on the requirements of GASB Statement No. 34, depreciation is reported on all exhaustible assets. All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost, if actual historical cost is not available.

The following schedules present the composition of the Commission's capital assets, adjustments, reclassifications, additions, and deletions during fiscal years 2005 and 2004. The reclassifications column shows completed construction projects and transfers of capital assets between agencies, if any. The additions column includes current year purchases and depreciation. The deletions column shows assets removed during a fiscal year.

A summary of changes in Capital Assets and capitalization threshold and useful lives for the years ended August 31, 2005 and 2004, are presented below:

### Fiscal Year 2005

	PRIMARY GOVERNMENT					
	Reclassifications					
	Balance 9/1/2004	Adjustments	Decrease Int'agy Trans	Additions	Deletions	Balance 8/31/2005
<b>GOVERNMENTAL ACTIVITIES</b>						
Depreciable Assets						
Furniture and Equipment	\$ 207,457.13					\$ 207,457.13
Vehicle, Boats & Aircraft						
Other Assets						
<b>Total Depreciable Assets at Historical Costs</b>	<b>\$ 207,457.13</b>				<b>\$ -</b>	<b>\$ 207,457.13</b>
Less Accumulated Depreciation for:						
Furniture and Equipment	\$ (198,299.57)			\$ (4,578.48)		\$ (202,878.05)
Total Accumulated Depreciation	(198,299.57)			(4,578.48)		(202,878.05)
Depreciable Assets, Net	9,157.56			(4,578.48)		4,579.08
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 9,157.56</b>			<b>\$ (4,578.48)</b>		<b>\$ 4,579.08</b>

	PRIMARY GOVERNMENT					
	Reclassifications					
	Balance 9/1/2004	Adjustments	Decrease Int'agy Trans	Additions	Deletions	Balance 8/31/2005
<b>BUSINESS-TYPE ACTIVITIES</b>						
Depreciable Assets						
Furniture and Equipment	\$ 5,707,107.95	\$ (51,737.56)	\$ (5,788.00)	\$ 258,414.54		\$ 5,907,996.93
Vehicle, Boats & Aircraft	125,366.72		(72,786.00)		(19,874.15)	32,706.57
Other Assets						
<b>Total Depreciable Assets at Historical Costs</b>	<b>\$ 5,832,474.67</b>	<b>\$ (51,737.56)</b>	<b>\$ (78,574.00)</b>	<b>\$ 258,414.54</b>	<b>\$ (19,874.15)</b>	<b>\$ 5,940,703.50</b>
Less Accumulated Depreciation for:						
Furniture and Equipment	\$ (4,708,309.12)		\$ 5,788.00	\$ (392,947.72)		\$ (5,095,468.84)
Vehicles, Boats & Aircraft	(85,921.85)		54,589.50	(11,602.36)	19,874.15	(23,060.56)
Total Accumulated Depreciation	(4,794,230.97)		60,377.50	(404,550.08)	19,874.15	(5,118,529.40)
Depreciable Assets, Net	1,038,243.70		(18,196.50)	(146,135.54)		822,174.10
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 1,038,243.70</b>	<b>\$ (51,737.56)</b>	<b>\$ (18,196.50)</b>	<b>\$ (146,135.54)</b>	<b>\$ -</b>	<b>\$ 822,174.10</b>

### Fiscal Year 2004

	PRIMARY GOVERNMENT					
	Reclassifications					
	Balance 9/1/2003	Adjustments	Decrease Int'agy Trans	Additions	Deletions	Balance 8/31/2004
<b>GOVERNMENTAL ACTIVITIES</b>						
Depreciable Assets						
Furniture and Equipment	\$ 207,457.13					\$ 207,457.13
<b>Total Depreciable Assets at Historical Costs</b>	<b>\$ 207,457.13</b>					<b>\$ 207,457.13</b>
Less Accumulated Depreciation for:						
Furniture and Equipment	\$ (187,250.63)	(4,098.90)		\$ (6,950.04)		\$ (198,299.57)
Total Accumulated Depreciation	(187,250.63)	(4,098.90)		(6,950.04)		(198,299.57)
Depreciable Assets, Net	20,206.50	(4,098.90)		(6,950.04)		9,157.56
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 20,206.50</b>	<b>\$ (4,098.90)</b>		<b>\$ (6,950.04)</b>		<b>\$ 9,157.56</b>

	PRIMARY GOVERNMENT					
	Reclassifications					
	Balance 9/1/2003	Adjustments	Decrease Int'agy Trans	Additions	Deletions	Balance 8/31/2004
<b>BUSINESS-TYPE ACTIVITIES</b>						
Depreciable Assets						
Furniture and Equipment	\$ 5,140,508.40	\$ (10,459.55)		\$ 670,218.45	\$ (93,159.35)	\$ 5,707,107.95
Vehicle, Boats & Aircraft	133,747.72		(21,664.00)	13,283.00		125,366.72
<b>Total Depreciable Assets at Historical Costs</b>	<b>\$ 5,274,256.12</b>	<b>\$ (10,459.55)</b>	<b>\$ (21,664.00)</b>	<b>\$ 683,501.45</b>	<b>\$ (93,159.35)</b>	<b>\$ 5,832,474.67</b>
Less Accumulated Depreciation for:						
Furniture and Equipment	\$ (4,086,305.38)	\$ (308,112.63)		\$ (407,050.46)	\$ 93,159.35	\$ (4,708,309.12)
Vehicles, Boats & Aircraft	(86,362.16)	(4,927.06)	21,664.00	(16,296.63)		(85,921.85)
Total Accumulated Depreciation	(4,172,667.54)	(313,039.69)	21,664.00	(423,347.09)	93,159.35	(4,794,230.97)
Depreciable Assets, Net	1,101,588.58	(323,499.24)		260,154.36		1,038,243.70
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 1,101,588.58</b>	<b>\$ (323,499.24)</b>	<b>\$ -</b>	<b>\$ 260,154.36</b>	<b>\$ -</b>	<b>\$ 1,038,243.70</b>

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

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

**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, 2005 and 2004.

**Deposits of Cash in Bank**

As of August 31, 2005, the carrying amounts of deposits was \$7,500.00 as presented below

<b>Governmental and Business-Type Activities</b>	
CASH IN BANK - CARRYING VALUE	7,500.00
Total Cash in Bank	\$ 7,500.00
Proprietary Funds Current Assets Cash in Bank	7,500.00
Governmental Funds Current Assts Cash in Bank	-
Total Cash in Bank	\$ 7,500.00

As of August 31, 2005 the total bank balance was as follows.

**Governmental and Business-Type Activities** \$ 7,497.08

**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* and *Mega Millions* jackpot prizes that are payable annually to the winners over a nineteen-year, twenty-four year or twenty-six year period, as well as the installment payments for *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 are held by the Texas Treasury Safekeeping Trust Company or its agent in the Texas Treasury Safekeeping Trust Company's name.

As of August 31, 2005, the fair value of investments are as presented below.

<b>Governmental and Business-Type Activities</b>	<b>Fair Value</b>
U.S. Government Agency Obligations (TTSTC)	\$ 1,398,278,484.50
Other Commingled Funds	10,883,904.82
Total	\$ 1,409,162,389.32

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

As of August 31, 2005, the Commission had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Government Agencies	\$1,398,278,484.50	\$ 159,848,345.17	\$ 712,447,584.07	\$ 388,570,153.90	\$ 137,412,401.26
Other Commingled Funds	10,883,904.82	10,883,904.82	-	-	-
Total	\$1,409,162,389.32	\$ 170,732,249.99	\$ 712,447,584.07	\$ 388,570,153.90	\$ 137,412,401.26

Interest rate risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. The Commission, through the Texas Treasury Safekeeping Trust Company, intends to holds all of its investments to maturity. As a result, they are not affected by swings in the financial markets.

### Reverse Repurchase Agreements

At August 31, 2005 and 2004, 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 of Dallas in the name of the Texas Treasury Safekeeping Trust Company.

The amount of investments subject to reverse repurchase agreements at August 31, 2005 and 2004 were approximately \$119,339,959.10 and \$130,724,519.71, respectively, at cost. The fair value of the securities underlying these agreements at August 31, 2005 and 2004 were approximately \$123,999,325.35 and \$139,651,937.32, respectively.

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

#### Changes in Long-Term Liabilities

During the years ended August 31, 2005 and 2004, the following changes occurred in long-term liabilities.  
**Year Ended August 31, 2005**

Governmental Activities	Balance 09-1-04	Additions	Deductions	Balance 08-31-05	Amounts Due Within One Year
Compensable Leave	\$243,150.42	\$232,268.90	\$216,594.26	\$258,825.04	\$154,328.77
<b>Total Governmental Activities</b>	<b>\$243,150.42</b>	<b>\$232,268.90</b>	<b>\$216,594.26</b>	<b>\$258,825.04</b>	<b>\$154,328.77</b>

<b>Business-Type Activities</b>	<b>Balance 09-1-04</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 08-31-05</b>	<b>Amounts Due Within One Year</b>
Compensable Leave	\$1,365,883.47	\$1,560,723.28	\$1,426,500.23	\$1,500,106.52	\$980,883.72
<b>Total Business-Type Activities</b>	<b>\$1,365,883.47</b>	<b>\$1,560,723.28</b>	<b>\$1,426,500.23</b>	<b>\$1,500,106.52</b>	<b>\$980,883.72</b>

**Year Ended August 31, 2004**

<b>Governmental Activities</b>	<b>Balance 09-1-03</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 08-31-04</b>	<b>Amounts Due Within One Year</b>
Compensable Leave	\$212,336.91	\$232,365.57	\$201,552.06	\$243,150.42	\$150,394.69
<b>Total Governmental Activities</b>	<b>\$212,336.91</b>	<b>\$232,365.57</b>	<b>\$201,552.06</b>	<b>\$243,150.42</b>	<b>\$150,394.69</b>

<b>Business-Type Activities</b>	<b>Balance 09-1-03</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 08-31-04</b>	<b>Amounts Due Within One Year</b>
Compensable Leave	\$1,251,686.43	\$1,460,109.94	\$1,345,913.10	\$1,365,883.27	\$891,594.29
<b>Total Business-Type Activities</b>	<b>\$1,251,686.43</b>	<b>\$1,460,109.94</b>	<b>\$1,345,913.10</b>	<b>\$1,365,883.27</b>	<b>\$891,594.29</b>

### **Employees' Compensable Leave**

A state employee is entitled to be paid for all unused annual leave 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, fourteen 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 \$6,192,537.10 in fiscal year 2005 and \$6,253,186.51 in fiscal year 2004. 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.

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

<b>Year Ended August 31,</b>	<b>2005</b>
2006	\$2,948,124.84
2007	2,960,210.29
2008	2,939,638.98
2009	2,760,415.92
2010	1,831,664.80
<b>Total Minimum Future Lease Rental Payments</b>	<b>\$ 13,440,054.83</b>

***NOTE 6: Interfund Balances/Activities***

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables. The balances below represent the result of such activity between Lottery Administration and Charitable Bingo Operations Division.

Individual balances and activity at August 31, 2005 are as follows:

<b>Current Portion</b>	<b>2005</b>	
	<b>Current Interfund Receivable</b>	<b>Current Interfund Payable</b>
GENERAL REVENUE (01) Appd Fund 0001, D23 Fund 0001		
(Agency 362, D23 Fund 1000)		
(Agency 362, D23 Fund 1100)		\$6,217.00
ENTERPRISE (05) Appd Fund 5025, D23 Fund 1100		
(Agency 362, D23 Fund 0001)	\$6,217.00	
<b>Total Interfund Receivable/Payable (Exh. I &amp; III)</b>	<b>\$6,217.00</b>	<b>\$6,217.000</b>

***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, on behalf of the Commission, contribute six percent (6%) of the employee's annual salary to the plan. The State's portion of the contribution is recognized by the Commission as revenue or additional appropriations, in addition to recognizing an equal and corresponding expenditure.

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 TEX.GOV'T CODE ANN., sec 609.001. The plan available for employees complies with Internal Revenue Code 457 and is accounted for by the State in accordance with the provisions of GASB Statement No. 32 *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Neither the State or the Commission have any liability for losses under the plan.

The State also administers another plan: "TexaSaver", created in accordance with Internal Revenue Code Sec. 401(k). However, the assets of this plans do not belong to the state or the Commission. Accordingly, neither the state or the Commission have a liability related to this plan.

**NOTE 9: Continuance Subject to Review**

The Commission is subject to the Texas Sunset Act. During fiscal years 2002 and 2003, and again in fiscal years 2004 and 2005, the Commission underwent Sunset Review. Based on its reviews, the Sunset Advisory Commission adopted recommendations for the 79th legislature to consider when it convened in January 2005. The legislation containing the Sunset Advisory Commission's recommendations did not pass the 79th Legislature. However, the Legislature enacted House Bill 1116 to continue the Commission until September 1, 2011. Additionally, unless continued in existence as provided by the Sunset Act, the Commission is abolished and Chapters 466 and 467, Texas Government Code expire September 1, 2011

**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: Restatement of Fund Balances / Net Assets**

During 2005, adjustments were made that required the restatement of the amount in fund balance as shown and discussed below:

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

	General Funds	Enterprise Funds	Total
Fund Bal/Equity August 31, 2004	\$207,768.11	\$107,067,169.17	\$107,274,937.28
Restatements:			
a.	(16,246.51)	(885,268.59)	(901,515.10)
Net Restatements	(16,246.51)	(885,268.59)	(901,515.10)
Fund Bal/Equity August 31, 2004 as Restated	<b>\$191,521.60</b>	<b>\$106,181,900.58</b>	<b>\$106,373,422.18</b>

***NOTE 12: 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.

***NOTE 13: Commitments and Contingencies***

The Commission is a defendant in legal actions arising from transactions and activities conducted in the ordinary course of business. Management, after consultation with legal counsel, believes that the aggregate liabilities, if any, will not be material to the financial statements.

***NOTE 14: Risk Financing***

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; efforts and omissions; and natural disasters. It is the Commission's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed. The Commission assumes substantially all risks associated with the performance of its duties. Currently, there is no purchase of commercial insurance, nor is the Commission involved in any risk pools with other government entities.

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**Required Supplementary Information  
Other Than MD&A**

**Texas Lottery Commission**  
**Budgetary Comparison Schedule - General Fund**  
**for the Fiscal Year Ended August 31, 2005**  
**(Unaudited)**

	<b>GENERAL FUND</b>			
	<b>Budgetary Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Budget</b>
	<b>Budget (Original)</b>	<b>Budget (Final)</b>		
<b>REVENUES</b>				
Legislative Appropriations:				
Original Appropriations (GR)	\$ 2,590,379.00	\$ 2,590,379.00	\$ 2,590,379.00	\$ -
Additional Appropriations (GR)	-	-	532,567.15	532,567.15
Licenses, Fees & Permits	9,739,500.00	10,721,322.00	10,717,449.28	(3,872.72)
Other (GR)	-	-	31,801.23	31,801.23
<b>Total Revenues</b>	<b>12,329,879.00</b>	<b>13,311,701.00</b>	<b>13,872,196.66</b>	<b>560,495.66</b>
<b>EXPENDITURES</b>				
Salaries and Wages	2,166,494.00	2,095,181.00	2,113,428.08	(18,247.08)
Payroll Related Costs	-	-	505,160.61	(505,160.61)
Professional Fees and Services	36,000.00	41,000.00	41,000.00	-
Travel	75,544.00	76,465.00	76,792.29	(327.29)
Materials and Supplies	29,120.00	104,808.00	86,811.34	17,996.66
Communication and Utilities	253.00	1,453.00	1,452.72	0.28
Repairs and Maintenance	3,092.00	10,694.00	3,322.00	7,372.00
Rentals and Leases	193,508.00	183,041.00	180,103.85	2,937.15
Printing and Reproduction	31,728.00	33,362.00	20,608.71	12,753.29
Other Expenditures	54,640.00	78,068.00	70,363.32	7,704.68
Appropriations Lapsed	-	-	20,735.31	(20,735.31)
Intergovernmental Allocations	9,739,500.00	10,721,322.00	10,721,323.13	(1.13)
<b>Total Expenditures/Expenses</b>	<b>12,329,879.00</b>	<b>13,345,394.00</b>	<b>13,841,101.36</b>	<b>(495,707.36)</b>
Excess (Deficiency) of Revenues Over Expenditures	-	(33,693.00)	31,095.30	64,788.30
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>				
Fund Balances--Beginning of Year, as Restated	191,521.60	191,521.60	191,521.60	-
Fund Balances--August 31, 2005	<u>\$ 191,521.60</u>	<u>\$ 157,828.60</u>	<u>\$ 222,616.90</u>	<u>\$ 64,788.30</u>

<Note> The original budget, final budget, and the actual expenditures of the major governmental funds is in conformity with GAAP.

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**Other Supplementary Information-  
Combining Financial Statements**

**Texas Lottery Commission**  
**Combining Statement of Changes in Assets and Liabilities -**  
**Agency Funds**  
**For the Fiscal Year Ended August 31, 2005**

	Beginning Balance September 1, 2004	Additions	Deductions	Ending Balance August 31, 2005
<b>UNAPPROPRIATED RECEIPTS</b>				
<b><u>Suspense Seized Funds (0900) U/F (0362)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 24,136.28	\$ 679.83	\$ 679.83	\$ 24,136.28
Total Assets	<u>\$ 24,136.28</u>	<u>\$ 679.83</u>	<u>\$ 679.83</u>	<u>\$ 24,136.28</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 24,136.28	\$ 679.83	\$ 679.83	\$ 24,136.28
Total Liabilities	<u>\$ 24,136.28</u>	<u>\$ 679.83</u>	<u>\$ 679.83</u>	<u>\$ 24,136.28</u>
<b><u>Suspense Fund (0900) U/F (0900)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 2,700.00	\$ -	\$ 2,700.00
Total Assets	<u>\$ -</u>	<u>\$ 2,700.00</u>	<u>\$ -</u>	<u>\$ 2,700.00</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 2,700.00	\$ -	\$ 2,700.00
Total Liabilities	<u>\$ -</u>	<u>\$ 2,700.00</u>	<u>\$ -</u>	<u>\$ 2,700.00</u>
<b><u>USPS - Overpayments to Employees (0901) U/F (9015)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 3,619.84	\$ 2,322.04	\$ 1,297.80
Total Assets	<u>\$ -</u>	<u>\$ 3,619.84</u>	<u>\$ 2,322.04</u>	<u>\$ 1,297.80</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 3,619.84	\$ 2,322.04	\$ 1,297.80
Total Liabilities	<u>\$ -</u>	<u>\$ 3,619.84</u>	<u>\$ 2,322.04</u>	<u>\$ 1,297.80</u>
<b><u>Warrant Hold Offset (0901) U/F (9016)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 28,011.76	\$ 28,011.76	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 28,011.76</u>	<u>\$ 28,011.76</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 28,011.76	\$ 28,011.76	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 28,011.76</u>	<u>\$ 28,011.76</u>	<u>\$ -</u>
<b><u>Employee Savings Bond Account (0901) U/F (0901)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 950.00	\$ 8,550.00	\$ 8,900.00	\$ 600.00
Total Assets	<u>\$ 950.00</u>	<u>\$ 8,550.00</u>	<u>\$ 8,900.00</u>	<u>\$ 600.00</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 950.00	\$ 8,550.00	\$ 8,900.00	\$ 600.00
Total Liabilities	<u>\$ 950.00</u>	<u>\$ 8,550.00</u>	<u>\$ 8,900.00</u>	<u>\$ 600.00</u>

**Texas Lottery Commission**  
**Combining Statement of Changes in Assets and Liabilities -**  
**Agency Funds**  
**For the Fiscal Year Ended August 31, 2005**

	Beginning Balance September 1, 2004	Additions	Deductions	Ending Balance August 31, 2005
<b><u>Deferred Compensation 401K (0942) U/F (0942)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ (33,726.75)	\$ 443,073.74	\$ 409,346.99	\$ -
Other Receivables	33,726.75	438,779.79	443,073.74	29,432.80
Total Assets	<u>\$ -</u>	<u>\$ 881,853.530</u>	<u>\$ 852,420.730</u>	<u>\$ 29,432.80</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 438,779.79	\$ 409,346.99	\$ 29,432.80
Total Liabilities	<u>\$ -</u>	<u>\$ 438,779.79</u>	<u>\$ 409,346.99</u>	<u>\$ 29,432.80</u>
<b><u>Correction Account - Direct Deposit (0980) U/F (0980)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 309.10	\$ 309.10	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 309.10</u>	<u>\$ 309.10</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 309.10	\$ 309.10	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 309.10</u>	<u>\$ 309.10</u>	<u>\$ -</u>
<b><u>Bingo Cash Bond (1000) U/F (1002)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 17,742.96	\$ 82,858.82	\$ 100,601.78	\$ -
Total Assets	<u>\$ 17,742.96</u>	<u>\$ 82,858.82</u>	<u>\$ 100,601.78</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	17,742.96	82,858.82	100,601.78	-
Total Liabilities	<u>\$ 17,742.96</u>	<u>\$ 82,858.82</u>	<u>\$ 100,601.78</u>	<u>\$ -</u>
<b>Totals - All Agency Funds</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 9,102.49	\$ 569,803.09	\$ 550,171.50	\$ 28,734.08
Other Receivables	33,726.75	438,779.79	443,073.74	29,432.80
Total Assets	<u>\$ 42,829.24</u>	<u>\$ 1,008,582.88</u>	<u>\$ 993,245.24</u>	<u>\$ 58,166.88</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 42,829.24	\$ 565,509.14	\$ 550,171.50	\$ 58,166.88
Total Liabilities	<u>\$ 42,829.24</u>	<u>\$ 565,509.14</u>	<u>\$ 550,171.50</u>	<u>\$ 58,166.88</u>