



A N N U A L
F I N A N C I A L
R E P O R T

FISCAL YEAR 2005

C. Tom Clowe, Jr.
Chairman

James A. Cox, Jr.
Commissioner



TEXAS LOTTERY COMMISSION

Gary Grief, Acting Executive Director

William L. Atkins, Director Charitable Bingo Operations

November 20, 2005

Honorable Rick Perry, Governor
Honorable Carole Keeton Strayhorn, Texas Comptroller
John O'Brien, Deputy Director, Legislative Budget Board
John Keel, CPA, State Auditor

Lady and Gentlemen:

We are pleased to submit the Annual Financial Report of the Texas Lottery Commission for the year ended August 31, 2005, in compliance with TEX.GOV'T CODE ANN §2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

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

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

Sincerely,

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

Gary Grief
Acting Executive Director

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TEXAS LOTTERY COMMISSION

**Annual Financial Report
For the Year Ended August 31, 2005**

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TEXAS LOTTERY COMMISSION

Exhibits

UNAUDITED

Texas Lottery Commission (362)
Exhibit I - Combined Balance Sheet/Statement of Net Assets – Governmental Funds
August 31, 2005

	<u>Governmental Fund Types</u>		<u>Capital Assets</u>	<u>Long-Term Liabilities</u>	<u>Statement of</u>
	<u>General Funds (Exhibit A-1)</u>	<u>Governmental Funds Total</u>	<u>Adjustments</u>	<u>Adjustments</u>	<u>Net Assets</u>
ASSETS					
Current Assets:					
Legislative Appropriations	\$ 474,505.67	\$ 474,505.67	\$ -	\$ -	\$ 474,505.67
Total Current Assets	<u>474,505.67</u>	<u>474,505.67</u>	<u>-</u>	<u>-</u>	<u>474,505.67</u>
Non-Current Assets:					
Restricted:					
Receivables	254.83	254.83			254.83
Capital Assets: (Note 2)					
Depreciable					
Furniture and Equipment	-	-	207,457.13		207,457.13
Accumulated Depreciation	-	-	(202,878.05)		(202,878.05)
Total Non-Current Assets	<u>254.83</u>	<u>254.83</u>	<u>4,579.08</u>	<u>-</u>	<u>4,833.91</u>
Total Assets	<u>\$ 474,760.50</u>	<u>\$ 474,760.50</u>	<u>4,579.08</u>	<u>-</u>	<u>479,339.58</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Current Liabilities:					
Payables From:					
Accounts Payable	\$ 34,368.03	\$ 34,368.03	\$ -	\$ -	\$ 34,368.03
Vouchers Payable	588.00	588.00			588.00
Payroll Payable	210,970.57	210,970.57			210,970.57
Due to Other Funds (Note 8)	6,217.00	6,217.00			6,217.00
Employees Compensable Leave (Note 5)	-	-		154,328.77	154,328.77
Total Current Liabilities	<u>252,143.60</u>	<u>252,143.60</u>	<u>-</u>	<u>154,328.77</u>	<u>406,472.37</u>
Non-Current Liabilities:					
Employees Compensable Leave (Note 5)	-	-		104,496.27	104,496.27
Total Non-Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,496.27</u>	<u>104,496.27</u>
Total Liabilities	<u>252,143.60</u>	<u>252,143.60</u>	<u>-</u>	<u>258,825.04</u>	<u>510,968.64</u>
FUND FINANCIAL STATEMENT					
Fund Balances (Deficits):					
Reserved for:					
Encumbrances	22,193.83	22,193.83			22,193.83
Undesignated	200,423.07	200,423.07			200,423.07
Total Fund Balances	<u>222,616.90</u>	<u>222,616.90</u>	<u>-</u>	<u>-</u>	<u>222,616.90</u>
Total Liabilities and Fund Balances	<u>\$ 474,760.50</u>	<u>\$ 474,760.50</u>	<u>-</u>	<u>258,825.04</u>	<u>733,585.54</u>
GOVERNMENT-WIDE STATEMENT OF NET ASSETS					
Net Assets:					
Invested in Capital Assets, Net of Related Debt			4,579.08		4,579.08
Unrestricted				(258,825.04)	(258,825.04)
Total Net Assets			<u>\$ 4,579.08</u>	<u>\$ (258,825.04)</u>	<u>\$ (254,245.96)</u>

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

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**Exhibit II - Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances/Statement of Activities – Governmental Funds
For the Fiscal Year Ended August 31, 2005**

	General Funds (Exhibit A-2)	Governmental Funds Total	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Statement of Activities
REVENUES:					
Legislative Appropriations:					
Original Appropriations	\$ 2,590,379.00	\$ 2,590,379.00	\$ -	\$ -	\$ 2,590,379.00
Additional Appropriations	557,562.13	557,562.13			557,562.13
Licenses, Fees & Permits	10,717,449.28	10,717,449.28			10,717,449.28
Other	31,801.23	31,801.23			31,801.23
Total Revenues	13,897,191.64	13,897,191.64	-	-	13,897,191.64
EXPENDITURES					
Salaries and Wages	2,113,428.08	2,113,428.08		15,674.62	2,129,102.70
Payroll Related Costs	530,155.59	530,155.59			530,155.59
Professional Fees and Services	41,000.00	41,000.00			41,000.00
Travel	76,792.29	76,792.29			76,792.29
Materials and Supplies	86,811.34	86,811.34			86,811.34
Communication and Utilities	1,452.72	1,452.72			1,452.72
Repairs and Maintenance	3,322.00	3,322.00			3,322.00
Rentals & Leases	180,103.85	180,103.85			180,103.85
Printing and Reproduction	20,608.71	20,608.71			20,608.71
Intergovernmental Payments	10,721,323.13	10,721,323.13			10,721,323.13
Other Expenditures	70,363.32	70,363.32			70,363.32
Depreciation Expense	-	-	4,578.48		4,578.48
Total Expenditures/Expenses	13,845,361.03	13,845,361.03	4,578.48	15,674.62	13,865,614.13
Excess (Deficiency) of Revenues over Expenditures	51,830.61	51,830.61	(4,578.48)	(15,674.62)	31,577.51
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-			-
Transfers Out	-	-			-
Total Other Financing Sources (Uses)	-	-	-	-	-
SPECIAL ITEMS					
	-	-			-
EXTRAORDINARY ITEMS					
	-	-			-
Net Change in Fund Balances/Net Assets	51,830.61	51,830.61	(4,578.48)	(15,674.62)	31,577.51
FUND FINANCIAL STATEMENT - FUND BALANCES					
Fund Balances--September 1, 2004	207,768.11	207,768.11			207,768.11
Restatements	(16,246.51)	(16,246.51)			(16,246.51)
Fund Balances, September 1, 2004, as Restated	191,521.60	191,521.60			191,521.60
Appropriations Lapsed	20,735.31	20,735.31			
Fund Balances--August 31, 2005	\$ 222,616.90	\$ 222,616.90			
GOVERNMENT-WIDE STATEMENT OF NET ASSETS					
Net Assets/Net Change in Net Assets			(4,578.48)	(15,674.62)	(20,253.10)
Net Assets, September 1, 2004			9,157.56	(243,150.42)	(233,992.86)
Restatements					
Net Assets, September 1, 2004, as Restated			9,157.56	(243,150.42)	(233,992.86)
Net Assets, August 31, 2005			\$ 4,579.08	\$ (258,825.04)	\$ (254,245.96)

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

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Texas Lottery Commission (362)

Exhibit III - Combined Statement of Net Assets - Proprietary Funds

August 31, 2005

	<u>Total Enterprise Funds (Exhibit F-1)</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents:	
Cash in Bank	\$ 7,500.00
Cash in State Treasury	137,165,895.21
Restricted:	
Short Term Investments (Note 3)	170,732,249.99
Receivables from:	
Accounts	16,599,704.36
Due From Other Funds (Note 8)	6,217.00
Merchandise Inventories	6,163,662.25
Other Current Assets	9,333,000.00
Total Current Assets	<u>340,008,228.81</u>
Non-Current Assets:	
Restricted:	
Investments (Note 3)	1,238,430,139.33
Capital Assets: (Note 2)	
Depreciable	
Furniture and Equipment	5,907,996.93
Accumulated Depreciation	(5,095,468.84)
Vehicles, Boats, and Aircraft	32,706.57
Accumulated Depreciation	(23,060.56)
Total Non-Current Assets	<u>1,239,252,313.43</u>
Total Assets	<u>\$ 1,579,260,542.24</u>
LIABILITIES	
Current Liabilities:	
Payables from:	
Voucher Payable	\$ 6,877,079.73
Accounts Payable	20,753,269.95
Payroll	1,324,385.53
Annuities	11,064,805.59
Other	553,337.23
Due to Other Agencies (Note 8)	9,729,466.51
Employees' Compensable Leave (Note 5)	980,883.72
Payable From Restricted Assets-Current Portion	250,186,941.43
Total Current Liabilities	<u>301,470,169.69</u>
Non-Current Liabilities:	
Employees' Compensable Leave (Note 5)	519,222.80
Payable From Restricted Assets	1,185,077,777.74
Total Non-Current Liabilities	<u>1,185,597,000.54</u>
Total Liabilities	<u>\$ 1,487,067,170.23</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	822,174.10
Restricted for:	
Expendable:	
Restricted by Other	
Pooled Bond Fund	5,000,000.00
Prize Reserve Fund	13,774,176.83
Unrestricted	72,597,021.08
Total Net Assets	<u>\$ 92,193,372.01</u>

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

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Texas Lottery Commission (362)
Exhibit IV - Combined Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
For the Fiscal Year Ended August 31, 2005

	Total Enterprise Funds (Exhibit F-2)
OPERATING REVENUES:	
Sales of Goods and Services:	
Lottery Proceeds	
Ticket Sales	\$ 3,662,462,837.50
Lottery License Application Fees	305,977.50
Lottery Security Proceeds	71,970.00
Other Operating Revenues	573,103.03
Total Operating Revenues	3,663,413,888.03
OPERATING EXPENSES:	
Salaries and Wages	12,844,028.62
Payroll Related Costs	2,886,159.86
Professional Fees and Services	4,929,007.83
Travel	248,432.24
Materials and Supplies	2,014,222.14
Communication and Utilities	325,861.79
Repairs and Maintenance	746,419.63
Rentals and Leases	6,012,433.25
Printing and Reproduction	13,114,597.06
Depreciation and Amortization	404,550.08
Bad Debt Expense	558,293.79
Interest	526.23
Lottery Prizes	2,228,000,418.94
Retailer Commissions	183,176,006.39
Retailer Bonuses	4,286,557.85
Other Operating Expenses:	
Lottery Operator Fees	99,750,079.26
Advertising	32,557,797.12
Other	2,384,549.10
Total Operating Expenses	2,594,239,941.18
Operating Income (Loss)	1,069,173,946.85
NONOPERATING REVENUES (EXPENSES):	
Investment Income (Expense)	33,393.00
Net Increase (Decrease) Fair Value	(12,873,963.41)
Settlement of Claims	(840.00)
Total Nonoperating Revenues (Expenses)	(12,841,410.41)
Income (loss) before Other Revenues, Expenses, Gains/Losses and Transfers	1,056,332,536.44
OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS	
Decr Net Asset D/T Intagy Trans Cap Asset	(18,196.50)
Transfers-Out	(1,070,302,868.51)
Total Other Revenues, Expenses, Gains/Losses and Transfers	(1,070,321,065.01)
Change in Net Assets	(13,988,528.57)
Total Net Assets, September 1, 2004	107,067,169.17
Restatements	(885,268.59)
Total Net Assets, September 1, 2004, as Restated	106,181,900.58
Total Net Assets, August 31, 2005	\$ 92,193,372.01

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

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Texas Lottery Commission (362)

Exhibit V - Combined Statement of Cash Flows - Proprietary Funds

For the Fiscal Year Ended August 31, 2005

	Total Enterprise Funds (Exhibit F-3)
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 3,684,190,859.48
Payments to Suppliers for Goods and Services	(346,624,020.70)
Payments to Employees	(15,547,055.30)
Payments for Other Expenses	(2,213,690,128.66)
Net Cash Provided by Operating Activities	<u>1,108,329,654.82</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from other Financing	(161,863,000.00)
Payments for Transfers to Other Funds	(1,076,830,179.10)
Payments for Other Uses	17,004,000.00
Net Cash Provided by Noncapital Financing Activities	<u>(1,221,689,179.10)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments for Additions to Capital Assets	<u>(206,676.98)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(206,676.98)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales of Investments	161,863,000.00
Proceeds from Interest and Investment Income	33,393.00
Payments to Acquire Investments	(17,898,176.76)
Net Cash Provided by Investing Activities	<u>143,998,216.24</u>
Net (Decrease) in Cash and Cash Equivalents	30,432,014.98
Cash and Cash Equivalents--September 1, 2004	<u>107,626,648.82</u>
Cash and Cash Equivalents--August 31, 2005	<u>\$ 137,173,395.21</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 1,069,173,946.85
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Amortization and Depreciation	404,550.08
Bad Debt Expense	558,293.79
Operating Income and Cash Flow Categories: Classification Differences	
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	20,776,971.45
(Increase) Decrease in Inventories	(427,972.52)
(Increase) Decrease in Prepaid Expenses	1,555,500.00
Increase (Decrease) in Payables	16,288,365.17
Total Adjustments	<u>39,155,707.97</u>
Net Cash Provided by Operating Activities	<u>\$ 1,108,329,654.82</u>
Non Cash Transactions	
Net Increase (Decrease) in Fair Value of Investments	\$ (12,873,963.41)

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

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Texas Lottery Commission (362)

Exhibit VI - Combined Statement of Fiduciary Net Assets - Fiduciary Funds

August 31, 2005

	<u>Agency Funds (Exhibit J-1)</u>	<u>Totals</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash in State Treasury	\$ 28,734.08	\$ 28,734.08
Receivables:		
Other	29,432.80	29,432.80
Total Assets	<u>\$ 58,166.88</u>	<u>\$ 58,166.88</u>
LIABILITIES		
Current Liabilities:		
Funds Held for Others	\$ 58,166.88	\$ 58,166.88
Total Liabilities	<u>\$ 58,166.88</u>	<u>\$ 58,166.88</u>

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

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Texas Lottery Commission (362)

Proprietary Fund Types

Enterprise Funds

Enterprise funds account for any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.
2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

The Texas Lottery Commission accounts for its proprietary activities in two separate funds, as discussed below:

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

Lotto Prize Trust – Enterprise (05) Appd Fund, D23 Fund 0895 (0895) - This fund is used to account for investments purchased by the Texas Lottery Commission to meet future installment obligations to prize winners. In fiscal years prior to 1998, this fund was reported as an Agency Fund. Due to the implementation of GASB 31, the presentation was changed in fiscal year 1998.

Fiduciary Fund Types

Agency Funds

Agencies use agency funds to account for assets the 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 Lottery 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 Lottery Commission for debt owed to the Lottery Commission.

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

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

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 fund pending transmittal, by electronic means, to the administrator of the state deferred compensation 401k program.

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Texas Lottery Commission (362)

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.

Basis of Accounting

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

The governmental fund types that build the fund financial statements are accounted for using the modified accrual method basis of accounting. Under modified accrual, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The Texas Lottery Commission considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on the modified accrual basis. Expenditures and other uses of financial resources are recognized when their related liability is incurred.

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

The proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Budgets and Budgetary Accounting

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

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

Assets, Liabilities, and Fund Balances/Net Assets

ASSETS

Cash and Cash Equivalents

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

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Texas Lottery Commission (362)

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 Foundation School Fund. Net proceeds will continue to be transferred to the 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 Foundation School Fund (Fund 0193). The remaining \$932,939.99 is due to 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.

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LIABILITIES

Accounts Payable

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

Payroll Payable

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

Employees' Compensable Leave Balances

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

Prizes Payable

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

2005	
Total Obligation	\$1,777,519,000.00
Less – unamortized discount	<u>429,830,222.26</u>
Total carrying amount	1,347,688,777.74
Less – prizes payable within one year	<u>162,611,000.00</u>
Long-term prizes payable	<u>\$1,185,077,777.74</u>

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

Aggregate Amount of Prizes Payable	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006 (Future Year 1)			\$162,611,000.00	
2007 (Future Year 2)			162,611,000.00	
2008 (Future Year 3)			162,611,000.00	
2009 (Future Year 4)			162,481,000.00	
2010 (Future Year 5)			162,481,000.00	
2011-2015			650,038,000.00	
2016-2020			202,003,000.00	
2021-2025			104,167,000.00	
2026			8,516,000.00	
Total Prizes Payable			\$1,777,519,000.00	

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 year 2005, the Lottery transferred a total of \$60,764,139.99 in unclaimed lottery prize winnings on a quarterly basis to the following agencies: The Comptroller of Public Account received \$22,880,576.99 for credit to the General Revenue Fund, Health and Human Services Commission received \$28,665,905.00 for credit to the Graduate Medical Education Program and 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 "Net Assets" on the government-wide, proprietary and fiduciary fund statements, and the "Fund Balance" is the difference between fund assets and liabilities on the governmental fund statements.

Reservation of Fund Balance

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

Reserved for Encumbrances

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

Unreserved/Undesignated:

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

Invested In Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bond, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Assets

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

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

Pooled Bond Fund

The Reserve for Pooled Bond Fund is established in accordance with the Texas Government Code, Chapter 466. Specifically, Texas Government Code, Section 466.156 authorizes the Executive Director of the Commission to establish a pooled bond fund from the collection of cash from each sales agent to be used to reimburse the State for losses to the State from the operation of the Commission's sales. As of August 31, 2005, the balance in the Pooled Bond Fund did not exceed the statutory cap of \$5 million.

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

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

Future Lottery Prizes

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

Unrestricted/Undesignated:

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

Net Assets:	
Invested in Capital Assets, Net of related Debt	\$822,174.10
Restricted-	
Reserved for Pooled Bond Fund	5,000,000.00
Reserved for Future Lotto Prizes	13,774,176.83
Unrestricted-	
Reserved for Future Lottery Prizes	50,589,706.76
Unrestricted/Undesignated	22,007,314.32
Total Proprietary Fund Net Assets:	\$92,193,372.01

INTERFUND ACTIVITIES AND BALANCES

The agency has the following types of transactions among funds:

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

The composition of the agency's interfund receivables and payables at August 31, 2005 is presented in Note 8.

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Transfers to Foundation School Fund during fiscal year 2005 are as follows:

Cash transfers	\$1,016,209,580.10
Accrued transfers at beginning of fiscal year	(15,467,378.10)
Amount transferred from current year revenue	<u>1,000,742,202.00</u>
Accrued transfers at end of fiscal year	<u>8,796,526.52</u>
Total Transfers to Foundation School Fund	<u><u>\$1,009,538,728.52</u></u>

Transfers to the Comptroller of Public Accounts – General Revenue Fund for unclaimed prizes during fiscal year 2005 are as follows:

Cash transfers	\$21,947,637.00
Accrued transfers at beginning of fiscal year	<u>0.00</u>
Amount transferred from current year revenue	21,947,637.00
Accrued transfers at end of fiscal year	<u>932,939.99</u>
Total Transfers to the Comptroller of Public Account – General Revenue	<u><u>\$22,880,576.99</u></u>

Transfers to the Health and Human Services Commission for unclaimed prizes during fiscal year 2005 are as follows:

Cash transfers	\$28,665,905.00
Accrued transfers at beginning of fiscal year	<u>0.00</u>
Amount transferred from current year unclaimed prizes	28,665,905.00
Accrued transfers at end of fiscal year	<u>0.00</u>
Total Transfers to the Health and Human Services Commission	<u><u>\$28,665,905.00</u></u>

Transfers to the Department of State Health Services for unclaimed prizes during fiscal year 2005 are as follows:

Cash transfers	\$10,000,000.00
Accrued transfers at beginning of fiscal year	(782,342.00)
Amount transferred from current year revenue	<u>9,217,658.00</u>
Accrued transfers at end of fiscal year	<u>0.00</u>
Total Transfers to the Department of State Health Services	<u><u>9,217,658.00</u></u>

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REVENUES AND EXPENSES

Recognition of Revenue

Lottery revenues are primarily composed of instant and on-line lottery ticket sales and retailer fees. Instant ticket sales are recognized as revenue when settled with retailers. Ticket packs are considered settled on the earlier of the date when 70 percent of the low-tier prizes in the pack are validated or 45 days after the pack is activated by the retailer. On-line ticket sales are recognized as revenue when tickets are purchased by Lottery players. Revenues from retailer license and application fees are recorded when licenses are granted. Lottery revenues are used for payment of prizes and to pay costs incurred in the operation and administration of the lottery, such costs being limited to 12 percent of gross Lottery revenues accruing from the sales of tickets, including not less than 5 percent for retailer commissions. Any funds not used for these purposes are transferred to the Foundation School Fund of the State of Texas ("Foundation School Fund") at the end of each fiscal year.

Lottery Prizes

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

Retailer Commissions

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

Retailer Bonuses

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

Game	Bonus Structure
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

The Lottery operator received a fee of 2.6999 percent for fiscal year 2005 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 Texas Lottery Commission contracts for other goods and services in the ordinary course of business. Payments under such contracts are charged to expense as the goods and services are received.

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NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2005, is presented below:

	PRIMARY GOVERNMENT							Balance 8/31/2005
	Balance 9/1/2004	Adjustments	Completed CIP	Increase Int'agy Trans	Decrease Int'agy Trans	Additions	Deletions	
Reclassifications								
GOVERNMENTAL ACTIVITIES								
Depreciable Assets								
Furniture and Equipment	\$ 207,457.13							\$ 207,457.13
Vehicle, Boats & Aircraft								
Other Assets								
Total Depreciable Assets at Historical Costs	\$ 207,457.13						\$ -	\$ 207,457.13
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
Governmental Activities Capital Assets, Net	\$ 9,157.56				\$ (4,578.48)			\$ 4,579.08
Reclassifications								
	Balance 9/1/2004	Adjustments	Completed CIP	Increase Int'agy Trans	Decrease Int'agy Trans	Additions	Deletions	Balance 8/31/2005
BUSINESS-TYPE ACTIVITIES								
Depreciable Assets								
Furniture and Equipment	\$ 5,707,107.95	\$ (51,737.56)			\$ (5,788.00)	\$ 258,414.54		\$ 5,907,998.93
Vehicle, Boats & Aircraft	125,368.72				(72,788.00)		(19,874.15)	32,706.57
Other Assets								
Total Depreciable Assets at Historical Costs	\$ 5,832,474.67					\$ 258,414.54	\$ (19,874.15)	\$ 5,940,703.60
Less Accumulated Depreciation for:								
Furniture and Equipment	\$ (4,708,308.12)				\$ 5,788.00	\$ (382,947.72)		\$ (5,085,468.84)
Vehicles, Boats & Aircraft	(85,921.85)				54,589.50	(11,802.36)	19,874.15	(23,080.58)
Total Accumulated Depreciation	(4,794,230.97)				60,377.50	(404,550.08)	19,874.15	(5,118,528.40)
Depreciable Assets, Net	1,038,243.70				60,377.50	(146,135.54)		822,174.10
Business-Type Activities Capital Assets, Net	\$ 1,038,243.70					\$ (146,135.54)	\$ -	\$ 822,174.10

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 Texas Lottery Commission's deposits are collateralized under a program administered by the Texas Treasury Safekeeping Trust Company. State law requires that all State funds 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 Comptroller of Public Accounts, Treasury Operations. The deposits in the Lottery prize payment account were fully collateralized at August 31, 2005.

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Deposits of Cash in Bank

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

Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
\$ 7,500.00	\$ 0.00	\$ 0.00	\$7,500.00	\$7,500.00

Carrying Amount	
Enterprise Funds Current Demand Deposits	7,500.00
Total Cash in Bank per GL Account	\$ 7,500.00

Investments

The Texas Lottery Commission's investments consists of securities, annuities, or other instruments as determined by the office of The Comptroller of Public Accounts. Mega Million investments consist of 100% U.S. Government STRIP bonds, non-callable principal and zero coupons. 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, a twenty-four year, or a twenty-six year period, as well as the installment payments for instant ticket games offering a top prize of \$1,000,000 or more, as the investments mature. All investments are held-to-maturity; therefore, fluctuations in market price have no effect on the ability of the Lottery to meet installment payment obligations as they become due. The Lottery's investments, which are held by the Texas Treasury Safekeeping Company, are categorized to give an indication of the level of risk assumed by the Lottery at year-end. All of the Lottery's investments at August 31, 2005, with the exception of reverse repurchase agreements, are included in category 1, the lowest risk, as defined by Governmental Accounting Standards Board Statement 3 to include investments that are insured or registered or securities held by the Texas Treasury Safekeeping Trust Company or its agent in the Comptroller of Public Accounts, Treasury Operations' name.

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

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

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Type of Security	Category			Fair Value
	1	2	3	
US Government Agencies	\$1,274,279,159.15			\$1,274,279,159.15
Totals	\$1,274,279,159.15			\$1,274,279,159.15

Uncategorized Investments:

Investments held by broker-dealers under reverse repurchase agreements:	
US Government Securities	123,999,325.35
Other miscellaneous short-term investments (Prize Payment Account)	10,883,904.82
Total Investments	\$1,409,162,389.32

Reverse Repurchase Agreements

At August 31, 2005, certain investments were subject to reverse repurchase agreements entered into by the Texas Treasury Safekeeping Trust Company. Such reverse repurchase agreements, which are permitted by statute, consist of sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Proceeds are invested in securities that mature at or near the same date as the reverse repurchase agreement and the proceeds from those securities will be used to liquidate the agreement, resulting in a matched position and minimizing market risk because the Texas Treasury Safekeeping Trust Company will hold the securities to maturity and liquidate them at face value. The market value of securities underlying reverse repurchase agreements normally exceeds the cash received, providing a margin against decline in market value. If the re-purchaser defaults on the obligation to sell these securities to the Texas Treasury Safekeeping Trust Company or provide securities or cash of equal value, an economic loss could result equal to the difference between the face value and the market value plus accrued interest of the underlying securities. Any such loss incurred would be the responsibility of the Texas Treasury Safekeeping Trust Company rather than the Commission. To minimize the risk of such default, all securities backing the reverse repurchase agreements are held by the Federal Reserve Bank in the name of the Comptroller of Public Accounts, Treasury Operations.

The amount of investments subject to reverse repurchase agreements at August 31, 2005 was approximately \$119,339,959.10, at book value. The fair value of the securities underlying these agreements at August 31, 2005 was approximately \$123,999,325.35

NOTE 4: Short-Term Debt

Not Applicable

NOTE 5: Summary of Long-Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2005, the following changes occurred in liabilities.

Governmental Activities	Balance 09-01-04	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
Total Governmental Activities	\$243,150.42	\$232,268.90	\$216,594.26	\$258,825.04	\$154,328.77

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Business-Type Activities	Balance 09-01-04	Additions	Deductions	Balance 08-31-05	Amounts Due Within One Year
Compensable Leave	\$1,365,883.47	1,560,723.28	1,426,500.23	1,500,106.52	\$980,883.72
Total Business-Type Activities	\$1,365,883.47	\$1,560,723.28	\$1,426,500.23	\$1,500,106.52	\$980,883.72

Employees' Compensable Leave

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. An expense and liability for proprietary fund types are recorded 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 6: Capital Leases

Not Applicable

NOTE 7: Operating Lease Obligations

The Texas Lottery 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, amounted to \$6,192,537.10 in fiscal year 2005. 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 Lottery 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:

Year Ended August 31,	
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
Total Minimum Future Lease Rental Payments	\$13,440,054.83

NOTE 8: Interfund Balances / Activities

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

- Interfund Receivables or Interfund Payables
- Due From Other Agencies or Due To Other Agencies

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

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

Individual balances and activity at August 31, 2005 follow:

	DUE FROM Other Agencies	DUE TO Other Agencies	Source
ENTERPRISE (05) Appd Fund 5025, D23 Fund 1100			
(Agency 701 D23 Fund 0193)		8,796,526.52	Revenue
(Agency 902 D23 Fund 0001)		932,939.99	Unclaimed Prizes
Total Due From/To Other Agencies (Exh III)		9,729,466.51	

	DUE FROM Other Funds	DUE TO Other Funds	Source
ENTERPRISE (05) Appd Fund 5025, D23 Fund 1100	6,217.00		Revenue
GENERAL Revenue (01) Appd Fund 0001, D23 Funds 0001		6,217.00	Revenue
Total Due From/To Other Funds (Exh III)	6,217.00	6,217.00	

	Operating TRANSFERS IN	Operating TRANSFERS OUT	Purpose
ENTERPRISE (05) Appd Fund 5025, D23 Fund 1100			
Agy 701, D23 Fund 0193		\$1,009,538,728.52	Operating
Agy 501, D23 Fund 5049		\$9,217,658.00	Operating
Agy 902, D23 Fund 0001		\$22,880,576.99	Operating
Agy 529, D23 Fund 0001		\$28,665,905.00	Operating
Total Transfers		\$1,070,302,868.51	

NOTE 9: Contingent Liabilities

Not Applicable.

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NOTE 10: Continuance Subject to Review

The Texas Lottery 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 Texas Lottery 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 11: Risk Financing and Related Insurance

Not Applicable.

NOTE 12: Segment Information

The Texas Lottery Commission is not required to disclose segment information because information is already provided in the basic financial statements in the form of major individual enterprise funds.

NOTE 13: Bonded Indebtedness

Not Applicable

NOTE 14: Subsequent Events

Not Applicable

NOTE 15: Related Parties

Not Applicable

NOTE 16: Stewardship, Compliance and Accountability

Not Applicable

NOTE 17: The Financial Reporting Entity and Joint Ventures

Not Applicable

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NOTE 18: 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 Sept 1, 2004 As Restated	\$191,521.60	\$106,181,900.58	\$106,373,422.18

NOTE 19: Employee Retirement Plans

Not Applicable

NOTE 20: Deferred Compensation

Not Applicable

NOTE 21: Donor-Restricted Endowments

Not Applicable

NOTE 22: Management Discussion and Analysis

Financial Highlights:

- Instant ticket sales for the fiscal year ended August 31, 2005 increased by \$379.5 million over fiscal year 2004. This represents an increase of 16.3% from the previous year. This increase can be attributed to the continued efforts of the Commission to maintain popular and attractive instant games in the market. Games that offer a variety of play styles, prize levels, and themes (i.e. *Harley-Davidson, I Love Lucy, and Wheel of Fortune*)
- *Lotto Texas* sales for the fiscal year ended August 31, 2005 decreased from Fiscal Year 2004 by \$171.1 million, or 35.8%. Some of the decrease is related to the introduction of *Mega Millions* in fiscal year 2004. However, the industry has experienced a steady decline in sales of on-line jackpot games, such as *Lotto Texas* and *Mega Millions*.
- *Pick 3* sales for the fiscal year ended August 31, 2005 increased from Fiscal Year 2004 by \$7.7 million, or 2.8%.
- *Cash Five* sales for the fiscal year ended August 31, 2005 decreased from Fiscal Year 2004 by \$19.7 million, or 16.1%.

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- Total sales for the fiscal year ended August 31, 2005 totaled \$3.7 billion. This represents an increase in sales from prior year of 5.% or approximately \$174 million.
- *Texas Two Step* sales for the fiscal year ended August 31, 2005 decreased from Fiscal Year 2004 by \$4 million, or 8.3%.
- The end of Fiscal Year 2005 marked *Mega Millions*' first full year of sales. Sales for the game totaled \$177.4 million. The *Megaplier* feature, which is unique to Texas, generated an additional \$40.2 million of sales.
- Total prize expense for the fiscal year ended August 31, 2005 exceeded prize expense for the previous year by \$162.3 million or 7.8%. The increase in prize expense has a direct correlation to the increase in sales.
- Commissions paid to Retailers for the fiscal year ended August 31, 2005 were \$183.1 million.
- Unclaimed Prizes transferred during Fiscal Year 2005 increased from the prior fiscal year by \$ 19.2 million or 46.1%.

NOTE 23: Post Employment Health Care and Life Insurance Benefits

Not Applicable

NOTE 24: Special or Extraordinary Items

Not Applicable

NOTE 25: Disaggregation of Receivable and Payable Balances

Not Applicable

TEXAS LOTTERY COMMISSION

Combining Fund Exhibits

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Exhibit A-1 - Combining Balance Sheet - All General Funds
August 31, 2005

	<u>General Revenue</u>	
	<u>Fund 0001</u>	<u>Total</u>
	<u>U/F (0001)</u>	<u>(Exhibit I)</u>
ASSETS		
Current Assets:		
Legislative Appropriations	\$ 474,505.67	\$ 474,505.67
Total Current Assets	<u>474,505.67</u>	<u>474,505.67</u>
Non-Current Assets:		
Restricted:		
Receivables	254.83	254.83
Total Assets	<u>\$ 474,760.50</u>	<u>\$ 474,760.50</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Current Liabilities:		
Payables From:		
Accounts Payable	\$ 34,368.03	\$ 34,368.03
Vouchers Payable	588.00	588.00
Payroll Payable	210,970.57	210,970.57
Due To Other Funds (Note 8)	6,217.00	6,217.00
Total Current Liabilities	<u>252,143.60</u>	<u>252,143.60</u>
Total Liabilities	<u>252,143.60</u>	<u>252,143.60</u>
FUND FINANCIAL STATEMENT - FUND BALANCES		
Fund Balances (Deficits):		
Reserved for:		
Encumbrances	22,193.83	22,193.83
Undesignated	200,423.07	200,423.07
Total Fund Balances	<u>222,616.90</u>	<u>222,616.90</u>
Total Liabilities and Fund Balances	<u>\$ 474,760.50</u>	<u>\$ 474,760.50</u>

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

UNAUDITED
Exhibit A-2 - Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – All General Funds
For the Fiscal Year Ended August 31, 2005

	<u>General Revenue</u> Fund 0001 U/F (0001)	<u>Consolidated</u> <u>Accounts</u> Fund 0001 U/F (2981)	<u>Total</u> (Exhibit II)
REVENUES			
Legislative Appropriations:			
Original Appropriations	\$ 2,590,379.00	\$ -	\$ 2,590,379.00
Additional Appropriations	557,562.13		557,562.13
Licenses, Fees & Permits	10,717,449.28		10,717,449.28
Other	31,801.23		31,801.23
Total Revenues	<u>13,897,191.64</u>	<u>-</u>	<u>13,897,191.64</u>
EXPENDITURES			
Salaries and Wages	2,113,428.08		2,113,428.08
Payroll Related Costs	530,155.59		530,155.59
Professional Fees and Services	41,000.00		41,000.00
Travel	76,792.29		76,792.29
Materials and Supplies	86,811.34		86,811.34
Communication and Utilities	1,452.72		1,452.72
Repairs and Maintenance	3,322.00		3,322.00
Rentals & Leases	180,103.85		180,103.85
Printing and Reproduction	20,608.71		20,608.71
Intergovernmental Payments	10,721,323.13		10,721,323.13
Other Expenditures	70,363.32		70,363.32
Depreciation Expense	-		-
Total Expenditures/Expenses	<u>13,845,361.03</u>	<u>-</u>	<u>13,845,361.03</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>51,830.61</u>	<u>-</u>	<u>51,830.61</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-		-
Transfers Out	-		-
Total Other Financing Sources and (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
SPECIAL ITEMS			
	-	-	-
EXTRAORDINARY ITEMS			
	-	-	-
Net Change in Fund Balances/Net Assets	<u>51,830.61</u>	<u>-</u>	<u>51,830.61</u>
FUND FINANCIAL STATEMENT - FUND BALANCES			
Fund Balances--September 1, 2004	191,521.60	16,246.51	207,768.11
Restatements	-	(16,246.51)	(16,246.51)
Fund Balances, September 1, 2004, as Restated	<u>191,521.60</u>	<u>-</u>	<u>191,521.60</u>
Appropriations Lapsed	20,735.31		20,735.31
Fund Balances--August 31, 2005	<u>\$ 222,616.90</u>	<u>\$ -</u>	<u>\$ 222,616.90</u>

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

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UNAUDITED

Texas Lottery Commission (362)
Exhibit F-1 - Combining Statement of Net Assets - Proprietary Funds
August 31, 2005

	Enterprise Fund 5025 U/F (1100)	Enterprise Fund 0895 U/F (0895)	Totals (Exhibit III)
ASSETS			
Current Assets:			
Cash and Cash Equivalents:			
Cash in Bank	\$ 7,500.00	\$ -	\$ 7,500.00
Cash in State Treasury	137,165,895.21		137,165,895.21
Restricted:			
Short Term Investments (Note 3)	10,883,904.82	159,848,345.17	170,732,249.99
Receivables from:			
Accounts	16,599,704.36		16,599,704.36
Due From Other Funds (Note 8)	6,217.00		6,217.00
Merchandise Inventories	6,163,662.25		6,163,662.25
Other Current Assets	9,333,000.00		9,333,000.00
Total Current Assets	180,159,883.64	159,848,345.17	340,008,228.81
Non-Current Assets:			
Restricted:			
Investments (Note 3)	-	1,238,430,139.33	1,238,430,139.33
Capital Assets: (Note 2)			
Depreciable:			
Furniture and Equipment	5,907,996.93		5,907,996.93
Accumulated Depreciation	(5,095,468.84)		(5,095,468.84)
Vehicles, Boats, and Aircraft	32,706.57		32,706.57
Accumulated Depreciation	(23,060.56)		(23,060.56)
Total Non-Current Assets	822,174.10	1,238,430,139.33	1,239,252,313.43
Total Assets	\$ 180,982,057.74	\$ 1,398,278,484.50	\$ 1,579,260,542.24
LIABILITIES			
Current Liabilities:			
Payables from:			
Voucher Payable	\$ 6,877,079.73	\$ -	\$ 6,877,079.73
Accounts Payable	20,753,269.95		20,753,269.95
Payroll	1,324,385.53		1,324,385.53
Annuities	11,064,805.59		11,064,805.59
Other	553,337.23		553,337.23
Due to Other Agencies (Note 8)	9,729,466.51		9,729,466.51
Employees' Compensable Leave (Note 5)	980,883.72		980,883.72
Payable From Restricted Assets-Current Portion	87,575,941.43	162,611,000.00	250,186,941.43
Total Current Liabilities	138,859,169.69	162,611,000.00	301,470,169.69
Non-Current Liabilities:			
Employees' Compensable Leave (Note 5)	519,222.80		519,222.80
Payable From Restricted Assets		1,185,077,777.74	1,185,077,777.74
Total Non-Current Liabilities	519,222.80	1,185,077,777.74	1,185,597,000.54
Total Liabilities	\$ 139,378,392.49	\$ 1,347,688,777.74	\$ 1,487,067,170.23
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	822,174.10		822,174.10
Restricted for:			
Expendable:			
Restricted by Other			
Pooled Bond Fund	5,000,000.00		5,000,000.00
Prize Reserve Fund	13,774,176.83		13,774,176.83
Unrestricted	22,007,314.32	50,589,706.76	72,597,021.08
Total Net Assets	\$ 41,603,665.25	\$ 50,589,706.76	\$ 92,193,372.01

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

UNAUDITED

Texas Lottery Commission (362)
Exhibit F-2 - Combining Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
For the Fiscal Year Ended August 31, 2005

	Enterprise Fund 5025 U/F (1100)	Enterprise Fund 0895 U/F (0895)	Totals (Exhibit IV)
OPERATING REVENUES:			
Sales of Goods and Services:			
Lottery Proceeds			
Ticket Sales	\$3,662,462,837.50	\$ -	\$3,662,462,837.50
Lottery License Application Fees	305,977.50		305,977.50
Lottery Security Proceeds	71,970.00		71,970.00
Other Operating Revenues	573,103.03		573,103.03
Total Operating Revenues	3,663,413,888.03	-	3,663,413,888.03
OPERATING EXPENSES:			
Salaries and Wages	12,844,028.62		12,844,028.62
Payroll Related Costs	2,886,159.86		2,886,159.86
Professional Fees and Services	4,929,007.83		4,929,007.83
Travel	248,432.24		248,432.24
Materials and Supplies	2,014,222.14		2,014,222.14
Communication and Utilities	325,861.79		325,861.79
Repairs and Maintenance	746,419.63		746,419.63
Rentals and Leases	6,012,433.25		6,012,433.25
Printing and Reproduction	13,114,597.06		13,114,597.06
Depreciation and Amortization	404,550.08		404,550.08
Bad Debt Expense	558,293.79		558,293.79
Interest	526.23		526.23
Lottery Prizes	2,228,000,418.94		2,228,000,418.94
Retailer Commissions	183,176,006.39		183,176,006.39
Retailer Bonuses	4,286,557.85		4,286,557.85
Other Operating Expenses			
Lottery Operator Fees	99,750,079.26		99,750,079.26
Advertising	32,557,797.12		32,557,797.12
Other	2,384,549.10		2,384,549.10
Total Operating Expenses	2,594,239,941.18	-	2,594,239,941.18
Operating Income (Loss)	1,069,173,946.85	-	1,069,173,946.85
NONOPERATING REVENUES (EXPENSES):			
Investment Income (Expense)	33,393.00		33,393.00
Net Increase (Decrease) Fair Value		(12,873,963.41)	(12,873,963.41)
Settlement of Claims	(840.00)		(840.00)
Total Nonoperating Revenues (Expenses)	32,553.00	(12,873,963.41)	(12,841,410.41)
Income (loss) before Other Revenues, Expenses, Gains/Losses and Transfers	1,069,206,499.85	(12,873,963.41)	1,056,332,536.44

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

UNAUDITED

Texas Lottery Commission (362)
Exhibit F-2 - Combining Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds (continued)
For the Fiscal Year Ended August 31, 2005

	Enterprise Fund 5025 U/F (1100)	Enterprise Fund 0895 U/F (0895)	Totals (Exhibit IV)
OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:			
Decr Net Asset D/T Intagy Trans Cap Asset	(18,196.50)		(18,196.50)
Transfers-Out	<u>(1,070,302,868.51)</u>		<u>(1,070,302,868.51)</u>
Total Other Revenues, Expenses, Gains/Losses and Transfers	<u>(1,070,321,065.01)</u>	-	<u>(1,070,321,065.01)</u>
 Change in Net Assets	 <u>(1,114,565.16)</u>	 <u>(12,873,963.41)</u>	 <u>(13,988,528.57)</u>
 Total Net Assets, September 1, 2004	 43,603,499.00	 63,463,670.17	 107,067,169.17
Restatements	(885,268.59)		(885,268.59)
Total Net Assets, September 1, 2004, as Restated	<u>42,718,230.41</u>	<u>63,463,670.17</u>	<u>106,181,900.58</u>
 Total Net Assets, August 31, 2005	 <u>\$ 41,603,665.25</u>	 <u>\$ 50,589,706.76</u>	 <u>\$ 92,193,372.01</u>

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

UNAUDITED

Texas Lottery Commission (362)

Exhibit F-3 - Combining Statement of Cash Flows - Proprietary Funds

For the Fiscal Year Ended August 31, 2005

	Enterprise Fund 5025 U/F (1100)	Enterprise Fund 0895 U/F (0895)	Totals (Exhibit V)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	\$3,684,190,859.48	\$ -	\$ 3,684,190,859.48
Payments to Suppliers for Goods and Services	(346,624,020.70)		(346,624,020.70)
Payments to Employees	(15,547,055.30)		(15,547,055.30)
Payments for Other Expenses	(2,213,690,128.66)		(2,213,690,128.66)
Net Cash Provided by Operating Activities	1,108,329,654.82	-	1,108,329,654.82
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from other Financing		(161,863,000.00)	(161,863,000.00)
Payments for Transfers to Other Funds	(1,076,830,179.10)		(1,076,830,179.10)
Payments for Other Uses		17,004,000.00	17,004,000.00
Net Cash Provided by Noncapital Financing Activities	(1,076,830,179.10)	(144,859,000.00)	(1,221,689,179.10)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments for Additions to Capital Assets	(206,676.98)		(206,676.98)
Net Cash Provided by Capital and Related Financing Activities	(206,676.98)	-	(206,676.98)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sales of Investments		161,863,000.00	161,863,000.00
Proceeds from Interest and Investment Income	33,393.00		33,393.00
Payments to Acquire Investments	(894,176.76)	(17,004,000.00)	(17,898,176.76)
Net Cash Provided by Investing Activities	(860,783.76)	144,859,000.00	143,998,216.24
Net (Decrease) in Cash and Cash Equivalents	30,432,014.98	-	30,432,014.98
Cash and Cash Equivalents--September 1, 2004	107,626,648.82		107,626,648.82
Resatement to Beginning Cash & Cash Equivalents	(885,268.59)		(885,268.59)
Cash and Cash Equivalents--August 31, 2005	\$ 137,173,395.21	\$ -	\$ 137,173,395.21

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

UNAUDITED

Texas Lottery Commission (362)

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

For the Fiscal Year Ended August 31, 2005

	Enterprise Fund 5025 U/F (1100)	Enterprise Fund 0895 U/F (0895)	Totals (Exhibit V)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 1,069,173,946.85	\$ -	\$ 1,069,173,946.85
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Amortization and Depreciation	404,550.08		404,550.08
Bad Debt Expense	558,293.79		558,293.79
Operating Income and Cash Flow Categories:			
Changes in Assets and Liabilities:			
(Increase) Decrease in Receivables	20,776,971.45		20,776,971.45
(Increase) Decrease in Inventories	(427,972.52)		(427,972.52)
(Increase) Decrease in Prepaid Expenses	1,555,500.00		1,555,500.00
Increase (Decrease) in Payables	16,288,365.17		16,288,365.17
Total Adjustments	39,155,707.97	-	39,155,707.97
Net Cash Provided by Operating Activities	\$ 1,108,329,654.82	\$ -	\$ 1,108,329,654.82
Non Cash Transactions			
Net Increase (Decrease) in Fair Value of Investments			\$ (12,873,963.41)

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

UNAUDITED

Texas Lottery Commission (362)

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

August 31, 2005

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

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

UNAUDITED

Texas Lottery Commission (362)

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

August 31, 2005

	Beginning Balance September 1, 2004	Additions	Deductions	Ending Balance August 31, 2005
<u>Deferred Compensation 401K (0942) U/F (0942)</u>				
ASSETS				
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	\$ -	\$ 881,853.53	\$ 852,420.73	\$ 29,432.80
LIABILITIES				
Current				
Funds Held for Others	\$ -	\$ 438,779.79	\$ 409,346.99	\$ 29,432.80
Total Liabilities	\$ -	\$ 438,779.79	\$ 409,346.99	\$ 29,432.80
<u>Correction Account - Direct Deposit (0980) U/F (0980)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ -	\$ 309.10	\$ 309.10	\$ -
Total Assets	\$ -	\$ 309.10	\$ 309.10	\$ -
LIABILITIES				
Current				
Funds Held for Others	\$ -	\$ 309.10	\$ 309.10	\$ -
Total Liabilities	\$ -	\$ 309.10	\$ 309.10	\$ -
<u>Bingo Cash Bonds App Fnd (0001) Fund (1002)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ -	\$ 82,858.82	\$ 82,858.82	\$ -
Total Assets	\$ -	\$ 82,858.82	\$ 82,858.82	\$ -
LIABILITIES				
Current				
Payables	\$ -	\$ -	\$ -	\$ -
Funds Held for Others	\$ -	\$ 82,858.82	\$ 82,858.82	\$ -
Total Liabilities	\$ -	\$ 82,858.82	\$ 82,858.82	\$ -
Totals - All Agency Funds				
ASSETS				
Current				
Cash in State Treasury	\$ (8,640.47)	\$ 569,803.09	\$ 532,428.54	\$ 28,734.08
Receivables:				
Other	33,726.75	438,779.79	443,073.74	29,432.80
Total Assets	\$ 25,086.28	\$ 1,008,582.88	\$ 975,502.28	\$ 58,166.88
LIABILITIES				
Current				
Funds Held for Others	\$ 25,086.28	\$ 565,509.14	\$ 532,428.54	\$ 58,166.88
Total Liabilities	\$ 25,086.28	\$ 565,509.14	\$ 532,428.54	\$ 58,166.88

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

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TEXAS LOTTERY COMMISSION

Schedules

UNAUDITED

Texas Lottery Commission (362)
Schedule 4 - Schedule of Modified to Full Accrual Adjustments - Governmental Funds
Governmental Balance Sheet/Statement of Net Assets
August 31, 2005

	<u>Governmental Funds Total</u>	<u>Capital Assets Adjustments</u>	<u>Long-Term Liabilities Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS				
Current Assets:				
Legislative Appropriations	\$ 474,505.67	\$ -	\$ -	\$ 474,505.67
Total Current Assets	<u>474,505.67</u>	<u>-</u>	<u>-</u>	<u>474,505.67</u>
Noncurrent Assets:				
Restricted:				
Receivables	\$ 254.83			\$ 254.83
Capital Assets: (Note 2)				
Depreciable				
Furniture and Equipment		207,457.13		207,457.13
Less Accumulated Depreciation		(202,878.05)		(202,878.05)
Total Noncurrent Assets	<u>254.83</u>	<u>4,579.08</u>	<u>-</u>	<u>4,833.91</u>
Total Assets	<u>\$ 474,760.50</u>	<u>4,579.08</u>	<u>-</u>	<u>\$ 479,339.58</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Payables from				
Accounts Payable	\$ 34,368.03	\$ -	\$ -	\$ 34,368.03
Vouchers Payable	588.00			588.00
Payroll Payable	210,970.57			210,970.57
Due To Other Funds (Note 8)	6,217.00			6,217.00
Employees Compensable Leave (Note 5)	-		\$154,328.77	154,328.77
Total Current Liabilities	<u>252,143.60</u>	<u>-</u>	<u>154,328.77</u>	<u>406,472.37</u>
Noncurrent Liabilities:				
Employees Compensable Leave (Note 5)	-		\$104,496.27	104,496.27
Total Non-Current Liabilities	<u>-</u>	<u>-</u>	<u>104,496.27</u>	<u>104,496.27</u>
Total Liabilities	<u>252,143.60</u>	<u>-</u>	<u>258,825.04</u>	<u>510,968.64</u>
Fund Financial Statement-Fund Balances				
Fund Balances (Deficits):				
Reserved for:				
Encumbrances	22,193.83	-	-	22,193.83
Undesignated	200,423.07			200,423.07
Total Fund Balances	<u>222,616.90</u>	<u>-</u>	<u>-</u>	<u>222,616.90</u>
Total Liabilities and Fund Balance	<u>\$ 474,760.50</u>	<u>-</u>	<u>258,825.04</u>	<u>\$ 733,585.54</u>
Government-wide Statement - Net Assets				
Net Assets:				
Invested in Capital Assets				
Net of Related Debt		4,579.08		4,579.08
Unrestricted			(258,825.04)	(258,825.04)
Total Net Assets		<u>\$ 4,579.08</u>	<u>\$(258,825.04)</u>	<u>\$ (254,245.96)</u>

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

UNAUDITED

Texas Lottery Commission (362)

**Schedule 4 - Schedule of Modified to Full Accrual Adjustments - Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities
For the Fiscal Year Ended August 31, 2005**

	<u>Governmental Funds Total</u>	<u>Capital Assets Adjustments</u>	<u>Long-Term Liabilities Adjustments</u>	<u>Statement of Activities</u>
REVENUES				
Legislative Appropriations:				
Original Appropriations	\$ 2,590,379.00	\$ -	\$ -	\$ 2,590,379.00
Additional Appropriations	557,562.13			557,562.13
Licenses, Fees & Permits	10,717,449.28			10,717,449.28
Other	31,801.23			31,801.23
Total Revenues	<u>13,897,191.64</u>	<u>-</u>	<u>-</u>	<u>13,897,191.64</u>
EXPENDITURES				
Salaries and Wages	2,113,428.08		15,674.62	2,129,102.70
Payroll Related Costs	530,155.59			530,155.59
Professional Fees and Services	41,000.00			41,000.00
Travel	76,792.29			76,792.29
Materials and Supplies	86,811.34			86,811.34
Communication and Utilities	1,452.72			1,452.72
Repairs and Maintenance	3,322.00			3,322.00
Rentals & Leases	180,103.85			180,103.85
Printing and Reproduction	20,608.71			20,608.71
Intergovernmental Payments	10,721,323.13			10,721,323.13
Other Expenditures	70,363.32			70,363.32
Depreciation Expense		4,578.48		4,578.48
Total Expenditures/Expenses	<u>13,845,361.03</u>	<u>4,578.48</u>	<u>15,674.62</u>	<u>13,865,614.13</u>
Excess (Deficiency) of Revenues over Expenditures	<u>51,830.61</u>	<u>(4,578.48)</u>	<u>(15,674.62)</u>	<u>31,577.51</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-			-
Transfers Out	-			-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
SPECIAL ITEMS				
	-			-
EXTRAORDINARY ITEMS				
	-			-
Net Change in Fund Balances/Net Assets	<u>51,830.61</u>	<u>(4,578.48)</u>	<u>(15,674.62)</u>	<u>31,577.51</u>
Fund Financial Statement-Fund Balances				
Fund Balances--September 1, 2004	207,768.11	-	-	207,768.11
Restatements	<u>(16,246.51)</u>			<u>(16,246.51)</u>
Fund Balances, September 1, 2004 as Restated	191,521.60	-	-	191,521.60
Appropriations Lapsed	20,735.31			20,735.31
Fund Balances--August 31, 2005	<u>\$ 222,616.90</u>	<u>(4,578.48)</u>	<u>(15,674.62)</u>	<u>\$ 202,363.80</u>
Government-wide Statement - Net Assets				
Change in Net Assets		<u>(4,578.48)</u>	<u>(15,674.62)</u>	<u>(20,253.10)</u>
Net Assets, September 1, 2004		9,157.56	(243,150.42)	(233,992.86)
Restatements				
Net Assets, September 1, 2004, as Restated		<u>9,157.56</u>	<u>(243,150.42)</u>	<u>(233,992.86)</u>
Net Assets as of August 31, 2005		<u>\$ 4,579.08</u>	<u>\$ (258,825.04)</u>	<u>\$ (254,245.96)</u>

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

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TEXAS LOTTERY COMMISSION

Addendum

UNAUDITED

Texas Lottery Commission (362)

**ADDENDUM
Organizational and General Comments**

Functions & Operations

The Texas Lottery Commission has two main functions:

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

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

Organization and Governing Board

A three member commission, who are appointed by the Governor to 6-year staggered terms, head the TLC. The officials, their terms of office and hometowns are:

C. Tom Clowe, Jr.	February 1, 1999 - February 1, 2005	Waco, Texas
James A. Cox, Jr.	June 3, 2002 - February 1, 2009	Austin, Texas
Rolando Olvera, Jr.	August 28, 2003 - February 1, 2007	Brownsville, Texas

Serving at the discretion of the Commission is an Executive Director who implements policies and rules, and manages the daily operations of the Commission. Supporting the Executive Director is a management team comprised of a Deputy Executive Director and Division Directors who oversee various aspects of the organization.

Service Responsibilities

The current service responsibilities of the TLC are with 3 segments. They are: (1) Lottery and Charitable Bingo players, (2) Lottery Retailers, and (3) Bingo Licensees. The populations that are affected by actions of the TLC are not only these identified segments, but also the beneficiaries of Lottery and Bingo proceeds and the general public.

The TLC manages these responsibilities by focusing its efforts into Divisions that oversee those aspects that affect these areas. The divisions include Executive Division, Charitable Bingo Operations Division, Internal Audit Division, Legal Services Division, Media Relations Division, Lottery Operations Division, Governmental Affairs Division, and Administration Division.

Executive Division - The Executive Division consists of the Executive Director, Deputy Executive Director and two support staff. The division is the focal point for the decision-making and strategic planning for the day-to-day operation and administration of the Lottery. The Executive Director and Deputy Executive Director play key roles in the short and long-term planning for the agency.

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Texas Lottery Commission (362)

Charitable Bingo Operations Division - The Charitable Bingo Operations Division is responsible for the regulation of all activities relating to the conduct of charitable bingo games in the State of Texas. The Charitable Bingo Operations Division has approximately 46 FTEs and is managed by a Director, who reports to the three member Commission. The Division is organized into three sections: Audit Services, Accounting Services and Licensing Services. While each section of the Charitable Bingo Operations Division performs a distinct function, they also interact frequently with each other as well as other divisions of the Texas Lottery Commission in the regulation of charitable bingo activities in Texas.

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

Legal Services Division – The Legal Division has 34 FTEs and is managed by the General Counsel, who reports directly to the Deputy Executive Director and serves as the attorney for the agency, Commissioners, and agency staff. The Legal Division provides various legal services to the Commission. The General Counsel Section advises the Commission on compliance with state and federal laws regarding contracts, leases, open records, records retention, open meetings, equal employment opportunity, personnel matters, ethics, and coordinates with the Attorney General on all lawsuits to which the Commission is a party.

The Legal Enforcement Section is responsible for investigating and prosecuting enforcement actions against individuals and licensees charged with violating Commission rules and regulations.

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

Lottery Operations Division - The Lottery Operations Division is responsible for player, retailer and vendor compliance with the requirements of Chapter 466 of the Government Code and Chapter 401 of the Texas Administrative Code, as well as game security, drawings and validations and marketing functions. The Division serves the needs of the Commission and its customers in the areas of vendor compliance; instant ticket warehousing and distribution; retailer licensing and accounting; customer service through the operation of retailer and player phone banks and oversight of the Commission correspondence functions; prize payments; retailer surveys and inspections; and marketing of games and game development.

The Division is organized into five distinct functional areas: Retailer Services, Drawing and Validations, Products, Advertising and Promotions and Security. The Lottery Operations Division has 127 FTEs statewide and is managed by a Director, who reports to the Deputy Executive Director.

Governmental Affairs Division - The Governmental Affairs Division serves as the agency's primary liaison with the legislative and executive branches of state government. Its actions are designed to assist the Commissioners, the Executive Director, and the Charitable Bingo Operations Director, as well as all divisions of the agency, by providing legislative tracking, analysis, representation, recommendations and information. The Governmental Affairs Division has four FTEs and is managed by a Director, who reports to the Deputy Executive Director.

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Administration Division - This division is comprised of subdivision, which manage and direct the Commission's support services, personnel, information technology and financial support functions. The Division has 96 FTEs and is managed by the Administration Division Director who reports directly to the Deputy Executive Director.

The Financial Administration division is responsible for financial reporting and the reconciliation of the Commission's financial information with the Uniform Statewide Accounting System (USAS) and the Automated Budget and Evaluation System of Texas (ABEST). Services range from providing strategic planning assistance, budget planning, accounting services, and performance measurement reporting.

The Information Technology division provides automated information management services for the Commission. The division supports the Commission's network, personal computers and printers, shared services for file and print, and a help desk for customer service. In addition, it provides data entry, data control, data center support and operations and large volume print services. Finally, the division is responsible for the Commission's mission critical applications, including regulatory applications, intranet and Internet applications.

The Human Resources division is responsible for guidance to the Commission and employees relating to employment matters. The Commission's Recruiting Plan, the Americans with Disabilities Act, the Fair Labor Standards Act, Workers' Compensation, and Employees' Uniform Group Insurance Program are among the responsibilities addressed within this section. Awareness programs dealing with these acts and mandates are on-going not only in the Austin headquarters, but also at district offices located throughout the State as well. Employee benefit administration and employee record keeping are all maintained within this section.

The Support Service division is responsible for property and facilities management, purchasing including contract compliance and HUB reporting, research functions and graphics and creative multimedia design.

General Comments

At August 31, 2005, there were 319 employees on the Commission's payroll. A listing of the Commission's administrative and key personnel at August 31, 2005, is presented at the end of this addendum.

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

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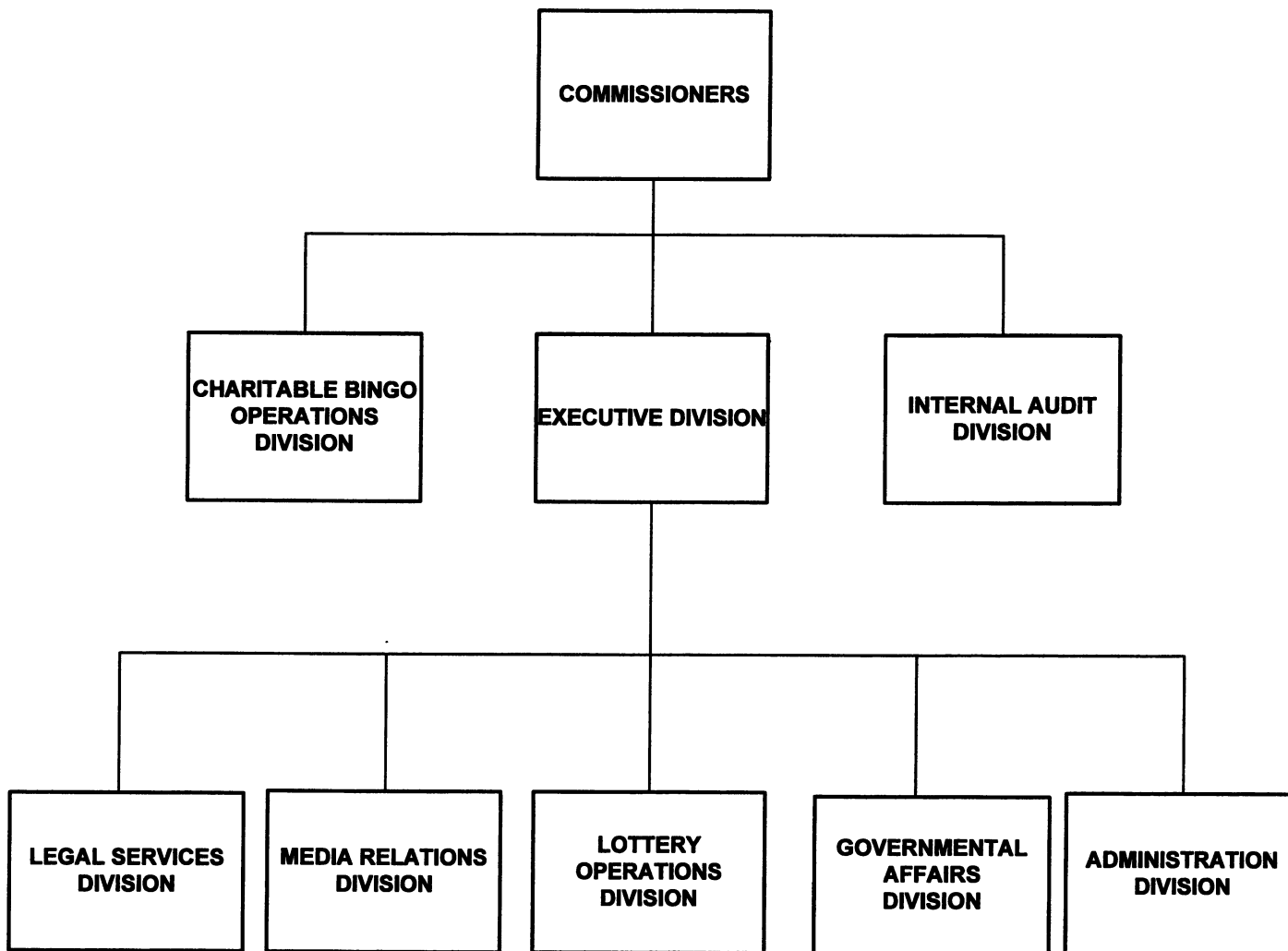
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SCHEDULE OF ADMINISTRATIVE AND KEY PERSONNEL

For the fiscal year ended August 31, 2005

Division	Director
Acting Executive Director	Gary Grief
Charitable Bingo Operations Director	Billy Atkins
Internal Auditor	Catherine Melvin
General Counsel	Kim Kiplin
Media Relations	Bobby Heith
Lottery Operations	Mike Anger
Governmental Affairs	Nelda Treviño
Administration	Mike Fernandez

ORGANIZATIONAL STRUCTURE







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