



# 2019



AN AGENCY OF THE  
STATE OF TEXAS

# ANNUAL FINANCIAL REPORT

*For Fiscal Year 2019*

*Commissioners:*

J. Winston Krause,  
*Chairman*

Mark A. Franz

Robert Rivera

Erik C. Saenz



# TEXAS LOTTERY COMMISSION

Gary Grief, *Executive Director*

Michael P. Farrell, *Charitable Bingo Operations Director*

November 12, 2019

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

Ladies and Gentlemen:

We are pleased to submit the annual financial report of the Texas Lottery Commission for the year ended August 31, 2019, in compliance with Texas Government Code Annotated, Section 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 (GASB) 34**, 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* (CAFR); 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 (512) 344-5410.

Sincerely,

A blue ink signature of Gary Grief, written in a cursive style.

Gary Grief  
Executive Director



Texas Lottery Commission

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**Annual Financial Report  
For the Year Ended August 31, 2019**

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# Texas Lottery Commission

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## **Exhibits**



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Texas Lottery Commission (362)

Exhibit I - Combined Balance Sheet/Statement of Net Position – Governmental Funds

August 31, 2019

	Governmental Fund Types General Funds (Exhibit A-1)	Governmental Funds Total	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Statement of Net Position
<b>ASSETS</b>					
Current Assets					
Cash and Cash Equivalents:					
Cash in State Treasury	\$ 29,996,349.11	\$ 29,996,349.11	\$ -	\$ -	\$ 29,996,349.11
Receivables From:					
Other (Note 1)	34.22	34.22			34.22
Total Current Assets	29,996,383.33	29,996,383.33	-	-	29,996,383.33
Non-Current Assets					
Capital Assets (Note 2)					
Depreciable:					
Furniture and Equipment	-	-	65,458.32	-	65,458.32
Less: Accumulated Depreciation	-	-	(52,779.78)	-	(52,779.78)
Computer Software	-	-	1,313,072.30	-	1,313,072.30
Less: Accumulated Amortization	-	-	(1,072,341.97)	-	(1,072,341.97)
Total Non-Current Assets	-	-	253,408.87	-	253,408.87
Total Assets	\$ 29,996,383.33	\$ 29,996,383.33	253,408.87	-	\$ 30,249,792.20
<b>LIABILITIES</b>					
Current Liabilities					
Payables from					
Accounts	\$ 13,434,925.41	\$ 13,434,925.41	\$ -	\$ -	\$ 13,434,925.41
Vouchers	19,568.00	19,568.00	-	-	19,568.00
Payroll	203,016.01	203,016.01	-	-	203,016.01
Due To Other Agencies (Note 12)	16,338,383.57	16,338,383.57	-	-	16,338,383.57
Employees' Compensable Leave (Note 5)	-	-	-	105,761.67	105,761.67
Total Current Liabilities	29,995,892.99	29,995,892.99	-	105,761.67	30,101,654.66
Non-Current Liabilities					
Employees' Compensable Leave (Note 5)	-	-	-	71,958.89	71,958.89
Total Non-Current Liabilities	-	-	-	71,958.89	71,958.89
Total Liabilities	29,995,892.99	29,995,892.99	-	177,720.56	30,173,613.55
<b>Fund Financial Statement</b>					
Fund Balances (Deficits)					
Restricted	490.34	490.34	-	-	490.34
Total Fund Balances	490.34	490.34	-	-	490.34
Total Liabilities and Fund Balances	\$ 29,996,383.33	\$ 29,996,383.33			
<b>Government-Wide Statement of Net Position</b>					
Net Position					
Net Investment in Capital Assets			253,408.87	-	253,408.87
Unrestricted			-	(177,720.56)	(177,720.56)
Total Net Position			\$ 253,408.87	\$ (177,720.56)	\$ 76,178.65

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

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Texas Lottery Commission (362)

**Exhibit II - Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances/Statement of Activities – Governmental Funds  
For the Fiscal Year Ended August 31, 2019**

	General Funds (Exhibit A-2)	Governmental Funds Total	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Statement of Activities
<b>REVENUES</b>					
Licenses, Fees & Permits	\$ 31,757,227.17	\$ 31,757,227.17	-	-	\$ 31,757,227.17
Sales of Goods and Services	30.80	30.80	-	-	30.80
Total Revenues	<u>31,757,257.97</u>	<u>31,757,257.97</u>	<u>-</u>	<u>-</u>	<u>31,757,257.97</u>
<b>EXPENDITURES</b>					
Salaries and Wages	1,794,661.88	1,794,661.88	-	(20,542.50)	1,774,119.38
Payroll Related Costs	709,046.41	709,046.41	-	-	709,046.41
Professional Fees and Services	185,597.38	185,597.38	-	-	185,597.38
Travel	26,067.08	26,067.08	-	-	26,067.08
Materials and Supplies	11,778.48	11,778.48	-	-	11,778.48
Communication and Utilities	792.04	792.04	-	-	792.04
Repairs and Maintenance	2,003.76	2,003.76	-	-	2,003.76
Rentals and Leases	16,516.14	16,516.14	-	-	16,516.14
Intergovernmental Payments	13,391,981.57	13,391,981.57	-	-	13,391,981.57
Other Expenditures	13,126.27	13,126.27	-	-	13,126.27
Depreciation and Amortization Expense	-	-	264,757.20	-	264,757.20
Total Expenditures/Expenses	<u>16,151,571.01</u>	<u>16,151,571.01</u>	<u>264,757.20</u>	<u>(20,542.50)</u>	<u>16,395,785.71</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>15,605,686.96</u>	<u>15,605,686.96</u>	<u>(264,757.20)</u>	<u>20,542.50</u>	<u>15,361,472.26</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers Out (Note 12)	(16,338,414.37)	(16,338,414.37)	-	-	(16,338,414.37)
Total Other Financing Sources (Uses)	<u>(16,338,414.37)</u>	<u>(16,338,414.37)</u>	<u>-</u>	<u>-</u>	<u>(16,338,414.37)</u>
Net Change in Fund Balances/Net Position	<u>(732,727.41)</u>	<u>(732,727.41)</u>	<u>(264,757.20)</u>	<u>20,542.50</u>	<u>(976,942.11)</u>
<b>Fund Financial Statement - Fund Balances</b>					
Fund Balances, September 1, 2018	733,217.75	733,217.75			733,217.75
Fund Balances, August 31, 2019	<u>\$ 490.34</u>	<u>\$ 490.34</u>			<u>\$ (243,724.36)</u>
<b>Government-Wide Statement of Net Position</b>					
Net Position/Net Change in Net Position		490.34	(264,757.20)	20,542.50	(243,724.36)
Net Position, September 1, 2018		-	518,166.07	(198,263.06)	319,903.01
Net Position, August 31, 2019		<u>\$ 490.34</u>	<u>\$ 253,408.87</u>	<u>\$ (177,720.56)</u>	<u>\$ 76,178.65</u>

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 Position - Proprietary Funds**

**August 31, 2019**

	<b>Total Enterprise Funds (Exhibit F-1)</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents:	
Cash in Bank (Note 3)	\$ 7,500.00
Cash in State Treasury	238,845,229.69
Restricted:	
Short Term Investments (Note 3)	79,390,170.48
Receivables from:	
Accounts	40,950,534.02
Other (Note 1)	135,900.98
Consumable Inventories	1,251,368.48
Merchandise Inventories	32,266,449.30
Prepaid Items	197,244.94
<b>Total Current Assets</b>	<b>393,044,397.89</b>
Non-Current Assets:	
Restricted:	
Investments (Note 3)	418,829,667.57
Capital Assets (Note 2):	
Depreciable:	
Furniture and Equipment	6,045,409.92
Less: Accumulated Depreciation	(5,624,401.54)
Vehicles, Boats, and Aircraft	48,176.20
Less: Accumulated Depreciation	(43,499.99)
Computer Software	69,837.23
Less: Accumulated Amortization	(69,837.23)
<b>Total Non-Current Assets</b>	<b>419,255,352.16</b>
<b>Total Assets</b>	<b>\$ 812,299,750.05</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Payables from:	
Accounts	\$ 28,510,227.13
Voucher	4,270,434.83
Payroll	2,214,692.84
Annuities	6,678,992.37
Other	2,733,106.14
Due to Other Agencies (Note 12)	170,464,725.87
Employees' Compensable Leave (Note 5)	1,576,880.00
Payable From Restricted Assets-Current Portion (Note 5)	187,309,007.96
<b>Total Current Liabilities</b>	<b>403,758,067.14</b>
Non-Current Liabilities:	
Employees' Compensable Leave (Note 5)	1,207,852.91
Payable From Restricted Assets (Note 1)	377,995,632.25
<b>Total Non-Current Liabilities</b>	<b>379,203,485.16</b>
<b>Total Liabilities</b>	<b>\$ 782,961,552.30</b>
<b>NET POSITION</b>	
Net Investment in Capital Assets	425,684.59
Restricted for:	
Expendable:	
Restricted by Other	
Pooled Bond Fund	5,000,000.00
Unrestricted	23,912,513.16
<b>Total Net Position</b>	<b>\$ 29,338,197.75</b>

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 Position - Proprietary Funds**  
**For the Fiscal Year Ended August 31, 2019**

	<b>Total Enterprise Funds (Exhibit F-2)</b>
<b>OPERATING REVENUES:</b>	
Sales of Goods and Services:	
Lottery Proceeds	
Ticket Sales	\$ 6,251,478,651.00
Lottery License Application Fees	296,605.00
Lottery Security Proceeds	57,450.00
Other Operating Revenues	1,004,523.67
Total Operating Revenues	<u>6,252,837,229.67</u>
<b>OPERATING EXPENSES:</b>	
Salaries and Wages	19,924,099.72
Payroll Related Costs	6,992,468.87
Professional Fees and Services	5,164,141.29
Travel	339,328.35
Materials and Supplies	1,512,641.65
Communication and Utilities	611,397.76
Repairs and Maintenance	522,091.62
Rentals and Leases	5,943,010.49
Printing and Reproduction	36,067,583.33
Depreciation and Amortization	141,793.05
Bad Debt Expense	242,860.47
Interest	1.34
Lottery Prizes	4,056,494,096.13
Retailer Commissions	313,054,138.28
Retailer Bonuses	22,777,745.69
Other Operating Expenses:	
Lottery Operator Fees	124,201,733.10
Advertising	25,452,509.00
Other	2,177,356.03
Total Operating Expenses	<u>4,621,618,996.17</u>
Operating Income (Loss)	<u>1,631,218,233.50</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Net Increase (Decrease) in Fair Value	26,759,984.44
Total Nonoperating Revenues (Expenses)	<u>26,759,984.44</u>
Income (Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	<u>1,657,978,217.94</u>
<b>OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:</b>	
Transfers-Out (Note 12)	(1,636,590,465.44)
Total Other Revenues, Expenses, Gains/Losses and Transfers	<u>(1,636,590,465.44)</u>
Change in Net Position	<u>21,387,752.50</u>
Total Net Position, September 1, 2018	7,950,445.25
Total Net Position, August 31, 2019	<u><u>\$ 29,338,197.75</u></u>

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, 2019**

	<b>Total Enterprise Funds (Exhibit F-3)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Proceeds from Customers	\$ 6,245,208,269.11
Payments to Suppliers for Goods and Services	(539,725,317.30)
Payments to Employees	(26,637,586.11)
Payments for Lottery Prizes	(4,035,959,556.43)
Net Cash Provided by Operating Activities	<u>1,642,885,809.27</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Payments for Other Uses	(70,149,000.00)
Payments for Transfers to Other Funds	(1,612,814,748.88)
Proceeds from Other Financing	988,000.00
Net Cash Used by Noncapital Financing Activities	<u>(1,681,975,748.88)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Payments for Additions to Capital Assets	(211,074.35)
Net Cash Used by Capital and Related Financing Activities	<u>(211,074.35)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales of Investments	70,149,000.00
Payments to Acquire Investments	(993,271.54)
Net Cash Provided by Investing Activities	<u>69,155,728.46</u>
Net Increase in Cash and Cash Equivalents	29,854,714.50
Cash and Cash Equivalents--September 1, 2018	<u>208,998,015.19</u>
Cash and Cash Equivalents--August 31, 2019	<u><u>\$ 238,852,729.69</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ 1,631,218,233.50
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Amortization and Depreciation	141,793.05
Bad Debt Expense	242,860.47
Operating Income and Cash Flow Categories: Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(7,628,960.56)
(Increase) Decrease in Inventories	(9,757,797.04)
(Increase) Decrease in Prepaid Items	197,244.94
Increase (Decrease) in Payables	28,472,434.91
Total Adjustments	<u>11,667,575.77</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,642,885,809.27</u></u>
<b>NON CASH TRANSACTIONS</b>	
Net Change in Fair Value of Investments	\$ 26,759,984.44
Total Non Cash Transactions	<u>26,759,984.44</u>

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 Net Position - Fiduciary Funds**  
**August 31, 2019**

	<b>Agency Funds (Exhibit J-1)</b>	<b>Totals</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents:		
Cash in State Treasury	\$ 2,801.00	\$ 2,801.00
Other Current Assets	890,000.00	890,000.00
Total Assets	<u>\$ 892,801.00</u>	<u>\$ 892,801.00</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Funds Held for Others	\$ 892,801.00	\$ 892,801.00
Total Liabilities	<u>\$ 892,801.00</u>	<u>\$ 892,801.00</u>

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

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# Texas Lottery Commission

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## **Notes to the Financial Statements**

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### Texas Lottery Commission (362)

### Notes to the Financial Statements

#### **NOTE 1: Summary of Significant Accounting Policies**

##### **Entity**

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

The Commission serves the state by operating lottery games. The Texas Lottery was created on August 26, 1991, with the enactment of House Bill No. 54, as a division of the Office of the Comptroller of Public Accounts. The Texas Lottery was approved by the voters of Texas in a general election on November 5, 1991, and commenced operations on November 20, 1991. The Commission was formed by state lawmakers during the 1993 legislative session and became effective September 1, 1993. The five-member Texas Lottery Commission sets policy, promulgates rules for the agency, and performs all other duties required by the law. The commissioners appoint the Executive Director and the Charitable Bingo Operations Director. The Internal Audit function is outsourced to an independent contractor and reports to the five-member commission.

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

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement 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.

##### **Fund Structure**

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity. The fund types used to account for the operations of the Commission include the General Fund, Enterprise Funds, and Agency Funds.

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

###### General Revenue Fund

The General Revenue Fund (Fund 0001) is used to account for all financial resources of the state except those required to be accounted for in another fund. The General Revenue Fund was used to account for the Charitable Bingo Operations, including allocation of Bingo Prize Fees. Effective September 1, 2017, the Commission discontinued the use of this fund and transferred all daily activity to the Bingo Administration Fund (5175) below.

###### Bingo Administration Fund

The Bingo Administration Fund (Fund 5175) is used to record all daily activity from the Charitable Bingo Operations, including allocation of Bingo Prize Fees.

###### Capital Assets Adjustment Fund Type

Capital Assets Adjustment fund type will be used to convert governmental fund types' capital assets from modified accrual to full accrual.



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### Texas Lottery Commission (362)

#### Long-Term Liabilities Adjustment Fund Type

Long-Term Liabilities Adjustment fund type will be used to convert governmental fund types' debt from modified accrual to full accrual.

### ***Proprietary Fund Types***

#### Enterprise Funds

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

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

The Commission accounts for its proprietary activities in three separate funds, as discussed below:

GR Dedicated – Lottery Account Fund – Enterprise (05) Appd Fund, D23 Fund 5025 (1100) - This fund was used to record all transactions related to the operation of the Texas Lottery. Effective September 1, 2007, the Commission discontinued the use of this fund and transferred all daily activity to Appd Fund, D23 Fund 5025 (5025) below.

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

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

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

#### Agency Funds

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

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

Child Support Employee Deduct (8070) – This fund receives child support deductions from employee payrolls prior to the ultimate disposition of funds to the Office of the Attorney General.

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

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

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

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

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### Texas Lottery Commission (362)

Lottery Retailer Security Fund (1003) – This fund is used to account for funds, provided by retailers that do not meet certain credit criteria during the licensing process, which are held as financial security to protect the state in the event the retailer is unable to settle its debt to the Commission during the collections process. The securities are typically in the form of a Certificate of Deposit, maintained at a bank and assigned to the Commission.

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

### ***Component Units***

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

### ***Basis of 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 basis of accounting. Under modified accrual, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The Commission considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on the modified 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. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenditures.

Fiduciary funds are reported using the economic resources measurement focus.

### **Budgets and Budgetary Accounting**

The budget is prepared biennially and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriations Act).

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

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### Texas Lottery Commission (362)

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

#### ASSETS

##### Cash and Cash Equivalents

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

##### Allocation of Income

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

During fiscal year 2020, net proceeds will continue to be transferred to the Foundation School Fund and the Texas Veterans Commission. Obligated amounts in the Lottery operations account at August 31, 2019 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 \$170,464,725.87 are recorded as "Due to Other Agencies" as of August 31, 2019. \$1,189,400.14 is due to the Texas Veterans Commission (Fund 0030) for August sales and unclaimed prizes, and the remaining balance is due to the Foundation School Fund (Fund 0193) for August sales and unclaimed prizes.

##### Investments

Investments are measured at fair value in accordance with GASB Statement 31 - *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement 72 - *Fair Value Measurement and Application*. Investments are purchased to meet future installment payments to prize winners. The investments are measured at fair value and the related short-term prizes payable is reported at par value. The related long-term prizes payable is reported at book value. The net unrealized gain (loss) on investment securities, which is the difference between the fair value and the amortized cost, is reflected as Unrestricted-Net Position in the "Combined Statement of Net Position-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 lottery prizes.

##### Inventories

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

##### Capital Assets

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

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### Texas Lottery Commission (362)

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

#### Accounts Receivable – Other

The balance in Accounts Receivable – Other consists of the following: amount owed to the Texas Lottery Commission from third parties for services performed on behalf of the Commission in the amount of \$135,900.98 and \$34.22 due from cities for Bingo prize fees.

## 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 costs 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 position.

#### Prizes Payable

*Lotto Texas*, *Mega Millions*, and *Powerball* jackpots are payable in a lump sum or in annual installments. Prior to February 1997, the *Lotto Texas* prizes were paid in twenty installments. Beginning in February 1997, the players were given a choice at the time of purchase of receiving either a lump sum payment or twenty-five annual installments. Beginning in April 2013, *Lotto Texas* prizes are paid in thirty annual installments instead of twenty-five annual payments. Beginning in October 2013, *Mega Millions* jackpot prizes are paid in thirty annual graduated installments instead of twenty-six annual payments, unless the lump sum option is selected by the player. *Powerball* jackpot prizes are paid in thirty annual graduated installments, unless the lump sum option is selected by the player. The first installment is processed on the day the prize is claimed. The subsequent installments are funded with United States Guaranteed Securities purchased by the Texas Treasury Safekeeping Trust Company on the Commission's behalf, as are the installment payments for Weekly Grand, Super Weekly Grand, Weekly Half Grand, Bonus Weekly Grand, Twice as Grand, Weekly Bonus, Deal or No Deal, Monthly Bonus, Win for Life, Set for Life, Super Set for Life, \$750M Winner's Circle, Winning Millions, 200X Cash, and 300X Cash.

The amortization of the discount of investments held for prizes payable is based on yields ranging from 1.08 percent to 7.08 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, 2019:

2019	
<b>Total Obligation</b>	\$533,856,000.00
Less – unamortized discount	<u>85,919,367.75</u>
Total carrying amount	447,936,632.25
Less – prizes payable within one year	<u>69,941,000.00</u>
Long-term prizes payable	\$377,995,632.25

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### Texas Lottery Commission (362)

The aggregate amount of prizes payable due in each of the five fiscal years following August 31, 2019 and the total thereafter in five year increments are as follows:

Aggregate Amount of Prizes Payable	Business-Type Activities
	Principal
2020 (Future Year 1)	69,941,000.00
2021 (Future Year 2)	69,629,000.00
2022 (Future Year 3)	60,248,000.00
2023 (Future Year 4)	50,372,000.00
2024 (Future Year 5)	44,146,000.00
2025-2029	148,620,000.00
2030-2034	80,848,000.00
2035-2038	10,052,000.00
<b>Total Prizes Payable</b>	<b>\$ 533,856,000.00</b>

In addition to the prizes that are payable in lump sum or installments, the Commission carries \$117,368,007.96 in prizes that are payable from current assets and are liquidated daily in the normal course of business.

There were no prizes payable for the governmental activities as of August 31, 2019.

#### Unclaimed Prizes

In accordance with Subsection 466.408 of the State Lottery Act, the ticket holder forfeits prizes that remain unclaimed for 180 days after the drawing date or 180 days after the close of a scratch game. During fiscal year 2019, the Commission transferred a total of \$75,146,932.48 in unclaimed lottery prize winnings on a quarterly basis to the following agencies: The Texas Education Agency received \$73,737,254.69 for credit to the Foundation School Fund, the Texas Veterans Commission received \$970,235.79 for credit to the Fund for Veterans' Assistance, and the Health and Human Services Commission received \$439,442.00 for credit to the Multi-categorical Teaching Hospital Account.

### **FUND BALANCE/NET POSITION**

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

#### Fund Balance Components

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

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

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

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

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### Texas Lottery Commission (362)

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

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

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

#### Invested In Capital Assets

Invested in capital assets consists of capital assets presented net of accumulated depreciation and reduced by outstanding balances for bond, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. No related debt was noted to affect net of debt. Net position invested in capital assets at August 31, 2019 was \$679,093.46.

#### Restricted Net Position

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

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

	2019
Reserved for Pooled Bond Fund	\$5,000,000.00

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

#### Pooled Bond Fund

The Reserve for Pooled Bond Fund is established in accordance with the Texas Government Code, Chapter 466. Specifically, Texas Government Code, Section 466.156 authorizes the executive director of the Commission to establish a pooled bond fund from the collection of cash from each sales agent to be used to reimburse the state for losses to the state from the operation of the Commission's sales. As of August 31, 2019, the balance in the Pooled Bond Fund did not exceed the statutory cap of \$5 million.

#### Unrestricted Net Position

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

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

#### 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.

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<b>Net Position:</b>	
Invested in Capital Assets	\$425,684.59
Restricted-	
Reserved for Pooled Bond Fund	5,000,000.00
Unrestricted-	
Reserved for Future Lottery Prizes	40,157,421.63
Unrestricted/Undesignated	(16,244,908.47)
<b>Total Proprietary Fund Net Position:</b>	<b><u>\$29,338,197.75</u></b>

**INTERFUND ACTIVITIES AND TRANSACTIONS**

The Commission has the following types of transactions among funds:

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.

The composition of the agency's interfund activities and transactions are presented in Note 12.

Transfers to Foundation School Fund during fiscal year 2019 are as follows:

Cash transfers	\$ 1,593,175,753.92
Accrued transfers at beginning of fiscal year	<u>(145,674,618.77)</u>
Amount transferred from current year revenue	1,447,501,135.15
Accrued transfers at end of fiscal year	<u>169,275,325.73</u>
<b>Total Transfers to Foundation School Fund</b>	<b><u>\$ 1,616,776,460.88</u></b>

Transfers to Texas Veterans Commission during fiscal year 2019 are as follows:

Cash transfers	\$ 19,200,148.94
Accrued transfers at beginning of fiscal year	<u>(1,014,986.52)</u>
Amount transferred from current year revenue	18,185,162.42
Accrued transfers at end of fiscal year	<u>1,189,400.14</u>
<b>Total Transfers to Texas Veterans Commission</b>	<b><u>\$ 19,374,562.56</u></b>

Transfers to the Health and Human Services Commission for unclaimed prizes during fiscal year 2019 are as follows:

Cash transfers	\$ 439,442.00
Accrued transfers at beginning of fiscal year	<u>0.00</u>
Amount transferred from current year revenue	439,442.00
Accrued transfers at end of fiscal year	<u>0.00</u>
<b>Total Transfers to the Health and Human Services Commission</b>	<b><u>\$ 439,442.00</u></b>

Transfers to the Comptroller of Public Accounts – General Revenue during fiscal year 2019 are as follows:

Cash transfers	\$ 30.80
Accrued transfers at beginning of fiscal year	<u>0.00</u>
Amount transferred from current year revenue	30.80
Accrued transfers at end of fiscal year	<u>16,338,383.57</u>
<b>Total Transfers to the Comptroller of Public Accounts – General Revenue</b>	<b><u>\$ 16,338,414.37</u></b>

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### Texas Lottery Commission (362)

#### **REVENUES AND EXPENSES**

##### Operating and Non-Operating Revenues or Expenses

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

Operating expenses are those costs that are either directly connected to the operation of lottery activities or necessary for the maintenance of the business enterprise. Expenses incurred for non-operating functions, investment expenses, 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 from scratch and draw lottery ticket sales and retailer fees. Scratch ticket sales are recognized as revenue when ticket packs are settled with retailers. There are four (4) traditional ways retailers are charged for the cost of a pack of scratch tickets. Ticket packs are considered settled on the earlier of the date when 70 percent of the low-tier prizes in the pack are validated, 45 days after the pack is activated by the retailer, manual settlement by the retailer upon activation of the pack, or game closing in which retailers are charged for any ticket in their possession after end of game date. The Commission introduced an additional 21-day settlement class option September 1, 2016. Draw ticket sales are recognized as revenue when tickets are purchased by lottery players. Revenues from retailer license and application fees are recorded when received. Lottery revenues are used for 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, subject to appropriation limitation, accruing from the sales of tickets, including not less than 5 percent for retailer commissions. Any funds not used for these purposes are transferred to the Foundation School Fund of the state of Texas at the end of each fiscal year.

##### Lottery Prizes

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

##### Retailer Commissions

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

##### Retailer Bonuses and Incentives

The Commission's \$4.2 million annual retailer bonus program was zeroed out in the fiscal year beginning September 1, 2018. Bonus payments were earned by licensed lottery retailers for selling certain prizewinning tickets.

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

##### Lottery Operator Fees

The lottery operator received a fee of 2.2099 percent for fiscal year 2019 based on the total lottery tickets sold, as defined in Attachment H of the contract for Lottery Operations and Services, dated December 14, 2010. In addition to the operator, the Commission contracts for other goods and services in the ordinary course of business. Payments under such contracts, less rebates, credits, and sanctions, are charged to expense as the goods and services are received.



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### NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2019, is presented below:

GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT							Balance 8/31/2019
	Balance 9/1/2018	Adjustments	Completed CIP	Increase Int'gy Trans	Decrease Int'gy Trans	Additions	Deletions	
Depreciable Assets								
Furniture and Equipment	\$ 65,458.32	-	-	-	-	-	-	\$ 65,458.32
<b>Total Depreciable Assets at Historical Costs</b>	<b>\$ 65,458.32</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 65,458.32</b>
Less Accumulated Depreciation for:								
Furniture and Equipment	\$ (50,636.94)	-	-	-	-	(2,142.84)	-	\$ (52,779.78)
Total Accumulated Depreciation	(50,636.94)	-	-	-	-	(2,142.84)	-	(52,779.78)
Depreciable Assets, Net	14,821.38	-	-	-	-	(2,142.84)	-	12,678.54
Intangible Capital Assets - Amortizable								
Computer Software - Intangible	\$ 1,313,072.30	-	-	-	-	-	-	\$ 1,313,072.30
<b>Total Intangible Capital Assets - Amortizable</b>	<b>\$ 1,313,072.30</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 1,313,072.30</b>
Less Accumulated Amortization for:								
Computer Software - Intangible	\$ (809,727.61)	-	-	-	-	(262,614.36)	-	\$ (1,072,341.97)
Total Accumulated Amortization	(809,727.61)	-	-	-	-	(262,614.36)	-	(1,072,341.97)
Intangible Capital Assets - Amortizable, Net	503,344.69	-	-	-	-	(262,614.36)	-	240,730.33
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 518,166.07</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ (264,757.20)</b>	<b>-</b>	<b>\$ 253,408.87</b>
<b>BUSINESS-TYPE ACTIVITIES</b>								
	Reclassifications							Balance 8/31/2019
	Balance 9/1/2018	Adjustments	Completed CIP	Increase Int'gy Trans	Decrease Int'gy Trans	Additions	Deletions	
Depreciable Assets								
Furniture and Equipment	\$ 5,834,335.57	-	-	-	-	211,074.35	-	\$ 6,045,409.92
Vehicle, Boats & Aircraft	48,176.20	-	-	-	-	-	-	48,176.20
<b>Total Depreciable Assets at Historical Costs</b>	<b>\$ 5,882,511.77</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 211,074.35</b>	<b>-</b>	<b>\$ 6,093,586.12</b>
Less Accumulated Depreciation for:								
Furniture and Equipment	\$ (5,486,349.01)	-	-	-	-	(138,052.53)	-	\$ (5,624,401.54)
Vehicles, Boats & Aircraft	(39,759.47)	-	-	-	-	(3,740.52)	-	(43,499.99)
Total Accumulated Depreciation	(5,526,108.48)	-	-	-	-	(141,793.05)	-	(5,667,901.53)
Depreciable Assets, Net	356,403.29	-	-	-	-	69,281.30	-	425,684.59
Intangible Capital Assets - Amortizable								
Computer Software - Intangible	\$ 69,837.23	-	-	-	-	-	-	\$ 69,837.23
<b>Total Intangible Capital Assets - Amortizable</b>	<b>\$ 69,837.23</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 69,837.23</b>
Less Accumulated Amortization for:								
Computer Software - Intangible	\$ (69,837.23)	-	-	-	-	-	-	\$ (69,837.23)
Total Accumulated Amortization	(69,837.23)	-	-	-	-	-	-	(69,837.23)
Intangible Capital Assets - Amortizable, Net	-	-	-	-	-	-	-	-
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 356,403.29</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$ 69,281.30</b>	<b>-</b>	<b>\$ 425,684.59</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 were covered by depository insurance or fully collateralized at August 31, 2019.

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### Deposits of Cash in Bank

As of August 31, 2019, the carrying amount of deposits was \$7,500.00 as presented below:

#### **Governmental and Business Type Activities**

Cash in Bank – Carrying Amount	<u>\$7,500.00</u>
<b>Total Cash in Bank per AFR</b>	<b>\$7,500.00</b>

Proprietary Funds Current Assets Cash in Bank	<u>\$7,500.00</u>
<b>Total Cash in Bank per AFR</b>	<b>\$7,500.00</b>

These amounts consist of all cash in local banks. These amounts are included on the Combined Statement of Net Position as part of the “Cash and Cash Equivalents” account.

As of August 31, 2019, the total bank balance was as follows:

<b>Governmental and Business Type Activities</b>	<b>\$7,561.14</b>
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### Investments

The Commission’s investments consist of United States Government Securities (Treasury and REFCO Strips). These investments have been purchased to provide for the payment of the *Lotto Texas*, *Mega Millions* and *Powerball* jackpot prizes that are payable annually to the winners over a nineteen-year, twenty-four year, twenty-five year, and twenty-nine year period, as well as the installment payments for several scratch ticket games. All investments are held to maturity; therefore, fluctuations in market price have no effect on the ability of the Commission to meet installment payment obligations as they become due. The Commission’s investments are held by the Texas Treasury Safekeeping Trust Company or its agent in the Texas Treasury Safekeeping Trust Company’s name.

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

The Commission has some investments that are not subject to GASB Statement No. 72. Investments not measured at fair value include money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less and are held by governments other than external investment pools. These investments are reported at amortized cost.

The Commission had the following recurring fair value measurements as of August 31, 2019:

Investments Fair Values Governmental and Business-Type Activities	Fair Value Hierarchy			Total
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
U.S. Government				
U.S. Treasury Strips	\$ 213,616,083.66	\$	\$	\$ 213,616,083.66
Resolution Funding Corporation Strips		<u>274,477,970.22</u>		<u>274,477,970.22</u>
Total Investments at Fair Value	<u>\$ 213,616,083.66</u>	<u>\$ 274,477,970.22</u>	<u>\$ 0.00</u>	<u>\$ 488,094,053.88</u>
<b>Investments at Amortized Costs or Not Subject to GASB Statement No. 72</b>				
Repurchase Agreement (Texas Treasury Safekeeping Trust Co.)				<u>\$ 10,125,784.17</u>
Total of Investments - Governmental and Business-Type Activities				<u>\$ 498,219,838.05</u>
<b>Reconciliation of Investments per Exhibits - Governmental and Business-Type Activities</b>				<b>Total</b>
Proprietary Funds Current Assets Restricted Short-Term Investments				\$ 79,390,170.48
Proprietary Funds Non-Current Assets Restricted Investments				<u>418,829,667.57</u>
Investments per Exhibits				<u>\$ 498,219,838.05</u>

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

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The following schedule details the fair values and maturities of the Commission's investment in U.S. Government Securities and Repurchase Agreement as of August 31, 2019.

Investment Type	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Government and Agency Investments	\$ 488,094,053.88	\$ 69,264,386.31	\$ 249,655,693.51	\$ 114,591,086.30	\$ 54,582,887.76
Repurchase Agreement	10,125,784.17	10,125,784.17			
Total	\$ 498,219,838.05	\$ 79,390,170.48	\$ 249,655,693.51	\$ 114,591,086.30	\$ 54,582,887.76

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 Securities. These investments are explicitly guaranteed by the U.S. Government and as such are not rated by nationally recognized statistical rating organizations. As of August 31, 2019, the Commission's credit quality distribution for securities with credit risk exposure was as follows:

### Unrated

05	5025	Repurchase Agreement (Texas Treasury Safekeeping Trust Co.)	\$10,125,784.17
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Interest rate risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. The Commission, through the Texas Treasury Safekeeping Trust Company, manages its exposure to fair value losses arising from increasing interest rates by limiting the modified duration of its investment portfolio.

U.S. Government -	
U.S. Treasury Strips	7.522
Resolution Funding Corporation Strips	3.270

### **Reverse Repurchase Agreement**

At August 31, 2019, certain investments were subject to reverse repurchase agreements entered into by the Texas Treasury Safekeeping Trust Company. Such reverse repurchase agreements, which are permitted by statute, consist of sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Proceeds are invested in securities that mature at or near the same date as the reverse repurchase agreement and the proceeds from those securities will be used to liquidate the agreement, resulting in a matched position and minimizing market risk because the Texas Treasury Safekeeping Trust Company will hold the securities to maturity and liquidate them at face value. The market value of securities underlying reverse repurchase agreements normally exceeds the cash received, providing a margin against decline in market value. If the re-purchaser defaults on the obligation to sell these securities to the Texas Treasury Safekeeping Trust Company or provide securities or cash of equal value, an economic loss could result equal to the difference between the face value and the market value plus accrued interest of the underlying securities. Any such loss incurred would be the responsibility of the Texas Treasury Safekeeping Trust Company rather than the Commission. To minimize the risk of such default, all securities backing the reverse repurchase agreements are held by the Federal Reserve Bank in the name of the Comptroller of Public Accounts, Treasury Operations. There were no significant violations of legal or contractual provisions during the year.

The amount of investments subject to reverse repurchase agreements at August 31, 2019 was approximately \$18,899,922.24 at book value. The fair value of the securities underlying these agreements at August 31, 2019 was approximately \$19,856,944.98.

### **NOTE 4: Short-Term Debt**

Not Applicable

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**NOTE 5: Summary of Long-Term Liabilities**

**Changes in Long-Term Liabilities**

During the year ended August 31, 2019, the following changes occurred in liabilities.

Governmental Activities	Balance 09/01/18	Additions	Deletions	Balance 08/31/19	Amounts Due Within One Year
Compensable Leave	\$198,263.06	177,291.67	197,834.17	177,720.56	\$105,761.67
<b>Total Governmental Activities</b>	<b>\$198,263.06</b>	<b>\$177,291.67</b>	<b>\$197,834.17</b>	<b>\$177,720.56</b>	<b>\$105,761.67</b>

Business-Type Activities	Balance 09/01/18	Additions	Deletions	Balance 08/31/19	Amounts Due Within One Year
Compensable Leave	\$2,578,491.28	2,637,955.06	2,431,713.43	2,784,732.91	\$1,576,880.00
Long-Term Prizes Payable	\$596,004,782.47	46,894,943.63	77,595,085.89	565,304,640.21	\$187,309,007.96
<b>Total Business Type Activities</b>	<b>\$598,583,273.75</b>	<b>\$49,532,898.69</b>	<b>\$80,026,799.32</b>	<b>\$568,089,373.12</b>	<b>\$188,885,887.96</b>

**Employees' Compensable Leave**

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

**Long-Term Prizes Payable**

Certain Lottery games provide prize winners the ability to receive winnings over time. Maturity of these prizes range from 1 year to 29 years. The Long-Term Prizes Payable balance represents future installments due to winners. These prizes are paid weekly, monthly, quarterly and annually. An expense and liability for proprietary fund types are recorded as the tickets are sold.

**NOTE 6: Bonded Indebtedness**

Not Applicable

**NOTE 7: Derivatives**

Not Applicable

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**Texas Lottery Commission (362)**

**NOTE 8: Operating Lease Obligations**

The Texas Lottery Commission has a total of 16 leased buildings and 2 parking garages in the state under the terms of operating leases expiring at various dates through 2026. The Commission leases its central office which includes administrative offices, a lottery drawing studio, and a claim center. The remaining 15 leases consist of a warehouse/disaster recovery center in Austin as well as claim centers in Abilene, Amarillo, Beaumont, Corpus Christi, Dallas, Fort Worth, Houston, Laredo, Lubbock, McAllen, Odessa, San Antonio, Tyler, and Victoria. The Austin, Dallas, Houston, Odessa, and San Antonio offices also house 5 Bingo regional offices. The parking garage leases are located in Austin and Houston. Rent expense for Charitable Bingo and Lottery operations under these and other leases amounted to \$5,959,526.63 in fiscal year 2019. These lease agreements generally do not require payment of taxes, insurance and maintenance by the Commission, except for utility costs directly attributable to computer equipment at the central office and utility and janitorial costs at some claim/regional centers. Generally, management expects that leases will be renewed or replaced by other leases in the normal course of business.

<b>Fund Type</b>	<b>Amount</b>
GR Dedicated-Bingo Administration Account No. 5175	\$16,516.14
GR Dedicated-Lottery Account No. 5025	\$5,943,010.49

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>	
2020	\$3,442,025.17
2021	4,002,195.22
2022	3,951,135.66
2023	142,317.96
2024	85,215.36
2025 and beyond	53,239.22
<b>Total Minimum Future Lease Rental Payments</b>	<b>\$11,676,128.59</b>

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

**NOTE 9: Defined Benefit Pension Plans and Defined Contribution Plan**

Not Applicable

**NOTE 10: Deferred Compensation**

Not Applicable

**NOTE 11: Postemployment Benefits Other Than Pensions**

Not Applicable

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**NOTE 12: Interfund Activity and Transactions**

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:

- Due From Other Agencies or Due To Other Agencies
- Transfers In or Transfers Out

The agency experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer.

Individual balances and activity at August 31, 2019 follow:

	Due From Other Agencies	Due To Other Agencies	Source
ENTERPRISE (05) Appd Fund 5025, D23 Fund 5025			
To Agency 701, D23 Fund 0193		\$169,275,325.73	Revenue
To Agency 403, D23 Fund 0030		1,189,400.14	Revenue
GENERAL REVENUE (01) Appd Fund 5175, D23, Fund 5175			
To Agency 902, D23 Fund 0001		16,338,383.57	Revenue
<b>Total Due From/To Other Agencies</b>		<b>\$186,803,109.44</b>	

	Operating Transfers In	Operating Transfers Out	Purpose
ENTERPRISE (05) Appd Fund 5025, D23 Fund 5025			
To Agency 701, D23 Fund 0193		\$1,616,776,460.88	Operating
To Agency 403, D23 Fund 0030		19,374,562.56	Operating
To Agency 529, D23 Fund 5049		439,442.00	Operating
<b>Total Transfers</b>		<b>\$1,636,590,465.44</b>	

	Operating Transfers In	Operating Transfers Out	Purpose
GENERAL REVENUE (01) Appd Fund 5175, D23, Fund 5175			
To Agency 902, D23 Fund 0001		\$16,338,383.57	Operating
GENERAL REVENUE (01) Appd Fund 0001 D23 Fund 0001			
To Agency 902, D23 Fund 0001		30.80	Operating
<b>Total Transfers</b>		<b>\$16,338,414.37</b>	

**NOTE 13: Continuance Subject to Review**

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

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Texas Lottery Commission (362)

**NOTE 14: Adjustments to Fund Balance/Net Position**

Not Applicable

**NOTE 15: Contingent Liabilities**

As of August 31, 2019, there is one potential loss contingency for which we do not believe a loss is probable and, in the interest of full disclosure, the following summary also discusses developments in the Nettles lawsuit reported in the Annual Financial Report-Note 15 for Fiscal Year 2015 and updated in 2016, 2017 and 2018. Because the Dallas County District Court in that case ruled the Commission has sovereign immunity and the Plaintiff has dismissed her appeal of this ruling, at this time there is no probable loss due to Commission liability; however, because the litigation has not concluded, it is included in this report.

**Brazoria County District Court Cause No. 104075-CV. (Mariyam Jamilah v. Gary Grief).**

On August 6, 2019, plaintiff Mariyam Jamilah filed an Original Petition in this case claiming at least \$100,000 in damages. The plaintiff alleges she held a winning ticket in the amount of \$965 for the Texas Lottery *Cash Five* drawing held on August 11, 2015, and that the Texas Lottery Commission wrongfully refused to pay the claim because she attempted to redeem the ticket one day after the Commission's 180-day redemption period ended. The 180th day was a Sunday, a day when the Commission's claim centers are closed. The plaintiff alleges breach of contract and seeks exemplary damages.

On August 29, 2019, the Commission filed a Plea to the Jurisdiction and Original Answer, claiming that Ms. Jamilah's suit is barred by sovereign immunity. Because the Commission has sovereign immunity under Texas law, we believe there is a low probability of liability or loss.

**Dallas Co. District Court Cause No. DC-14-14838, Fifth District Court of Appeals Cause No. 05-15-01559-CV (Dawn Nettles v. GTECH Corporation and the Texas Lottery Commission).**

This case is one of several lawsuits filed beginning in December 2014, in which over 1,200 Plaintiffs and Intervenor (collectively, Plaintiffs) sued GTECH Corp. (the Commission's lottery operator currently known as IGT), alleging that misleading instructions in the "Fun 5's" scratch ticket game offered in the fall of 2014 led some players to believe they had won as much as \$500,000 when they had not. Plaintiffs seek damages based on the apparent value of the tickets had they been programmed to validate as winning tickets, plus exemplary damages based on fraud and, in one case, tortious interference with contract and "expectancy".

The Plaintiffs in the other Fun 5's cases have not sued the Commission. However, in 2015, the sole Plaintiff in the Dallas County case (Dawn Nettles) added the Commission as a Defendant, and requested the Court to issue a declaratory order that IGT must pay any judgment against the Commission based on an indemnity provision in two contracts between the Commission and IGT. In this lawsuit, Nettles sought monetary relief of over \$1 million. Her specific causes of action included common law fraud, fraud by nondisclosure, and aiding and abetting fraud (against IGT only). The Office of the Attorney General represented the Commission.

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

Plaintiff appealed both of the Court's orders to the Fifth District Court of Appeals. Plaintiff subsequently moved to dismiss her appeal against the Commission, and the Court of Appeals

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dismissed that appeal. On July 21, 2017, the Court of Appeals affirmed the Trial Court's decision finding Plaintiff's claims against IGT are barred by derivative sovereign immunity. On February 15, 2018, Plaintiff filed a Petition for Review asking the Texas Supreme Court to review the Court of Appeals decision. On September 28, 2018, the Court notified the parties that the Petition remained under consideration and requested the parties to file briefs on the merits. On June 28, 2019, the Court granted the Petition. Oral argument is scheduled for December 3, 2019.

The key issue in this continuing case concerns IGT's derivative sovereign immunity, not issues regarding the Commission's sovereign immunity or liability.

#### **NOTE 16: Subsequent Events**

Texas House Bill 914 relating to the regulation of bingo games passed the regular session of the 86<sup>th</sup> Texas Legislature. Effective September 1, 2019 bingo prize fees will be deposited to the general revenue fund and the administration of Bingo operations will be funded from the general revenue fund rather than the Bingo Administration Fund.

Under the legislation, cities and counties that were eligible to receive a portion of bingo prize fees as of January 1, 2019 must vote no later than November 1, 2019 to continue receiving those funds. Beginning January 1, 2020, Bingo organizations will either remit 100 percent of those funds to the Commission, if the local jurisdiction had not previously authorized bingo, or send 50 percent of the total prize fees to the Commission. The organizations will also be responsible for remitting the balance of bingo prize fees to either local jurisdictions or retaining in the general charitable fund of the bingo organization in accordance with the legislation.

#### **NOTE 17: Risk Management**

In the regular course of business, the Texas Lottery Commission is exposed to property and casualty loss and workers' compensation claims. The Commission retains the risk to cover losses to which it may be exposed.

The Commission assumes substantially all risks with tort claims and liability claims due to the performance of its duties. The Commission also participates in the State Office of Risk Management's (SORM) Risk Management and Workers' Compensation Coverage Program. The Commission's assessment for fiscal year 2019 was \$25,955.04. The assessment covers workers' compensation and risk management costs.

The Commission's liabilities are reported when it is both probable that the loss has occurred and the amount of the loss can be reasonably estimated. Potential liabilities are re-evaluated periodically to consider settlements, frequency of claims, past experiences and economic factors.

Changes in the balances of the Commission's claims liabilities during fiscal years 2018 and 2019 were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2018	\$0.00	\$0.00	\$0.00	\$0.00
2019	\$0.00	\$0.00	\$0.00	\$0.00



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#### **NOTE 18: Management Discussion and Analysis**

##### **Financial Highlights:**

- Total sales for the fiscal year ended August 31, 2019 totaled \$6.25 billion. This represents an increase of \$624.6 million, or 11.1%, over fiscal year 2018 sales. This is also the best year of sales since ticket sales began in 1992.
- Fiscal year 2019 concluded with the Commission transferring \$1.637 billion in revenue to the state of Texas, representing an increase of \$186.1 million, or 12.8% over fiscal year 2018.
- Of the total revenue transfers, \$1.617 billion went directly to the Foundation School Fund, representing an increase of \$184.9 million, or 12.9%, in lottery contributions to public education in Texas. This was the largest annual revenue transfer to the Foundation School Fund in the history of the Texas Lottery.
- Additionally, \$19.4 million went to the Texas Veterans Commission from the sales of scratch-off games dedicated to veterans' assistance. This represents an increase of \$1.3 million, or 6.9% over fiscal year 2018. This is the largest annual transfer to the Fund for Veterans' Assistance since these designated scratch-off games began.
- State programs benefitted from \$75.2 million in unclaimed lottery prizes.
- Scratch ticket sales for the fiscal year ended August 31, 2019 increased by \$427.3 million, or 9.7%, over fiscal year 2018. These sales represent the highest level of scratch ticket sales in Texas Lottery history.
- *Lotto Texas* sales for the fiscal year ended August 31, 2019 decreased from fiscal year 2018 by \$6.8 million, or 5.9%. *Lotto Extra* sales for the fiscal year ending August 31, 2019 increased over fiscal year 2018 by \$1.1 million or 4.5%. Fiscal year 2019 *Lotto Extra* sales were the best since inception in 2013.
- *Texas Two Step* sales for the fiscal year ended August 31, 2019 increased over fiscal year 2018 by \$3.8 million, or 6.4%.
- *Powerball* sales for the fiscal year ended August 31, 2019 increased over fiscal year 2018 by \$44.7 million, or 17.8%. *Power Play* sales for the fiscal year ended August 31, 2019 increased over fiscal year 2018 by \$8.2 million or 21.6%.
- *Mega Millions* sales for the fiscal year ended August 31, 2019 increased over fiscal year 2018 by \$129.4 million, or 57.8%. *Megaplier* sales for the fiscal year ended August 31, 2019 increased over fiscal year 2018 by \$17.2 million, or 48.4%. These sales represent the highest level of *Mega Millions* and *Megaplier* sales in Texas Lottery history. *MM Just the Jackpot* sales for the fiscal year ended August 31, 2019 decreased from fiscal year 2018 by \$0.04 million.
- *Daily 4* sales for the fiscal year ended August 31, 2019 increased over fiscal year 2018 by \$3.3 million, or 3.1%. *Daily 4 Sum It Up* sales for the fiscal year ended August 31, 2019 decreased from fiscal year 2018 by \$1.7 million, or 29.8% with sales being suspended on April 27, 2019. *Daily 4 Fireball* was introduced on April 28, 2019 with sales of \$5.3 million in fiscal year 2019. Fiscal year 2019 *Daily 4* sales were the best since inception in September 2007.
- *Pick 3* sales for the fiscal year ended August 31, 2019 decreased from fiscal year 2018 by \$8.1 million, or 3.2%. *Pick 3 Sum It Up* sales for the fiscal year ended August 31, 2019 decreased from fiscal year 2018 by \$1.8 million, or 35.7% with sales being suspended on April 27, 2019. *Pick 3 Fireball* was introduced on April 28, 2019 with sales of \$7.3 million in fiscal year 2019.
- *Cash Five* sales for the fiscal year ended August 31, 2019 increased over fiscal year 2018 by \$3.7 million, or 8.8%.
- *All or Nothing* sales for the fiscal year ended August 31, 2019 increased over fiscal year 2018 by \$2.4 million, or 8.2%.
- Total prize expense, adjusted for unclaimed prizes, for the fiscal year ended August 31, 2019 totaled \$4.06 billion. This is a record for the amount of prizes awarded to players.
- Commissions paid to retailers for the fiscal year ended August 31, 2019 were \$313.1 million. This is also the highest amount paid to retailers in the Commission's history.

#### **NOTE 19: The Financial Reporting Entity**

Not Applicable

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***NOTE 20: Stewardship, Compliance, and Accountability***

Not Applicable

***NOTE 22: Donor-Restricted Endowments***

Not Applicable

***NOTE 23: Extraordinary and Special Items***

Not Applicable

***NOTE 24: Disaggregation of Receivable and Payable Balances***

Not Applicable

***NOTE 25: Termination Benefits***

Not Applicable

***NOTE 26: 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 27: Service Concession Arrangements***

Not Applicable

***NOTE 28: Deferred Outflows of Resources and Deferred Inflows of Resources***

Not Applicable

***NOTE 29: Troubled Debt Restructuring***

Not Applicable

***NOTE 30: Non-Exchange Financial Guarantees***

Not Applicable

***NOTE 31: Tax Abatements***

Not Applicable

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***NOTE 32: Fund Balances***

Not Applicable

Texas Lottery Commission

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## **Combining Fund Exhibits**

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Texas Lottery Commission (362)  
Exhibit A-1 - Combining Balance Sheet - All General Funds  
August 31, 2019

	General Revenue Fund 0001 U/F (0001)	Bingo Administration Fund 5175 U/F (5175)	Total (Exhibit I)
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents			
Cash in State Treasury	\$ -	\$ 29,996,349.11	\$ 29,996,349.11
Receivables From:			
Other (Note 1)		34.22	34.22
Total Current Assets	<u>-</u>	<u>29,996,383.33</u>	<u>29,996,383.33</u>
Total Assets	<u><u>\$ -</u></u>	<u><u>\$ 29,996,383.33</u></u>	<u><u>\$ 29,996,383.33</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Current Liabilities			
Payables from			
Accounts	\$ -	\$ 13,434,925.41	\$ 13,434,925.41
Vouchers	-	19,568.00	19,568.00
Payroll	-	203,016.01	203,016.01
Due To Other Agencies (Note 12)	-	16,338,383.57	16,338,383.57
Total Current Liabilities	<u>-</u>	<u>29,995,892.99</u>	<u>29,995,892.99</u>
Total Liabilities	<u>-</u>	<u>29,995,892.99</u>	<u>29,995,892.99</u>
<b>Fund Balances (Deficits)</b>			
Restricted	-	490.34	490.34
Total Fund Balances	<u>-</u>	<u>490.34</u>	<u>490.34</u>
Total Liabilities and Fund Balances	<u><u>\$ -</u></u>	<u><u>\$ 29,996,383.33</u></u>	<u><u>\$ 29,996,383.33</u></u>

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

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**Texas Lottery Commission (362)**  
**Exhibit A-2 - Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – All General Funds**  
**For the Fiscal Year Ended August 31, 2019**

	<b>General Revenue Fund 0001 U/F (0001)</b>	<b>Bingo Administration Fund 5175 U/F (5175)</b>	<b>Total (Exhibit II)</b>
<b>REVENUES</b>			
Licenses, Fees & Permits	\$ -	\$ 31,757,227.17	\$ 31,757,227.17
Sales of Goods and Services	30.80		30.80
Total Revenues	<u>30.80</u>	<u>31,757,227.17</u>	<u>31,757,257.97</u>
<b>EXPENDITURES</b>			
Salaries and Wages	-	1,794,661.88	1,794,661.88
Payroll Related Costs	-	709,046.41	709,046.41
Professional Fees and Services	-	185,597.38	185,597.38
Travel	-	26,067.08	26,067.08
Materials and Supplies	-	11,778.48	11,778.48
Communication and Utilities	-	792.04	792.04
Repairs and Maintenance	-	2,003.76	2,003.76
Rentals and Leases	-	16,516.14	16,516.14
Intergovernmental Payments	-	13,391,981.57	13,391,981.57
Other Expenditures	-	13,126.27	13,126.27
Total Expenditures	<u>-</u>	<u>16,151,571.01</u>	<u>16,151,571.01</u>
Excess (Deficiency) of Revenues over Expenditures	<u>30.80</u>	<u>15,605,656.16</u>	<u>15,605,686.96</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers Out (Note 12)	(30.80)	(16,338,383.57)	(16,338,414.37)
Total Other Financing Sources (Uses)	<u>(30.80)</u>	<u>(16,338,383.57)</u>	<u>(16,338,414.37)</u>
Net Change in Fund Balances	<u>-</u>	<u>(732,727.41)</u>	<u>(732,727.41)</u>
<b>Fund Financial Statement - Fund Balances</b>			
Fund Balances, September 1, 2018	-	733,217.75	733,217.75
Fund Balances, August 31, 2019	<u>\$ -</u>	<u>\$ 490.34</u>	<u>\$ 490.34</u>

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



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Texas Lottery Commission (362)

Exhibit F-1 - Combining Statement of Net Position - Proprietary Funds

August 31, 2019

	Texas Lottery Commission Fund 5025 U/F (5025)	Texas Lottery Commission Fund 5025 U/F (1100)	Lotto Prize Trust Fund 0895 U/F (0895)	Totals (Exhibit III)
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents:				
Cash in Bank (Note 3)	\$ 7,500.00	\$ -	\$ -	\$ 7,500.00
Cash in State Treasury	233,889,827.51	4,955,402.18	-	238,845,229.69
Restricted:				
Short Term Investments (Note 3)	10,125,784.17	-	69,264,386.31	79,390,170.48
Receivables from:				
Accounts	40,950,534.02	-	-	40,950,534.02
Other (Note 1)	135,900.98	-	-	135,900.98
Consumable Inventories	1,251,368.48	-	-	1,251,368.48
Merchandise Inventories	32,266,449.30	-	-	32,266,449.30
Prepaid Items	197,244.94	-	-	197,244.94
Total Current Assets	318,824,609.40	4,955,402.18	69,264,386.31	393,044,397.89
Non-Current Assets:				
Restricted:				
Investments (Note 3)	-	-	418,829,667.57	418,829,667.57
Capital Assets (Note 2):				
Depreciable:				
Furniture and Equipment	6,045,409.92	-	-	6,045,409.92
Less: Accumulated Depreciation	(5,624,401.54)	-	-	(5,624,401.54)
Vehicles, Boats, and Aircraft	48,176.20	-	-	48,176.20
Less: Accumulated Depreciation	(43,499.99)	-	-	(43,499.99)
Computer Software	69,837.23	-	-	69,837.23
Less: Accumulated Amortization	(69,837.23)	-	-	(69,837.23)
Total Non-Current Assets	425,684.59	-	418,829,667.57	419,255,352.16
Total Assets	\$ 319,250,293.99	\$ 4,955,402.18	\$ 488,094,053.88	\$ 812,299,750.05
<b>LIABILITIES</b>				
Current Liabilities:				
Payables from:				
Accounts	\$ 28,510,227.13	\$ -	\$ -	\$ 28,510,227.13
Voucher	4,270,434.83	-	-	4,270,434.83
Payroll	2,214,692.84	-	-	2,214,692.84
Annuities	6,678,992.37	-	-	6,678,992.37
Other	2,733,106.14	-	-	2,733,106.14
Due to Other Agencies (Note 12)	170,464,725.87	-	-	170,464,725.87
Employees' Compensable Leave (Note 5)	1,576,880.00	-	-	1,576,880.00
Payable From Restricted Assets-Current Portion (Note 5)	117,368,007.96	-	69,941,000.00	187,309,007.96
Total Current Liabilities	333,817,067.14	-	69,941,000.00	403,758,067.14
Non-Current Liabilities:				
Employees' Compensable Leave (Note 5)	1,207,852.91	-	-	1,207,852.91
Payable From Restricted Assets (Note 1)	-	-	377,995,632.25	377,995,632.25
Total Non-Current Liabilities	1,207,852.91	-	377,995,632.25	379,203,485.16
Total Liabilities	\$ 335,024,920.05	\$ -	\$ 447,936,632.25	\$ 782,961,552.30
<b>NET POSITION</b>				
Net Investment in Capital Assets	425,684.59	-	-	425,684.59
Restricted for:				
Expendable:				
Restricted by Other				
Pooled Bond Fund	5,000,000.00	-	-	5,000,000.00
Unrestricted	(21,200,310.65)	4,955,402.18	40,157,421.63	23,912,513.16
Total Net Position	\$ (15,774,626.06)	\$ 4,955,402.18	\$ 40,157,421.63	\$ 29,338,197.75

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

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**Texas Lottery Commission (362)**  
**Exhibit F-2 - Combining Statement of Revenues, Expenses and**  
**Changes in Net Position - Proprietary Funds**  
**For the Fiscal Year Ended August 31, 2019**

	Texas Lottery Commission Fund 5025 U/F (5025)	Texas Lottery Commission Fund 5025 U/F (1100)	Lotto Prize Trust Fund 0895 U/F (0895)	Totals (Exhibit IV)
<b>OPERATING REVENUES:</b>				
Sales of Goods and Services:				
Lottery Proceeds				
Ticket Sales	\$ 6,251,478,651.00	\$ -	\$ -	\$ 6,251,478,651.00
Lottery License Application Fees	296,605.00	-	-	296,605.00
Lottery Security Proceeds	57,450.00	-	-	57,450.00
Other Operating Revenues	1,004,523.67	-	-	1,004,523.67
Total Operating Revenues	<u>6,252,837,229.67</u>	<u>-</u>	<u>-</u>	<u>6,252,837,229.67</u>
<b>OPERATING EXPENSES:</b>				
Salaries and Wages	19,924,099.72	-	-	19,924,099.72
Payroll Related Costs	6,992,468.87	-	-	6,992,468.87
Professional Fees and Services	5,164,141.29	-	-	5,164,141.29
Travel	339,328.35	-	-	339,328.35
Materials and Supplies	1,512,641.65	-	-	1,512,641.65
Communication and Utilities	611,397.76	-	-	611,397.76
Repairs and Maintenance	522,091.62	-	-	522,091.62
Rentals and Leases	5,943,010.49	-	-	5,943,010.49
Printing and Reproduction	36,067,583.33	-	-	36,067,583.33
Depreciation and Amortization	141,793.05	-	-	141,793.05
Bad Debt Expense	242,860.47	-	-	242,860.47
Interest	1.34	-	-	1.34
Lottery Prizes	4,056,494,096.13	-	-	4,056,494,096.13
Retailer Commissions	313,054,138.28	-	-	313,054,138.28
Retailer Bonuses	22,777,745.69	-	-	22,777,745.69
Other Operating Expenses				
Lottery Operator Fees	124,201,733.10	-	-	124,201,733.10
Advertising	25,452,509.00	-	-	25,452,509.00
Other	2,177,356.03	-	-	2,177,356.03
Total Operating Expenses	<u>4,621,618,996.17</u>	<u>-</u>	<u>-</u>	<u>4,621,618,996.17</u>
Operating Income (Loss)	<u>1,631,218,233.50</u>	<u>-</u>	<u>-</u>	<u>1,631,218,233.50</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Net Increase (Decrease) in Fair Value	-	-	26,759,984.44	26,759,984.44
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>26,759,984.44</u>	<u>26,759,984.44</u>
Income (Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	<u>1,631,218,233.50</u>	<u>-</u>	<u>26,759,984.44</u>	<u>1,657,978,217.94</u>
<b>OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:</b>				
Transfers-Out (Note 12)	<u>(1,636,590,465.44)</u>	<u>-</u>	<u>-</u>	<u>(1,636,590,465.44)</u>
Total Other Revenues, Expenses, Gains/Losses and Transfers	<u>(1,636,590,465.44)</u>	<u>-</u>	<u>-</u>	<u>(1,636,590,465.44)</u>
Change in Net Position	<u>(5,372,231.94)</u>	<u>-</u>	<u>26,759,984.44</u>	<u>21,387,752.50</u>
Total Net Position, September 1, 2018	(10,402,394.12)	4,955,402.18	13,397,437.19	7,950,445.25
Total Net Position, August 31, 2019	<u>\$ (15,774,626.06)</u>	<u>\$ 4,955,402.18</u>	<u>\$ 40,157,421.63</u>	<u>\$ 29,338,197.75</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, 2019

	Texas Lottery Commission Fund 5025 U/F (5025)	Texas Lottery Commission Fund 5025 U/F (1100)	Texas Lottery Commission Fund 0895 U/F (0895)	Totals (Exhibit V)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Proceeds from Customers	\$ 6,245,208,269.11	\$ -	\$ -	\$ 6,245,208,269.11
Payments to Suppliers for Goods and Services	(539,725,317.30)	-	-	(539,725,317.30)
Payments to Employees	(26,637,586.11)	-	-	(26,637,586.11)
Payments for Lottery Prizes	(4,035,959,556.43)	-	-	(4,035,959,556.43)
Net Cash Provided by Operating Activities	<u>1,642,885,809.27</u>	<u>-</u>	<u>-</u>	<u>1,642,885,809.27</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Payments for Other Uses	-	-	(70,149,000.00)	(70,149,000.00)
Payments for Transfers to Other Funds	(1,612,814,748.88)	-	-	(1,612,814,748.88)
Proceeds from Other Financing	-	-	988,000.00	988,000.00
Net Cash Used by Noncapital Financing Activities	<u>(1,612,814,748.88)</u>	<u>-</u>	<u>(69,161,000.00)</u>	<u>(1,681,975,748.88)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Payments for Additions to Capital Assets	(211,074.35)	-	-	(211,074.35)
Net Cash Used by Capital and Related Financing Activities	<u>(211,074.35)</u>	<u>-</u>	<u>-</u>	<u>(211,074.35)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from Sales of Investments	-	-	70,149,000.00	70,149,000.00
Payments to Acquire Investments	(5,271.54)	-	(988,000.00)	(993,271.54)
Net Cash Provided (Used) by Investing Activities	<u>(5,271.54)</u>	<u>-</u>	<u>69,161,000.00</u>	<u>69,155,728.46</u>
Net Increase in Cash and Cash Equivalents	29,854,714.50	-	-	29,854,714.50
Cash and Cash Equivalents--September 1, 2018	<u>204,042,613.01</u>	<u>4,955,402.18</u>	<u>-</u>	<u>208,998,015.19</u>
Cash and Cash Equivalents--August 31, 2019	<u>\$ 233,897,327.51</u>	<u>\$ 4,955,402.18</u>	<u>\$ -</u>	<u>\$ 238,852,729.69</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 (continued)

For the Fiscal Year Ended August 31, 2019

	Texas Lottery Commission Fund 5025 U/F (5025)	Texas Lottery Commission Fund 5025 U/F (1100)	Texas Lottery Commission Fund 0895 U/F (0895)	Totals (Exhibit V)
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 1,631,218,233.50	\$ -	\$ -	\$ 1,631,218,233.50
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Amortization and Depreciation	141,793.05	-	-	141,793.05
Bad Debt Expense	242,860.47	-	-	242,860.47
Operating Income and Cash Flow Categories:				
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	(7,628,960.56)	-	-	(7,628,960.56)
(Increase) Decrease in Inventories	(9,757,797.04)	-	-	(9,757,797.04)
(Increase) Decrease in Prepaid Items	197,244.94	-	-	197,244.94
Increase (Decrease) in Payables	28,472,434.91	-	-	28,472,434.91
Total Adjustments	11,667,575.77	-	-	11,667,575.77
Net Cash Provided by Operating Activities	<u>\$ 1,642,885,809.27</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,642,885,809.27</u>
<b>NON CASH TRANSACTIONS</b>				
Net Change in Fair Value of Investments	\$ -	\$ -	\$ 26,759,984.44	\$ 26,759,984.44
Total Non Cash Transactions	-	-	26,759,984.44	26,759,984.44

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, 2019

	Beginning Balance September 1, 2018	Additions	Deductions	Ending Balance August 31, 2019
<b><u>Child Support Employ Deduct (0807) Fund (8070)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 5,621.96	\$ 53,706.31	\$ 56,527.27	\$ 2,801.00
Total Assets	<u>\$ 5,621.96</u>	<u>\$ 53,706.31</u>	<u>\$ 56,527.27</u>	<u>\$ 2,801.00</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 5,621.96	\$ 53,706.31	\$ 56,527.27	\$ 2,801.00
Total Liabilities	<u>\$ 5,621.96</u>	<u>\$ 53,706.31</u>	<u>\$ 56,527.27</u>	<u>\$ 2,801.00</u>
<b><u>Suspense Fund (0900) U/F (0900)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 19,800.00	\$ 19,800.00	\$ 39,600.00	\$ -
Total Assets	<u>\$ 19,800.00</u>	<u>\$ 19,800.00</u>	<u>\$ 39,600.00</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 19,800.00	\$ -	\$ 19,800.00	\$ -
Total Liabilities	<u>\$ 19,800.00</u>	<u>\$ -</u>	<u>\$ 19,800.00</u>	<u>\$ -</u>
<b><u>Warrant Hold Offset (0900) U/F (9016)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 4,855.07	\$ 4,855.07	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 4,855.07</u>	<u>\$ 4,855.07</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 4,855.07	\$ 4,855.07	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 4,855.07</u>	<u>\$ 4,855.07</u>	<u>\$ -</u>
<b><u>Correction Account - Direct Deposit (0980) U/F (0980)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 5,565.15	\$ 5,565.15	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 5,565.15</u>	<u>\$ 5,565.15</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 5,565.15	\$ 5,565.15	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 5,565.15</u>	<u>\$ 5,565.15</u>	<u>\$ -</u>
<b><u>Bingo Cash Bonds (1000) U/F (1002)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 253,627.02	\$ 253,627.02	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 253,627.02</u>	<u>\$ 253,627.02</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 119,364.10	\$ 119,364.10	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 119,364.10</u>	<u>\$ 119,364.10</u>	<u>\$ -</u>
<b><u>Lottery Retailer Security Fund (1000) U/F (1003)</u></b>				
<b>ASSETS</b>				
Current				
Other Current Assets	\$ 834,000.00	\$ 56,000.00	\$ -	\$ 890,000.00
Total Assets	<u>\$ 834,000.00</u>	<u>\$ 56,000.00</u>	<u>\$ -</u>	<u>\$ 890,000.00</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 834,000.00	\$ 56,000.00	\$ -	\$ 890,000.00
Total Liabilities	<u>\$ 834,000.00</u>	<u>\$ 56,000.00</u>	<u>\$ -</u>	<u>\$ 890,000.00</u>

UNAUDITED

Texas Lottery Commission (362)

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

August 31, 2019

	Beginning Balance September 1, 2018	Additions	Deductions	Ending Balance August 31, 2019
<b><u>Unappropriated Receipts (1000) U/F (1981)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 15,459,967.24	\$ 15,459,967.24	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 15,459,967.24</u>	<u>\$ 15,459,967.24</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 15,459,967.24	\$ 15,459,967.24	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 15,459,967.24</u>	<u>\$ 15,459,967.24</u>	<u>\$ -</u>
 <b>Totals - All Agency Funds</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 25,421.96	\$ 15,797,520.79	\$ 15,820,141.75	\$ 2,801.00
Other Current Assets	834,000.00	56,000.00	-	890,000.00
Total Assets	<u>\$ 859,421.96</u>	<u>\$ 15,853,520.79</u>	<u>\$ 15,820,141.75</u>	<u>\$ 892,801.00</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	859,421.96	15,699,457.87	15,666,078.83	892,801.00
Total Liabilities	<u>\$ 859,421.96</u>	<u>\$ 15,699,457.87</u>	<u>\$ 15,666,078.83</u>	<u>\$ 892,801.00</u>

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



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# Texas Lottery Commission

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## **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 administering 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 annual allocations to local units of government for their share of the prize fees collected.

##### Organization and Governing Board

The five-member Texas Lottery Commission sets policy, promulgates rules for the agency, and performs all other duties required by law. The Governor appoints Commission members, with the advice and consent of the state Senate, to staggered varying terms. The officials, their terms of office and hometowns are:

J. Winston Krause, Chair	February 1, 2013 – February 1, 2019	Austin, Texas
Mark A. Franz	May 7, 2019 – February 1, 2025	Austin, Texas
Robert Rivera	August 10, 2015 – February 1, 2021	Dallas, Texas
Erik C. Saenz	August 13, 2019 – February 1, 2023	Houston, Texas
Vacant		

The Texas Lottery Commission Executive Director and the Charitable Bingo Operations Division Director are appointed by and report to the five-member Commission. The Executive Director provides leadership to eight divisions within the agency, ensuring that staff carries out applicable state law and Commission policies. The Charitable Bingo Operations Director is responsible for the day-to-day operations relating to the regulation of charitable bingo, ensuring that the staff carries out applicable state law and Commission policies.

The Internal Audit function is outsourced to an independent contractor and reports to the five-member Commission. The Internal Auditors work to ensure that internal and external controls are adequate to improve the efficiency and effectiveness of the Texas Lottery Commission.

##### Service Responsibilities

The agency serves a number of direct and indirect customers. The primary direct customers of the Texas Lottery Commission include lottery players and licensed retailers, charitable bingo players and licensees, the Texas Lottery Commissioners, and agency staff. Indirect customers are those Texas populations that benefit from the conduct of the *Games of Texas* and charitable bingo, from the agency's net revenue contributions to the state of Texas, and from associated agency activities that serve the public good.

## UNAUDITED

### Texas Lottery Commission (362)

The agency is divided into 10 divisions: Executive, Charitable Bingo Operations, Administration, Enforcement, Governmental Affairs, Human Resources, Legal Services, Lottery Operations, Media Relations, and Office of the Controller.

Executive Division - The Executive Division refers to the Executive Director and administrative staff. The division is the focal point for the decision-making and strategic planning related to the day-to-day operation and administration of the Texas Lottery.

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 division is organized into five program areas: Audit Services, Compliance, Education, Licensing, and Accounting. While each program area 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. The division is managed by a Director, who reports to the five-member Commission.

Administration Division - The Administrative Division serves the needs of the Commission in the areas of information resources and support services. Information Resources is responsible for managing and supporting back office systems, including the agency's network infrastructure, local- and wide- area networks, telecommunications, the intranet site, the agency's website and a variety of software applications. The department manages and supports the Commission's Internal Control System (ICS). ICS replicates transactions from the Lottery Operator and is used for reporting and balancing daily sales activity. Support Services is responsible for property and facilities management, purchasing and contracts, publications and graphics, and records management. In addition, the division coordinates the development, review and adoption of internal policies and procedures. The division is managed by a Director, who reports to the Executive Director.

Enforcement Division - The Enforcement Division conducts background investigations of Texas Lottery applicants, bingo and lottery licensees, contract vendors, and contract vendor employees. Enforcement Division investigators investigate allegations of administrative and criminal violations of the administrative rules and statutes governing bingo and lottery. In performance of their duties, Enforcement personnel work closely with federal, state and local law enforcement agencies, the Charitable Bingo Operations Division, the Lottery Operations Division, and all other divisions of the Texas Lottery Commission. The division is managed by a Director, who reports to the 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. The division develops, coordinates, and implements agency communication outreach efforts with members of the Legislature and also coordinates and implements legislative strategy and initiatives to further enhance the agency's goals. 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 is managed by a Director, who reports to the Executive Director.

Human Resources Division - The Human Resources Division assists the agency in recruiting and hiring the best qualified workforce available. Human Resources also serves the agency by providing and coordinating the compensation, benefit, workforce management and training programs necessary to support its employees and managers. The division is managed by a Director, who reports to the Executive Director.

## UNAUDITED

### Texas Lottery Commission (362)

Legal Services Division - The Legal Services Division provides legal advice and assistance to the Commissioners, Executive Director, Charitable Bingo Operations Director, Internal Auditor, and agency staff. The General Counsel directs the Legal Services Division and serves as the Commission's attorney. Legal services include: coordinating the agenda for the Commission's open meetings; processing and responding to open records requests; conducting agency rulemaking proceedings; representing the agency in lottery and bingo enforcement cases before the State Office of Administrative Hearings; providing advice on ethics laws; and assisting with contract procurement and administration matters, scratch ticket game working papers, lottery advertising and promotional activities, lottery prize claims, intellectual property matters, business licensing issues, general gambling issues, social media initiatives, legislative and policy issues, employment law matters, and litigation management. The General Counsel reports to the Executive Director. The Legal Services Division includes the agency's Open Records Coordinator, who serves as the agency's designated contact for requests for public information. The Open Records Coordinator receives all open records requests, routes them to the appropriate division, and collects the information to be provided to the requestor in a timely manner. Under the Texas Public Information Act, agency records are presumed to be public unless they fall within a specific exception to disclosure. The Act requires the Office of the Texas Attorney General to liberally construe the Act in favor of open government. Consistent with the Public Information Act, the agency provides responsive information and protects from disclosure information made confidential by law, together with information excepted from public disclosure under the Act.

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. The Division serves the needs of the agency and its customers in the areas of vendor and licensee compliance; jurisdictional complaint monitoring; scratch ticket printing, testing, security, warehousing and distribution; retailer recruitment, development and outreach; retailer licensing and accounting; customer service through the operation of a toll-free hotline, 'contact us' email support via the agency's website, and oversight of the agency's correspondence functions; product development and product marketing; responsible gaming program management; lottery drawings; claim validation processing; retailer surveys and inspections; security of lottery drawings and claim validation processing; promotional events; and the oversight of advertising. Product development in the division focuses on maximizing revenue to the state, while advertising efforts support the goal of effectively reaching the public to enhance awareness of Texas Lottery games and generate revenue, while not unduly influencing any person to purchase a lottery ticket. Retailer development efforts focus on the enhancement and expansion of distribution channels to reach new player segments and increase sales while maintaining existing retailer relationships. The division is organized into five distinct functional areas: Advertising and Promotions, Products, Drawings and Validations, Retailer Services, and Security. The division is managed by a Director, who reports to the Executive Director.

Media Relations Division - The Media Relations Division is the first point of contact for all inquiries from local, state and national news media. The division provides external and internal communications and audio-visual support for the agency. Media Relations drafts and distributes news releases, coordinates and conducts media interviews, monitors news stories and compiles media clips, distributes a daily employee news bulletin and works with other divisions to plan and implement check presentations, press conferences, game launches, and other media events. The division manages the agency's social media accounts which include Facebook, Twitter, YouTube and Instagram. The Media Relations Director works in conjunction with the 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 division is managed by a Director, who reports to the Executive Director.

## UNAUDITED

### **Texas Lottery Commission (362)**

Office of the Controller - The Office of the Controller provides financial services and reporting functions for the agency in accordance with statutes and requirements. The primary functions include administration of the development, submission, and management of agencies financial statements, financial reports, payroll, accounts payable, sales reports, revenue projections, allocations, fiscal notes, performance measures, annual and biennial budgets, and IRS tax reporting. The division is managed by a Director, who reports to the Executive Director.

### General Comments

At August 31, 2019, there were 298 employees on the Texas Lottery Commission's payroll. A listing of the agency's administrative and key personnel at August 31, 2019, is presented at the end of this addendum.

Administrative personnel of the Texas Lottery 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.

**UNAUDITED**

**Texas Lottery Commission (362)**

**SCHEDULE OF ADMINISTRATIVE AND KEY PERSONNEL**

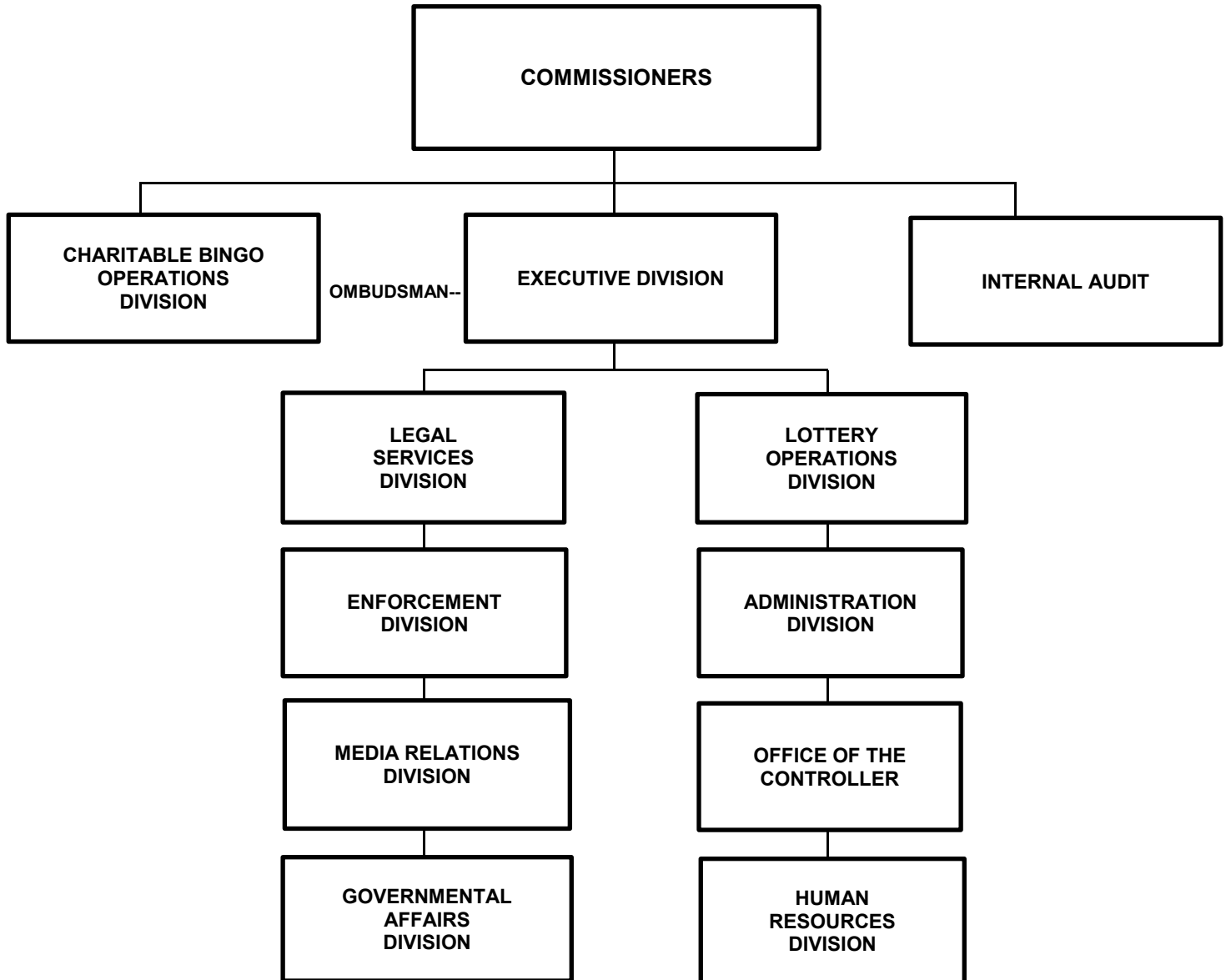
For the Fiscal Year ended August 31, 2019

<b>Division</b>	<b>Director</b>
Executive Director	Gary Grief
Charitable Bingo Operations	Michael Farrell
Administration	Mike Fernandez
Enforcement	Mario Valdez
Governmental Affairs	Nelda Treviño
Human Resources	Jan Thomas
Legal Services	Bob Biard
Lottery Operations	Ryan Mindell
Media Relations	Lauren Callahan
Office of the Controller	Kathy Pyka

UNAUDITED

Texas Lottery Commission (362)

ORGANIZATIONAL STRUCTURE









# 2019



## TEXAS LOTTERY COMMISSION

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



AN AGENCY OF THE  
STATE OF TEXAS