

November 20, 2002

Honorable Rick Perry, Governor  
Honorable Carole Keeton Rylander, State Comptroller  
John Keel, Director, Legislative Budget Board  
Lawrence F. Alwin, CPA, State Auditor

Lady and Gentlemen:

We are pleased to submit the Annual Financial Report of the Texas Lottery Commission for the year ended August 31, 2002, in compliance with TEX. GOV'T CODE ANN §2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the significant changes related to 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 be in compliance with GAAP, therefore, an opinion has not been expressed on the financial statements and related information contained in this report. The Texas Lottery Commission is required by statute to have audited financial statements and an independent auditor's report. These items will be submitted prior to the December 20, 2002 deadline.

If you have any questions, please contact Bart Sanchez, Financial Administration Director, at 344-5410.

Sincerely,

Gary Grief  
Acting Executive Director

C. Tom Clowe, Jr., Chairman  
Commissioner Elizabeth Whitaker  
Commissioner James A. Cox, Jr.

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**Texas Lottery Commission (362)**

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

August 31, 2002

	Governmental Fund Types					
	General Funds (Ex A-1)	Governmental Funds Total	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Other Adjustments	Statement of Net Assets
<b>ASSETS</b>						
Current Assets:						
Restricted:						
Cash and Cash Equivalents:						
Cash in State Treasury	\$ 38,369.83	\$ 38,369.83	\$ -	\$ -	\$ -	\$ 38,369.83
Legislative Appropriations	862,133.35	862,133.35				862,133.35
Total Current Assets	<u>900,503.18</u>	<u>900,503.18</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>900,503.18</u>
Non-Current Assets:						
Capital Assets:						
Depreciable						
Furniture and Equipment			213,623.38			213,623.38
Accumulated Depreciation			(185,768.98)			(185,768.98)
Total Non-Current Assets	<u>-</u>	<u>-</u>	<u>27,854.40</u>	<u>-</u>	<u>-</u>	<u>27,854.40</u>
Total Assets	<u>\$ 900,503.18</u>	<u>\$ 900,503.18</u>	<u>\$ 27,854.40</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 928,357.58</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Current Liabilities:						
Payables From:						
Accounts Payable	\$ 7,437.64	\$ 7,437.64	\$ -	\$ -	\$ -	\$ 7,437.64
Other Intergovernmental	38,369.83	38,369.83				38,369.83
Payroll Payable	176,984.10	176,984.10				176,984.10
Due To Other Funds	174,198.61	174,198.61				174,198.61
Employees Compensable Leave	-	-		124,940.59		124,940.59
Total Current Liabilities	<u>396,990.18</u>	<u>396,990.18</u>	<u>-</u>	<u>124,940.59</u>	<u>-</u>	<u>521,930.77</u>
Non-Current Liabilities:						
Employees Compensable Leave	-	-		87,396.32		87,396.32
Total Non-Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,396.32</u>	<u>-</u>	<u>87,396.32</u>
Total Liabilities	<u>396,990.18</u>	<u>396,990.18</u>	<u>-</u>	<u>212,336.91</u>	<u>-</u>	<u>609,327.09</u>
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>						
Fund Balances (Deficits):						
Reserved for:						
Encumbrances	499,625.42	499,625.42				499,625.42
Undesignated	3,887.58	3,887.58				3,887.58
Total Fund Balances	<u>503,513.00</u>	<u>503,513.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>503,513.00</u>
Total Liabilities and Fund Balances	<u>\$ 900,503.18</u>	<u>\$ 900,503.18</u>	<u>\$ -</u>	<u>\$ 212,336.91</u>	<u>\$ -</u>	<u>\$ 1,112,840.09</u>
<b>GOVERNMENT-WIDE STATEMENT - NET ASSETS</b>						
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt			27,854.40			27,854.40
Unrestricted				(212,336.91)		(212,336.91)
Total Net Assets			<u>\$ 27,854.40</u>	<u>\$ (212,336.91)</u>	<u>\$ -</u>	<u>\$ (184,482.51)</u>

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

## 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, 2002

	General Funds (Ex A-2)	Governmental Funds Total	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Other Adjustments	Statement of Activities
<b>REVENUES</b>						
Legislative Appropriations:						
Original Appropriations	\$ 2,785,997.00	\$ 2,785,997.00	\$ -	\$ -	\$ -	\$ 2,785,997.00
Additional Appropriations	548,637.80	548,637.80				548,637.80
Licenses, Fees & Permits	9,175,954.82	9,175,954.82				9,175,954.82
Other	30,785.60	30,785.60				30,785.60
Total Revenues	<u>12,541,375.22</u>	<u>12,541,375.22</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,541,375.22</u>
<b>EXPENDITURES</b>						
Salaries and Wages	2,040,223.35	2,040,223.35		1,186.51		2,041,409.86
Payroll Related Costs	444,264.98	444,264.98				444,264.98
Professional Fees and Services	185,774.75	185,774.75				185,774.75
Travel	88,811.20	88,811.20				88,811.20
Materials and Supplies	165,280.49	165,280.49				165,280.49
Communication and Utilities	33,657.13	33,657.13				33,657.13
Repairs and Maintenance	45,109.66	45,109.66				45,109.66
Rentals & Leases	167,958.02	167,958.02				167,958.02
Printing and Reproduction	29,511.10	29,511.10				29,511.10
Intergovernmental Payments	9,175,954.82	9,175,954.82				9,175,954.82
Other Expenditures	31,308.96	31,308.96				31,308.96
Capital Outlay	22,893.00	22,893.00	(22,893.00)			-
Depreciation Expense	-	-	16,040.71			16,040.71
Total Expenditures/Expenses	<u>12,430,747.46</u>	<u>12,430,747.46</u>	<u>(6,852.29)</u>	<u>1,186.51</u>	<u>-</u>	<u>12,425,081.68</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>110,627.76</u>	<u>110,627.76</u>	<u>6,852.29</u>	<u>(1,186.51)</u>	<u>-</u>	<u>116,293.54</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>SPECIAL ITEMS</b>						
	<u>-</u>	<u>-</u>				<u>-</u>
<b>EXTRAORDINARY ITEMS</b>						
	<u>-</u>	<u>-</u>				<u>-</u>
Net Change in Fund Balances/Net Assets	110,627.76	110,627.76	6,852.29	(1,186.51)	-	116,293.54
<b>FUND FINANCIAL STATEMENT - FUND BALANCES</b>						
Fund Balances--Beginning	441,209.51	441,209.51				441,209.51
Restatements	(908.80)	(908.80)				(908.80)
Fund Balances, September 1, 2001, as Restated	<u>440,300.71</u>	<u>440,300.71</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>440,300.71</u>
Appropriations Lapsed	47,415.47	47,415.47				
Fund Balances--August 31, 2002	<u>\$ 503,513.00</u>	<u>\$ 503,513.00</u>				
<b>GOVERNMENT-WIDE STATEMENT - NET ASSETS</b>						
Change in Net Assets			6,852.29	(1,186.51)	-	5,665.78
Net Assets-Beginning						-
Adjustments to Beginning Net Assets:						
FY01 Capital Assets Balances in GFAAG			490,525.27			490,525.27
Reduce for Threshold Increase of Capital Assets			(286,978.70)			(286,978.70)
Accumulated Depreciation from Prior Years			(182,544.46)			(182,544.46)
FY01 Compensable Leave Balance in GLTDAG				(211,150.40)		(211,150.40)
Net Assets, September 1, 2001, as Restated and Adjusted			<u>21,002.11</u>	<u>(211,150.40)</u>	<u>-</u>	<u>(190,148.29)</u>
Net Assets-August 31, 2002			<u>\$ 27,854.40</u>	<u>\$ (212,336.91)</u>	<u>\$ -</u>	<u>\$ (184,482.51)</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 Assets - Proprietary Funds**

August 31, 2002

	Total Proprietary Funds (Exhibit F-1)
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents:	
Cash in Bank	\$ 6,597.64
Cash in State Treasury	105,358,533.84
Short Term Investments	167,783,613.46
Receivables from:	
Accounts	27,381,154.52
Due From Other Funds	174,198.61
Merchandise Inventories	5,442,560.87
Total Current Assets	<u>306,146,658.94</u>
Non-Current Assets:	
Restricted:	
Investments	1,449,872,948.09
Capital Assets:	
Depreciable	
Furniture and Equipment	5,049,341.90
Accumulated Depreciation	(3,831,924.75)
Vehicles, Boats, and Aircraft	133,747.72
Accumulated Depreciation	(76,732.02)
Total Non-Current Assets	<u>1,451,147,380.94</u>
Total Assets	<u>\$1,757,294,039.88</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Payables from:	
Accounts Payable	\$ 18,052,717.94
Payroll	991,846.67
Annuities	10,763,652.00
Other	26,728.60
Due to Other Agencies	15,309,697.59
Employees' Compensable Leave	706,311.96
Payable From Restricted Assets-Current Portion	245,785,943.54
Total Current Liabilities	<u>291,636,898.30</u>
Non-Current Liabilities: (Note 5)	
Employees' Compensable Leave	429,633.72
Payable From Restricted Assets	1,363,685,782.55
Total Non-Current Liabilities	<u>1,364,115,416.27</u>
Total Liabilities	<u>1,655,752,314.57</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,274,432.85
Restricted for:	
Expendable:	
Restricted by Other	
Pooled Bond Fund	5,000,000.00
Prize Reserve Fund	4,562,632.52
Unrestricted	90,704,659.94
<b>Total Net Assets</b>	<u><u>\$ 101,541,725.31</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 IV - Combined Statement of Revenues, Expenses, and  
Changes in Net Assets - Proprietary Funds**

**For the Fiscal Year Ended August 31, 2002**

	<b>Total Proprietary Funds (Exhibit F-2)</b>
<b>OPERATING REVENUES:</b>	
Sales of Goods and Services:	
Lottery Proceeds	-
Ticket Sales	\$ 2,966,420,158.64
Lottery License Application Fees	227,687.50
Lottery Security Proceeds	133,857.50
Other Operating Revenues	500,034.05
Total Operating Revenues	<u>2,967,281,737.69</u>
<b>OPERATING EXPENSES:</b>	
Salaries and Wages	\$ 11,632,271.98
Payroll Related Costs	2,655,390.42
Professional Fees and Services	4,428,396.63
Travel	306,650.93
Materials and Supplies	2,333,709.67
Communication and Utilities	391,055.37
Repairs and Maintenance	596,753.44
Rentals and Leases	6,196,420.78
Printing and Reproduction	14,836,395.65
Depreciation and Amortization	757,034.34
Bad Debt Expense	566,073.10
Lottery Prizes	1,715,355,957.61
Other Operating Expenses	
Retailer Commissions	148,359,044.45
Lottery Operator Fees	90,168,388.63
Advertising	30,140,361.72
Retailer Bonuses	4,172,483.05
Other	1,738,078.31
Total Operating Expenses	<u>2,034,634,466.08</u>
Operating Income (Loss)	<u>932,647,271.61</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Investment Income (Expense)	271,528.23
Net Increase (Decrease) Fair Value	59,860,020.00
Settlement of Claims	(1,455.67)
Total Nonoperating Revenues (Expenses)	<u>60,130,092.56</u>
Income (loss) before Other Revenues, Expenses, Gains/Losses and Transfers	992,777,364.17

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**Texas Lottery Commission (362)**

**Exhibit IV - Combined Statement of Revenues, Expenses, and  
Changes in Net Assets - Proprietary Funds** (continued)

**For the Fiscal Year Ended August 31, 2002**

	<b>Total Proprietary Funds (Exhibit F-2)</b>
<b>OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:</b>	
Transfers-Out	<u>\$ (928,737,655.40)</u>
Total Other Revenues, Expenses, Gains/Losses and Transfers	<u>(928,737,655.40)</u>
Change in Net Assets	<u>64,039,708.77</u>
Total Net Assets, September 1, 2001	38,014,571.68
Restatements	<u>(512,555.14)</u>
Total Net Assets, September 1, 2001, as Restated	<u>37,502,016.54</u>
Total Net Assets, August 31, 2002	<u><u>\$ 101,541,725.31</u></u>

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**Texas Lottery Commission (362)**

**Exhibit V - Combined Statement of Cash Flows - Proprietary Funds**

**For the Fiscal Year Ended August 31, 2002**

	<b>Total Proprietary Funds (Exhibit F-3)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 2,958,429,636.41
Payments to Suppliers for Goods and Services	(304,714,419.60)
Payments to Employees	(14,883,601.04)
Payments for Other Expenses	(1,744,224,454.44)
Net Cash Provided by Operating Activities	<u>894,607,161.33</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Proceeds from other Financing	(154,303,000.00)
Payments for Transfers to Other Funds	(956,477,825.28)
Payments for Other Uses	58,841,576.00
Net Cash Provided by Noncapital Financing Activities	<u>(1,051,939,249.28)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Payments for Additions to Capital Assets	<u>(490,311.10)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(490,311.10)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales of Investments	154,303,000.00
Proceeds from Interest and Investment Income	270,072.56
Payments to Acquire Investments	(60,191,225.86)
Net Cash Provided by Investing Activities	<u>94,381,846.70</u>
Net (Decrease) in Cash and Cash Equivalents	(63,440,552.35)
Cash and Cash Equivalents--September 1, 2001	<u>168,805,683.83</u>
Cash and Cash Equivalents--August 31, 2002	<u><u>\$ 105,365,131.48</u></u>

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**Texas Lottery Commission (362)**

**Exhibit V - Combined Statement of Cash Flows - Proprietary Funds (continued)**

**For the Fiscal Year Ended August 31, 2002**

	<b>Total Proprietary Funds (Exhibit F-3a)</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
<b>Operating Income (Loss)</b>	\$ 932,647,271.61
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>	
Amortization and Depreciation	757,034.34
Bad Debt Expense	566,073.10
Operating Income and Cash Flow Categories:	
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(8,852,101.28)
(Increase) Decrease in Inventories	33,265.36
Increase (Decrease) in Payables	(30,544,381.80)
Total Adjustments	<u>(38,040,110.28)</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 894,607,161.33</u></u>
<b>Non Cash Transactions</b>	
Net Increase (Decrease) in Fair Value of Investments	\$ 85,117,945.46

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**Texas Lottery Commission (362)**

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

**August 31, 2002**

	<b>Agency Funds (Exhibit J-1)</b>	<b>Totals</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents:		
Cash in State Treasury	\$ 1,726.16	\$ 1,726.16
Total Assets	<u>\$ 1,726.16</u>	<u>\$ 1,726.16</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Funds Held for Others	<u>\$ 1,726.16</u>	<u>\$ 1,726.16</u>
Total Liabilities	<u>\$ 1,726.16</u>	<u>\$ 1,726.16</u>

## Notes to the Financial Statements

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

#### **Entity**

The Texas Lottery 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 Texas Lottery Commission serves the state by operating lottery games. The Texas Lottery was created on August 12, 1991, with the enactment of House Bill No. 54, as a division of the Office of the Comptroller of Public Accounts. The Texas Lottery was approved by the voters of Texas in a general election on November 7, 1991, and commenced operations on November 20, 1991. The Texas Lottery Commission was formed by state lawmakers during the 1993 legislative session and became effective September 1, 1993. On November 9, 1993, the Governor of the State of Texas announced the appointment of three persons to the Texas Lottery Commission. The commissioners appoint the Executive Director of the Texas Lottery Commission and the Director of Charitable Bingo.

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

The Texas Lottery Commission includes within this report all components as determined by an analysis of their relationship to The Texas Lottery Commission as listed below.

Due to the significant changes related to 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 be in compliance with generally accepted accounting principles (GAAP). 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.

#### Blended or Discrete Component Units

No component units have been identified as defined by GASB Statement No. 14, which should have been blended or presented by discrete columns into an appropriate fund.

#### Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Commission considers cash and cash equivalents to be cash on hand and demand deposits.

#### **Fund Structure**

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

***Governmental Fund Types*****General Fund**

The general fund is used to account for all financial resources of the state except those required to be accounted for in another fund. The General Fund is used to account for bingo operations.

**General Fund Consolidated Account-Fund 0981**

Fund 0981 is used to account for the City and County portion of the Bingo Prize Fee (5% of prizes paid) collected by the Charitable Bingo Division of the Texas Lottery Commission. The funds are allocated to the localities on a quarterly basis. In prior fiscal years, this fund was reported as an Agency Fund. Due to the implementation of GASB 34, the presentation and classification was changed in fiscal year 2002.

**Capital Asset Adjustment Fund Type**

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

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

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

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

***Fiduciary Fund Types*****Agency Funds**

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

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

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

### ***Basis of Accounting***

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

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

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

### **Budgets and Budgetary Accounting**

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

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

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

#### ***ASSETS***

##### Cash and Allocation of Income

Revenues from instant and on-line lottery ticket sales, and fees, net of retailer commissions and direct retailer prize payments are deposited directly into an account in the Enterprise Fund (5025) Fund. From this account, prize payment reimbursements are made to a separate local bank account ("Lottery Prize Payment Account") to provide for prize payments. The Texas Lottery Commission retains 12 percent of gross Lottery revenues accruing from the sales of tickets for the payment of costs incurred in the operation and administration of the Lottery operations, including not less than 5 percent for retailer commissions. For fiscal year 2002, the remainder of unspent administrative funds will be transferred to the Foundation School Fund. Net proceeds will continue to be transferred to

the Foundation School Fund during fiscal year 2003. Unexpended amounts in the Lottery operations account at August 31 2002 are included as restricted cash on the Lottery's balance sheet, since the use of such funds is necessary to cover the Lottery's expenditures and prize payment obligations.

Accrued transfers in the amount of \$15,309,697.59 are recorded as "Due to the Foundation School Fund" as of August 31, 2002.

#### Investments

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

#### Restricted Assets

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

#### Inventories

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

#### Capital Assets

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

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

### **LIABILITIES**

#### Accounts Payable

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

#### Employees' Compensable Leave Balances

Employees' Compensable Leave Balances represent the liability that become "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 noncurrent in the statement of net assets.

Prizes Payable

Lotto jackpot prizes of \$2 million or more are payable in a lump sum or in annual installments. Prior to February 1997, the Lotto prizes were paid in twenty installments. Beginning in February 1997, the players were given a choice at the time of purchase of receiving either a lump sum payment or twenty-five annual installments. The first installment is processed on the day the prize is claimed. The subsequent installments are funded with United States securities purchased by the Comptroller of Public Accounts, Treasury Operations on the Texas Lottery Commission's behalf, as are the installment payments for Weekly Grand, Weekly Bonus, Monthly Money, and Win for Life prizes.

The amortization of the discount of investments held for prizes payable is based on yields ranging from 1.20 percent to 5.81 percent and reflects interest rates earned by the investments held to fund the prizes payable.

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

Aggregate Amount of Prizes Payables	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2003 (Future Year 1)			\$158,763,000	
2004 (Future Year 2)			158,763,000	
2005 (Future Year 3)			158,613,000	
2006 (Future Year 4)			158,523,000	
2007 (Future Year 5)			158,523,000	
2008-2012			792,615,000	
2013-2017			394,480,000	
2018-2022			157,544,000	
2023-2025			35,468,000	
<b>Total Prizes Payable</b>			<b>\$2,173,292,000</b>	

Unclaimed Prizes

The ticket holder forfeits prizes, which remain unclaimed for 180 days after the on-line drawing date or 180 days after the close of an instant game. During fiscal year 2002, the Lottery transferred all unclaimed lottery prize winnings on a quarterly basis to the Texas Department of Health's account in General Revenue for credit to the State Owned Multicategorical Teaching Hospital Account in the amount of \$40,000,000.00 fulfilling the statutory limit of \$40 million per biennium. The remaining unclaimed lottery prize winnings for fiscal year 2002 were transferred to the Tertiary Care Facility Account in the amount of \$29,618,383.00.

**FUND BALANCE/NET ASSETS**

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

Reservation of Fund Balance

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

Reserved for Encumbrances

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

Unreserved/Undesignated:

Other represents the unappropriated balance at year-end.

Invested In Capital Assets, Net of Related Debt

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

Restricted Net Assets

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

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

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, 2002, the balance in the Pooled Bond Fund did not exceed the statutory cap of \$5 million.

Future Lotto Prizes

The Reserve for Future Lotto Prizes is 2 percent of the 55 percent prize pool. The Lotto Texas prize reserve fund may be increased or decreased by any amounts allocated to the prize pool and not paid to the winners. The Lotto Texas prize reserve fund may be increased or decreased, for example, by rounding down, paying Lotto Texas prizes, and roll-over amounts from the fourth prize. The Lotto Texas prize reserve fund may be used only for the Lotto Texas game.

Unrestricted Net Assets

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

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

Future Lottery Prizes

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

**Net Assets:**

Invested in Capital Assets, Net of related Debt	\$1,274,432.85
Restricted-	
Reserved for Pooled Bond Fund	5,000,000.00
Reserved for Future Lotto Prizes	4,562,632.52
Unrestricted-	
Reserved for Future Lottery Prizes	85,117,945.46
Unrestricted/Undesignated	5,586,714.48
<b>Total Proprietary Fund Net Assets:</b>	<b><u>\$101,541,725.31</u></b>

**INTERFUND TRANSACTIONS AND BALANCES**

The agency has the following types of transactions among funds:

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

The composition of the agency's interfund receivables and payables at August 31, 2002 is presented in Note 7.

Transfers to Foundation School Fund during fiscal year 2002 are as follows:

Cash transfers	\$869,700,799.00
Accrued transfers at beginning of fiscal year	(25,891,224.19)
Amount transferred from current year revenue	843,809,574.81
Accrued transfers at end of fiscal year	15,309,697.59
Total Transfers to Foundation School Fund	<u>\$859,119,272.40</u>

Transfers to Multicategorical Teaching Hospital Account for unclaimed prizes during fiscal year 2002 are as follows:

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

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

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

**REVENUES AND EXPENSES****Recognition of Revenue**

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

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

**Lottery Prizes**

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

**Retailer Commissions**

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

**Retailer Bonuses**

A retailer who sells a Lotto jackpot prize is eligible to receive a bonus of one percent of the Lotto jackpot ticket the retailer sold, not to exceed \$500,000. A retailer selling a winning top tier instant game ticket for Weekly Grand receives a \$10,000 bonus. A one percent bonus, not to exceed \$10,000, is available for a retailer selling a Texas Two Step winning jackpot ticket, and Cash 5 "5 of 5" prizes earns the retailer a one percent bonus. Retailers selling winning tickets of \$1 million for Texas Million were eligible to receive a \$10,000 bonus. In the event that more than one winning top tier ticket is sold in connection with any of the games referenced within this paragraph, the retailers that sold the tickets will share equally in the bonus.

**Lottery Operator Fees**

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

**NOTE 2: Capital Assets**

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

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

\*Adjustment Column Worksheet

	GASB 34/35 Fund Type Changes	Infrastructure	Capitalization Threshold Changes	Accumulated Depreciation	Other Adjustments	Total Adjustments
<b>Governmental Activities</b>						
Furniture and Equipment	\$	\$	(286,978.70)	\$	\$	\$ (286,978.70)
Total depreciable assets at historical cost			(286,978.70)			(286,978.70)
Less accumulated depreciation for:						0.00
Furniture and Equipment				(182,544.46)		(182,544.46)
Total accumulated depreciation				(182,544.46)		(182,544.46)
Depreciable assets, net			(286,978.70)	(182,544.46)		(469,523.16)
Governmental activities capital assets, net:	\$ 0.00	\$ 0.00	\$ (286,978.70)	\$ (182,544.46)	\$ 0.00	\$ (469,523.16)

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

\*Adjustment Column Worksheet

	GASB 34/35 Fund Type Changes	Infrastructure	Capitalization Threshold Changes	Accumulated Depreciation	Other Adjustments	Total Adjustments
<b>Business-type activities</b>						
Depreciable Assets:						
Furniture and Equipment			(2,420,957.99)			(2,420,957.99)
Total depreciable assets at historical cost	0.00	0.00	(2,420,957.99)	0.00	0.00	(2,420,957.99)

\*Adjustment Column Worksheet (continued)

	GASB 34/35 Fund Type Changes	Infrastructure	Capitalization Threshold Changes	Accumulated Depreciation	Other Adjustments	Total Adjustments
<b>Business-type activities</b>						
Facilities and Other Improvements						
Furniture and Equipment	0.00	0.00	1,899,645.95	0.00	0.00	1,899,645.95
Vehicles, Boats, & Aircraft	0.00	0.00	8,756.90		0.00	8,756.90
Other Capital Assets	0.00	0.00	0.00	0.00	0.00	0.00
Total accumulated depreciation	0.00	0.00	1,908,402.85	0.00	0.00	1,908,402.85
Depreciable assets, net	0.00	0.00	(512,555.14)	0.00	0.00	(512,555.14)
Business-Type activities capital assets, net:	\$ 0.00	\$ 0.00	\$ (512,555.14)	\$ 0.00	\$ 0.00	\$ (512,555.14)

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

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

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

**NOTE 3: Deposits, Investments, & Repurchase Agreements**

The Texas Lottery Commission's deposits are collateralized under a program administered by the Comptroller of Public Accounts, Treasury Operations. State law requires that all State funds administered by the Comptroller of Public Accounts, Treasury Operations deposited in financial institutions above the federally insured amounts be fully collateralized by the pledging of eligible securities valued at market excluding accrued interest to the state. All securities pledged to the state must be held by a third-party bank domiciled in Texas, the Federal Reserve Bank of Dallas or one of its branches, or in the vault of the Comptroller of Public Accounts, Treasury Operations. The deposits in the Lottery prize payment account were fully collateralized at August 31, 2002.

**Deposits of Cash in Bank**

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

Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
\$ 6,557.55	\$	\$	\$ 6,557.55	\$ 6,597.64

Consisting of the following:

Demand Deposits (Exh I)	\$ 6,597.64
<b>Total Deposits Carrying Amounts</b>	<b>\$ 6,597.64</b>

**Investments**

The Texas Lottery Commission's investments consist of United States Government Securities. These investments have been purchased to provide for the payment of the Lotto jackpot prizes that are payable annually to the winners over a nineteen-year or twenty-four year period, as well as the installment payments for Weekly Grand, Weekly Bonus, Monthly Money and Win for Life prizes, as the investments mature. All investments are held to maturity, therefore, fluctuations in market price have no effect on the ability of the Lottery to meet installment payment obligations as they become due. The Lottery's investments, which are held by the Comptroller of Public Accounts, Treasury Operations, are categorized to give an indication of the level of risk assumed by the Lottery at year end. All of the Lottery's investments at August 31, 2001, with the exception of reverse repurchase agreements, are included in category 1, the lowest risk, as defined by Governmental Accounting Standards Board Statement 3 to include investments that are insured or registered or securities held by the Comptroller of Public Accounts, Treasury Operations or its agent in the Comptroller of Public Accounts, Treasury Operations' name.

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

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

## Categorized Investments:

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

## Uncategorized Investments:

Investments held by broker-dealers under reverse repurchase agreements:	
U.S. Government Securities	133,546,189.55
<b>Total Investments</b>	<b>\$1,617,656,561.55</b>

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

**Reverse Repurchase Agreements**

At August 31, 2002, certain investments were subject to reverse repurchase agreements entered into by the Comptroller of Public Accounts, Treasury Operations. 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 Comptroller of Public Accounts, Treasury Operations will hold the securities to maturity and liquidate them at face value. The market value of securities underlying reverse repurchase agreements normally exceeds the cash received, providing a margin against decline in market value. If the repurchaser defaults on the obligation to sell these securities to the Comptroller of Public Accounts, Treasury Operations or provide securities or cash of equal value, an economic loss could result equal to the difference between the market value plus accrued interest of the underlying securities. Any such loss incurred would be the responsibility of the Comptroller of Public Accounts, Treasury Operations rather than the Commission. To minimize the risk of such default, all securities backing the reverse repurchase agreements are held by the Federal Reserve Bank in the name of the Comptroller of Public Accounts, Treasury Operations.

The amount of investments subject to reverse repurchase agreements at August 31, 2002 was approximately \$73,762,879.00, at cost. The fair value of the securities underlying these agreements at August 31, 2002 was approximately \$133,546,189.55.

**NOTE 4: Summary of Long Term Liabilities****Changes in Long Term Liabilities**

During the year ended August 31, 2002, the following changes occurred in liabilities.

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

Business-Type Activities	Balance 09-1-01	Additions	Deductions	Balance 08-31-02	Amounts Due Within One Year
Compensable Leave	\$1,232,226.07	\$1,737,933.39	\$1,834,213.78	\$1,135,945.68	\$706,311.96
<b>Total Business-Type Activities</b>	<b>\$1,232,226.07</b>	<b>\$1,737,933.39</b>	<b>\$1,834,213.78</b>	<b>\$1,135,945.68</b>	<b>\$706,311.96</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 Assets. An expense and liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**NOTE 5: Capital Leases**

Not Applicable

**NOTE 6: Operating Lease Obligations**

The Texas Lottery Commission leases its headquarters facility in Austin, Texas, twenty-two claim centers throughout Texas, and five regional offices under the terms of operating leases expiring at various dates through 2010. Rent expense for Charitable Bingo and Lottery operations under these and other leases, including the rental of instant ticket vending machines, amounted to \$5,374,810.46 in fiscal year 2002. These lease agreements generally do not require payment of taxes, insurance and maintenance by the Lottery, except for utility costs directly attributable to computer equipment. The Lottery also leases office equipment under a month-to-month master-operating lease negotiated by the Comptroller. Generally, management expects that leases will be renewed or replaced by other leases in the normal course of business.

Some of the leases entered into by the Commission include renewal options; escalation and tenant finish allowance clauses. During Fiscal Year 2002, The Texas Lottery Commission extended the lease for its headquarters facility through May 7, 2010. Because of this extension, the Lessor provided the Commission with a Tenant Finish Allowance in the amount of \$500,000.00. The allowance is to be used solely for tenant improvements and not to perform Lessor obligations. As of August 31, 2001 and 2002, The Texas Lottery Commission had Tenant Finish Allowance balances of \$391,279.10 and \$280,858.60, respectively.

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

<b>Fund Type</b>	
General Revenue Fund	\$ 165,417.02
General Revenue - Dedicated	2,150,712.60
<b>Totals - Memorandum Only</b>	<b>\$ 2,316,129.62</b>

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>	
2002	\$ 2,315,875.00
2003	2,232,055.17
2004	2,160,519.34
2005	2,223,381.36
2006	2,370,484.48
2007 through 2010	8,688,177.00
<b>Total Minimum Future Lease Rental Payments</b>	<b>\$19,990,492.35</b>

#### **NOTE 7: Interfund Balances/Activities**

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

- Interfund Receivables or Interfund Payables – (Note 7 presentation required)
- Due From Other Agencies or Due To Other Agencies
- Due From Other Funds or Due To Other Funds
- Transfers In or Transfers Out (Note 7 presentation required)
- Legislative Transfers In or Legislative Transfer Out (Note 7 presentation required)

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

The following interfund examples are for note presentation purpose only and do not tie to Exhibit I.

- Operating Transfers In or Operating Transfers Out
- Legislative Transfers In or Legislative Transfers Out - Not Applicable

Individual balances and activity at August 31, 2002 follows:

<b>Note 7 Presentation:</b>			
	<b>DUE FROM Other Agencies</b>	<b>DUE TO Other Agencies</b>	<b>Source</b>
GENERAL REVENUE (01) Appd Fund 0001, D23 Fund 1100 (Agency 479, D23 Fund 001)	\$	\$	
ENTERPRISE (05) Appd Fund 5025, D23 Fund 1100			
(Agency 701, D23 Fund 0193)	0.00	15,309,697.59	Transfer
(Agency 501, D23 Fund 0001)	0.00	0.00	
(Agency 479, D23 Fund 0001)	0.00	0.00	
(Agency 902, D23 Fund 0001)	0.00	0.00	
<b>Total Due From/To Other Agencies (Exh I)</b>	<b>\$ 0.00</b>	<b>\$ 15,309,697.59</b>	

**Note 7 Presentation:**

	DUE FROM Other Funds	DUE TO Other Funds	Source
GENERAL REVENUE (01) Appd Fund 001, D23 Fund 001	\$	\$	
(Agency 362 D23 Fund 1100)	0.00	174,198.61	Expenditure
ENTERPRISE (05) Appd Fund 5025, D23 Fund 1100	0.00	0.00	
(Agency 362, D23 Fund 0001)	174,198.61	0.00	Revenue
<b>Total Due From/To Other Funds</b>	<b>\$ 174,198.61</b>	<b>\$ 174,198.61</b>	

**Note 7 Presentation:**

	Operating TRANSFERS IN	Operating TRANSFERS OUT
ENTERPRISE (05) Appd Fund 5025, D23 Fund 1100	\$	\$
Agy 701, D23 Fund 0193	0.00	859,119,272.40
Agy 501, D23 Fund 0001	0.00	40,000,000.00
Agy 501, D23 Fund 5049	0.00	29,618,383.00
<b>Total Legislative Transfers</b>	<b>\$ 0.00</b>	<b>\$ 928,737,655.40</b>

**NOTE 8: Employees Retirement Plans**

The State has joint contributory retirement plans for substantially all of its employees. The Agency participates in the plans administered by the Employees Retirement System of Texas. Future pension costs are the liabilities of the Retirement System. The System does not account for each State agency separately. Annual financial reports prepared by the System include audited financial statements and actuarial assumptions and conclusions.

**NOTE 9: Deferred Compensation**

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

**NOTE 10: Contingent Liabilities**

Not Applicable.

**NOTE 11: Continuance Subject to Review**

The Lottery Division is subject to the Texas Sunset Act. Unless continued in existence as provided by the Sunset Act, the Lottery Division is abolished and Chapter 466, Texas Government Code expires September 1, 2003. Additionally, the Commission is subject to the Texas Sunset Act. Unless continued in existence as provided by the Sunset Act, the Commission is abolished and Chapter 467, Texas Government Code expires September 1, 2003.

**NOTE 12: Risk Financing and Related Insurance**

Not Applicable.

**NOTE 13: 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 14: Bonded Indebtedness**

Not Applicable

**NOTE 15: Subsequent Events**

Not Applicable

**NOTE 16: Related Parties**

Not Applicable

**NOTE 17: Stewardship, Compliance and Accountability**

Not Applicable

**NOTE 18: The Financial Reporting Entity and Joint Ventures**

Not Applicable

**NOTE 19: Restatement Of Fund Balances / Retained Earnings**

During 2002, adjustments were made which required the restatement of the amount in fund balance as shown and discussed below:

- (a) Correction of an error for Legislative Appropriations based on the General Revenue Reconciliation.
- (b) Change in method of applying a principle.

	General Revenue	Enterprise Fund	Totals
Fund Bal/Equity August 31, 2001	\$ 441,209.51	\$ 38,014,571.68	\$ 38,455,781.19
GASB 34/35 Fund Type Changes			
Fund Bal/Equity August 31, 2001	\$ 441,209.51	\$ 38,014,571.68	\$ 38,455,781.19
Restatements:			
a.	(908.80)		(908.80)
b.		(512,555.14)	(512,555.14)
Net Restatements	(908.80)	(512,555.14)	(513,463.94)
Fund Bal/Equity August 31, 2001	\$ 440,300.71	\$ 37,502,016.54	\$ 37,942,317.25

***NOTE 21: Pledged/Non-Pledged Revenues and Discounts and Allowances***

Not Applicable

***NOTE 22: Management Discussion and Analysis (Material Changes to AFR)***

**Financial Highlights:**

- Implementation of a new instant ticket production plan was the driving factor behind the increase in instant ticket sales for the fiscal year ended August 31, 2002 of \$215.4 million. This is an increase of 12.6% from the previous year.
- Lotto Texas sales for the fiscal year ended August 31, 2002 decreased from Fiscal Year 2001 by \$101.2 million, or 14.6%. The decrease is attributable to a lack of player interest in smaller jackpots.
- Pick 3 sales for the fiscal year ended August 31, 2002 increased from Fiscal Year 2001 by \$29.7 million, or 14.3%. Changes in the matrix to include a mid-day draw and an additional draw per week were responsible for the increase.
- Total prize expense, for all games, for the fiscal year ended August 31, 2002 exceeded prize expense for the previous year by \$66.9 million or 3.91%. The increase in prize expense has a direct correlation to the increase in sales.
- Commissions paid to Retailers for the fiscal year ended August 31, 2002 were \$148.3 million.
- Administrative expenses for the fiscal year ended August 31, 2002 were \$170.9 million declining from Fiscal Year 2001 by \$7 million or 3.9%.
- Unclaimed Prizes for Fiscal Year 2002 surpassed the prior fiscal year by \$30.6 million or 78.8%. The majority of the unclaimed prizes resulted from instant games. We attribute this to the implementation of a new instant ticket production plan, which called for shorter runs and higher game introduction rate.
- Due to the overall increase in sales and reduction in administrative expenses, the Texas Lottery Commission was able to transfer an additional \$34 million to the State's Foundation School Fund during Fiscal Year 2002.
- Total sales for the fiscal year ended August 31, 2002 totaled \$2.966 billion. This represents an increase in sales from prior year of 4.99%. It also marks the highest sales total since the record-breaking sales recorded in Fiscal Year 1997.

UNAUDITED

**Texas Lottery Commission (362)**

**Exhibit A-1 - Combining Balance Sheet - All General and Consolidated Funds**

August 31, 2002

	<u>General Revenue</u>	<u>Consolidated</u>	
	<u>Fund 0001</u>	<u>Accounts</u>	
	<u>(0001)</u>	<u>Fund 1</u>	<u>Total</u>
	<u>U/F (0001)</u>	<u>U/F (0001)</u>	<u>(Ex I)</u>
<b>ASSETS</b>			
Current Assets:			
Restricted:			
Cash and Cash Equivalents:			
Cash in State Treasury	\$ -	\$ 38,369.83	\$ 38,369.83
Legislative Appropriations	862,133.35		862,133.35
Total Current Assets	<u>862,133.35</u>	<u>38,369.83</u>	<u>900,503.18</u>
Total Assets	<u>\$ 862,133.35</u>	<u>\$ 38,369.83</u>	<u>\$ 900,503.18</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Current Liabilities:			
Payables From:			
Accounts Payable	\$ 7,437.64	\$ -	\$ 7,437.64
Other Intergovernmental		38,369.83	38,369.83
Payroll Payable	176,984.10		176,984.10
Due To Other Funds	174,198.61		174,198.61
Total Current Liabilities	<u>358,620.35</u>	<u>38,369.83</u>	<u>396,990.18</u>
Total Liabilities	<u>358,620.35</u>	<u>38,369.83</u>	<u>396,990.18</u>
<b>FUND FINANCIAL STATEMENT - FUND BALANCES</b>			
Fund Balances (Deficits):			
Reserved for:			
Encumbrances	499,625.42		499,625.42
Undesignated	3,887.58		3,887.58
Total Fund Balances	<u>503,513.00</u>	<u>-</u>	<u>503,513.00</u>
Total Liabilities and Fund Balances	<u>\$ 862,133.35</u>	<u>\$ 38,369.83</u>	<u>\$ 900,503.18</u>

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

UNAUDITED

**Texas Lottery Commission (362)**

**Exhibit A-2 - Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balances – All General and Consolidated Funds**

For the Fiscal Year Ended August 31, 2002

	<u>General Revenue</u>	<u>Consolidated Accounts</u>	
	Fund 0001	Fund 0001	
	(0001)	(0981)	
	U/F (0001)	U/F (0001)	Total (Ex II)
<b>REVENUES</b>			
Legislative Appropriations:			
Original Appropriations	\$ 2,785,997.00	\$ -	\$ 2,785,997.00
Additional Appropriations	548,637.80		548,637.80
Licenses, Fees & Permits		9,175,954.82	9,175,954.82
Other	30,785.60		30,785.60
Total Revenues	<u>3,365,420.40</u>	<u>9,175,954.82</u>	<u>12,541,375.22</u>
<b>EXPENDITURES</b>			
Salaries and Wages	2,040,223.35		2,040,223.35
Payroll Related Costs	444,264.98		444,264.98
Professional Fees and Services	185,774.75		185,774.75
Travel	88,811.20		88,811.20
Materials and Supplies	165,280.49		165,280.49
Communication and Utilities	33,657.13		33,657.13
Repairs and Maintenance	45,109.66		45,109.66
Rentals & Leases	167,958.02		167,958.02
Printing and Reproduction	29,511.10		29,511.10
Intergovernmental Payments		9,175,954.82	9,175,954.82
Other Expenditures	31,308.96		31,308.96
Capital Outlay	22,893.00		22,893.00
Total Expenditures/Expenses	<u>3,254,792.64</u>	<u>9,175,954.82</u>	<u>12,430,747.46</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>110,627.76</u>	<u>-</u>	<u>110,627.76</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>
<b>SPECIAL ITEMS</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXTRAORDINARY ITEMS</b>			
	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances/Net Assets	110,627.76	-	110,627.76
<b>FUND FINANCIAL STATEMENT - FUND BALANCES</b>			
Fund Balances--Beginning	441,209.51		441,209.51
Restatements	(908.80)		(908.80)
Fund Balances, September 1, 2001, as Restated	440,300.71	-	440,300.71
Appropriations Lapsed	47,415.47		47,415.47
Fund Balances--August 31, 2002	<u>\$ 503,513.00</u>	<u>\$ -</u>	<u>\$ 503,513.00</u>

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

## UNAUDITED

## Texas Lottery Commission (362)

## Exhibit F-1 - Combining Statement of Net Assets - Proprietary Funds

August 31, 2002

	Enterprise Fund (5025) U/F (1100)	Enterprise Fund (0895) U/F (0895)	Totals (Ex III)
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents:			
Cash in Bank	\$ 6,597.64	\$ -	\$ 6,597.64
Cash in State Treasury	105,358,533.84		105,358,533.84
Short Term Investments	10,089,833.54	157,693,779.92	167,783,613.46
Receivables from:			
Accounts	27,381,154.52		27,381,154.52
Due From Other Funds	174,198.61		174,198.61
Merchandise Inventories	5,442,560.87		5,442,560.87
Total Current Assets	<u>148,452,879.02</u>	<u>157,693,779.92</u>	<u>306,146,658.94</u>
Non-Current Assets:			
Restricted:			
Investments		1,449,872,948.09	1,449,872,948.09
Capital Assets:			
Depreciable:			
Furniture and Equipment	5,049,341.90		5,049,341.90
Accumulated Depreciation	(3,831,924.75)		(3,831,924.75)
Vehicles, Boats, and Aircraft	133,747.72		133,747.72
Accumulated Depreciation	(76,732.02)		(76,732.02)
Total Non-Current Assets	<u>1,274,432.85</u>	<u>1,449,872,948.09</u>	<u>1,451,147,380.94</u>
Total Assets	<u>\$ 149,727,311.87</u>	<u>\$ 1,607,566,728.01</u>	<u>\$ 1,757,294,039.88</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Payables from:			
Accounts Payable	\$ 18,052,717.94	\$ -	\$ 18,052,717.94
Payroll	991,846.67		991,846.67
Annuities	10,763,652.00		10,763,652.00
Other	26,728.60		26,728.60
Due to Other Agencies	15,309,697.59		15,309,697.59
Employees' Compensable Leave	706,311.96		706,311.96
Payable From Restricted Assets-Current Portion	87,022,943.54	158,763,000.00	245,785,943.54
Total Current Liabilities	<u>132,873,898.30</u>	<u>158,763,000.00</u>	<u>291,636,898.30</u>
Non-Current Liabilities: (Note 5)			
Employees' Compensable Leave	429,633.72		429,633.72
Payable From Restricted Assets		1,363,685,782.55	1,363,685,782.55
Total Non-Current Liabilities	<u>429,633.72</u>	<u>1,363,685,782.55</u>	<u>1,364,115,416.27</u>
Total Liabilities	<u>133,303,532.02</u>	<u>1,522,448,782.55</u>	<u>1,655,752,314.57</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	1,274,432.85		1,274,432.85
Restricted for:			
Expendable:			
Restricted by Other			
Pooled Bond Fund	5,000,000.00		5,000,000.00
Prize Reserve Fund	4,562,632.52		4,562,632.52
Unrestricted	5,586,714.48	85,117,945.46	90,704,659.94
Total Net Assets	<u>\$ 16,423,779.85</u>	<u>\$ 85,117,945.46</u>	<u>\$ 101,541,725.31</u>

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

UNAUDITED

**Texas Lottery Commission (362)**

**Exhibit F-2 - Combining Statement of Revenues, Expenses, and**

**Changes in Net Assets - Proprietary Funds**

For the Fiscal Year Ended August 31, 2002

	Enterprise Fund (5025) U/F (1100)	Enterprise Fund (0895) U/F (0895)	Totals (Ex IV)
<b>OPERATING REVENUES:</b>			
Sales of Goods and Services:			
Lottery Proceeds			-
Ticket Sales	\$ 2,966,420,158.64		\$ 2,966,420,158.64
Lottery License Application Fees	227,687.50		227,687.50
Lottery Security Proceeds	133,857.50		133,857.50
Other Operating Revenues	500,034.05		500,034.05
Total Operating Revenues	<u>2,967,281,737.69</u>	<u>-</u>	<u>2,967,281,737.69</u>
<b>OPERATING EXPENSES:</b>			
Salaries and Wages	11,632,271.98		11,632,271.98
Payroll Related Costs	2,655,390.42		2,655,390.42
Professional Fees and Services	4,428,396.63		4,428,396.63
Travel	306,650.93		306,650.93
Materials and Supplies	2,333,709.67		2,333,709.67
Communication and Utilities	391,055.37		391,055.37
Repairs and Maintenance	596,753.44		596,753.44
Rentals and Leases	6,196,420.78		6,196,420.78
Printing and Reproduction	14,836,395.65		14,836,395.65
Depreciation and Amortization	757,034.34		757,034.34
Bad Debt Expense	566,073.10		566,073.10
Lottery Prizes	1,715,355,957.61		1,715,355,957.61
Other Operating Expenses			
Retailer Commissions	148,359,044.45		148,359,044.45
Lottery Operator Fees	90,168,388.63		90,168,388.63
Advertising	30,140,361.72		30,140,361.72
Retailer Bonuses	4,172,483.05		4,172,483.05
Other	1,738,078.31		1,738,078.31
Total Operating Expenses	<u>2,034,634,466.08</u>	<u>-</u>	<u>2,034,634,466.08</u>
Operating Income (Loss)	<u>932,647,271.61</u>	<u>-</u>	<u>932,647,271.61</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment Income (Expense)	271,528.23		271,528.23
Net Increase (Decrease) Fair Value		59,860,020.00	59,860,020.00
Settlement of Claims	(1,455.67)		(1,455.67)
Total Nonoperating Revenues (Expenses)	<u>270,072.56</u>	<u>59,860,020.00</u>	<u>60,130,092.56</u>
Income (loss) before Other Revenues, Expenses, Gains/Losses and Transfers	932,917,344.17	59,860,020.00	992,777,364.17

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**Texas Lottery Commission (362)**

**Exhibit F-2 - Combining Statement of Revenues, Expenses, and**

**Changes in Net Assets - Proprietary Funds (continued)**

**For the Fiscal Year Ended August 31, 2002**

	<b>Enterprise Fund (5025) U/F (1100)</b>	<b>Enterprise Fund (0895) U/F (0895)</b>	<b>Totals (Ex IV)</b>
<b>OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:</b>			
Transfers-Out	\$ (928,737,655.40)	\$ -	\$ (928,737,655.40)
Total Other Revenues, Expenses, Gains/Losses and Transfers	(928,737,655.40)	-	(928,737,655.40)
Change in Net Assets	4,179,688.77	59,860,020.00	64,039,708.77
Total Net Assets, September 1, 2001	12,756,646.22	25,257,925.46	38,014,571.68
Restatements	(512,555.14)		(512,555.14)
Total Net Assets, September 1, 2001, as Restated	12,244,091.08	25,257,925.46	37,502,016.54
Total Net Assets, August 31, 2002	\$ 16,423,779.85	\$ 85,117,945.46	\$ 101,541,725.31

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**Texas Lottery Commission (362)**

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

For the Fiscal Year Ended August 31, 2002

	Enterprise Fund (5025) U/F (1100)	Enterprise Fund (0895) U/F (0895)	Totals (Ex V)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers	\$ 2,958,429,636.41	\$ -	\$ 2,958,429,636.41
Proceeds from Loan Programs			-
Proceeds from Other Revenues			-
Payments to Suppliers for Goods and Services	(304,858,573.21)		(304,858,573.21)
Payments to Employees	(14,883,601.04)		(14,883,601.04)
Payments for Loans Provided			-
Payments for Other Expenses	(1,744,224,454.44)		(1,744,224,454.44)
Net Cash Provided by Operating Activities	<u>894,463,007.72</u>	<u>-</u>	<u>894,463,007.72</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Proceeds from Debt Issuance			-
Proceeds of Transfers from Other Funds			-
Proceeds from Loan Programs			-
Proceeds from other Financing		(154,303,000.00)	(154,303,000.00)
Payments of Principal on Debt Issuance			-
Payments of Interest			-
Payments of Other Costs of Debt Issuance			-
Payments for Transfers to Other Funds	(956,333,671.67)		(956,333,671.67)
Payments for Other Uses	-	58,841,576.00	58,841,576.00
Net Cash Provided by Noncapital Financing Activities	<u>(956,333,671.67)</u>	<u>(95,461,424.00)</u>	<u>(1,051,795,095.67)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from the Sale of Capital Assets			-
Payments for Additions to Capital Assets	(490,311.10)		(490,311.10)
Payments of Principal on Debt			-
Payments of Interest on Debt Issuance			-
Net Cash Provided by Capital and Related Financing Activities	<u>(490,311.10)</u>	<u>-</u>	<u>(490,311.10)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from Sales of Investments		154,303,000.00	154,303,000.00
Proceeds from Interest and Investment Income	270,072.56		270,072.56
Proceeds from Principal Payments on Loans			-
Payments to Acquire Investments	(1,349,649.86)	(58,841,576.00)	(60,191,225.86)
Net Cash Provided by Investing Activities	<u>(1,079,577.30)</u>	<u>95,461,424.00</u>	<u>94,381,846.70</u>
Net (Decrease) in Cash and Cash Equivalents	(63,440,552.35)	-	(63,440,552.35)
Cash and Cash Equivalents--September 1, 2001	168,805,683.83		168,805,683.83
Resatement to Beginning Cash & Cash Equivalents			-
Cash and Cash Equivalents--August 31, 2002	<u>\$ 105,365,131.48</u>	<u>\$ -</u>	<u>\$ 105,365,131.48</u>

UNAUDITED

**Texas Lottery Commission (362)**

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

For the Fiscal Year Ended August 31, 2002

	<b>Enterprise Fund (5025) U/F (1100)</b>	<b>Enterprise Fund (0895) U/F (0895)</b>	<b>Totals (Ex Va)</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
<b>Operating Income (Loss)</b>	\$ 932,647,271.61	\$ -	\$ 932,647,271.61
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>			
Amortization and Depreciation	757,034.34	-	757,034.34
Bad Debt Expense	566,073.10	-	566,073.10
Operating Income and Cash Flow Categories:			
Changes in Assets and Liabilities:			
(Increase) Decrease in Receivables	(8,852,101.28)		(8,852,101.28)
(Increase) Decrease in Inventories	33,265.36		33,265.36
Increase (Decrease) in Payables	(30,544,381.80)		(30,544,381.80)
Total Adjustments	(38,040,110.28)	-	(38,040,110.28)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 894,607,161.33</b>	<b>\$ -</b>	<b>\$ 894,607,161.33</b>
<b>Non Cash Transactions</b>			
Net Increase (Decrease) in Fair Value of Investments			\$ 85,117,945.46

UNAUDITED

**Texas Lottery Commission (362)**

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

**August 31, 2002**

	Beginning Balance September 1, 2001	Additions	Deductions	Ending Balance August 31, 2002
<b>UNAPPROPRIATED RECEIPTS</b>				
<b><u>Employee Savings Bond Account (0901) U/F (0901)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 1,176.16	\$ 16,426.16	\$ 15,876.16	\$ 1,726.16
Total Assets	<u>\$ 1,176.16</u>	<u>\$ 16,426.16</u>	<u>\$ 15,876.16</u>	<u>\$ 1,726.16</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	1,176.16	16,426.16	15,876.16	1,726.16
Total Liabilities	<u>\$ 1,176.16</u>	<u>\$ 16,426.16</u>	<u>\$ 15,876.16</u>	<u>\$ 1,726.16</u>
<b><u>Suspense Fund (0900) U/F (0900)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 236,797.19	\$ -	\$236,797.19	\$ -
Total Assets	<u>\$ 236,797.19</u>	<u>\$ -</u>	<u>\$236,797.19</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	236,797.19		236,797.19	-
Total Liabilities	<u>\$ 236,797.19</u>	<u>\$ -</u>	<u>\$236,797.19</u>	<u>\$ -</u>
<b><u>Suspense Fund (0900) U/F (9016)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 332.97	\$ 36,826.13	\$ 37,159.10	\$ -
Total Assets	<u>\$ 332.97</u>	<u>\$ 36,826.13</u>	<u>\$ 37,159.10</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	332.97	36,826.13	37,159.10	-
Total Liabilities	<u>\$ 332.97</u>	<u>\$ 36,826.13</u>	<u>\$ 37,159.10</u>	<u>\$ -</u>
<b>Totals - All Agency Funds</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 238,306.32	\$ 53,252.29	\$289,832.45	\$ 1,726.16
Total Assets	<u>\$ 238,306.32</u>	<u>\$ 53,252.29</u>	<u>\$289,832.45</u>	<u>\$ 1,726.16</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	238,306.32	53,252.29	289,832.45	1,726.16
Total Liabilities	<u>\$ 238,306.32</u>	<u>\$ 53,252.29</u>	<u>\$289,832.45</u>	<u>\$ 1,726.16</u>

**Texas Lottery Commission (362)**

**Schedule 5 - Schedule of Modified to Full Accrual Adjustments - Governmental Funds**

**Governmental Balance Sheet/Statement of Net Assets**

**August 31, 2002**

	<b>Governmental Funds Total</b>	<b>Capital Assets Adjustments</b>	<b>Long-Term Liabilities Adjustments</b>	<b>Other Adjustments</b>	<b>Statement of Net Assets</b>
<b>ASSETS</b>					
Current Assets:					
Cash and Temporary Investments					
Cash in State Treasury	\$ 38,369.83	\$ -	\$ -	\$ -	\$ 38,369.83
Legislative Appropriations	862,133.35				862,133.35
Total Current Assets	900,503.18	-	-	-	900,503.18
Noncurrent Assets:					
Capital Assets:					
Depreciable					
Furniture and Equipment		213,623.38			213,623.38
Accumulated Depreciation		(185,768.98)			(185,768.98)
Total Noncurrent Assets	-	27,854.40	-	-	27,854.40
Total Assets	<u>\$ 900,503.18</u>	<u>\$ 27,854.40</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 928,357.58</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Current Liabilities:					
Payables from					
Accounts Payable	\$ 7,437.64	\$ -	\$ -	\$ -	\$ 7,437.64
Other Intergovernmental	38,369.83				38,369.83
Payroll Payable	176,984.10				176,984.10
Due To Other Funds	174,198.61				174,198.61
Employees Compensable Leave			124,940.59		124,940.59
Total Current Liabilities	396,990.18	-	124,940.59	-	521,930.77
Noncurrent Liabilities:					
Interfund Payables	-	-	-	-	-
Employees Compensable Leave			87,396.32		87,396.32
Total Non-Current Liabilities	-	-	87,396.32	-	87,396.32
Total Liabilities	396,990.18	-	212,336.91	-	609,327.09
<b>Fund Financial Statement-Fund Balances</b>					
Fund Balances (Deficits):					
Reserved for:					
Encumbrances	499,625.42	-	-	-	499,625.42
Unreserved Designated for:					
Undesignated	3,887.58				3,887.58
Total Fund Balances	503,513.00	-	-	-	503,513.00
Total Liabilities and Fund Balance	<u>\$ 900,503.18</u>	<u>\$ -</u>	<u>\$ 212,336.91</u>	<u>\$ -</u>	<u>\$ 1,112,840.09</u>
<b>Government-wide Statement - Net Assets</b>					
Net Assets:					
Invested in Capital Assets,					
Net of Related Debt	\$ -	\$ 27,854.40	\$ -	\$ -	\$ 27,854.40
Unrestricted			(212,336.91)		(212,336.91)
Total Net Assets	<u>\$ -</u>	<u>\$ 27,854.40</u>	<u>\$ (212,336.91)</u>	<u>\$ -</u>	<u>\$ (184,482.51)</u>

**Texas Lottery Commission (362)**

**Schedule 5 - Schedule of Modified to Full Accrual Adjustments - Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities**

**For the Fiscal Year Ended August 31, 2002**

	<b>Governmental Funds Total</b>	<b>Capital Assets Adjustments</b>	<b>Long-Term Liabilities Adjustments</b>	<b>Other Adjustments</b>	<b>Statement of Activities</b>
<b>REVENUES</b>					
Legislative Appropriations:					
Original Appropriations	\$ 2,785,997.00	\$ -	\$ -	\$ -	\$ 2,785,997.00
Additional Appropriations	548,637.80				548,637.80
Licenses, Fees & Permits	9,175,954.82				9,175,954.82
Other	30,785.60				30,785.60
Total Revenues	<u>12,541,375.22</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,541,375.22</u>
<b>EXPENDITURES</b>					
Salaries and Wages	2,040,223.35	-	1,186.51	-	2,041,409.86
Payroll Related Costs	444,264.98				444,264.98
Professional Fees and Services	185,774.75				185,774.75
Travel	88,811.20				88,811.20
Materials and Supplies	165,280.49				165,280.49
Communication and Utilities	33,657.13				33,657.13
Repairs and Maintenance	45,109.66				45,109.66
Rentals & Leases	167,958.02				167,958.02
Printing and Reproduction	29,511.10				29,511.10
Intergovernmental Payments	9,175,954.82				9,175,954.82
Other Expenditures	31,308.96				31,308.96
Capital Outlay	22,893.00	(22,893.00)			-
Depreciation Expense		16,040.71			16,040.71
Total Expenditures/Expenses	<u>12,430,747.46</u>	<u>(6,852.29)</u>	<u>1,186.51</u>	<u>-</u>	<u>12,425,081.68</u>
Excess (deficiency) of revenues over expenditures	<u>110,627.76</u>	<u>6,852.29</u>	<u>(1,186.51)</u>	<u>-</u>	<u>116,293.54</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>SPECIAL ITEMS</b>					
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXTRAORDINARY ITEMS</b>					
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances/net assets	<u>110,627.76</u>	<u>6,852.29</u>	<u>(1,186.51)</u>	<u>-</u>	<u>116,293.54</u>
<b>Fund Financial Statement-Fund Balances</b>					
Fund Balances--Beginning	441,209.51	-	-	-	441,209.51
Restatements	(908.80)				(908.80)
Fund Balances, September 1, 2001, as Restated	<u>440,300.71</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>440,300.71</u>
Appropriations Lapsed	47,415.47				47,415.47
Fund Balances--August 31, 2002	<u>\$ 503,513.00</u>	<u>\$ 6,852.29</u>	<u>\$ (1,186.51)</u>	<u>\$ -</u>	<u>\$ 509,178.78</u>
<b>Government-wide Statement - Net Assets</b>					
Change in Net Assets		<u>6,852.29</u>	<u>(1,186.51)</u>	<u>-</u>	<u>5,665.78</u>
Net Assets--Beginning					
Adjustments to Beginning Net Assets					
FY01 Capital Assets Balances in GFAAG		490,525.27			490,525.27
Reduce for Threshold Increase of Capital Assets		(286,978.70)			(286,978.70)
Accumulated Depreciation from Prior Years		(182,544.46)			(182,544.46)
FY01 Compensable Leave Balance in GLTDAG			(211,150.40)		(211,150.40)
Net Assets, September 1, 2001, as Restated and Adjusted	<u>-</u>	<u>21,002.11</u>	<u>(211,150.40)</u>	<u>-</u>	<u>(190,148.29)</u>
Net Assets--August 31, 2002	<u>\$ -</u>	<u>\$ 27,854.40</u>	<u>\$ (212,336.91)</u>	<u>\$ -</u>	<u>\$ (184,482.51)</u>