



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

FISCAL YEAR 2004

November 18, 2004

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

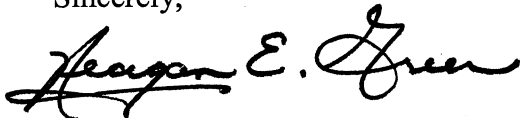
Lady and Gentlemen:

We are pleased to submit the Annual Financial Report of the Texas Lottery Commission for the year ended August 31, 2004, in compliance with TEX. GOV'T CODE ANN §2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

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

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

Sincerely,

A handwritten signature in black ink, reading "Reagan E. Greer". The signature is fluid and cursive, with the first name "Reagan" being more prominent and the last name "Greer" following in a similar style.

Reagan Greer
Executive Director

TEXAS LOTTERY COMMISSION

Annual Financial Report For the Year Ended August 31, 2004

TABLE OF CONTENTS

Exhibit I	- Combined Balance Sheet/Statement of Net Assets - Governmental Funds	1
Exhibit II	- Combined Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Exhibit III	- Combined Statement of Net Assets - Proprietary Funds	3
Exhibit IV	- Combined Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	4
Exhibit V	- Combined Statement of Cash Flows - Proprietary Funds	5
Exhibit VI	- Combined Statement of Fiduciary Net Assets - Fiduciary Funds	6
Notes to the Financial Statements		7
Exhibit A-1	- Combining Balance Sheet - All General and Consolidated Funds	23
Exhibit A-2	- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - All General and Consolidated Funds	24
Exhibit F-1	- Combining Statement of Net Assets - Proprietary Funds	25
Exhibit F-2	- Combining Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	26
Exhibit F-3	- Combining Statement of Cash Flows - Proprietary Funds	28
Exhibit J-1	- Combining Statement of Changes in Assets and Liabilities - Agency Funds	30
Schedule 4	- Schedule of Modified to Full Accrual Adjustments - Governmental Funds - Governmental Balance Sheet/Statement of Net Assets	31
Schedule 4	- Schedule of Modified to Full Accrual Adjustments - Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities	32

TEXAS LOTTERY COMMISSION

Exhibits

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Texas Lottery Commission (362)

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

August 31, 2004

	Governmental Fund Types General Funds (Exhibit A-1)	Governmental Funds Total	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Statement of Net Assets
ASSETS					
Current Assets:					
Restricted:					
Cash and Cash Equivalents:					
Legislative Appropriations	\$ 464,056.70	\$ 464,056.70	\$ -	\$ -	\$ 464,056.70
Total Current Assets	464,056.70	464,056.70	-	-	464,056.70
Non-Current Assets:					
Capital Assets: (Note 2)					
Depreciable					
Furniture and Equipment			207,457.13		207,457.13
Accumulated Depreciation			(198,299.57)		(198,299.57)
Total Non-Current Assets	-	-	9,157.56	-	9,157.56
Total Assets	\$ 464,056.70	\$ 464,056.70	9,157.56	-	473,214.26
LIABILITIES AND FUND BALANCES					
Liabilities:					
Current Liabilities:					
Payables From:					
Accounts Payable	\$ 45,867.63	\$ 45,867.63	\$ -	\$ -	\$ 45,867.63
Vouchers Payable	14,267.70	14,267.70			14,267.70
Payroll Payable	212,399.77	212,399.77			212,399.77
Due to Other Funds (Note 8)	-	-			-
Employees Compensable Leave (Note 5)	-	-		150,394.69	150,394.69
Total Current Liabilities	272,535.10	272,535.10	-	150,394.69	422,929.79
Non-Current Liabilities:					
Employees Compensable Leave (Note 5)	-	-		92,755.73	92,755.73
Total Non-Current Liabilities	-	-	-	92,755.73	92,755.73
Total Liabilities	272,535.10	272,535.10	-	243,150.42	515,685.52
FUND FINANCIAL STATEMENT					
Fund Balances (Deficits):					
Reserved for:					
Encumbrances	23,342.00	23,342.00			23,342.00
Undesignated	168,179.60	168,179.60			168,179.60
Total Fund Balances	191,521.60	191,521.60	-	-	191,521.60
Total Liabilities and Fund Balances	\$ 464,056.70	\$ 464,056.70	-	243,150.42	707,207.12
GOVERNMENT-WIDE STATEMENT OF NET ASSETS					
Net Assets:					
Invested in Capital Assets, Net of Related Debt			9,157.56		9,157.56
Unrestricted				(243,150.42)	(243,150.42)
Total Net Assets			\$ 9,157.56	\$ (243,150.42)	\$ (233,992.86)

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, 2004**

	General Funds (Exhibit A-2)	Governmental Funds Total	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Statement of Activities
REVENUES:					
Legislative Appropriations:					
Original Appropriations	\$ 2,559,266.00	\$ 2,559,266.00	\$ -	\$ -	\$ 2,559,266.00
Additional Appropriations	508,417.82	508,417.82			508,417.82
Licenses, Fees & Permits	10,203,561.27	10,203,561.27			10,203,561.27
Other	71,664.32	71,664.32			71,664.32
Total Revenues	<u>13,342,909.41</u>	<u>13,342,909.41</u>	<u>-</u>	<u>-</u>	<u>13,342,909.41</u>
EXPENDITURES					
Salaries and Wages	2,065,698.41	2,065,698.41		23,551.36	2,089,249.77
Payroll Related Costs	483,773.18	483,773.18			483,773.18
Professional Fees and Services	167,795.12	167,795.12			167,795.12
Travel	71,996.36	71,996.36			71,996.36
Materials and Supplies	47,229.73	47,229.73			47,229.73
Communication and Utilities	252.72	252.72			252.72
Repairs and Maintenance	3,040.00	3,040.00			3,040.00
Rentals & Leases	177,079.61	177,079.61			177,079.61
Printing and Reproduction	26,997.79	26,997.79			26,997.79
Intergovernmental Payments	10,088,787.35	10,088,787.35			10,088,787.35
Other Expenditures	38,699.07	38,699.07			38,699.07
Depreciation Expense	-	-	11,048.94		11,048.94
Total Expenditures/Expenses	<u>13,171,349.34</u>	<u>13,171,349.34</u>	<u>11,048.94</u>	<u>23,551.36</u>	<u>13,205,949.64</u>
Excess (Deficiency) of Revenues over Expenditures	<u>171,560.07</u>	<u>171,560.07</u>	<u>(11,048.94)</u>	<u>(23,551.36)</u>	<u>136,959.77</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	12,082.93	12,082.93			12,082.93
Transfers Out	(125.00)	(125.00)	-	-	(125.00)
Total Other Financing Sources (Uses)	<u>11,957.93</u>	<u>11,957.93</u>	<u>-</u>	<u>-</u>	<u>11,957.93</u>
SPECIAL ITEMS					
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXTRAORDINARY ITEMS					
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances/Net Assets	<u>183,518.00</u>	<u>183,518.00</u>	<u>(11,048.94)</u>	<u>(23,551.36)</u>	<u>148,917.70</u>
FUND FINANCIAL STATEMENT - FUND BALANCES					
Fund Balances--September 1, 2003	68,416.50	68,416.50			68,416.50
Restatements	(412.90)	(412.90)			(412.90)
Fund Balances, September 1, 2003, as Restated	<u>68,003.60</u>	<u>68,003.60</u>	<u>-</u>	<u>-</u>	<u>68,003.60</u>
Appropriations Lapsed	60,000.00	60,000.00			
Fund Balances--August 31, 2004	<u>\$ 191,521.60</u>	<u>\$ 191,521.60</u>			
GOVERNMENT-WIDE STATEMENT OF NET ASSETS					
Change in Net Assets			(11,048.94)	(23,551.36)	(34,600.30)
Net Assets, September 1, 2003			20,206.50	(219,599.06)	(199,392.56)
Restatements					
Net Assets, September 1, 2003, as Restated			<u>20,206.50</u>	<u>(219,599.06)</u>	<u>(199,392.56)</u>
Net Assets as of August 31, 2004			<u>\$ 9,157.56</u>	<u>\$ (243,150.42)</u>	<u>\$ (233,992.86)</u>

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

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Exhibit III - Combined Statement of Net Assets - Proprietary Funds

August 31, 2004

	Total Enterprise Funds (Exhibit F-1)
ASSETS	
Current Assets:	
Cash and Cash Equivalents:	
Cash in Bank	\$ 7,500.00
Cash in State Treasury	107,619,148.82
Restricted:	
Short Term Investments (Note 3)	170,504,780.53
Receivables from:	
Accounts	37,934,969.60
Interfund Receivables (Note 8)	-
Merchandise Inventories	5,735,689.73
Other Current Assets	10,888,500.00
Total Current Assets	332,690,588.68
Non-Current Assets:	
Restricted:	
Investments (Note 3)	1,323,120,977.52
Capital Assets: (Note 2)	
Depreciable	
Furniture and Equipment	5,707,107.95
Accumulated Depreciation	(4,708,309.12)
Vehicles, Boats, and Aircraft	125,366.72
Accumulated Depreciation	(85,921.85)
Total Non-Current Assets	1,324,159,221.22
Total Assets	\$ 1,656,849,809.90
LIABILITIES	
Current Liabilities:	
Payables from:	
Voucher Payable	\$ 4,971,647.52
Accounts Payable	20,863,760.45
Payroll	1,275,475.40
Annuities	10,874,302.00
Other	459,855.90
Due to Other Agencies (Note 8)	16,249,720.10
Employees' Compensable Leave (Note 5)	891,594.29
Payable From Restricted Assets-Current Portion	235,412,636.07
Total Current Liabilities	290,998,991.73
Non-Current Liabilities:	
Employees' Compensable Leave (Note 5)	474,289.18
Payable From Restricted Assets	1,258,309,359.82
Total Non-Current Liabilities	1,258,783,649.00
Total Liabilities	\$ 1,549,782,640.73
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,038,243.70
Restricted for:	
Expendable:	
Restricted by Other	
Pooled Bond Fund	5,000,000.00
Prize Reserve Fund	10,898,145.81
Unrestricted	90,130,779.66
Total Net Assets	\$ 107,067,169.17

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

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, 2004

	Total Enterprise Funds (Exhibit F-2)
OPERATING REVENUES:	
Sales of Goods and Services:	
Lottery Proceeds	
Ticket Sales	\$ 3,487,924,569.50
Lottery License Application Fees	325,375.00
Lottery Security Proceeds	84,975.00
Other Operating Revenues	606,004.41
Total Operating Revenues	<u>3,488,940,923.91</u>
OPERATING EXPENSES:	
Salaries and Wages	12,577,037.12
Payroll Related Costs	2,990,829.22
Professional Fees and Services	4,716,056.50
Travel	329,236.80
Materials and Supplies	2,591,037.18
Communication and Utilities	479,854.58
Repairs and Maintenance	477,389.83
Rentals and Leases	6,076,106.90
Printing and Reproduction	16,845,098.02
Depreciation and Amortization	736,386.78
Bad Debt Expense	411,000.34
Interest	1,162.73
Lottery Prizes	2,068,643,666.66
Other Operating Expenses:	
Retailer Commissions	174,413,286.93
Lottery Operator Fees	95,007,546.87
Advertising	36,364,991.25
Retailer Bonuses	2,143,102.57
Other	1,214,729.47
Total Operating Expenses	<u>2,426,018,519.75</u>
Operating Income (Loss)	<u>1,062,922,404.16</u>
NONOPERATING REVENUES (EXPENSES):	
Net Increase (Decrease) Fair Value	8,508,477.95
Total Nonoperating Revenues (Expenses)	<u>8,508,477.95</u>
Income (loss) before Other Revenues, Expenses, Gains/Losses and Transfers	<u>1,071,430,882.11</u>
OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS	
Transfers-In	-
Transfers-Out	<u>(1,051,041,006.96)</u>
Total Other Revenues, Expenses, Gains/Losses and Transfers	<u>(1,051,041,006.96)</u>
Change in Net Assets	<u>20,389,875.15</u>
Total Net Assets, September 1, 2003	86,845,315.80
Restatements	<u>(168,021.78)</u>
Total Net Assets, September 1, 2003, as Restated	86,677,294.02
Total Net Assets, August 31, 2004	<u><u>\$ 107,067,169.17</u></u>

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

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Exhibit V - Combined Statement of Cash Flows - Proprietary Funds

For the Fiscal Year Ended August 31, 2004

	Total Enterprise Funds (Exhibit F-3)
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 3,476,848,556.16
Payments to Suppliers for Goods and Services	(336,320,492.12)
Payments to Employees	(15,526,609.53)
Payments for Other Expenses	(2,068,236,911.14)
Net Cash Provided by Operating Activities	<u>1,056,764,543.37</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from other Financing	(161,337,000.00)
Payments for Transfers to Other Funds	(1,044,221,674.97)
Payments for Other Uses	9,412,000.00
Net Cash Provided by Noncapital Financing Activities	<u>(1,196,146,674.97)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments for Additions to Capital Assets	<u>(683,501.45)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(683,501.45)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales of Investments	161,337,000.00
Proceeds from Interest and Investment Income	882,457.70
Payments to Acquire Investments	(9,412,000.00)
Net Cash Provided by Investing Activities	<u>152,807,457.70</u>
Net (Decrease) in Cash and Cash Equivalents	12,741,824.65
Cash and Cash Equivalents--September 1, 2003	<u>94,884,824.17</u>
Cash and Cash Equivalents--August 31, 2004	<u><u>\$ 107,626,648.82</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 1,062,922,404.16
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Amortization and Depreciation	736,386.78
Bad Debt Expense	411,000.34
Operating Income and Cash Flow Categories:	
Classification Differences	
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(12,092,367.75)
(Increase) Decrease in Inventories	1,286,628.57
(Increase) Decrease in Prepaid Expenses	1,555,500.00
Increase (Decrease) in Payables	1,944,991.27
Total Adjustments	<u>(6,157,860.79)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,056,764,543.37</u></u>
Non Cash Transactions	
Net Increase (Decrease) in Fair Value of Investments	\$ 8,508,477.95

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

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

August 31, 2004

	Agency Funds (Exhibit J-1)	Totals
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash in State Treasury	\$ 9,102.49	\$ 9,102.49
Other	33,726.75	33,726.75
Total Assets	<u>\$ 42,829.24</u>	<u>\$ 42,829.24</u>
LIABILITIES		
Current Liabilities:		
Funds Held for Others	\$ 42,829.24	\$ 42,829.24
Total Liabilities	<u>\$ 42,829.24</u>	<u>\$ 42,829.24</u>

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

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TEXAS LOTTERY COMMISSION

Notes to the Financial Statements

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 Operations 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.

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

Governmental Fund Types

General Fund

The general 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 Fund is used to account for the Charitable Bingo Operations.

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.

Long-Term Liabilities Adjustment Fund Type

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

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Proprietary Fund Types

Enterprise Funds

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

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

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

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

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

Fiduciary Fund Types

Agency Funds

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

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

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

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

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

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

Cash Bingo Fund (1000) – This fund is used to accumulate security funds for tax on gross rentals or the fee on prizes imposed under Chapter 2001, Section 514, Texas Occupation Code.

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Basis of Accounting

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

Due to the implementation of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, 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 Cash Equivalents

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

Allocation of Income

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

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For fiscal year 2004, 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 2005. Unexpended amounts in the Lottery operations account at August 31, 2004 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 \$16,249,720.10 are recorded as "Due to Other Agencies" as of August 31, 2004. Of that amount \$15,467,378.10 is due to the Foundation School Fund (Fund 0193). The remaining \$782,342.00 is due to the State's Multi-categorical Teaching Hospital Account (GR-Dedicated Account 5049).

Investments

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

Restricted Assets

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

Inventories

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

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 not purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. "Inexhaustible" assets such as works of art and historical treasures are not depreciated. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

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

LIABILITIES

Accounts Payable

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

Payroll Payable

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

Employees' Compensable Leave Balances

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

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by covered employees. Liabilities are reported separately as either current or non-current in the statement of net assets.

Prizes Payable

Lotto Texas and *Mega Millions* jackpot prizes of \$4 million and \$10 million, respectively, or more are payable in a lump sum or in annual installments. Prior to February 1997, the *Lotto Texas* prizes were paid in twenty installments. Beginning in February 1997, the players were given a choice at the time of purchase of receiving either a lump sum payment or twenty-five annual installments. *Mega Millions* jackpot prizes are paid in twenty-six annual installments, unless the lump sum option is selected by the player. The first installment is processed on the day the prize is claimed. The subsequent installments are funded with United States Guaranteed Securities purchased by the Texas Treasury Safekeeping Trust Company on the Texas Lottery Commission's behalf, as are the installment payments for Weekly Grand, Weekly Bonus, Monthly Money, Win for Life, Twice as Grand and \$130,000 bonus prizes.

The amortization of the discount of investments held for prizes payable is based on yields ranging from .93 percent to 15.57 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, 2004:

2004	
Total Obligation	\$1,922,300,000.00
Less – unamortized discount	<u>- 502,127,640.18</u>
Total carry amount	1,420,172,359.82
Less – prizes payable within one year	<u>161,863,000.00</u>
Long-term prizes payable	<u><u>\$1,258,309,359.82</u></u>

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

Aggregate Amount of Prizes Payable	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2005 (Future Year 1)			\$161,863,000	
2006 (Future Year 2)			161,669,000	
2007 (Future Year 3)			161,669,000	
2008 (Future Year 4)			161,669,000	
2009 (Future Year 5)			161,565,000	
2010-2014			729,691,000	
2015-2019			238,380,000	
2020-2024			128,750,000	
2025-2029			17,044,000	
Total Prizes Payable			\$1,922,300,000	

Unclaimed Prizes

The ticket holder forfeits prizes that remain unclaimed for 180 days after the on-line drawing date or 180 days after the close of an instant game. During fiscal year 2004, the Lottery transferred a total of \$41,581,437.45 in unclaimed lottery prize winnings on a quarterly basis to the following agencies: The Comptroller of Public Account received \$19,465,000 for credit to the General Revenue Fund, Health and Human Services Commission received \$11,334,095.45 for credit to the Graduate Medical Education Program and Department of State Health Services received \$10,782,342 for credit to the Multi-categorical Teaching Hospital Account.

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FUND BALANCE/NET ASSETS

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

Reservation of Fund Balance

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

Reserved for Encumbrances

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

Unreserved/Undesignated:

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

Invested In Capital Assets, Net of Related Debt

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

Restricted Net Assets

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

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

Pooled Bond Fund

The Reserve for Pooled Bond Fund is established in accordance with the Texas Government Code, Chapter 466. Specifically, Texas Government Code, Section 466.156 authorizes the Executive Director of the Commission to establish a pooled bond fund from the collection of cash from each sales agent to be used to reimburse the State for losses to the State from the operation of the Commission's sales. As of August 31, 2004, the balance in the Pooled Bond Fund did not exceed the statutory cap of \$5 million.

Future Lotto Prizes

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

Unrestricted Net Assets

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

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

Future Lottery Prizes

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

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Unrestricted/Undesignated:

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

Net Assets:	
Invested in Capital Assets, Net of related Debt	\$1,038,243.70
Restricted-	
Reserved for Pooled Bond Fund	5,000,000.00
Reserved for Future Lotto Prizes	10,898,145.81
Unrestricted-	
Reserved for Future Lottery Prizes	63,463,670.17
Unrestricted/Undesignated	26,667,109.49
Total Proprietary Fund Net Assets:	\$107,067,169.17

INTERFUND ACTIVITIES AND BALANCES

The agency has the following types of transactions among funds:

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

The composition of the agency's interfund receivables and payables at August 31, 2004 is presented in Note 8.

Transfers to Foundation School Fund during fiscal year 2004 are as follows:

Cash transfers	\$1,003,336,284.36
Accrued transfers at beginning of fiscal year	<u>(9,356,175.88)</u>
Amount transferred from current year revenue	993,980,108.48
Accrued transfers at end of fiscal year	<u>15,467,378.10</u>
Total Transfers to Foundation School Fund	<u>\$1,009,447,486.58</u>

Transfers to the Comptroller of Public Accounts – General Revenue Fund for unclaimed prizes during fiscal year 2004 are as follows:

Cash transfers	\$19,465,000.00
Accrued transfers at beginning of fiscal year	<u>0.00</u>
Amount transferred from current year revenue	19,465,000.00
Accrued transfers at end of fiscal year	<u>0.00</u>
Total Transfers to the Comptroller of Public Account – General Revenue	<u>\$19,465,000.00</u>

UNAUDITED

Transfers to the Health and Human Services Commission for unclaimed prizes during fiscal year 2004 are as follows:

Cash transfers	\$11,334,095.45
Accrued transfers at beginning of fiscal year	<u>0.00</u>
Amount transferred from current year unclaimed prizes	\$11,334,095.45
Accrued transfers at end of fiscal year	<u>0.00</u>
Total Transfers to the Health and Human Services Commission	<u>\$11,334,095.45</u>

Transfers to the Department of State Health Services for unclaimed prizes during fiscal year 2004 are as follows:

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

REVENUES AND EXPENSES

Recognition of Revenue

Lottery revenues are primarily composed of revenues from instant and on-line lottery ticket sales and retailer fees. Instant ticket sales are recognized as revenue when settled with retailers. Ticket packs are considered settled on the earlier of the date when 70 percent of the low-tier prizes in the pack are validated or 45 days after the pack is activated by the retailer. On-line ticket sales are recognized as revenue when tickets are purchased by Lottery players. Revenues from retailer license and application fees are recorded when licenses are granted.

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

Lottery Prizes

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

Retailer Commissions

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

Retailer Bonuses

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

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

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

Lottery Operator Fees

The Lottery operator received a fee of 2.6999 percent for fiscal year 2004 based on the total lottery tickets sold, as defined in Section 10.3 of the contract for Lottery Operations and Services, dated October 10, 2001. In addition to the operator, the Texas Lottery Commission contracts for other goods and services in the ordinary course of business. Payments under such contracts are charged to expense as the goods and services are received.

NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2004, is presented below:

	PRIMARY GOVERNMENT						
	Balance 9/1/2003	Adjustments	Completed CIP	Reclassifications Increase Int'gy Trans	Decrease Int'gy Trans	Additions	Balance 8/31/2004
GOVERNMENTAL ACTIVITIES							
Depreciable Assets							
Furniture and Equipment	\$ 207,457.13						\$ 207,457.13
Total Depreciable Assets at Historical Costs	\$ 207,457.13						\$ 207,457.13
Less Accumulated Depreciation for:							
Furniture and Equipment	\$ (187,250.63)	(4,098.90)				\$ (6,950.04)	\$ (198,299.57)
Total Accumulated Depreciation	(187,250.63)	(4,098.90)				(6,950.04)	(198,299.57)
Depreciable Assets, Net	20,206.50	(4,098.90)				(6,950.04)	9,157.56
Governmental Activities Capital Assets, Net	\$ 20,206.50					\$ (6,950.04)	\$ 9,157.56
	Balance 9/1/2003	Adjustments	Completed CIP	Reclassifications Increase Int'gy Trans	Decrease Int'gy Trans	Additions	Balance 8/31/2004
BUSINESS-TYPE ACTIVITIES							
Depreciable Assets							
Furniture and Equipment	\$ 5,140,508.40	\$ (10,459.55)				\$ 670,218.45	\$ 5,707,107.95
Vehicle, Boats & Aircraft	133,747.72				(21,664.00)	13,283.00	125,366.72
Total Depreciable Assets at Historical Costs	\$ 5,274,256.12	\$ (10,459.55)			\$ (21,664.00)	\$ 683,501.45	\$ 5,832,474.67
Less Accumulated Depreciation for:							
Furniture and Equipment	\$ (4,086,305.38)	\$ (308,112.63)				\$ (407,050.46)	\$ (4,708,309.12)
Vehicles, Boats & Aircraft	(86,362.16)	(4,927.06)			21,664.00	(16,296.63)	(85,921.85)
Total Accumulated Depreciation	(4,172,667.54)	(313,039.69)			21,664.00	(423,347.09)	(4,794,230.97)
Depreciable Assets, Net	1,101,588.58	(323,499.24)				260,154.36	1,038,243.70
Business-Type Activities Capital Assets, Net	\$ 1,101,588.58	\$ (323,499.24)				\$ 260,154.36	\$ 1,038,243.70

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

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NOTE 3: Deposits, Investments, & Repurchase Agreements

The Texas Lottery Commission's deposits are collateralized under a program administered by the Texas Treasury Safekeeping Trust Company. State law requires that all State funds deposited in financial institutions above the federally insured amounts be fully collateralized by the pledging of eligible securities valued at market excluding accrued interest to the state. All securities pledged to the state must be held by a third-party bank domiciled in Texas, the Federal Reserve Bank of Dallas or one of its branches, or in the vault of the Comptroller of Public Accounts, Treasury Operations. The deposits in the Lottery prize payment account were fully collateralized at August 31, 2004.

Deposits of Cash in Bank

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

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

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

Investments

The Texas Lottery Commission's investments consist of United States Government Securities. These investments have been purchased to provide for the payment of the Lotto Texas and Mega Millions jackpot prizes that are payable annually to the winners over a nineteen year, twenty-four year, or twenty-six year periods, as well as the installment payments for instant ticket games offering a top prize of \$1,000,000 or more, as the investments mature. All investments are held-to-maturity; therefore, fluctuations in market price have no effect on the ability of the Lottery to meet installment payment obligations as they become due. The Lottery's investments, which are held by the Texas Treasury Safekeeping Company, are categorized to give an indication of the level of risk assumed by the Lottery at year-end. All of the Lottery's investments at August 31, 2004, with the exception of reverse repurchase agreements, are included in category 1, the lowest risk, as defined by Governmental Accounting Standards Board Statement 3 to include investments that are insured or registered or securities held by the Texas Treasury Safekeeping Trust Company or its agent in the Comptroller of Public Accounts, Treasury Operations' name.

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

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- 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.

Type of Security	Category			Fair Value
	1	2	3	
US Government Agencies	\$1,343,984,092.67			\$1,343,984,092.67
Totals	\$1,343,984,092.67			\$1,343,984,092.67

Uncategorized Investments:

Investments held by broker-dealers under reverse repurchase agreements:	
US Government Securities	139,651,937.32
Other miscellaneous short-term investments (Prize Payment Account)	9,989,728.06
Total Investments	\$1,493,625,758.05

Reverse Repurchase Agreements

At August 31, 2004, certain investments were subject to reverse repurchase agreements entered into by the Texas Treasury Safekeeping Trust Company. Such reverse repurchase agreements, which are permitted by statute, consist of sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Proceeds are invested in securities that mature at or near the same date as the reverse repurchase agreement and the proceeds from those securities will be used to liquidate the agreement, resulting in a matched position and minimizing market risk because the Texas Treasury Safekeeping Trust Company will hold the securities to maturity and liquidate them at face value. The market value of securities underlying reverse repurchase agreements normally exceeds the cash received, providing a margin against decline in market value. If the re-purchaser defaults on the obligation to sell these securities to the Texas Treasury Safekeeping Trust Company or provide securities or cash of equal value, an economic loss could result equal to the difference between the face value and the market value plus accrued interest of the underlying securities. Any such loss incurred would be the responsibility of the Texas Treasury Safekeeping Trust Company rather than the Commission. To minimize the risk of such default, all securities backing the reverse repurchase agreements are held by the Federal Reserve Bank in the name of the Comptroller of Public Accounts, Treasury Operations.

The amount of investments subject to reverse repurchase agreements at August 31, 2004 was approximately \$130,724,519.71, at book value. The fair value of the securities underlying these agreements at August 31, 2004 was approximately \$139,651,937.32.

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, 2004, the following changes occurred in liabilities.

Governmental Activities	Balance 09-1-03	Additions	Deductions	Balance 08-31-04	Amounts Due Within One Year
Compensable Leave	\$219,599.06	\$225,103.42	\$201,552.06	\$243,150.42	\$150,394.69
Total Governmental Activities	\$219,599.06	\$225,103.42	\$201,552.06	\$243,150.42	\$150,394.69

Business-Type Activities	Balance 09-1-03	Additions	Deductions	Balance 08-31-04	Amounts Due Within One Year
Compensable Leave	\$1,251,686.43	\$1,460,110.14	\$1,345,913.10	\$1,365,883.47	\$891,594.29
Total Business-Type Activities	\$1,251,686.43	\$1,460,110.14	\$1,345,913.10	\$1,365,883.47	\$891,594.29

Employees' Compensable Leave

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

NOTE 6: Capital Leases

Not Applicable

NOTE 7: Operating Lease Obligations

The Texas Lottery Commission leases its headquarters facility in Austin, Texas, fourteen claim centers throughout Texas, and five regional offices under the terms of operating leases expiring at various dates through 2010. Rent expense for Charitable Bingo and Lottery operations under these and other leases, including the rental of instant ticket vending machines, amounted to \$4,838,807.62 in fiscal year 2004. 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 Texas Building and Procurement Commission. Generally, management expects that leases will be renewed or replaced by other leases in the normal course of business.

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

Year Ended August 31,	
2005	\$ 5,411,168.45
2006	8,289,979.40
2007	7,990,054.20
2008	2,329,401.52
2009	2,096,085.36
2010 through 2015	1,380,311.19
Total Minimum Future Lease Rental Payments	\$ 27,497,000.12

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NOTE 8: Interfund Balances / Activities

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

- Interfund Receivables or Interfund Payables (required)
- Due From Other Agencies or Due To Other Agencies
- Due From Other Funds or Due To Other Funds
- Transfers In or Transfers Out (required)
- Legislative Transfers In or Legislative Transfers Out (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.

Individual balances and activity at August 31, 2004 follow:

	DUE FROM Other Agencies	DUE TO Other Agencies	Source
ENTERPRISE (05) Appd Fund 5025, D23 Fund 1100			
(Agency 501 D23 Fund 0490)		\$782,342.00	Unclaimed Prizes
(Agency 701 D23 Fund 0193)		\$15,467,378.10	Revenue
Total Due From/To Other Agencies (Exh. III)	\$0.00	\$16,249,720.10	

	Operating TRANSFERS IN	Operating TRANSFERS OUT	Purpose
ENTERPRISE (05) Appd Fund 5025, D23 Fund 1100			
Agy 701, D23 Fund 0193		\$1,009,447,486.58	Operating
Agy 501, D23 Fund 5049		10,782,342.00	Operating
Agy 902, D23 Fund 0001		19,465,000.00	Operating
Agy 529, D23 Fund 0001		11,334,095.45	Operating
Agy 362, D23 Fund 0001		12,082.93	BRP Transfer
GENERAL REVENUE (01) Appd Fund 0001, D23 Fund 0001			
Agy 362, D23 Fund 1100	\$12,082.93		BRP Transfer
Total Transfer	\$12,082.93	\$1,051,041,006.96	

NOTE 9: Contingent Liabilities

Not Applicable.

NOTE 10: Continuation Subject to Review

The Texas Lottery Commission is subject to the Texas Sunset Act. During fiscal years 2002 and 2003 the Commission underwent Sunset Review. The Sunset review Commission recommended to the 78th Legislature that the Lottery continue in existence through September 1, 2015. However, Legislation containing the Sunset Advisory Commission's recommendations did not pass the 78th Legislature. Instead, the Legislature passed H.B. 2455 to continue the Texas Lottery Commission until September 1, 2005 and to require the Sunset Advisory Commission to review the appropriateness of its 2002 recommendations regarding the agency. Based on its review, the Sunset Advisory Commission has adopted recommendations for the 79th legislature to consider when it convenes in January 2005. Additionally, unless continued in existence as provided by the Sunset Act, the Commission is abolished and Chapter 467, Texas Government Code expires September 1, 2005.

NOTE 11: Risk Financing and Related Insurance

Not Applicable.

NOTE 12: Segment Information

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

NOTE 13: Bonded Indebtedness

Not Applicable

NOTE 14: Subsequent Events

Not Applicable

NOTE 15: Related Parties

Not Applicable

NOTE 16: Stewardship, Compliance and Accountability

Not Applicable

NOTE 17: The Financial Reporting Entity and Joint Ventures

Not Applicable

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NOTE 18: Restatement of Fund Balances / Retained Earnings

During 2004, adjustments were made that required the restatement of the amount in fund balance as shown and discussed below:

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

	General Funds	Enterprise Funds	Total
Fund Bal/Equity August 31, 2003	\$68,416.50	\$31,890,123.58	\$31,958,540.08
Restatements:			
a.	(412.90)	(168,021.78)	(\$168,434.68)
Net Restatements	(412.90)	(168,021.78)	(\$168,434.68)
Fund Bal/Equity Sept 1, 2003 As Restated	\$68,003.60	\$31,722,101.80	\$31,790,105.40

NOTE 19: Employees Retirement Plan

Not Applicable

NOTE 20: Deferred Compensation

Not Applicable

NOTE 21: Donor-Restricted Endowments

Not Applicable

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

Financial Highlights:

- Instant ticket sales for the fiscal year ended August 31, 2004 increased by \$196 million over fiscal year 2003. This is an increase of 9.2% from the previous year.
- Lotto Texas sales for the fiscal year ended August 31, 2004 decreased from Fiscal Year 2003 by \$48.5 million, or 9.2%.
- Pick 3 sales for the fiscal year ended August 31, 2004 increased from Fiscal Year 2003 by \$16 million, or 6.2%.
- Cash 5 sales for the fiscal year ended August 31, 2004 decreased from Fiscal Year 2003 by \$18.6 million, or 13.2%.
- Texas Two Step sales for the fiscal year ended August 31, 2004 decreased from Fiscal Year 2003 by \$23.2 million, or 32.1%.
- Mega Millions, which was introduced during Fiscal Year 2004, had sales of \$189.9 million. The Megaplier feature, which is unique to Texas, generated an additional \$45.6 million of sales. The introduction of Mega Millions is believed to be a contributing factor in the decline in sales of other online games.

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- Total prize expense for the fiscal year ended August 31, 2004 exceeded prize expense for the previous year by \$223 million or 12.11%. 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, 2004 were \$174.4 million.
- Administrative expenses for the fiscal year ended August 31, 2004 were \$182.9 million, increasing from Fiscal Year 2003 by \$21 million or 13.0%.
- Unclaimed Prizes transferred during Fiscal Year 2004 decreased from the prior fiscal year by \$25.4 million or 37.9%.
- Due to an overall increase in sales, the Texas Lottery Commission was able to transfer an additional \$127.4 million to the State's Foundation School Fund during Fiscal Year 2004 as compared to fiscal year 2003.
- Total sales for the fiscal year ended August 31, 2004 totaled \$3.49 billion. This represents an increase in sales from prior year of 11.4%. It also marks the highest sales total since the record-breaking sales recorded in Fiscal Year 1997.

<i>NOTE 23: Post Employment Health Care and Life Insurance Benefits</i>
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Not Applicable

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TEXAS LOTTERY COMMISSION

Combining Fund Exhibits

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Texas Lottery Commission (362)

Exhibit A-1 - Combining Balance Sheet - All General Funds

August 31, 2004

	<u>General Revenue</u> <u>Fund 0001</u> <u>U/F (0001)</u>	<u>Total</u> <u>(Exhibit I)</u>
ASSETS		
Current Assets:		
Restricted:		
Cash and Cash Equivalents:		
Legislative Appropriations	\$ 464,056.70	\$ 464,056.70
Total Current Assets	<u>464,056.70</u>	<u>464,056.70</u>
Total Assets	<u>\$ 464,056.70</u>	<u>\$ 464,056.70</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Current Liabilities:		
Payables From:		
Accounts Payable	\$ 45,867.63	\$ 45,867.63
Vouchers Payable	14,267.70	14,267.70
Payroll Payable	212,399.77	212,399.77
Due To Other Funds	-	-
Total Current Liabilities	<u>272,535.10</u>	<u>272,535.10</u>
Total Liabilities	<u>272,535.10</u>	<u>272,535.10</u>
FUND FINANCIAL STATEMENT - FUND BALANCES		
Fund Balances (Deficits):		
Reserved for:		
Encumbrances	23,342.00	23,342.00
Undesignated	168,179.60	168,179.60
Total Fund Balances	<u>191,521.60</u>	<u>191,521.60</u>
Total Liabilities and Fund Balances	<u>\$ 464,056.70</u>	<u>\$ 464,056.70</u>

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

UNAUDITED
Exhibit A-2 - Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – All General Funds
For the Fiscal Year Ended August 31, 2004

	<u>General Revenue</u> <u>Fund 0001</u> <u>U/F (0001)</u>	<u>Consolidated</u> <u>Accounts</u> <u>Fund 9000</u> <u>U/F (0001)</u>	<u>Total</u> <u>(Exhibit II)</u>
REVENUES			
Legislative Appropriations:			
Original Appropriations	\$ 2,559,266.00	\$ -	\$2,559,266.00
Additional Appropriations	508,417.82		508,417.82
Licenses, Fees & Permits	10,203,561.27		10,203,561.27
Other	71,664.32		71,664.32
Total Revenues	<u>13,342,909.41</u>	<u>-</u>	<u>13,342,909.41</u>
EXPENDITURES			
Salaries and Wages	2,065,698.41		2,065,698.41
Payroll Related Costs	483,773.18		483,773.18
Professional Fees and Services	167,795.12		167,795.12
Travel	71,996.36		71,996.36
Materials and Supplies	47,229.73		47,229.73
Communication and Utilities	252.72		252.72
Repairs and Maintenance	3,040.00		3,040.00
Rentals & Leases	177,079.61		177,079.61
Printing and Reproduction	26,997.79		26,997.79
Intergovernmental Payments	10,088,787.35		10,088,787.35
Other Expenditures	38,699.07		38,699.07
Depreciation Expense	-		-
Total Expenditures/Expenses	<u>13,171,349.34</u>	<u>-</u>	<u>13,171,349.34</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>171,560.07</u>	<u>-</u>	<u>171,560.07</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	12,082.93		12,082.93
Transfers Out	(125.00)		(125.00)
Total Other Financing Sources and Uses	<u>11,957.93</u>	<u>-</u>	<u>11,957.93</u>
SPECIAL ITEMS	<u>-</u>	<u>-</u>	<u>-</u>
EXTRAORDINARY ITEMS			
Net Change in Fund Balances/Net Assets	<u>183,518.00</u>	<u>-</u>	<u>183,518.00</u>
FUND FINANCIAL STATEMENT - FUND BALANCES			
Fund Balances--September 1, 2003	68,003.60	412.90	68,416.50
Restatements	-	(412.90)	(412.90)
Fund Balances, September 1, 2003, as Restated	<u>68,003.60</u>	<u>-</u>	<u>68,003.60</u>
Appropriations Lapsed	60,000.00		60,000.00
Fund Balances--August 31, 2004	<u>\$ 191,521.60</u>	<u>\$ -</u>	<u>\$ 191,521.60</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, 2004

	Enterprise Fund 5025 U/F (1100)	Enterprise Fund 0895 U/F (0895)	Totals (Exhibit III)
ASSETS			
Current Assets:			
Cash and Cash Equivalents:			
Cash in Bank	\$ 7,500.00	\$ -	\$ 7,500.00
Cash in State Treasury	107,619,148.82		107,619,148.82
Restricted:			
Short Term Investments	9,989,728.06	160,515,052.47	170,504,780.53
Receivables from:			
Accounts	37,934,969.60		37,934,969.60
Interfund Receivables	-		-
Merchandise Inventories	5,735,689.73		5,735,689.73
Other Current Assets	10,888,500.00		10,888,500.00
Total Current Assets	<u>172,175,536.21</u>	<u>160,515,052.47</u>	<u>332,690,588.68</u>
Non-Current Assets:			
Restricted:			
Investments		1,323,120,977.52	1,323,120,977.52
Capital Assets:			
Depreciable:			
Furniture and Equipment	5,707,107.95		5,707,107.95
Accumulated Depreciation	(4,708,309.12)		(4,708,309.12)
Vehicles, Boats, and Aircraft	125,366.72		125,366.72
Accumulated Depreciation	(85,921.85)		(85,921.85)
Total Non-Current Assets	<u>1,038,243.70</u>	<u>1,323,120,977.52</u>	<u>1,324,159,221.22</u>
Total Assets	<u>\$ 173,213,779.91</u>	<u>\$ 1,483,636,029.99</u>	<u>\$ 1,656,849,809.90</u>
LIABILITIES			
Current Liabilities:			
Payables from:			
Voucher Payable	\$ 4,971,647.52	\$ -	\$ 4,971,647.52
Accounts Payable	20,863,760.45		20,863,760.45
Payroll	1,275,475.40		1,275,475.40
Annuities	10,874,302.00		10,874,302.00
Other	459,855.90		459,855.90
Due to Other Agencies	16,249,720.10		16,249,720.10
Employees' Compensable Leave	891,594.29		891,594.29
Payable From Restricted Assets-Current Portion	73,549,636.07	161,863,000.00	235,412,636.07
Total Current Liabilities	<u>129,135,991.73</u>	<u>161,863,000.00</u>	<u>290,998,991.73</u>
Non-Current Liabilities:			
Employees' Compensable Leave	474,289.18		474,289.18
Payable From Restricted Assets		1,258,309,359.82	1,258,309,359.82
Total Non-Current Liabilities	<u>474,289.18</u>	<u>1,258,309,359.82</u>	<u>1,258,783,649.00</u>
Total Liabilities	<u>\$ 129,610,280.91</u>	<u>\$ 1,420,172,359.82</u>	<u>\$ 1,549,782,640.73</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,038,243.70		1,038,243.70
Restricted for:			
Expendable:			
Restricted by Other			
Pooled Bond Fund	5,000,000.00		5,000,000.00
Prize Reserve Fund	10,898,145.81		10,898,145.81
Unrestricted	26,667,109.49	63,463,670.17	90,130,779.66
Total Net Assets	<u>\$ 43,603,499.00</u>	<u>\$ 63,463,670.17</u>	<u>\$ 107,067,169.17</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, 2004

	Enterprise Fund 5025 U/F (1100)	Enterprise Fund 0895 U/F (0895)	Totals (Exhibit IV)
OPERATING REVENUES:			
Sales of Goods and Services:			
Lottery Proceeds			
Ticket Sales	\$3,487,924,569.50	\$ -	\$3,487,924,569.50
Lottery License Application Fees	325,375.00		325,375.00
Lottery Security Proceeds	84,975.00		84,975.00
Other Operating Revenues	606,004.41		606,004.41
Total Operating Revenues	<u>3,488,940,923.91</u>	<u>-</u>	<u>3,488,940,923.91</u>
OPERATING EXPENSES:			
Salaries and Wages	12,577,037.12		12,577,037.12
Payroll Related Costs	2,990,829.22		2,990,829.22
Professional Fees and Services	4,716,056.50		4,716,056.50
Travel	329,236.80		329,236.80
Materials and Supplies	2,591,037.18		2,591,037.18
Communication and Utilities	479,854.58		479,854.58
Repairs and Maintenance	477,389.83		477,389.83
Rentals and Leases	6,076,106.90		6,076,106.90
Printing and Reproduction	16,845,098.02		16,845,098.02
Depreciation and Amortization	736,386.78		736,386.78
Bad Debt Expense	411,000.34		411,000.34
Interest	1,162.73		1,162.73
Lottery Prizes	2,068,643,666.66		2,068,643,666.66
Other Operating Expenses			
Retailer Commissions	174,413,286.93		174,413,286.93
Lottery Operator Fees	95,007,546.87		95,007,546.87
Advertising	36,364,991.25		36,364,991.25
Retailer Bonuses	2,143,102.57		2,143,102.57
Other	1,214,729.47		1,214,729.47
Total Operating Expenses	<u>2,426,018,519.75</u>	<u>-</u>	<u>2,426,018,519.75</u>
Operating Income (Loss)	<u>1,062,922,404.16</u>	<u>-</u>	<u>1,062,922,404.16</u>
NONOPERATING REVENUES (EXPENSES):			
Investment Income (Expense)			-
Gain/Loss Sale Capital Assets (GR)			-
Net Increase (Decrease) Fair Value		8,508,477.95	8,508,477.95
Settlement of Claims			-
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>8,508,477.95</u>	<u>8,508,477.95</u>
Income (loss) before Other Revenues, Expenses, Gains/Losses and Transfers	<u>1,062,922,404.16</u>	<u>8,508,477.95</u>	<u>1,071,430,882.11</u>

UNAUDITED

Texas Lottery Commission (362)

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

Changes in Net Assets - Proprietary Funds (continued)

For the Fiscal Year Ended August 31, 2004

	Enterprise Fund 5025 U/F (1100)	Enterprise Fund 0895 U/F (0895)	Totals (Exhibit IV)
OTHER REVENUES, EXPENSES, GAINS/LOSSES AND TRANSFERS:			
Transfers-In	-		-
Transfers-Out	(1,051,041,006.96)		(1,051,041,006.96)
Total Other Revenues, Expenses, Gains/Losses and Transfers	(1,051,041,006.96)	-	(1,051,041,006.96)
Change in Net Assets	11,881,397.20	8,508,477.95	20,389,875.15
Total Net Assets, September 1, 2003	31,890,123.58	54,955,192.22	86,845,315.80
Restatements	(168,021.78)		(168,021.78)
Total Net Assets, September 1, 2003, as Restated	31,722,101.80	54,955,192.22	86,677,294.02
Total Net Assets, August 31, 2004	<u>\$ 43,603,499.00</u>	<u>\$ 63,463,670.17</u>	<u>\$ 107,067,169.17</u>

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

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UNAUDITED

Texas Lottery Commission (362)

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

For the Fiscal Year Ended August 31, 2004

	Enterprise Fund 5025 U/F (1100)	Enterprise Fund 0895 U/F (0895)	Totals (Exhibit V)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	\$3,476,848,556.16	\$ -	\$ 3,476,848,556.16
Payments to Suppliers for Goods and Services	(336,320,492.12)		(336,320,492.12)
Payments to Employees	(15,526,609.53)		(15,526,609.53)
Payments for Other Expenses	(2,068,236,911.14)		(2,068,236,911.14)
Net Cash Provided by Operating Activities	<u>1,056,764,543.37</u>	<u>-</u>	<u>1,056,764,543.37</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from other Financing		(161,337,000.00)	(161,337,000.00)
Payments for Transfers to Other Funds	(1,044,221,674.97)		(1,044,221,674.97)
Payments for Other Uses		9,412,000.00	9,412,000.00
Net Cash Provided by Noncapital Financing Activities	<u>(1,044,221,674.97)</u>	<u>(151,925,000.00)</u>	<u>(1,196,146,674.97)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments for Additions to Capital Assets	(683,501.45)		(683,501.45)
Net Cash Provided by Capital and Related Financing Activities	<u>(683,501.45)</u>	<u>-</u>	<u>(683,501.45)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sales of Investments		161,337,000.00	161,337,000.00
Proceeds from Interest and Investment Income	882,457.70		882,457.70
Payments to Acquire Investments		(9,412,000.00)	(9,412,000.00)
Net Cash Provided by Investing Activities	<u>882,457.70</u>	<u>151,925,000.00</u>	<u>152,807,457.70</u>
Net (Decrease) in Cash and Cash Equivalents	12,741,824.65	-	12,741,824.65
Cash and Cash Equivalents--September 1, 2003	<u>94,884,824.17</u>		<u>94,884,824.17</u>
Cash and Cash Equivalents--August 31, 2004	<u><u>\$ 107,626,648.82</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 107,626,648.82</u></u>

UNAUDITED

Texas Lottery Commission (362)

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

For the Fiscal Year Ended August 31, 2004

	Enterprise Fund 5025 U/F (1100)	Enterprise Fund 0895 U/F (0895)	Totals (Exhibit V)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 1,062,922,404.16	\$ -	\$ 1,062,922,404.16
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Amortization and Depreciation	736,386.78		736,386.78
Bad Debt Expense	411,000.34		411,000.34
Operating Income and Cash Flow Categories:			
Changes in Assets and Liabilities:			
(Increase) Decrease in Receivables	(12,092,367.75)		(12,092,367.75)
(Increase) Decrease in Inventories	1,286,628.57		1,286,628.57
(Increase) Decrease in Prepaid Expenses	1,555,500.00		1,555,500.00
Increase (Decrease) in Payables	1,944,991.27		1,944,991.27
Total Adjustments	<u>(6,157,860.79)</u>	<u>-</u>	<u>(6,157,860.79)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,056,764,543.37</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,056,764,543.37</u></u>
Non Cash Transactions			
Net Increase (Decrease) in Fair Value of Investments			\$ 8,508,477.95

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, 2004

	Beginning Balance September 1, 2003	Additions	Deductions	Ending Balance August 31, 2004
UNAPPROPRIATED RECEIPTS				
<u>Suspense Fund Seized Funds (0900) U/F (0362)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ 73,438.08	\$ 233,651.47	\$ 282,953.27	\$ 24,136.28
Total Assets	<u>\$ 73,438.08</u>	<u>\$ 233,651.47</u>	<u>\$ 282,953.27</u>	<u>\$ 24,136.28</u>
LIABILITIES				
Current				
Funds Held for Others	\$ 73,438.08	\$ 180,388.20	\$ 229,690.00	\$ 24,136.28
Total Liabilities	<u>\$ 73,438.08</u>	<u>\$ 180,388.20</u>	<u>\$ 229,690.00</u>	<u>\$ 24,136.28</u>
<u>Employee Savings Bond Account (0901) U/F (0901)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ 1,626.16	\$ 14,476.16	\$ 15,152.32	\$ 950.00
Total Assets	<u>\$ 1,626.16</u>	<u>\$ 14,476.16</u>	<u>\$ 15,152.32</u>	<u>\$ 950.00</u>
LIABILITIES				
Current				
Funds Held for Others	\$ 1,626.16	\$ 14,476.16	\$ 15,152.32	\$ 950.00
Total Liabilities	<u>\$ 1,626.16</u>	<u>\$ 14,476.16</u>	<u>\$ 15,152.32</u>	<u>\$ 950.00</u>
<u>Deferred Compensation 401K (0942) U/F (0942)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ -	\$ 423,451.04	\$ 457,177.79	\$ (33,726.75)
Other Receivables	-	457,177.79	423,451.04	33,726.75
Total Assets	<u>\$ -</u>	<u>\$ 880,628.83</u>	<u>\$ 880,628.83</u>	<u>\$ -</u>
LIABILITIES				
Current				
Funds Held for Others	\$ -	\$ 457,177.79	\$ 457,177.79	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 457,177.79</u>	<u>\$ 457,177.79</u>	<u>\$ -</u>
<u>Bingo Cash Bonds (1000) U/F (1002)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ -	\$ 63,231.82	\$ 45,488.86	\$ 17,742.96
Total Assets	<u>\$ -</u>	<u>\$ 63,231.82</u>	<u>\$ 45,488.86</u>	<u>\$ 17,742.96</u>
LIABILITIES				
Current				
Payables	\$ -	\$ 29,199.20	\$ 29,199.20	\$ -
Funds Held for Others	-	61,231.82	43,488.86	17,742.96
Total Liabilities	<u>\$ -</u>	<u>\$ 90,431.02</u>	<u>\$ 72,688.06</u>	<u>\$ 17,742.96</u>
Totals - All Agency Funds				
ASSETS				
Current				
Cash in State Treasury	\$ 75,064.24	\$ 734,810.49	\$ 800,772.24	\$ 9,102.49
Receivables:				
Other	-	457,177.79	423,451.04	33,726.75
Total Assets	<u>\$ 75,064.24</u>	<u>\$ 1,191,988.28</u>	<u>\$ 1,224,223.28</u>	<u>\$ 42,829.24</u>
LIABILITIES				
Current				
Funds Held for Others	75,064.24	713,273.97	745,508.97	42,829.24
Total Liabilities	<u>\$ 75,064.24</u>	<u>\$ 713,273.97</u>	<u>\$ 745,508.97</u>	<u>\$ 42,829.24</u>

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

TEXAS LOTTERY COMMISSION

Schedules

UNAUDITED

Texas Lottery Commission (362)
Schedule 4 - Schedule of Modified to Full Accrual Adjustments - Governmental Funds
Governmental Balance Sheet/Statement of Net Assets
August 31, 2004

	Governmental Funds Total	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Statement of Net Assets
ASSETS				
Current Assets:				
Cash and Temporary Investments				
Legislative Appropriations	\$ 464,056.70	\$ -	\$ -	\$ 464,056.70
Total Current Assets	<u>464,056.70</u>	<u>-</u>	<u>-</u>	<u>464,056.70</u>
Noncurrent Assets:				
Capital Assets:				
Depreciable				
Furniture and Equipment		207,457.13		207,457.13
Less Accumulated Depreciation		(198,299.57)		(198,299.57)
Total Noncurrent Assets	<u>-</u>	<u>9,157.56</u>	<u>-</u>	<u>9,157.56</u>
Total Assets	<u>\$ 464,056.70</u>	<u>\$ 9,157.56</u>	<u>\$ -</u>	<u>\$ 473,214.26</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Payables from				
Accounts Payable	\$ 45,867.63	\$ -	\$ -	\$ 45,867.63
Vouchers Payable	14,267.70			14,267.70
Payroll Payable	212,399.77			212,399.77
Due To Other Funds	-			-
Employees Compensable Leave	-		150,394.69	150,394.69
Total Current Liabilities	<u>272,535.10</u>	<u>-</u>	<u>150,394.69</u>	<u>422,929.79</u>
Noncurrent Liabilities:				
Employees Compensable Leave	-		92,755.73	92,755.73
Total Non-Current Liabilities	<u>-</u>	<u>-</u>	<u>92,755.73</u>	<u>92,755.73</u>
Total Liabilities	<u>272,535.10</u>	<u>-</u>	<u>243,150.42</u>	<u>515,685.52</u>
Fund Financial Statement-Fund Balances				
Fund Balances (Deficits):				
Reserved for:				
Encumbrances	23,342.00	-	-	23,342.00
Undesignated	168,179.60			168,179.60
Total Fund Balances	<u>191,521.60</u>	<u>-</u>	<u>-</u>	<u>191,521.60</u>
Total Liabilities and Fund Balance	<u>\$ 464,056.70</u>	<u>\$ -</u>	<u>\$ 243,150.42</u>	<u>\$ 707,207.12</u>
Government-wide Statement - Net Assets				
Net Assets:				
Invested in Capital Assets				
Net of Related Debt		9,157.56		9,157.56
Unrestricted			(243,150.42)	(243,150.42)
Total Net Assets		<u>\$ 9,157.56</u>	<u>\$(243,150.42)</u>	<u>\$ (233,992.86)</u>

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

UNAUDITED

Texas Lottery Commission (362)

Schedule 4 - Schedule of Modified to Full Accrual Adjustments - Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities
For the Fiscal Year Ended August 31, 2004

	Governmental Funds Total	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Statement of Activities
REVENUES				
Legislative Appropriations:				
Original Appropriations	\$ 2,559,266.00	\$ -	\$ -	\$ 2,559,266.00
Additional Appropriations	508,417.82			508,417.82
Licenses, Fees & Permits	10,203,561.27			10,203,561.27
Other	71,664.32			71,664.32
Total Revenues	13,342,909.41	-	-	13,342,909.41
EXPENDITURES				
Salaries and Wages	2,065,698.41		23,551.36	2,089,249.77
Payroll Related Costs	483,773.18			483,773.18
Professional Fees and Services	167,795.12			167,795.12
Travel	71,996.36			71,996.36
Materials and Supplies	47,229.73			47,229.73
Communication and Utilities	252.72			252.72
Repairs and Maintenance	3,040.00			3,040.00
Rentals & Leases	177,079.61			177,079.61
Printing and Reproduction	26,997.79			26,997.79
Intergovernmental Payments	10,088,787.35			10,088,787.35
Other Expenditures	38,699.07			38,699.07
Depreciation Expense		11,048.94		11,048.94
Total Expenditures/Expenses	13,171,349.34	11,048.94	23,551.36	13,205,949.64
Excess (Deficiency) of Revenues over Expenditures	171,560.07	(11,048.94)	(23,551.36)	136,959.77
OTHER FINANCING SOURCES (USES)				
Transfers In	12,082.93			12,082.93
Transfers Out	(125.00)			(125.00)
Total Other Financing Sources (Uses)	11,957.93	-	-	11,957.93
SPECIAL ITEMS	-	-	-	-
EXTRAORDINARY ITEMS	-	-	-	-
Net Change in Fund Balances/Net Assets	183,518.00	(11,048.94)	(23,551.36)	148,917.70
Fund Financial Statement-Fund Balances				
Fund Balances--September 1, 2003	68,416.50	-	-	68,416.50
Restatements	(412.90)			(412.90)
Fund Balances, September 1, 2003 as Restated	68,003.60	-	-	68,003.60
Appropriations Lapsed	60,000.00			60,000.00
Fund Balances--August 31, 2004	\$ 191,521.60	\$ (11,048.94)	\$ (23,551.36)	\$ 156,921.30
Government-wide Statement - Net Assets				
Change in Net Assets		\$ (11,048.94)	\$ (23,551.36)	\$ (34,600.30)
Net Assets, September 1, 2003		20,206.50	(219,599.06)	(199,392.56)
Restatements				
Net Assets, September 1, 2003, as Restated		20,206.50	(219,599.06)	(199,392.56)
Net Assets as of August 31, 2004		\$ 9,157.56	\$ (243,150.42)	\$ (233,992.86)

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



Texas Lottery Commission
P.O. Box 16630
Austin, Texas 78761-6630
Phone (512) 344-5000 • FAX (512) 478-3682
www.txlottery.org