



AN AGENCY OF THE
STATE OF TEXAS

Comprehensive Annual FINANCIAL REPORT

For the Fiscal Year ending
August 31, 2006

Texas Lottery Commission

An Agency of the State of Texas



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED AUGUST 31, 2006

Prepared by:

The Office of the Controller

TEXAS LOTTERY COMMISSION

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INTRODUCTORY SECTION



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Agency Vision, Mission and Values

AGENCY VISION

To be the preeminent Lottery and Charitable Bingo agency through innovative leadership.

AGENCY MISSION

Lottery Mission –

The Texas Lottery is committed to generating revenue for the State of Texas through the responsible management and sale of entertaining lottery products. The Texas Lottery will incorporate the highest standards of security and integrity, set and achieve challenging goals, provide quality customer service and utilize a TEAM approach.

Charitable Bingo Mission –

Provide authorized organizations the opportunity to raise funds for their charitable purposes by conducting bingo. Determine that all charitable bingo funds are used for a lawful purpose. Promote and maintain the integrity of the charitable bingo industry throughout Texas.

AGENCY CORE VALUES

Integrity and Responsibility - The Commission works hard to maintain the public trust by protecting and ensuring the security of our lottery games, systems, drawings and operational facilities. We value and require ethical behavior by our employees, licensees and vendors. We promote the integrity of charitable bingo in Texas for the benefit of charitable organizations.

Innovation - We strive to incorporate innovation into our products to provide the citizens of Texas with the best entertainment experience available through our products. We pursue the use of technology that enhances the services that we provide to our customers and reduces our operating expenses.

Fiscal Accountability - We emphasize fiscal accountability by ensuring that all expenditures directly or indirectly generate revenue, enhance security, fulfill regulatory requirements, improve customer service and/or boost productivity. We recognize our responsibility in generating revenue for the

State of Texas without unduly influencing players to participate in our games. We maximize benefits to charities through the continual examination and review of charitable bingo operations.

Customer Responsiveness - The Commission takes pride in providing exemplary service to the people of Texas through the courteous dissemination of clear and accurate information about our products, services and regulatory functions. We seek and respond to feedback expressed by our employees, retailers, licensees and the playing and non-playing public. We apply this feedback in the development of our products and in the services that we provide.

Teamwork - We are committed to creating an environment of mutual respect where open, honest communication is our cornerstone. We embrace the diversity of our team and individual perspectives in working together to achieve our common goals.

Excellence - We strive for excellence by taking a position of leadership on issues that impact the Commission and achieve challenging goals by focusing on our core values.

December 20, 2006

To the Governor, Lieutenant Governor, Speaker of the House, Comptroller of Public Accounts, Members of the 80th Legislature, and Citizens of the State of Texas:

It is our pleasure to submit to you the Comprehensive Annual Financial Report (CAFR) for the Texas Lottery Commission (the "Commission") for the year ended August 31, 2006 with summarized comparative totals for the year ended August 31, 2005. In accordance with the Texas Government Code Chapter 466, the State Lottery Act, the report provides the Governor, legislators, oversight agencies, agency staff, citizens, and other interested parties with financial information and an overview of the Commission's operations. The Commission's management is responsible for the accuracy and completeness of the contents of this report.

This report was prepared in accordance with standards prescribed by the Governmental Accounting Standards Board (GASB), the Government Finance Officer Association of the United States and Canada (GFOA) and other rule-making bodies. We believe the report contains all disclosures necessary for the reader to understand the Commission's financial affairs.

The Commission's management has established a system of internal controls to reasonably safeguard Commission assets from loss or unauthorized use or disposal; to provide reliable financial records for preparing internal and external financial reports and maintaining accountability over Commission assets; and to ensure compliance with applicable Federal and State laws, regulations and provisions of contracts and agreements.

The transmittal letter is designed to complement the Management Discussion & Analysis ("MD&A") and should be read in conjunction with it. The Commission's MD&A is located in the Financial Section immediately following the independent auditor's report.

PROFILE OF THE GOVERNMENT

In November 1980, Texas voters approved a constitutional amendment authorizing charitable bingo. The amendment requires all bingo proceeds to be spent in Texas for charitable purposes. The first bingo licenses were issued in the spring of 1982. In November 1991, Texas voters approved a constitutional amendment authorizing a state lottery. The Texas Lottery began generating revenue for the state of Texas in 1992 as a division within the Comptroller of Public Accounts. The Texas Lottery Commission was formed as an independent agency on September 1, 1993. Regulatory authority for Charitable Bingo was transferred to the Texas Lottery Commission effective April 1, 1994.

The Commission has two main functions:

- 1) The Commission is charged under the State Lottery Act with administrating Texas Lottery games in an efficient and secure manner using appropriate marketing tools and innovative technology to generate revenue for the state of Texas while enhancing public confidence in the integrity and fairness of the games.
- 2) The Charitable Bingo Operations Division is charged under the Bingo Enabling Act with the regulation and administration of all charitable bingo-related activities in the state of Texas and contributes to the regulatory and tax and revenue collection functions of the agency. The division licenses all bingo-related activities; collects taxes and prize fees generated from the conduct of charitable bingo; audits bingo licensees; conducts tests on bingo products intended for use in Texas, such as bingo paper, pull-tabs and electronic equipment; and makes quarterly allocations to local units of government for their share of the prize fees collected.

The three-member Commission sets policy, promulgates rules for the agency, and performs all other duties required by law. The Governor appoints Commission members, with the advice and consent of the state Senate, to staggered six-year terms. One member must have experience in the bingo industry.

The agency is divided into 11 divisions: Administration, Charitable Bingo Operations, Enforcement, Executive, Governmental Affairs, Human Resources, Internal Audit, Legal Services, Lottery Operations, Media Relations, and the Office of the Controller. The Executive Director, the Charitable Bingo Operations Director, and Internal Audit Director are appointed by and report to the three-member Commission.

Products and Services

Texas Lottery

The *Games of Texas* are the body of games that the Texas Lottery makes available to the playing public through more than 16,000 licensed retailers.

These include instant, or “scratch-off,” games and on-line games.



Instant ticket games or also referred to as “scratch-off” or “scratch” games consist of preprinted tickets with symbols hidden under a latex covering. The player scratches off the latex and determines “instantly” whether or not a prize may be claimed. Instant ticket games include a variety of themes, play styles, and prize structures in order to offer an attractive game mix to each of the player segments. Popular game themes include gaming, money, numbers, seasonal, annuity, and extended play. Approximately 90 instant games constitute the current game portfolio.

On-line games are those games in which tickets are generated from a terminal connected to a central system and a drawing is conducted to determine a set of winning numbers. The Texas Lottery currently offers five on-line games: Mega Millions[®] with the add-on Megaplier[®] feature, Lotto Texas[®], Pick 3[™], Cash Five[®], and Texas Two Step[®]. Texas joined *Mega Millions* in October 2003, marking the first time that Texas has ever participated in a multi-state lottery game.



Mega Millions[®] - A twice-weekly multi-state on-line game that features a 5-of-56 plus 1-of-46 bonus ball style matrix in which players choose 5 numbers between 1 and 56 from the first field of numbers, and one Mega Ball number from 1 to 46 from the second field of 46 numbers. The jackpot prize starts at \$12 million. When no ticket matches all six numbers drawn, the jackpot increases for the following draw. Texas is the only participating *Mega Millions* state to offer players a change to increase their non-grand/jackpot prize winnings through a special feature called the Megaplier. For \$1 more per playboard, players can increase their non-grand/jackpot prize winnings by 2, 3, or 4 times.



Lotto Texas[®] – A twice-weekly on-line game that features a 6-of-54 matrix in which players select six numbers between 1 and 54 for a chance to win a multi-million dollar jackpot prize. The jackpot starts at \$4 million. When no ticket matches all six numbers drawn, the jackpot increases for the following draw.



Texas Two Step[®] – A twice-weekly on-line game that features a 4-of-35 plus 1-of-35 bonus ball game. Players select four numbers plus a bonus ball number for a chance to win a jackpot prize. If no ticket correctly matches all four numbers plus the bonus ball, the jackpot rolls over (grows) until a ticket(s) matches all four number plus the bonus ball for a given draw. Jackpots start at \$200,000. There are seven different ways to win a prize, and all prizes, including the jackpot prize, are paid in one lump sum.



Pick 3[™] – A twice-daily every Monday through Saturday on-line game that offers players a 50-cent play. Players select three numbers from 0 to 9 and choose the way they want to play. They have four choices for how they can play their 3-digit number: Exact Order, Any Order, Exact/Any Order, or Combo.



Cash Five[®] – A daily (Monday- Saturday) on-line game with a 5-of-37 lotto-style matrix. Players win by matching two, three, four, or five of five numbers drawn. If no ticket matches all five numbers drawn, the prize pool set-aside for the top, or 5-of-5, prize is allocated to the 4-of-5 prize level. The 4-of-5 prize increases accordingly.

Charitable Bingo



The Charitable Bingo Operations Division licenses bingo conductors, lessors, manufacturers, and distributors. Charitable bingo conductors in Texas consist of nonprofit organizations such as veteran organizations, religious societies, fraternal organizations, volunteer fire departments and groups supporting medical research programs.

Charitable bingo has positive benefits for charities, players, and state, county and municipal governments in Texas through gross receipts from the conduct of charitable bingo, bingo prizes awarded, and charitable distributions. Distributions by organizations conducting charitable bingo benefit the people of Texas in many ways that include providing assistance to local libraries, veterans organizations, museums, women's shelters, needy children, the disabled, homeless shelters, churches, schools, drug and alcohol treatment programs, medical treatment and research programs,

volunteer fire departments, EMS units, police officer organizations, and senior citizen organizations, to name a few.

Populations Served

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

The Texas Lottery player base consists primarily of adult Texans 18 years and older, as well as similar-aged players from surrounding states and Mexico who travel to Texas to purchase lottery tickets. The charitable bingo player base consists primarily of adult Texans 18 years and older; however, it is not required that a bingo player be 18 if accompanied by an adult. Detailed demographic information is provided in the Statistical Section.

Budget and Financial Planning Process

The Texas Legislature establishes the agency's appropriations, and certain key performance measures, on a biennial basis. The agency's budget is prepared with direct input from division management and is reviewed and approved by the Executive Director or Charitable Bingo Operations Director, as applicable, through a series of internal budget hearings held with each division director regarding the respective budget requests. The three-member Commission reviews the final budget requests before submission to the legislative oversight agencies and the Governor. The agency uses performance measures and goals to determine where resources are needed and adjusts priorities accordingly. The budget serves as the foundation for the agency's financial planning and control. Appropriations may be transferred from one appropriation item to another appropriation item in an amount not to exceed 12.5 percent of the appropriation item from which the transfer is made for the fiscal year, at the discretion of executive management.

ECONOMIC CONDITION AND OUTLOOK

State lotteries have progressed from nonexistent to pervasive in just 41 years since New Hampshire became the first state to enact a state-run lottery in 1964. Texas became the 35th state to legalize lottery operations in 1992. Today, nearly 40 states conduct lotteries. Charitable bingo and/or other charitable gaming activities are legal in 46 states and the District of Columbia.

Through the agency's long-range and strategic planning process, future opportunities that could have a positive impact on the agency's key areas of activity have been identified such as economic development, developing innovative games and products, and new technologies.

Economic trends and fluctuations can have a considerable impact on the agency's ability to generate revenue for the state of Texas through the conduct of the *Games of Texas* and charitable bingo. Charitable bingo and Lottery products compete in a mature yet dynamic market for the discretionary entertainment dollars of primarily Texans over 18 years of age. In order to maximize its contributions to the Foundation School Fund, the Lottery must understand its market environment, population and competition and tailor its business strategies appropriately. Charitable bingo supports the efforts of charitable organizations to raise funds for the charitable purposes and ensure the integrity of the industry. Additionally, taxes collected from the conduct of charitable bingo are remitted to the State's General Revenue Fund. The Commission strives to provide the citizens of

Texas with the best entertainment experience available through its products. Periodically, changes are recommended to keep the games innovative and exciting for Texas players.

New and potential technologies, game innovations and legislative changes present a dynamic environment for the Commission and its industry in future years. The Commission responded to legislative authorization to engage in multi-jurisdictional gaming by agreeing to join the *Mega Millions* game, which was launched in Texas in late 2003. *Mega Millions* is representative of opportunities that the Texas Lottery may be tasked to manage for the benefit of the people of Texas. The Charitable Bingo Operations Division continues to explore avenues to increase bingo attendance and yield incremental value to the charities for which they operate. Additional trends occurring in the gaming industry include Internet gaming, video lottery terminals, Keno and linked bingo games.

AWARDS AND ACKNOWLEDGEMENTS

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Texas Lottery Commission for its comprehensive annual financial report for the fiscal year ended August 31, 2005. This was the fourth consecutive year that the Commission has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

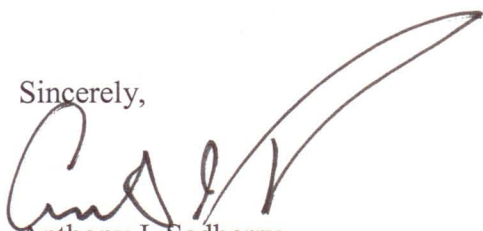
Independent Audit

Texas statutes require an annual financial audit by an independent Certified Public Accountant. The independent auditors' opinion on the Commission's financial statements is included in the financial section of this report.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the staff of the Office of the Controller. We would also like to express our appreciation to staff of the Texas Lottery Commission who assisted with and contributed to the preparation of this report.

Sincerely,



Anthony J. Sadberry
Executive Director

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PRINCIPAL OFFICIALS

COMMISSION OFFICIALS

A three member commission, who are appointed by the Governor to 6-year staggered terms, head the Commission. There is currently one unfilled position. The officials, their terms of office and hometowns are:

C. Tom Clowe, Jr.	November 13, 1998 - February 1, 2005	Waco, Texas
James A. Cox, Jr.	June 3, 2002 - February 1, 2009	Austin, Texas

Chairman Clowe

Mr. Clowe is retired after a highly successful career as a business executive. He served as Senior Vice President of Southern Union Company in Austin. He joined Missouri Gas Energy, a division of Southern Union Company, as its President and Chief Operating Officer.

Mr. Clowe was Chairman of the Board, President and Chief Executive Officer of Central Freight Lines, Inc. Mr. Clowe has served as Chairman of the Texas Motor Transportation Association, Chairman of the Tank Truck Conference of the American Trucking Association, and Regional Vice President of the American Trucking Association. He was employed by the Texas Railroad Commission and was appointed as its first Executive Director in the Commission's 97-year history.

Mr. Clowe received a bachelor's degree in business administration from the University of Texas at Austin and has completed several graduate-level management courses at Harvard Business School.

Mr. Clowe was appointed to the Commission on November 13, 1998 by Governor George W. Bush. Governor Bush appointed him as chair of the Commission on March 21, 2000. Mr. Clowe's term on the Commission expires February 1, 2005.

Commissioner Cox

Mr. Cox is a certified public accountant and former president and chief executive officer of Hydrolab Corporation. He previously served as president of the Resort and Aviation Groups of the Estate of Howard Hughes, and as an accounting and auditing partner of Deloitte & Touche. He was a member of the Texas General Services Commission from 1999 to 2002.

Mr. Cox received a bachelor's degree and master's degree from the University of Texas at Austin. Mr. Cox is a member of the American Institute of Certified Public Accountants and the Texas Society of Certified Public Accountants.

Governor Rick Perry first appointed Mr. Cox to the Texas Lottery Commission on June 3, 2002. Mr. Cox was reappointed by Governor Perry on March 4, 2003 for a term to expire February 1, 2009.

AGENCY OFFICIALS

Executive Director

Anthony Sadberry is the Executive Director of the Texas Lottery Commission and serves as the Chief Executive Officer. Mr. Sadberry was named Executive Director on June 28, 2006 after serving as Acting Executive Director since his appointment in January.

Mr. Sadberry, a former assistant Attorney General of Texas, was a member of the Houston office of the New York law firm, Epstein, Becker and Green, P.C. He is a graduate of the University of Texas at Austin and obtained a law degree from Georgetown University Law Center in Washington, D.C.

Mr. Sadberry was appointed to the Texas Lottery Commission by Governor Ann Richards in November 1993. He was commission chairman from October 1994 to May 1995. He served for seven years on the three-member board, resigning in December 2000.

Director of Charitable Bingo Operations Division

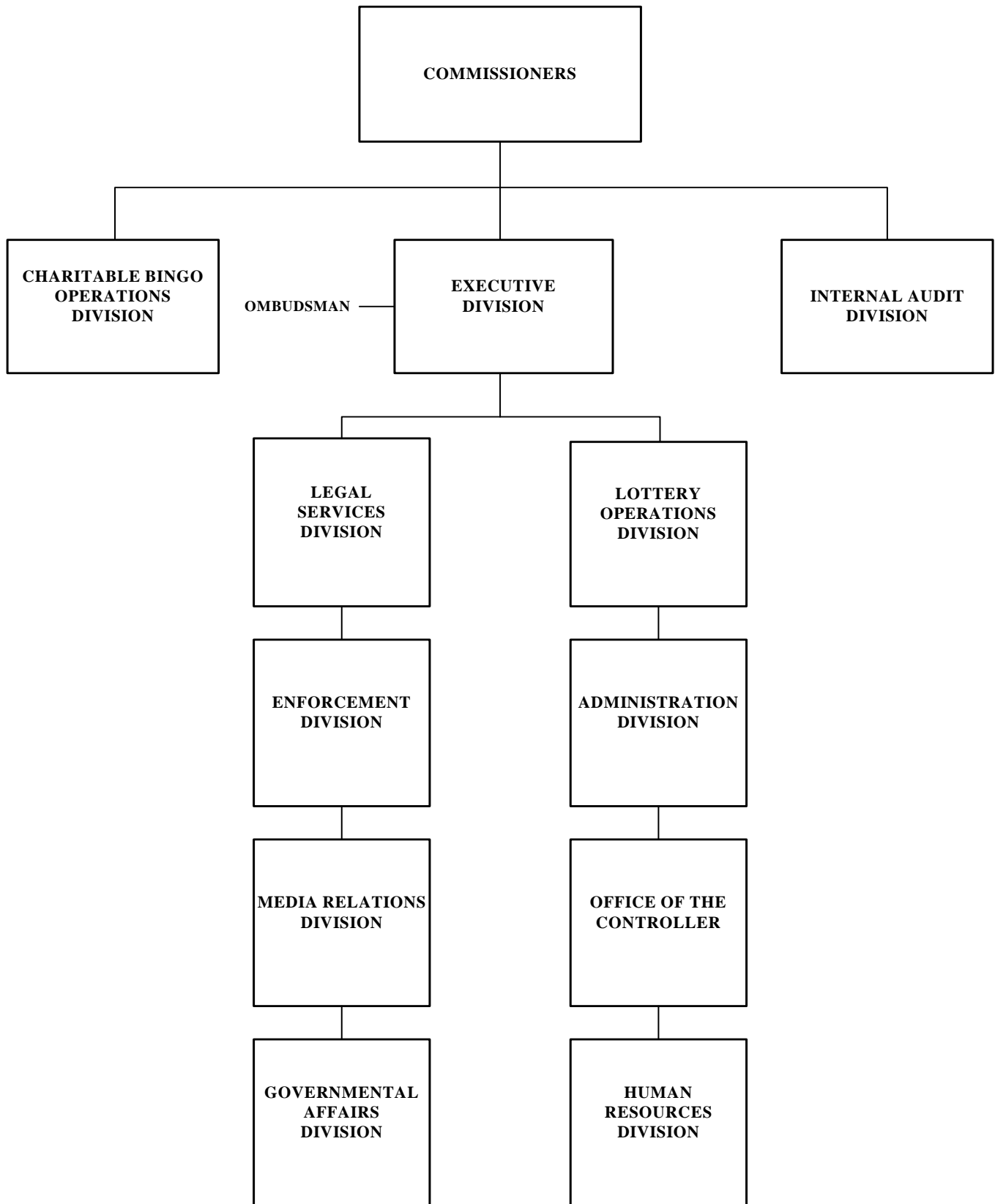
William Lee (Billy) Atkins was appointed Charitable Bingo Operations Director by Texas Lottery Commissioners on Thursday, October 29, 1998. Prior to that, Atkins served as both Acting Director and Assistant Director of the Charitable Bingo Division of the Texas Lottery Commission.

Atkins first came to the Texas Lottery as the Special Projects Coordinator for the Intergovernmental Affairs Section in January 1993, a position he held until April 1994.

Prior to working with the Texas Lottery Commission, Atkins was a Legislative Assistant for Texas Senate Senator John T. Montford from January 1983 to December 1985. In January 1987 he worked as an Administrative Assistant for Texas State Representative Gary L. Watkins until December 1992.

Atkins is currently President of the North American Gaming Regulators Association (NAGRA), a professional organization of federal, state, provincial, local, and tribal government agencies primarily responsible for regulation of legalized gaming activities.

TEXAS LOTTERY COMMISSION'S ORGANIZATIONAL STRUCTURE



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Texas Lottery Commission

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Members of the Texas Lottery Commission:

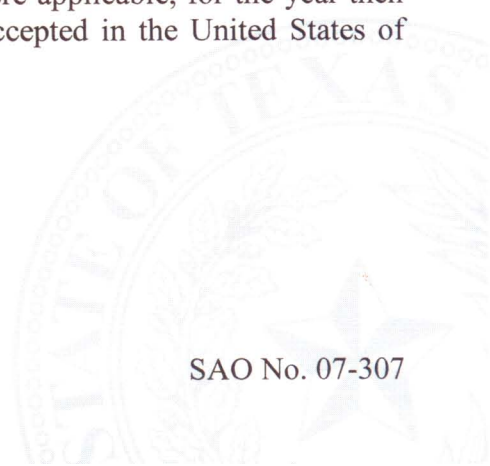
Mr. C. Tom Clowe, Jr., Chairman

Mr. James A. Cox, Jr.

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Texas Lottery Commission (Commission), an agency of the State of Texas, as of and for the year ended August 31, 2006, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these basic financial statements based on our audit. The prior year summarized, comparative information has been derived from the Commission's 2005 financial statements that were audited by the Texas State Auditor's Office. The audit report dated December 14, 2005, expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 (in the section titled "Entity"), the financial statements of the Commission are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Commission. They do not purport to and do not present fairly the financial position of the State as of August 31, 2006, and the changes in the State's financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

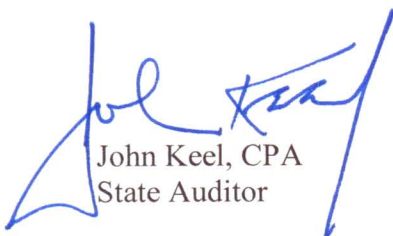


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Commission as of August 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule on pages 19 through 26 and page 71, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2006, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



John Keel, CPA
State Auditor

December 18, 2006

Texas Lottery Commission
Management's Discussion and Analysis
For the Fiscal Year Ended August 31, 2006
(Unaudited)

This section of the Texas Lottery Commission's (Commission) comprehensive annual financial report presents a comparative discussion and analysis of the Commissions' financial performance for the fiscal year ended August 31, 2006, with summarized comparative totals for the year ended August 31, 2005. This analysis is to be considered in conjunction with the transmittal letter at the front of this report and the Commission's basic financial statements to provide an objective analysis of the Commission's financial activities based on facts, decisions, and conditions currently facing management.

Financial Highlights

Government-wide:

- The assets of the Commission exceeded its liabilities at the close of fiscal year 2006 by \$33.5 million (reported as *net assets*), a decrease of \$58.7 million from the previous fiscal year.

Fund Level:

- As of the close of fiscal year 2006, the Commission's governmental funds reported a combined ending fund balance of \$1,520,615.57 with \$4,920 reported as *reserved fund balance*; earmarked for specific purposes such as vendor payables. The rest is unreserved balance at fiscal year end \$1,515,695.57. The \$1,520,615.57 in fund balance reflects an increase of \$1,297,998.67 from fiscal year 2005.
- The proprietary funds reported net assets at year-end 2006 of \$32.2 million, a decrease of \$59.9 million during the year.

More detailed information regarding these activities and funds begins on page 32.

Understanding the Commission's Financial Statements

This discussion and analysis is an introduction to the Commission's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Statements (Reporting the Commission as a whole)

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the Commission, as a whole, and about its activities that should help answer this question: Is the Commission more (or less) effective in achieving its defined objective? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets on page 29 presents all of the Commission's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets measure whether the Commission's financial position is improving or deteriorating.

The Statement of Activities on page 30 presents information showing how the Commission's net assets changed during fiscal year 2006. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in changes in cash flows in future fiscal periods (i.e. earned but unused compensatory leave).

Both statements report two activities:

- *Governmental Activities* – The Commission's Charitable Bingo Operations Division is reported under this category. Intergovernmental revenues and service fees are the only source of funding for these services.
- *Business-type Activities* – The Commission's operations are accounted for under this category. Sales of lottery tickets and fees charged to retailers provide funding for the business-type activities. The primary focus of business-type activities is to generate revenue for the State's Foundation School Fund, rather than the change in net assets of the Commission.

This report includes two schedules (pages 33 and 35) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the appropriate government-wide statements. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Unless due and payable, long-term liabilities such as compensated absences only appear as liabilities in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 47 of this report.

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

Because the Commission operates with few funds, management determined that for fair presentation, all funds except for the fiduciary funds, would be considered major. The fund financial statements begin on page 32 and provide detailed information about all the individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Commission uses to keep track of specific sources of funding and spending for a particular purpose. The Commission's funds are divided into three categories: governmental, proprietary, and fiduciary; and use different accounting methods.

- *Governmental funds* – The Commission's Charitable Bingo Operations Division and its services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the Commission's Charitable Bingo Operation Division operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Charitable Bingo programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund and the General Fund Consolidated Account.

- *Proprietary funds* – Proprietary funds utilize accrual accounting; the same method used by private sector businesses. There are two types of proprietary funds: Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and service for the governments other programs and activities. The Commission records all transactions related to the operation of the State Lottery and its investment activities in Enterprise Funds.
- *Fiduciary funds* – The Commission's fiduciary activities are reported in separate Statements of Fiduciary Assets and Liabilities and Changes in Fiduciary Net Assets beginning on page 43, and 77 and 78, respectively. These funds, which include agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the Commission to finance its operations.

Additional Required Supplementary Information

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

Financial Analysis of the Government as a Whole

Statement of Net Assets (in millions)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other non-current Assets	\$ 1.78	\$ 0.47	\$ 1,436.40	\$ 1,578.44	\$ 1,438.18	\$ 1,578.91
Capital Assets	-	-	0.75	0.82	0.75	0.82
Totals Assets	1.78	0.47	1,437.15	1,579.26	1,438.93	1,579.73
Long-term liabilities	0.11	0.10	1,106.02	1,185.60	1,106.13	1,185.70
Other liabilities	0.43	0.40	298.89	301.47	299.32	301.87
Total Liabilities	0.54	0.50	1,404.91	1,487.07	1,405.45	1,487.57
Net Assets:						
Invested in capital assets, net of related debt	-	-	0.75	0.82	0.75	0.82
Restricted	-	-	18.84	18.77	18.84	18.77
Unrestricted	1.24	(0.03)	12.65	72.60	13.89	72.57
Total Net Assets	1.24	(0.03)	32.24	92.19	33.48	92.16

The largest component 56.3% of the Commission's net assets is comprised of **restricted net assets** of \$18.8 million. These net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. **Unrestricted net assets** are the next largest component, comprising 41.5%, which may be used at the Commission's discretion, but often have limitations on use based on State statutes. The remaining portion represents the amount invested in capital assets, net of related debt. The Commission uses these capital assets to provide services; consequently, these assets are *not* available for future spending.

The majority of the Commission's assets consist of cash, cash equivalents and investments used to fund future installment payments. At August 31, 2006, the Commission's assets included \$126.3 million in cash and cash equivalents as compared with \$137.2 million at August 31, 2005. The Commission's short and long-term investments approximated \$1,275.3 and \$1,409.2 million, respectively, at August 31, 2006 and 2005.

The Commission's liabilities included at the balance sheet date are amounts owed to the State's Foundation School Fund for unspent administrative funds for fiscal year 2006, vendor payables, prize payment obligations, and other. The amount due to the Foundation School Fund was approximately \$15.3 million at August 31, 2006 as compared with \$9.7 million at August 31, 2005. Prize obligations, made up largely of instant ticket games and *Lotto Texas* installment payments, were \$1,358.7 million and \$1,446.3 million at August 31, 2006 and 2005, respectively. Vendor payables were \$27.8 million at August 31, 2006 as compared to \$28.2 million at August 31, 2005. Other payable balances totaled \$3.6 million and \$3.3 million, at August 31, 2006 and 2005, respectively.

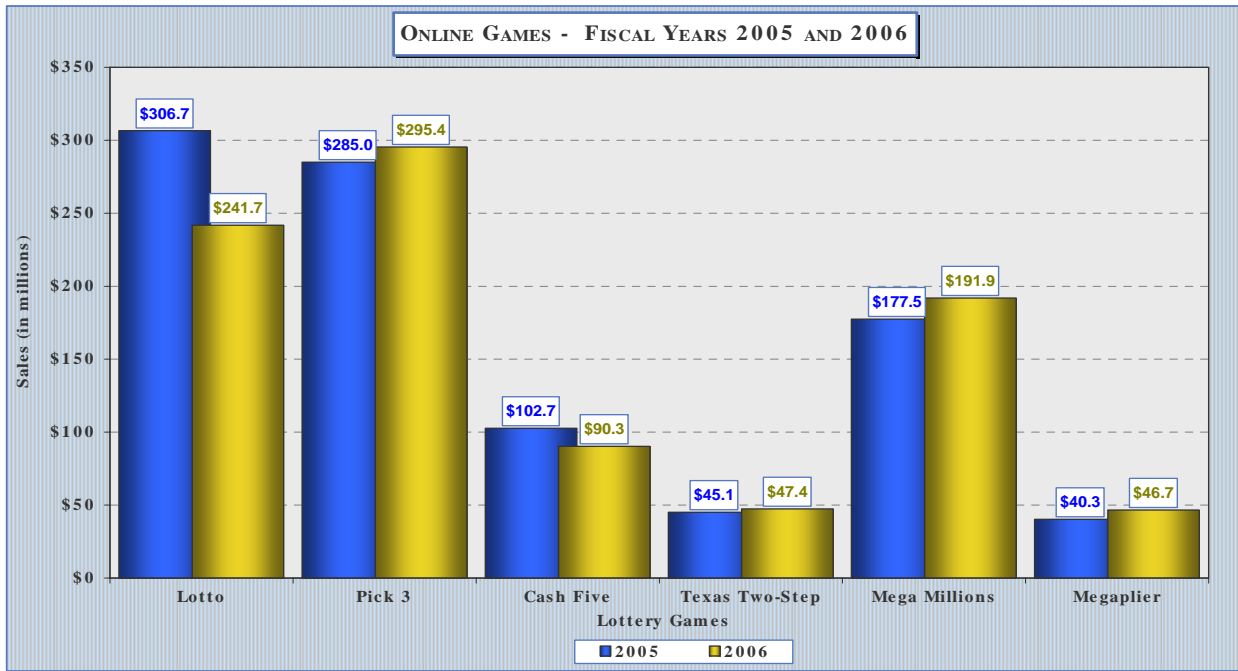
The majority of the Commission's assets represent current resources necessary to pay the current liabilities owed to vendors, prizewinners, and ultimately the State's Foundation School Fund.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Program Revenue - Lottery Sales	\$ -	\$ -	\$ 3,774.69	\$ 3,662.46	\$ 3,774.69	\$ 3,662.46
General Revenue:					-	-
Intergovernmental	3.14	3.12	-	-	3.14	3.12
Other income (loss)	11.84	10.75	1.43	0.98	13.27	11.73
Total Revenue	14.98	13.87	3,776.12	3,663.44	3,791.10	3,677.31
Program Expense:						
Prize expense	-	-	(2,310.56)	(2,228.00)	(2,310.56)	(2,228.00)
Commissions	-	-	(188.82)	(183.18)	(188.82)	(183.18)
Operating and other expense	(14.60)	(13.86)	(1,336.69)	(1,266.25)	(1,351.29)	(1,280.11)
Total Expense	(14.60)	(13.86)	(3,836.07)	(3,677.43)	(3,850.67)	(3,691.29)
Change in net assets	0.38	0.01	(59.95)	(13.99)	(59.57)	(13.98)
Beginning net assets,	(0.03)	(0.04)	92.19	106.18	92.16	106.14
Restatements	0.89	-	-	-	0.89	-
Ending net assets	\$ 1.24	\$ (0.03)	\$ 32.24	\$ 92.19	\$ 33.48	\$ 92.16

Sales

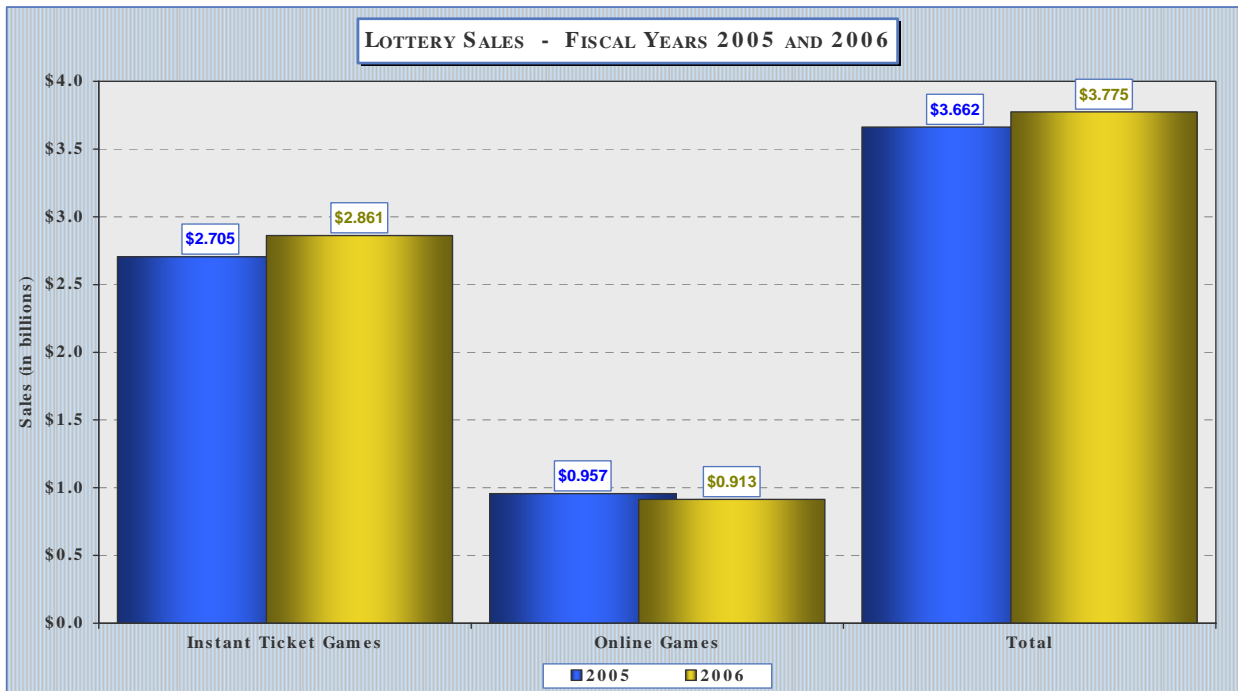
Lottery sales consist of on-line and instant lottery games. The first category is on-line games, which included *Lotto Texas*, *Pick 3*, *Cash Five*, *Texas Two Step* and *Mega Million* at August 31, 2006. In total, on-line sales decreased by \$43.8 million from the prior year sales total. *Pick 3* sales increased by 3.7%, marking the twelfth consecutive year of increased sales. Sales for *Pick 3*, at August 31, 2006, totaled \$295 million. Other on-line games such as *Cash Five* and *Lotto Texas* were not as successful during fiscal year 2006. These games decreased in total by \$77.3 million at August 31, 2006. The following graph depicts the Commission's on-line sales for the fiscal year ended August 31, 2006 and 2005.



Source: Texas Lottery Commission

Instant tickets or “scratch-off” tickets are the other category of Lottery games offered to the public. Instant ticket sales for the fiscal year ended August 31, 2006 increased by \$156 million or 5.8% over the preceding fiscal year’s sales.

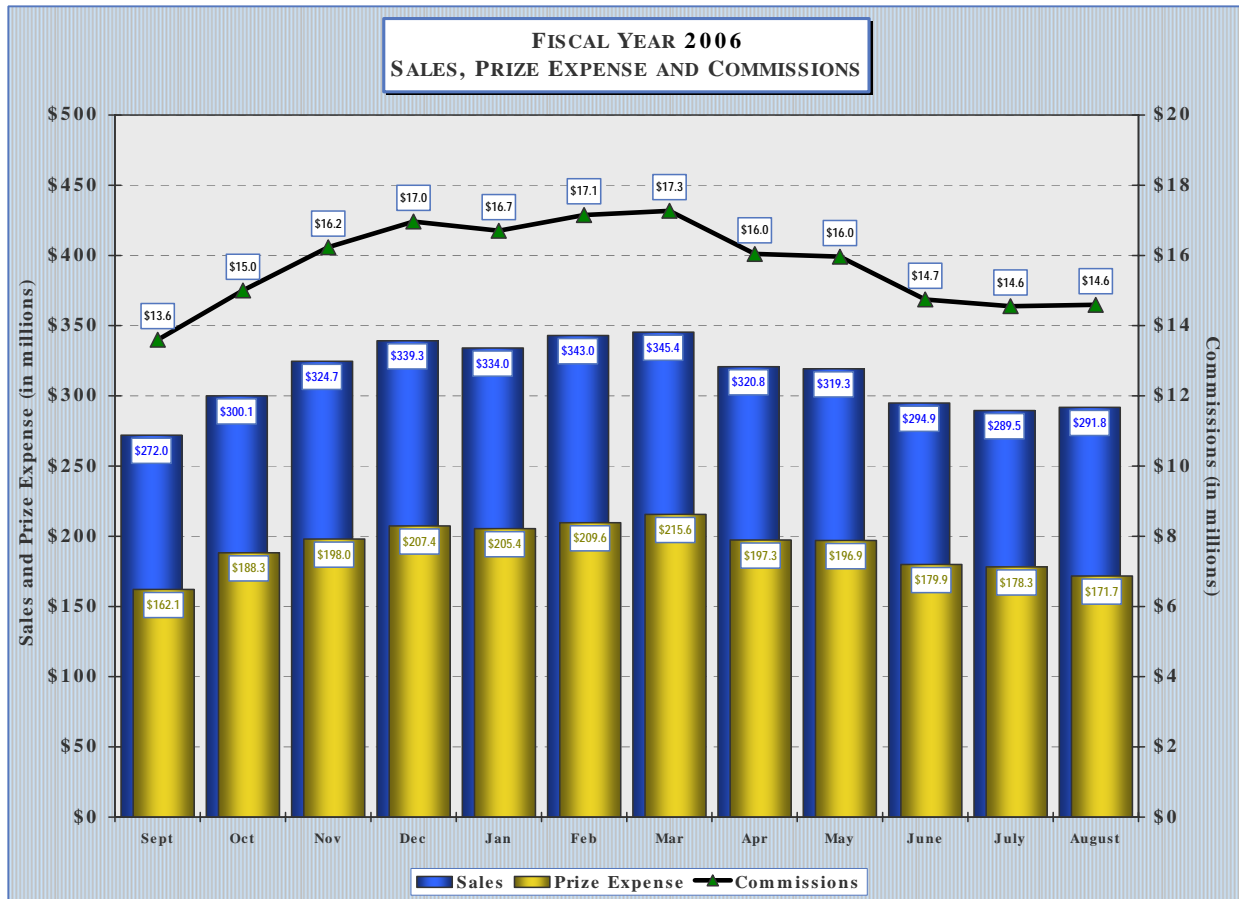
The following graph depicts the Lottery’s on-line, instant and total lottery sales for the fiscal year ended August 31, 2006 in comparison to the fiscal year ended August 31, 2005.



Source: Texas Lottery Commission

Commissions and Prize Awards Expense

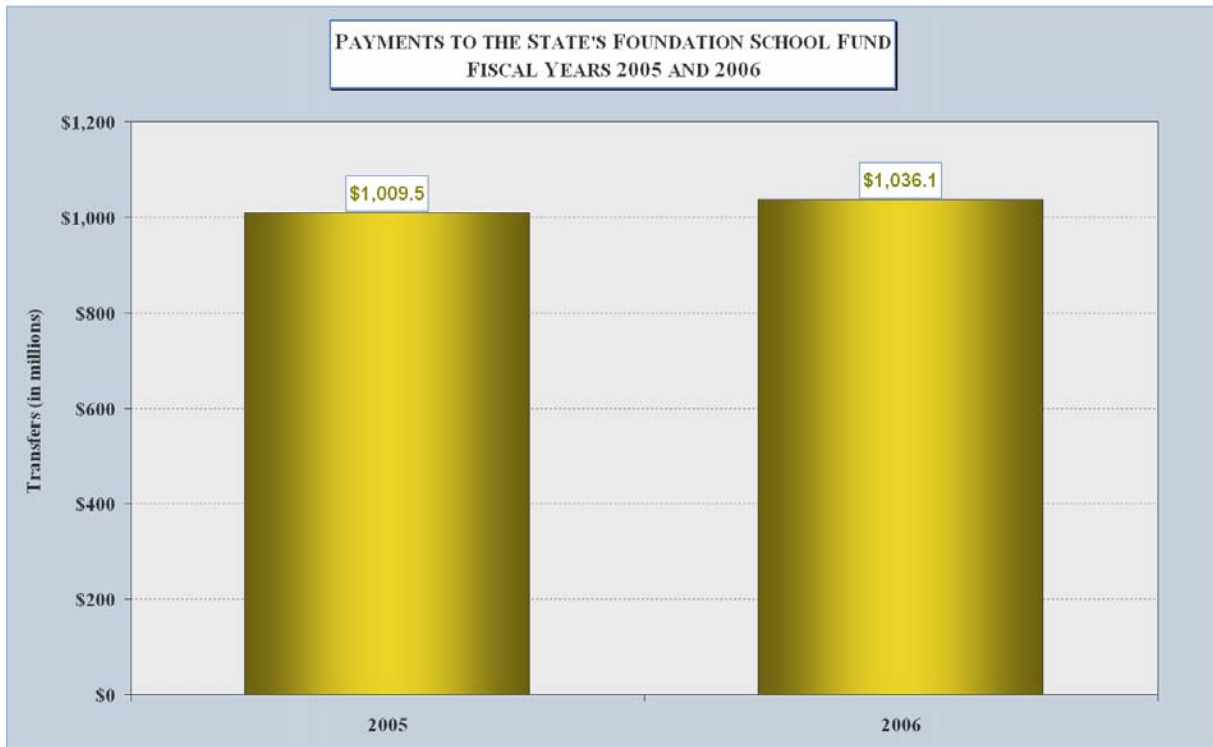
As the following graph depicts, the Commission's most significant expenses (commissions and prize expense) are predictable because they have a direct correlation to sales. As lottery sales increase, so do the related prizes and commissions paid by the Commission. While each lottery game has a predetermined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



Source: Texas Lottery Commission

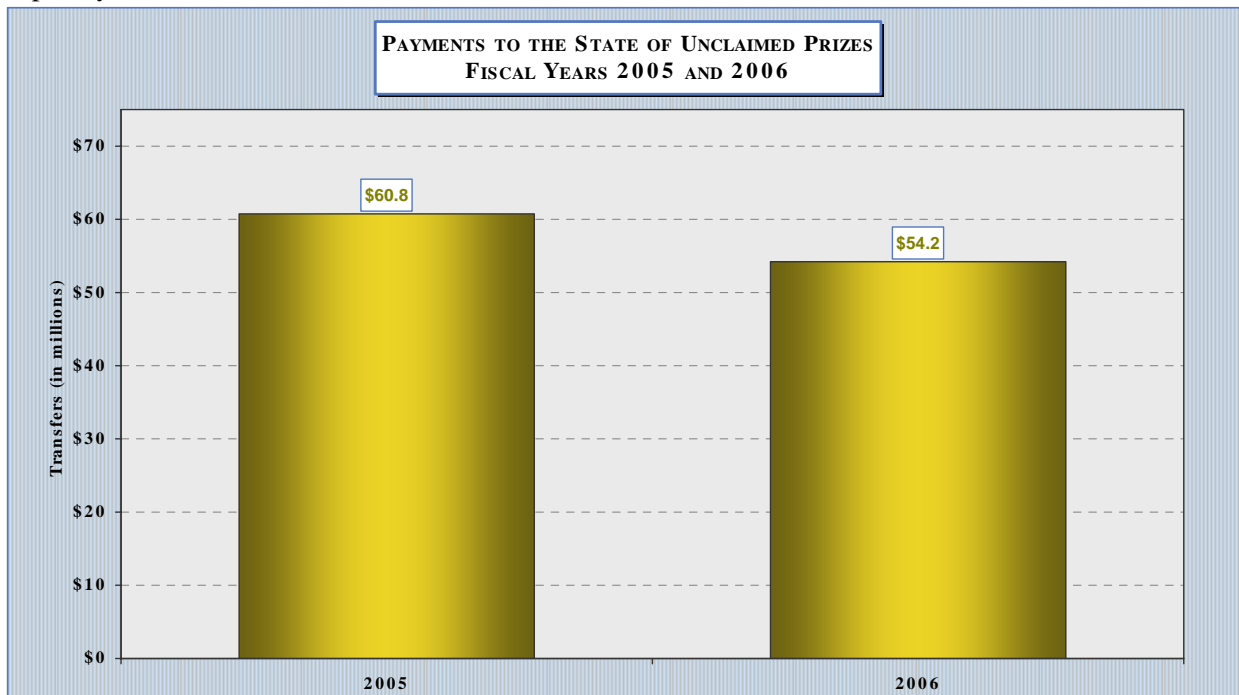
Payments to the State

The Commission recorded its seventh consecutive year of sales growth during the current fiscal year. Lottery sales for the fiscal year ended August 31, 2006 totaled \$3,774.7 million; an increase of 3% over the previous year's total of \$3,662.5 million. Transfers for the period totaled \$1,036.1 million, as compared to \$1,009.5 million for the fiscal year ended August 31, 2005. Representing a 2.6% increase.



Source: Texas Lottery Commission

During fiscal years 2006 and 2005, the Lottery transferred unclaimed lottery prize winnings totaling \$54,222,589 and \$60,764,140 respectively. This represents a decrease of \$6.5 million or 10.8% as compared to prior year.



Source: Texas Lottery Commission

General Fund Budgetary Highlights

During the year there was a \$588,278.60 increase in appropriations between the original and final amended budget. The Commission is appropriated excess collections from Bingo prize fees collected pursuant to Texas Occupations Code, Section 2001.504 for allocation to counties and municipalities as required by the Texas Occupations Code, Section 2001.503.

In addition, unanticipated revenue in the amount of \$262,275.00 was received from administrative penalties originating from settlements prior to a court decision or a court decision holding in favor of the State. Another \$122,734.20 was collected as result of cost reimbursements for bingo card minding and pulltab testing.

Capital Assets

As of August 31, 2006, the Commission had \$750,821.75 in net capital assets, of which \$743,073.30 was Furniture and Equipment. This represents a decrease of 9.2% in net capital assets from fiscal year 2005. The Commission's capital assets include furniture and equipment and vehicles. The details of capital assets are shown in Note 2.

Contacting the Commission's Financial Management

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

Basic Financial Statements

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Texas Lottery Commission
Government-wide Statement of Net Assets
August 31, 2006
With Summarized Comparative Totals for August 31, 2005

	Primary Government			Total 2005
	Governmental Activities	Business-type Activities	Total 2006	
ASSETS				
Current Assets:				
Cash and Cash Equivalents:				
Cash in Bank	\$ -	\$ 7,500.00	\$ 7,500.00	\$ 7,500.00
Cash in State Treasury	-	126,300,833.83	126,300,833.83	137,165,895.21
Restricted:				
Short Term Investments	-	173,687,706.97	173,687,706.97	170,732,249.99
Legislative Appropriations	1,778,179.50	-	1,778,179.50	474,505.67
Receivables from:				
Accounts	-	19,017,950.72	19,017,950.72	16,599,959.19
Taxes	-	450,035.50	450,035.50	-
Other	-	158,329.00	158,329.00	-
Due from Other Agencies	-	1,369,213.21	1,369,213.21	-
Consumable Inventories	-	710,023.36	710,023.36	-
Merchandise Inventories	-	5,309,737.15	5,309,737.15	6,163,662.25
Deferred Charges	-	7,777,500.00	7,777,500.00	9,333,000.00
Total Current Assets	1,778,179.50	334,788,829.74	336,567,009.24	340,476,772.31
Non-Current Assets:				
Restricted:				
Investments	-	1,101,610,320.45	1,101,610,320.45	1,238,430,139.33
Capital Assets:				
Furniture and Equipment	202,192.44	5,484,202.86	5,686,395.30	6,115,454.06
Less accumulated depreciation	(202,192.44)	(4,741,129.56)	(4,943,322.00)	(5,298,346.89)
Vehicles, Boats, and Aircraft	-	32,706.57	32,706.57	32,706.57
Less accumulated depreciation	-	(24,958.12)	(24,958.12)	(23,060.56)
Total Non-Current Assets	-	1,102,361,142.20	1,102,361,142.20	1,239,256,892.51
Total Assets	\$ 1,778,179.50	\$ 1,437,149,971.94	\$ 1,438,928,151.44	\$ 1,579,733,664.82
LIABILITIES				
Current Liabilities:				
Payables from:				
Accounts	\$ 33,977.91	\$ 20,110,315.93	\$ 20,144,293.84	\$ 20,787,637.98
Vouchers	1,105.00	6,884,518.85	6,885,623.85	6,877,667.73
Payroll	222,481.02	1,449,130.23	1,671,611.25	1,535,406.50
Annuities	-	10,992,472.18	10,992,472.18	11,064,805.59
Other	-	727,030.35	727,030.35	553,337.23
Due to Other Agencies	-	15,294,008.76	15,294,008.76	9,729,466.51
Employees' Compensable Leave	168,967.02	1,112,211.63	1,281,178.65	1,135,212.51
Payable From Restricted Assets-Current	-	242,321,970.68	242,321,970.68	250,186,941.43
Total Current Liabilities	426,530.95	298,891,658.61	299,318,189.56	301,870,475.48
Non-Current Liabilities:				
Employees' Compensable Leave	115,696.51	639,240.59	754,937.10	623,719.07
Payable From Restricted Assets	-	1,105,372,244.67	1,105,372,244.67	1,185,077,777.74
Total Non-Current Liabilities	115,696.51	1,106,011,485.26	1,106,127,181.77	1,185,701,496.81
Total Liabilities	542,227.46	1,404,903,143.87	1,405,445,371.33	1,487,571,972.29
NET ASSETS				
Invested in Capital Assets	-	750,821.75	750,821.75	826,753.18
Expendable restricted for:				
Pooled Bond Fund	-	5,000,000.00	5,000,000.00	5,000,000.00
Prize Reserve Fund	-	13,837,358.66	13,837,358.66	13,774,176.83
Unrestricted	1,235,952.04	12,658,647.66	13,894,599.70	72,560,762.52
Total Net Assets	\$ 1,235,952.04	\$ 32,246,828.07	\$ 33,482,780.11	\$ 92,161,692.53
Total Liabilities and Net Assets	\$ 1,778,179.50	\$ 1,437,149,971.94	\$ 1,438,928,151.44	\$ 1,579,733,664.82

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

Texas Lottery Commission
Government-wide Statement of Activities
For the Fiscal Year Ended August 31, 2006
With Summarized Comparative Totals for the Year Ended August 31, 2005

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental Activities:			
Bingo Prize Fee Collections and Accounting	\$ 11,692,325.43	\$ 11,455,391.72	\$ -
Bingo Licensing	1,057,205.84	106,085.00	-
Bingo Law Compliance Field Operations	1,662,947.92	274,775.00	-
Bingo Education and Development	190,265.56	7,563.36	-
Total governmental activities	<u>14,602,744.75</u>	<u>11,843,815.08</u>	<u>-</u>
Business-type activities:			
Lottery Operations	2,662,751,734.93	3,775,440,071.64	-
Marketing, Research, and Promotion	2,695,298.64	-	-
Central Administration	19,859,900.95	710,292.65	-
Enforcement	1,779,080.09	7,818.07	-
Intergovernmental	1,090,333,057.54	-	-
Lottery Prize Investments	58,685,603.75	-	-
Total business-type activities	<u>3,836,104,675.90</u>	<u>3,776,158,182.36</u>	<u>-</u>
Total primary government	<u>\$ 3,850,707,420.65</u>	<u>\$ 3,788,001,997.44</u>	<u>\$ -</u>

<u>Functions/Programs</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>			
	<u>Primary Government</u>			<u>Total 2005</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total 2006</u>	
Primary government:				
Governmental Activities:				
Bingo Prize Fee Collections and Accounting	\$ (236,933.71)	\$ -	\$ (236,933.71)	\$ (171,554.49)
Bingo Licensing	(951,120.84)	-	(951,120.84)	(1,404,290.55)
Bingo Law Compliance Field Operations	(1,388,172.92)	-	(1,388,172.92)	(1,362,618.04)
Bingo Education and Development	(182,702.20)	-	(182,702.20)	(173,640.87)
Total governmental activities	<u>(2,758,929.67)</u>	<u>-</u>	<u>(2,758,929.67)</u>	<u>(3,112,103.95)</u>
Business-type activities:				
Lottery Operations	-	1,112,688,336.71	1,112,688,336.71	1,089,194,649.04
Marketing, Research, and Promotion	-	(2,695,298.64)	(2,695,298.64)	(4,388,066.17)
Central Administration	-	(19,149,608.30)	(19,149,608.30)	(11,147,031.09)
Enforcement	-	(1,771,262.02)	(1,771,262.02)	(4,471,298.85)
Intergovernmental	-	(1,090,333,057.54)	(1,090,333,057.54)	(1,070,302,868.51)
Lottery Prize Investments	-	(58,685,603.75)	(58,685,603.75)	(12,873,963.41)
Total business-type activities	<u>-</u>	<u>(59,946,493.54)</u>	<u>(59,946,493.54)</u>	<u>(13,988,578.99)</u>
Total primary government	<u>\$ (2,758,929.67)</u>	<u>\$ (59,946,493.54)</u>	<u>\$ (62,705,423.20)</u>	<u>\$ (17,100,682.94)</u>
General Revenues - detailed				
Legislative appropriations	\$ 3,141,242.20	\$ -	\$ 3,141,242.20	\$ 3,122,946.15
Total General Revenues,	<u>3,141,242.20</u>	<u>-</u>	<u>3,141,242.20</u>	<u>3,122,946.15</u>
Change in net assets	382,312.53	(59,946,493.54)	(59,564,181.01)	(13,977,736.79)
Net Assets, Beginning of Year, As Restated	<u>853,639.51</u>	<u>92,193,321.61</u>	<u>93,046,961.12</u>	<u>106,139,429.32</u>
Net Assets, End of Year	<u>\$ 1,235,952.04</u>	<u>\$ 32,246,828.07</u>	<u>\$ 33,482,780.11</u>	<u>\$ 92,161,692.53</u>

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

Texas Lottery Commission
Balance Sheet – Governmental Funds
August 31, 2006
With Summarized Comparative Totals for August 31, 2005

	<u>General Fund</u>	<u>Total Governmental Funds</u>	
		<u>2006</u>	<u>2005</u>
ASSETS			
Current Assets -			
Legislative Appropriations	\$ 1,778,179.50	\$ 1,778,179.50	\$ 474,505.67
Total Current Assets	<u>1,778,179.50</u>	<u>1,778,179.50</u>	<u>474,505.67</u>
Restricted:			
Receivables	-	-	254.83
Total Assets	<u>\$ 1,778,179.50</u>	<u>\$ 1,778,179.50</u>	<u>\$ 474,760.50</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Current Liabilities -			
Payables From:			
Accounts	\$ 33,977.91	\$ 33,977.91	\$ 34,368.03
Vouchers	1,105.00	1,105.00	588.00
Payroll	222,481.02	222,481.02	210,970.57
Due To Other Funds	-	-	6,217.00
Total Current Liabilities	<u>257,563.93</u>	<u>257,563.93</u>	<u>252,143.60</u>
Total Liabilities	<u>257,563.93</u>	<u>257,563.93</u>	<u>252,143.60</u>
FUND FINANCIAL STATEMENT-FUND BALANCES			
Fund Balances:			
Reserved for -			
Encumbrances	4,920.00	4,920.00	22,193.83
Unreserved-Undesignated	1,515,695.57	1,515,695.57	200,423.07
Total Fund Balances	<u>1,520,615.57</u>	<u>1,520,615.57</u>	<u>222,616.90</u>
Total Liabilities and Fund Balances	<u>\$ 1,778,179.50</u>	<u>\$ 1,778,179.50</u>	<u>\$ 474,760.50</u>

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

**Texas Lottery Commission
Reconciliation of Total Governmental Funds Balance
to Net Assets of Governmental Activities
August 31, 2006**

Total Governmental Funds Balance \$ 1,520,615.57

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund. These assets consist of:

Furniture and equipment	202,192.44	
Accumulated depreciation	(202,192.44)	
Total Capital Assets	-	-

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

Employee compensable leave	(284,663.53)	
Total long-term liabilities	(284,663.53)	(284,663.53)

Net Assets of Governmental Activities \$ 1,235,952.04

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

Texas Lottery Commission
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
for the Fiscal Year Ended August 31, 2006
With Summarized Comparative Totals for the Year Ended August 31, 2005

	<u>General Fund</u>	<u>Total Governmental Funds</u>	
		<u>2006</u>	<u>2005</u>
REVENUES			
Legislative Appropriations:			
Original Appropriations	\$ 2,480,812.00	\$ 2,480,812.00	\$ 2,590,379.00
Additional Appropriations	660,430.20	660,430.20	532,567.15
Licenses, Fees and Permits	11,455,605.88	11,455,605.88	10,717,449.28
Settlement of Claims	262,275.00	262,275.00	-
Other	123,234.20	123,234.20	31,801.23
Total Revenues	<u>14,982,357.28</u>	<u>14,982,357.28</u>	<u>13,872,196.66</u>
EXPENDITURES			
Current:			
Salaries and Wages	2,256,118.50	2,256,118.50	2,113,428.08
Payroll Related Costs	554,744.12	554,744.12	505,160.61
Professional Fees and Services	55,515.00	55,515.00	41,000.00
Travel	85,564.15	85,564.15	76,792.29
Materials and Supplies	34,443.99	34,443.99	86,811.34
Communication and Utilities	252.72	252.72	1,452.72
Repairs and Maintenance	3,614.50	3,614.50	3,322.00
Rentals and Leases	6,844.46	6,844.46	180,103.85
Printing and Reproduction	3,292.94	3,292.94	20,608.71
Other Expenditures	30,899.11	30,899.11	70,363.32
Appropriations Lapsed	84,535.26	84,535.26	20,735.31
Intergovernmental Payments	11,456,502.45	11,456,502.45	10,721,323.13
Total Expenditures	<u>14,572,327.20</u>	<u>14,572,327.20</u>	<u>13,841,101.36</u>
Excess of Revenues Over Expenditures	<u>410,030.08</u>	<u>410,030.08</u>	<u>31,095.30</u>
OTHER FINANCING SOURCES (USES)			
Gain on Sale of Capital Assets	2,700.00	2,700.00	-
Total Other Financing Sources (Uses)	<u>2,700.00</u>	<u>2,700.00</u>	<u>-</u>
Net Change in Fund Balances	412,730.08	412,730.08	31,095.30
FUND FINANCIAL STATEMENT-FUND BALANCES			
Fund Balances, Beginning of Year, As Restated	<u>1,107,885.49</u>	<u>1,107,885.49</u>	<u>191,521.60</u>
Fund Balances, End of Year	<u>\$ 1,520,615.57</u>	<u>\$ 1,520,615.57</u>	<u>\$ 222,616.90</u>

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

Texas Lottery Commission
Reconciliation of Changes in Fund Balances of Governmental Funds
to Changes in Net Assets of Governmental Activities
for the Fiscal Year Ended August 31, 2006

Net Change In Fund Balance Total - Governmental Fund \$ 412,730.08

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	-	
Depreciation expense	(4,579.08)	
	(4,579.08)	(4,579.08)
Excess of capital outlay over depreciation expense		

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in compensable leave	(25,838.47)	
	(25,838.47)	(25,838.47)
Total long-term liabilities		

Change in Net Assets of Governmental Activities \$ 382,312.53

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

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Texas Lottery Commission
Statement of Net Assets - Proprietary Funds
August 31, 2006
With Summarized Comparative Totals for August 31, 2005

	<u>Enterprise</u>		
	<u>Lottery</u>	<u>Total Proprietary Funds</u>	
	<u>Fund</u>	<u>2006</u>	<u>2005</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents:			
Cash in Bank	\$ 7,500.00	\$ 7,500.00	\$ 7,500.00
Cash in State Treasury	126,300,833.83	126,300,833.83	137,165,895.21
Restricted:			
Short Term Investments	173,687,706.97	173,687,706.97	170,732,249.99
Receivables from:			
Accounts	19,017,950.72	19,017,950.72	16,599,704.36
Taxes	450,035.50	450,035.50	-
Other	158,329.00	158,329.00	-
Due from Other Funds	-	-	6,217.00
Due From Other Agencies	1,369,213.21	1,369,213.21	-
Consumable Inventories	710,023.36	710,023.36	-
Merchandise Inventories	5,309,737.15	5,309,737.15	6,163,662.25
Deferred Charges	7,777,500.00	7,777,500.00	9,333,000.00
Total Current Assets	<u>334,788,829.74</u>	<u>334,788,829.74</u>	<u>340,008,228.81</u>
Non-Current Assets:			
Restricted:			
Investments	1,101,610,320.45	1,101,610,320.45	1,238,430,139.33
Capital Assets:			
Depreciable:			
Furniture and Equipment	5,484,202.86	5,484,202.86	5,907,996.93
Less accumulated depreciation	(4,741,129.56)	(4,741,129.56)	(5,095,468.84)
Vehicles, Boats, and Aircraft	32,706.57	32,706.57	32,706.57
Less accumulated depreciation	(24,958.12)	(24,958.12)	(23,060.56)
Total Non-Current Assets	<u>1,102,361,142.20</u>	<u>1,102,361,142.20</u>	<u>1,239,252,313.43</u>
Total Assets	<u>\$ 1,437,149,971.94</u>	<u>\$ 1,437,149,971.94</u>	<u>\$ 1,579,260,542.24</u>
LIABILITIES			
Current Liabilities:			
Payables from:			
Accounts	\$ 20,110,315.93	\$ 20,110,315.93	\$ 20,753,269.95
Voucher	6,884,518.85	6,884,518.85	6,877,079.73
Payroll	1,449,130.23	1,449,130.23	1,324,435.93
Annuities	10,992,472.18	10,992,472.18	11,064,805.59
Other	727,030.35	727,030.35	553,337.23
Due to Other Agencies	15,294,008.76	15,294,008.76	9,729,466.51
Employees' Compensable Leave	1,112,211.63	1,112,211.63	980,883.72
Payable From Restricted Assets	242,321,970.68	242,321,970.68	250,186,941.43
Total Current Liabilities	<u>298,891,658.61</u>	<u>298,891,658.61</u>	<u>301,470,220.09</u>
Non-Current Liabilities:			
Employees' Compensable Leave	639,240.59	639,240.59	519,222.80
Payable From Restricted Assets	1,105,372,244.67	1,105,372,244.67	1,185,077,777.74
Total Non-Current Liabilities	<u>1,106,011,485.26</u>	<u>1,106,011,485.26</u>	<u>1,185,597,000.54</u>
Total Liabilities	<u>1,404,903,143.87</u>	<u>1,404,903,143.87</u>	<u>1,487,067,220.63</u>
NET ASSETS			
Invested in Capital Assets	750,821.75	750,821.75	822,174.10
Restricted for:			
Expendable:			
Restricted by Other:			
Pooled Bond Fund	5,000,000.00	5,000,000.00	5,000,000.00
Prize Reserve Fund	13,837,358.66	13,837,358.66	13,774,176.83
Unrestricted	12,658,647.66	12,658,647.66	72,596,970.68
Total Net Assets	<u>32,246,828.07</u>	<u>32,246,828.07</u>	<u>92,193,321.61</u>
Total Liabilities and Net Assets	<u>\$ 1,437,149,971.94</u>	<u>\$ 1,437,149,971.94</u>	<u>\$ 1,579,260,542.24</u>

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

Texas Lottery Commission
Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
for the Fiscal Year Ended August 31, 2006
With Summarized Comparative Totals for the Year Ended August 31, 2005

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>	
	<u>Lottery Fund</u>	<u>2006</u>	<u>2005</u>
OPERATING REVENUES:			
Sales of Goods and Services:			
Lottery Proceeds:			
Ticket Sales	\$ 3,774,685,562.00	\$ 3,774,685,562.00	\$ 3,662,462,837.50
Lottery License Application Fees	303,174.25	303,174.25	305,977.50
Lottery Security Proceeds	71,538.00	71,538.00	71,970.00
Other Operating Revenues	1,058,448.60	1,058,448.60	573,103.03
Total Operating Revenues	<u>3,776,118,722.85</u>	<u>3,776,118,722.85</u>	<u>3,663,413,888.03</u>
OPERATING EXPENSES:			
Salaries and Wages	13,811,258.12	13,811,258.12	12,844,079.02
Payroll Related Costs	3,346,542.76	3,346,542.76	2,886,159.86
Professional Fees and Services	6,329,548.22	6,329,548.22	4,929,007.83
Travel	286,682.00	286,682.00	248,432.24
Materials and Supplies	270,406.16	270,406.16	2,014,222.14
Communication and Utilities	594,073.31	594,073.31	325,861.79
Repairs and Maintenance	497,869.89	497,869.89	746,419.63
Rentals and Leases	7,246,814.03	7,246,814.03	6,012,433.25
Printing and Reproduction	14,883,416.01	14,883,416.01	13,114,597.06
Depreciation and Amortization	257,526.14	257,526.14	404,550.08
Interest	828.69	828.69	526.23
Lottery Prizes	2,310,561,488.27	2,310,561,488.27	2,228,000,418.94
Retailer Commissions	188,818,620.60	188,818,620.60	183,176,006.39
Retailer Bonuses	2,804,520.68	2,804,520.68	4,286,557.85
Other Operating Expenses:			
Lottery Operator Fees	102,124,102.07	102,124,102.07	99,750,079.26
Advertising	31,577,820.18	31,577,820.18	32,557,797.12
Other	3,673,777.48	3,673,777.48	2,942,842.89
Intergovernmental Payments	1,090,333,057.54	1,090,333,057.54	1,070,302,868.51
Total Operating Expenses	<u>3,777,418,352.15</u>	<u>3,777,418,352.15</u>	<u>3,664,542,860.09</u>
Operating Loss	<u>(1,299,629.30)</u>	<u>(1,299,629.30)</u>	<u>(1,128,972.06)</u>
NONOPERATING REVENUES (EXPENSES):			
Investment Income	39,459.51	39,459.51	33,393.00
Loss on Disposal of Capital Assets	-	-	(18,196.50)
Net Decrease Fair Value	(58,685,603.75)	(58,685,603.75)	(12,873,963.41)
Settlement of Claims	(720.00)	(720.00)	(840.00)
Total Nonoperating Revenues (Expenses)	<u>(58,646,864.24)</u>	<u>(58,646,864.24)</u>	<u>(12,859,606.91)</u>

**Texas Lottery Commission
Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
for the Fiscal Year Ended August 31, 2006
With Summarized Comparative Totals for the Year Ended August 31, 2005**

	<u>Enterprise Fund</u>	<u>Total Proprietary Funds</u>	
	<u>Lottery Fund</u>	<u>2006</u>	<u>2005</u>
Change in Net Assets	(59,946,493.54)	(59,946,493.54)	(13,988,578.97)
Total Net Assets, Beginning of Year	92,193,321.61	92,193,321.61	106,181,900.58
Total Net Assets, End of Year	<u>32,246,828.07</u>	<u>32,246,828.07</u>	<u>92,193,321.61</u>

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

Texas Lottery Commission
Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended August 31, 2006
With Summarized Comparative Totals for the Year Ended August 31, 2005

	<u>Enterprise</u>	<u>Total Proprietary Funds</u>	
	<u>Lottery</u> <u>Fund</u>	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	\$ 3,772,279,239.84	\$ 3,772,279,239.84	\$ 3,684,190,859.48
Payments to Suppliers for Goods and Services	(357,254,723.73)	(357,254,723.73)	(346,624,020.70)
Payments to Employees	(16,781,710.48)	(16,781,710.48)	(15,547,055.30)
Payments for Other Expenses	(3,406,193,100.53)	(3,406,193,100.53)	(3,290,513,250.76)
Net Cash Provided by Operating Activities	<u>(7,950,294.90)</u>	<u>(7,950,294.90)</u>	<u>31,506,532.72</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Payments for Other Uses	(162,611,000.00)	(162,611,000.00)	(161,863,000.00)
Proceeds from Other Financing	22,160,000.00	22,160,000.00	16,996,943.00
Net Cash Used in Noncapital Financing Activities	<u>(140,451,000.00)</u>	<u>(140,451,000.00)</u>	<u>(144,866,057.00)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments for Additions to Capital Assets	(150,666.79)	(150,666.79)	(206,676.98)
Net Cash Used in Capital and Related Financing Activities	<u>(150,666.79)</u>	<u>(150,666.79)</u>	<u>(206,676.98)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sales of Investments	162,611,000.00	162,611,000.00	161,863,000.00
Proceeds from Interest and Investment Income	39,459.51	39,459.51	33,393.00
Payments to Acquire Investments	(24,963,559.20)	(24,963,559.20)	(17,898,176.76)
Net Cash Provided by Investing Activities	<u>137,686,900.31</u>	<u>137,686,900.31</u>	<u>143,998,216.24</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(10,865,061.38)	(10,865,061.38)	30,432,014.98
Cash and Cash Equivalents, Beginning of Year	<u>137,173,395.21</u>	<u>137,173,395.21</u>	<u>106,741,380.23</u>
Cash and Cash Equivalents, End of Year	<u>\$ 126,308,333.83</u>	<u>\$ 126,308,333.83</u>	<u>\$ 137,173,395.21</u>

Texas Lottery Commission
Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended August 31, 2006
With Summarized Comparative Totals for the Year Ended August 31, 2005

	<u>Enterprise</u>		
	<u>Lottery Fund</u>	<u>Total Proprietary Funds</u>	
		<u>2006</u>	<u>2005</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Loss	\$ (1,299,629.30)	\$ (1,299,629.30)	\$ (1,128,972.06)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Amortization and Depreciation	257,526.14	257,526.14	404,550.08
Operating Income and Cash Flow Categories:			
Changes in Assets and Liabilities:			
(Increase) Decrease in Receivables	(3,049,614.26)	(3,049,614.26)	21,335,265.24
(Increase) Decrease in Inventories	143,901.74	143,901.74	(427,972.52)
Increase (Decrease) in Deferred Charges	1,555,500.00	1,555,500.00	1,555,500.00
Increase (Decrease) in Payables	(5,557,979.22)	(5,557,979.22)	9,768,161.98
Total Adjustments	<u>(6,650,665.60)</u>	<u>(6,650,665.60)</u>	<u>32,635,504.78</u>
Net Cash Provided by Operating Activities	<u>\$ (7,950,294.90)</u>	<u>\$ (7,950,294.90)</u>	<u>\$ 31,506,532.72</u>
Non Cash Transactions			
Net Decrease in Fair Value of Investments		(58,685,603.75)	(12,873,963.41)

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

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Texas Lottery Commission
Statement of Fiduciary Assets and Liabilities -Fiduciary Funds
August 31, 2006
With Summarized Comparative Totals for August 31, 2005

	<u>Agency Funds</u>	<u>Total</u>	
		<u>2006</u>	<u>2005</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents -			
Cash in State Treasury	\$ 24,786.28	\$ 24,786.28	\$ 28,734.08
Other Receivables	-	-	29,432.80
Total Assets	<u>\$ 24,786.28</u>	<u>\$ 24,786.28</u>	<u>\$ 58,166.88</u>
LIABILITIES			
Current Liabilities -			
Funds Held for Others	<u>24,786.28</u>	<u>24,786.28</u>	<u>58,166.88</u>
Total Liabilities	<u>\$ 24,786.28</u>	<u>\$ 24,786.28</u>	<u>\$ 58,166.88</u>

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

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Notes to the Financial Statements

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TEXAS LOTTERY COMMISSION

Notes to the Financial Statements

For The Fiscal Year Ended August 31, 2006

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

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

The Texas Lottery Commission serves the state by operating lottery games. The Texas Lottery was created on August 26, 1991, with the enactment of House Bill No. 54, as a division of the Office of the Comptroller of Public Accounts. The Texas Lottery was approved by the voters of Texas in a general election on November 5, 1991 and commenced operations on November 20, 1991. The 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, 73rd Legislature, Regular Session, 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.

The Commission includes within this report all components as determined by an analysis of their relationship to the Texas Lottery Commission. No component units have been identified as defined by GASB Statement No. 14, which should have been blended or presented by discrete columns into an appropriate fund.

BASIS OF PRESENTATION

The accompanying financial statements of the Texas Lottery Commission have been prepared to conform to Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

FINANCIAL REPORTING STRUCTURE

The basic financial statements include both government-wide (based on the Commission as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The prior year summarized comparative totals column do not include sufficient detail to constitute a presentation in conformity with accounting principals generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Commission's financial statements for the year ended August 31, 2005, from which the summarized information was derived.

Government-wide Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Activities) display information about the Commission as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the Commission. Eliminating adjustments have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated).

The focus of the government-wide statements is on the sustainability of the Commission as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

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

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

The net costs (program expenses less program revenues) of all activities are normally covered by general revenues. The previous reporting model did not present net cost by function or activity.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liabilities, rather than as expenditures.

The Commission's fiduciary funds are presented in the fund financial statements by type (pension, private-purpose, and agency). Since the assets are held for the benefit of others and cannot be used to address activities or obligations of the government, the funds are not incorporated into the government-wide statements.

Fund Structure

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

Governmental Fund Types

General Revenue Fund

The General Revenue Fund (Fund 0001) is used to account for all financial resources of the state except those required to be accounted for in another fund. The General Revenue Fund is used to account for the Charitable Bingo Operations, including allocation of Bingo Prize Fees.

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 Texas Lottery Commission Fund– (5025). This fund is used to record all transactions related to the operation of the State Lottery, including investment activities of the Commission designed to meet future installment obligations to prize winners.

Fiduciary Fund Types

Agency Funds

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

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

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

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

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

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

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 (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.

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

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

Fund Financial Statements

The fund financial statements are similar to the financial statements presented in the previous model. The emphasis is on the major funds in either the governmental or business-type categories. Due to the number of funds used by the Commission to account for its activities, management has decided to present all funds as major funds. Therefore, non-major funds will not be presented in the fund financial statements.

The major governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate (a) compliance with legal and covenant requirements; (b) the source and use of financial resources; and (c) how the Commission's actual experience conforms to the budget. Since the governmental fund statements are presented using a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which explains the adjustments required to restate the fund-based financial statements to the governmental activities column in the government-wide financial statements. The fund financial statements are presented after the government-wide financial statements.

The Commission uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FUND FINANCIAL STATEMENT PRESENTATION

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental fund types that build the fund financial statements are accounted for using the modified accrual basis of accounting. Under modified accrual, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end.

Prize Fees associated with the current fiscal year are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period for Fund Financial Statements prepared on the modified basis of accrual. Expenditures and other uses of financial resources are recognized when their related liability is incurred.

The governmental fund types included in the Statement of Net Assets and Statement of Activities are accounted for using the accrual basis of accounting. Under accrual accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

The proprietary funds are accounted for on the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. As required under GASB 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Commission will continue to apply all applicable GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, the Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBS) issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. The Commission has elected under GASB 20 to not apply FASB pronouncements issued after November 30, 1989, due to the governmental nature of the Commission's operations.

As a general rule the effect of interfund activity has been eliminated from the government wide financial statements. During the fiscal period, no exception occurred to the general rule.

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

Fiduciary funds are reported using the economic resources measurement focus.

Budgets and Budgetary Accounting

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

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

The statement of cash flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and that are used for cash management rather than investing activities are considered cash equivalents. Restricted short-term investments are not included as cash equivalents on the Statement of Cash Flows.

Allocation of Income

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

For fiscal year 2006, unspent administrative funds were transferred to the Foundation School Fund. Net proceeds will continue to be transferred to the Foundation School Fund during fiscal year 2007. Obligated amounts in the Lottery operations account at August 31, 2006 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 \$15,294,008.76 are recorded as "Due to Other Agencies" as of August 31, 2006. The total amount is due to the Foundation School Fund (Fund 0193).

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

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

Other Current Assets

Deferred Charges are non-regularly recurring, non-capital cost of operations that benefit future periods.

Capital Assets

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

LIABILITIES

Accounts Payable

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

Payroll Payable

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

Employees' Compensable Leave Balances

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

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

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

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

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

Prizes Payable

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

The amortization of the discount of investments held for prizes payable is based on yields ranging from 4.54 percent to 5.18 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, 2006 and 2005:

	2006	2005
Total Obligation	\$ 1,636,288,000.00	\$ 1,777,519,000.00
Less - unamortized discount	<u>367,116,755.33</u>	<u>429,830,222.26</u>
Total carrying amount	1,269,171,244.67	1,347,688,777.74
Less - prizes payable within one year	<u>163,799,000.00</u>	<u>162,611,000.00</u>
Long-term prizes payable	<u><u>\$ 1,105,372,244.67</u></u>	<u><u>\$ 1,185,077,777.74</u></u>

The aggregate amount of prizes payable due in each of the five fiscal years following August 31, 2006 and 2005, and the total thereafter are as follows:

Aggregate Amount of Prizes Payables			
Business-Type Activities			
Principal			Principal
2006			2005
		2006 (Future Year 1)	\$ 162,611,000.00
2007 (Future Year 1)	\$ 163,799,000.00	2007 (Future Year 2)	162,611,000.00
2008 (Future Year 2)	163,799,000.00	2008 (Future Year 3)	162,611,000.00
2009 (Future Year 3)	163,669,000.00	2009 (Future Year 4)	162,481,000.00
2010 (Future Year 4)	163,669,000.00	2010 (Future Year 5)	162,481,000.00
2011 (Future Year 5)	163,669,000.00	2011-2015	650,038,000.00
2012-2016	544,260,000.00	2016-2020	202,003,000.00
2017-2021	193,559,000.00	2021-2025	104,167,000.00
2022-2026	77,706,000.00	2026	8,516,000.00
2027	2,158,000.00		
Total Prizes Payable	\$ 1,636,288,000.00		\$ 1,777,519,000.00

There were no prizes payable for the governmental activities, as of August 31, 2006 and 2005.

Unclaimed Prizes

In accordance with Subsection 466.408, of the State Lottery Act, the ticket holder forfeits prizes that remain unclaimed for 180 days after the on-line drawing date or 180 days after the close of an instant game. During fiscal years 2006 and 2005, the Commission paid a total of \$54,222,588.78 and 60,764,139.99 in unclaimed lottery prize winnings on a quarterly basis to the following agencies: in fiscal year 2006, the Comptroller of Public Account received \$44,222,588.78 for credit to the General Revenue Fund, and Department of State Health Services received \$10,000,000.00 for credit to the Multi-categorical Teaching Hospital Account.

FUND BALANCE/NET ASSETS

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

Reservation of Fund Balance

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

Reserved for Encumbrances

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

Unreserved/Undesignated:

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

Invested In Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bond, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. No related debt was noted to affect net of debt. Net assets invested in capital assets at August 31, 2006 and 2005 were \$750,821.75 and \$826,753.18, respectively.

Restricted Net Assets

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

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

	2006	2005
Reserved for Pooled Bond Fund	\$5,000,000.00	\$5,000,000.00
Prize Reserve Fund (Reserved for Future Lotto Prizes)	\$13,837,358.66	\$13,774,176.83

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, 2006, 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 accumulated balances from prior years resulting from an allocation of 2 percent of the Lotto Texas prize pool. As a result of a rule change effective April 23, 2006, there is no longer an allocation from the prize pool into the reserve fund. The fund may only be decreased by supplements to Lotto Texas prizes including jackpot amounts and guaranteed prizes.

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:

	2006	2005
Future Lottery Prizes	\$ (8,095,896.99)	\$ 50,589,706.76
Unrestricted/Undesignated	\$ 20,754,544.65	\$ 22,007,263.92

Future Lottery Prizes

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

Unrestricted/Undesignated:

This represents any unappropriated balances at year-end.

INTERGOVERNMENTAL TRANSACTIONS AND BALANCES

The Commission has the following types of intergovernmental transactions:

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

Payments to Foundation School Fund during fiscal year 2006 and 2005 are as follows:

	2006	2005
Cash payments	\$1,029,612,986.52	\$1,016,209,580.10
Accrued payments at beginning of fiscal year	<u>(8,796,526.52)</u>	<u>(15,467,378.10)</u>
Amount paid from current year revenue	1,020,816,460.00	1,000,742,202.00
Accrued payments at end of fiscal year	<u>15,294,008.76</u>	<u>8,796,526.52</u>
Total Payments to Foundation School Fund	<u>\$1,036,110,468.76</u>	<u>\$1,009,538,728.52</u>

Payments to the Comptroller of Public Accounts – General Revenue Fund for unclaimed prizes during fiscal year 2006 and 2005 are as follows:

	2006	2005
Cash payments	\$45,155,528.77	\$21,947,637.00
Accrued payments at beginning of fiscal year	<u>(932,939.99)</u>	<u>0.00</u>
Amount paid from current year revenue	44,222,588.78	21,947,637.00
Accrued payments at end of fiscal year	<u>0.00</u>	<u>932,939.99</u>
Total Payments to the Comptroller of Public Accounts – General Revenue	<u>\$44,222,588.78</u>	<u>\$22,880,576.99</u>

Payments to the Department of State Health Services for unclaimed prizes during fiscal year 2006 and 2005 are as follows:

	2006	2005
Cash payments	\$10,000,000.00	\$10,000,000.00
Accrued payments at beginning of fiscal year	<u>0.00</u>	<u>(782,342.00)</u>
Amount paid from current year revenue	10,000,000.00	9,217,658.00
Accrued payments at end of fiscal year	<u>0.00</u>	<u>.00</u>
Total Payments to Multicategorical Teaching Hospital	<u>\$10,000,000.00</u>	<u>\$9,217,658.00</u>

Payments to the Health and Human Services Commission for unclaimed prizes during fiscal year 2006 and 2005 are as follows:

	2006	2005
Cash payments	\$0.00	\$28,665,905.00
Accrued payments at beginning of fiscal year	<u>0.00</u>	<u>0.00</u>
Amount paid from current year revenue	0.00	28,665,905.00
Accrued payments at end of fiscal year	<u>0.00</u>	<u>0.00</u>
Total Payments to the Health and Human Services Commission	<u>\$0.00</u>	<u>\$28,665,905.00</u>

REVENUES AND EXPENSES

Operating and Non-operating Revenues or Expenses

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

Operating expenses are those costs that are either directly connected to the operation of lottery activities or necessary for the maintenance of the business enterprise. Expenses incurred for non-operating properties or in the performance of activities not directly related to the basic business enterprise are categorized as non-operating.

Recognition of Revenue

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

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

Lottery Prizes

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

Retailer Commissions

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

Retailer Bonuses

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

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

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

Lottery Operator Fees

The Lottery operator received a fee of 2.6999 percent for fiscal year 2006 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.

Use of Estimates

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

<i>NOTE 2: Capital Assets</i>

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

The following schedules present the composition of the Commission's capital assets, adjustments, reclassifications, additions, and deletions during fiscal years 2006 and 2005. The reclassifications column shows completed construction projects and transfers of capital assets between agencies, if any. The additions column includes current year purchases and depreciation. The deletions column shows assets removed during a fiscal year.

Fiscal Year 2006

	PRIMARY GOVERNMENT							
	Balance 9/1/2005	Adjustments	Reclassifications			Additions	Deletions	Balance 8/31/2006
			Completed CIP	Increase Int'gy Trans	Decrease Int'gy Trans			
GOVERNMENTAL ACTIVITIES								
Depreciable Assets								
Furniture and Equipment	\$ 207,457.13						\$ (5,264.69)	\$ 202,192.44
Total Depreciable Assets at Historical Costs	\$ 207,457.13						\$ (5,264.69)	\$ 202,192.44
Less Accumulated Depreciation for:								
Furniture and Equipment	\$ (202,878.05)				\$ (4,579.08)	\$ 5,264.69		\$ (202,192.44)
Total Accumulated Depreciation	(202,878.05)				(4,579.08)	5,264.69		(202,192.44)
Depreciable Assets, Net	4,579.08				(4,579.08)		-	-
Governmental Activities Capital Assets, Net	\$ 4,579.08				\$ (4,579.08)		\$ -	\$ -

	PRIMARY GOVERNMENT							
	Balance 9/1/2005	Adjustments	Reclassifications			Additions	Deletions	Balance 8/31/2006
			Completed CIP	Increase Int'gy Trans	Decrease Int'gy Trans			
BUSINESS-TYPE ACTIVITIES								
Depreciable Assets								
Furniture and Equipment	\$ 5,907,996.93	\$ 11,400.00			\$ (5,043.88)	\$ 174,773.79	\$ (604,923.98)	\$ 5,484,202.86
Vehicle, Boats & Aircraft	32,706.57							32,706.57
Total Depreciable Assets at Historical Costs	\$ 5,940,703.50	\$ 11,400.00			\$ (5,043.88)	\$ 174,773.79	\$ (604,923.98)	\$ 5,516,909.43
Less Accumulated Depreciation for:								
Furniture and Equipment	\$ (5,095,468.84)	\$ (1,899.96)			\$ 5,043.88	\$ (253,728.62)	\$ 604,923.98	\$ (4,741,129.56)
Vehicle, Boats & Aircraft	(23,060.56)					(1,897.56)		(24,958.12)
Total Accumulated Depreciation	(5,118,529.40)	(1,899.96)			5,043.88	(255,626.18)	604,923.98	(4,766,087.68)
Depreciable Assets, Net	822,174.10	9,500.04			-	(80,852.39)	-	750,821.75
Business-Type Activities Capital Assets, Net	\$ 822,174.10	\$ 9,500.04			\$ -	\$ (80,852.39)	\$ -	\$ 750,821.75

Fiscal Year 2005

	PRIMARY GOVERNMENT							
	Balance 9/1/2004	Adjustments	Reclassifications			Additions	Deletions	Balance 8/31/2005
			Completed CIP	Increase Int'gy Trans	Decrease Int'gy Trans			
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	\$ (198,299.57)				\$ (4,578.48)			\$ (202,878.05)
Total Accumulated Depreciation	(198,299.57)				(4,578.48)			(202,878.05)
Depreciable Assets, Net	9,157.56				(4,578.48)			4,579.08
Governmental Activities Capital Assets, Net	\$ 9,157.56				\$ (4,578.48)			\$ 4,579.08

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

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

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

NOTE 3: Deposits, Investments, & Repurchase Agreements

The Commission's deposits are collateralized under a program administered by the Texas Treasury Safekeeping Trust Company. State law requires that all State funds administered by the Texas Treasury Safekeeping Trust Company deposited in financial institutions above the federally insured amounts be fully collateralized by the pledging of eligible securities valued at market excluding accrued interest to the state.

All securities pledged to the state must be held by a third-party bank domiciled in Texas; the Federal Reserve Bank of Dallas or one of its branches; or in the vault of the Texas Treasury Safekeeping Trust Company. The deposits were covered by depository insurance or fully collateralized at August 31, 2006 and 2005.

Deposits of Cash in Bank

As of August 31, 2006, the carrying amount of deposits was \$7,500.00 as presented below:

Governmental and Business Type Activities	
Cash in Bank – Carrying Amount	\$7,500.00
Total Cash in Bank	\$7,500.00
Proprietary Funds Current Assets Cash in Bank	\$7,500.00
Total Cash in Bank	\$7,500.00

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

As of August 31, 2006, the total bank balance was as follows:

Governmental and Business Type Activities	\$6,434.24
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Investments

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

As of August 31, 2006, the fair value of investments are as presented below:

Governmental and Business Type Activities	Fair Value
U.S. Government Obligations	\$1,261,610,563.40
Repurchase Agreement	13,687,464.02
Total Investments	\$1,275,298,027.42
Reconciliation of Investments– Governmental and Business – Type Activities	
Proprietary Funds Current Assets Restricted Short-Term Investments	\$173,687,706.97
Proprietary Funds Non-Current Restricted Investments	1,101,610,320.45
Total Investments	\$1,275,298,027.42

Investment Type	Fair Value	Less Than 1	1-5	6-10	More than 10
U.S. Government Obligations	\$1,261,610,563.40	\$160,000,242.95	\$570,597,037.36	\$393,214,060.69	\$137,799,222.40
Repurchase Agreement	13,687,464.02	13,687,464.02	-	-	-
Total	\$1,275,298,027.42	\$173,687,706.97	\$570,597,037.36	\$393,214,060.69	\$137,799,222.40

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. By rule, the Commission, through the Texas Treasury Safekeeping Trust Company, can only invest in U.S. Government Agency Obligations. These investments are explicitly guaranteed by the U.S. Government. As of August 31, 2006, the Commission's credit quality distribution for securities with credit risk exposure was as follows:

Standard & Poor's

Fund Type	GAAP Fund	Investment Type	AAA	Aaa
05	5025	U.S. Government Obligations	\$23,316,270.30	\$1,236,000,411.18

Unrated

05	5025	U.S. Government Obligations		\$2,293,881.92
05	5025	Repurchase Agreement		\$13,687,464.02

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

Reverse Repurchase Agreements

At August 31, 2006 and 2005, certain investments were subject to reverse repurchase agreements entered into by the Texas Treasury Safekeeping Trust Company. Such reverse repurchase agreements, which are permitted by statute, consist of sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Proceeds are invested in securities that mature at or near the same date as the reverse repurchase agreement and the proceeds from those securities will be used to liquidate the agreement, resulting in a matched position and minimizing market risk because the Texas Treasury Safekeeping Trust Company will hold the securities to maturity and liquidate them at face value. The market value of securities underlying reverse repurchase agreements normally exceeds the cash received, providing a margin against decline in market value. If the re-purchaser defaults on the obligation to sell these securities to the Texas Treasury Safekeeping Trust Company or provide securities or cash of equal value, an economic loss could result equal to the difference between the face value and the market value plus accrued interest of the underlying securities. Any such loss incurred would be the responsibility of the Texas Treasury Safekeeping Trust Company rather than the Commission. To minimize the risk of such default, all securities backing the reverse repurchase agreements are held by the Federal Reserve Bank in the name of the Comptroller of Public Accounts, Treasury Operations. There were no significant violations of legal or contractual provisions during the year.

The amount of investments subject to reverse repurchase agreements at August 31, 2006 and 2005 was approximately \$107,437,556.84 and \$119,339,959.10, respectively, at book value. The fair value of the securities underlying these agreements at August 31, 2006 and 2005 was approximately \$107,158,621.17 and \$123,999,325.35, respectively.

NOTE 4: Summary of Long Term Liabilities

Changes in Long-Term Liabilities

During the years ended August 31, 2006 and 2005, the following changes occurred in long-term liabilities.

Year Ended August 31, 2006

Governmental Activities	Balance 09-01-2005	Additions	Deductions	Balance 08-31-2006	Amounts Due Within One Year
Compensable Leave	\$258,825.06	\$278,629.24	\$252,790.77	\$284,663.53	\$168,967.02
Total Governmental Activities	\$258,825.06	\$278,629.24	\$252,790.77	\$284,663.53	\$168,967.02

Business-Type Activities	Balance 09-01-2005	Additions	Deductions	Balance 08-31-2006	Amounts Due Within One Year
Compensable Leave	\$1,500,106.52	\$1,869,158.03	\$1,617,812.33	\$1,751,452.22	\$1,112,211.63
Total Business-Type Activities	\$1,500,106.52	\$1,869,158.03	\$1,617,812.33	\$1,751,452.22	\$1,112,211.63

Year Ended August 31, 2005

Governmental Activities	Balance 09-01-2004	Additions	Deductions	Balance 08-31-2005	Amounts Due Within One Year
Compensable Leave	\$243,150.42	\$232,268.90	\$216,594.26	\$258,825.06	\$154,328.77
Total Governmental Activities	\$243,150.42	\$232,268.90	\$216,594.26	\$258,825.06	\$154,328.77

Business-Type Activities	Balance 09-01-2004	Additions	Deductions	Balance 08-31-2005	Amounts Due Within One Year
Compensable Leave	\$1,365,883.47	\$1,560,723.28	\$1,426,500.23	\$1,500,106.52	\$980,883.72
Total Business-Type Activities	\$1,365,883.47	\$1,560,723.28	\$1,426,500.23	\$1,500,106.52	\$980,883.72

Employees' Compensable Leave

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

NOTE 5: Operating Lease Obligations

The Commission leases its central office, which includes the lottery drawing studio and a claim center, a parking garage for the central office, and a warehouse/disaster recovery center in Austin. Also, ten claim centers and five regional offices throughout the State are under the terms of operating leases expiring at various dates through 2016. Rent expense for Charitable Bingo and Lottery operations under these and other leases, amounted to \$7,253,658.49 in fiscal year 2006. These lease agreements generally do not require payment of taxes, insurance and maintenance by the Commission, except for utility costs directly attributable

to computer equipment at the central office and utility and janitorial costs at some claim/regional centers. 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.

Fund Type	Amount
Governmental Activities	\$6,844.46
Business-Type Activities	\$7,246,814.03
Total	\$7,253,658.49

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,	
2007	\$4,055,004.40
2008	4,036,239.79
2009	3,843,778.76
2010	2,878,010.62
2011	44,055.48
2012-2016	139,565.52
Total Minimum Future Lease Rental Payments	\$14,996,654.57

NOTE 6: Interfund Balances/Activities

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables. There were no Interfund Balances as of August 31, 2006.

NOTE 7: Employees' Retirement Plan

The State of Texas has joint contributory retirement plans for substantially all of its employees. The Commission participates in the defined benefit pension plan administered by the Employees Retirement System of Texas (the "System"). The plan is considered to be a cost-sharing multiple employer defined benefit pension plan. The funding policy requires monthly contributions by both the state and the employees. Employees participating in the plan must contribute 6 percent of their pay into the system. The State contribution is 7.4 percent of the total compensation for employees participating in the retirement plan. The State's portion of the contribution is recognized by the Commission as revenue or additional appropriations, in addition to recognizing an equal and corresponding expenditure/expense. For the years ending August 31, 2006 and 2005, the Commission recognized revenue and expenditures/expenses of \$964,953.98 and \$818,184.45, respectively.

Future pension costs are the liabilities of the System. The System does not account for each state agency separately. Annual financial reports prepared by the System include audited financial statements and actuarial assumptions and conclusions. The audited financial report for the Employees Retirement Plan is available by writing: Employees Retirement System of Texas, P.O. Box 13207, Austin, Texas, 78711.

NOTE 8: Deferred Compensation

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

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

NOTE 9: Continuance Subject to Review

Under the Texas Sunset Act, the Agency will be abolished effective September 1, 2011, unless continued by the 82nd Legislature as provided by the Act. If abolished, the Agency may continue until September 1, 2012 to close out its operations.

NOTE 10: Segment Information

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

NOTE 11: Restatement of Fund Balances / Net Assets

During 2006, 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. The restatement was made to the Enterprise fund and should have also been made to the General Fund. The restatement is for a fiscal year 1994 transaction

	General Funds	Enterprise Funds	Total
Fund Bal/Equity August 31, 2005	\$222,616.90	\$92,193,321.61	\$92,415,938.51
Restatements:			
(a)	885,268.59	0.00	885,268.59
Net Restatements	885,268.59	0.00	885,268.59
Fund Bal/Equity Sept 1, 2005 As Restated	\$1,107,885.49	\$92,193,321.61	\$93,301,207.10

NOTE 12: Concentration

The Commission entered into a contract (from October 10, 2001 through August 31, 2011) with a lottery operator as the sole provider of gaming systems, certain application control systems, instant ticket services and warehousing of lottery tickets to the Commission. The contract with the lottery operator represents a significant concentration of business with one vendor.

NOTE 13: Commitments and Contingencies

The following are pending lawsuits seeking monetary damages against the Commission. None of these pending cases is likely to result in a recovery against the Commission in a material amount, as “material” includes only amounts exceeding \$5,000,000 individually or in the aggregate.

- (1) *Cynthia Suarez v. Texas Lottery Commission*, Cause No. D-1-GN-06-0308, in the 126th District Court Travis County, Texas, was filed on January 26, 2006, seeking monetary damages. The Legislative Budget Board and the Attorney General have been notified of this litigation.
- (2) *Shelton Charles v. Texas Lottery and Gary Grief*, Civil No. A-06-CA-158LY, in the U.S. District Court, Western District of Texas, Austin Division, was originally filed in District Court, Travis County, Texas on February 2, 2006, seeking, monetary damages. The Legislative Budget Board and the Attorney General have been notified of this litigation.
- (3) *Stephen Martin v. Texas Lottery Commission*, Civil No. A-06-CA-287LY., in the U.S. District Court, Western District of Texas, Austin Division, was originally filed in District Court, Travis County, Texas on March 31, 2006, seeking, monetary damages. The Legislative Budget Board and the Attorney General have been notified of this litigation.
- (4) *Patsy Henry v. Texas Lottery Commission*, Cause No. GN204032, in the 353rd District Court of Travis County, Texas, was filed on November 8, 2002, seeking monetary damages. The Legislative Budget Board and the Attorney General have been notified of this litigation
- (5) *William G. West, Trustee (In re: Bijani, Hamid H. Debtor) v. Texas Lottery Commission*, Case No. 05-93546-H5-7 (Chapter 7), Adversary No. 06-3466, in the U.S. Bankruptcy Court, Southern District of Texas Houston Division, was filed on July 11, 2006, seeking a monetary judgment. The Attorney General has been notified of this litigation.

The following are pending claims against the Commission. None of these pending claims is likely to result in a recovery against the Commission in a material amount, as “material” includes only amounts exceeding \$5,000,000 individually or in the aggregate.

1. *Earl Trawick*. On June 4, 2006, Mr. Trawick filed a claim with the EEOC, alleging claims as to equal pay and sex discrimination, seeking monetary compensation. On July 28, 2006, the EEOC issued a ruling, finding no merit to Mr. Trawick’s charges. Mr. Trawick has 90 days from the date of that ruling to file a lawsuit as to his sex discrimination claim, and he has 2 years to file a suit as to his Equal Pay Act claim. This matter is under review administratively within the Commission utilizing the Commission’s EEO procedure.

2. *SanJuanita Flores*. In 2005, Ms. Flores submitted a claim indicating that she had worked hours of unreported time during the period beginning in September 2002 and ending in September 2004. This matter is under review within the Commission.

<i>NOTE 14: Risk Financing</i>

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

The Commission assumes substantially all risks with tort claims and liability claims due to the performance of its duties. Currently, there is no purchase of commercial insurance. The Commission also participates in the State Office of Risk Management's (SORM) Risk Management and Worker's Compensation Coverage Program. The Commission's assessment for FY 06 was \$38,969.31. The assessment covers worker's compensation and risk management costs.

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

Changes in the balances of the Commission's claims liabilities during fiscal years 2005 and 2006 were as follows:

	Beginning of Fiscal Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2005	\$ 0.00	\$840.00	\$840.00	\$0.00
2006	\$0.00	\$0.00	\$0.00	\$0.00

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

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Texas Lottery Commission
Budgetary Comparison Schedule - General Fund
for the Fiscal Year Ended August 31, 2006
(Unaudited)

	GENERAL FUND			
	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance with Budget
	Budget (Original)	Budget (Final)		
REVENUES				
Legislative Appropriations:				
Original Appropriations	\$ 2,480,812.00	\$ 2,480,812.00	\$ 2,480,812.00	\$ -
Additional Appropriations	664,227.12	664,227.12	660,430.20	(3,796.92)
Licenses, Fees and Permits	10,979,500.00	11,567,778.60	11,455,605.88	(112,172.72)
Other	-	-	388,209.20	388,209.20
Total Revenues	<u>14,124,539.12</u>	<u>14,712,817.72</u>	<u>14,985,057.28</u>	<u>272,239.56</u>
		588,278.60		
EXPENDITURES				
Salaries and Wages	2,324,372.12	2,324,372.12	2,256,118.50	68,253.62
Payroll Related Costs	582,246.00	582,246.00	554,744.12	27,501.88
Professional Fees and Services	43,860.00	51,720.00	55,515.00	(3,795.00)
Travel	85,542.00	85,542.00	85,564.15	(22.15)
Materials and Supplies	36,241.00	36,241.00	34,443.99	1,797.01
Communication and Utilities	253.00	253.00	252.72	0.28
Repairs and Maintenance	2,592.00	2,592.00	3,614.50	(1,022.50)
Rentals and Leases	3,150.00	20,995.00	6,844.46	14,150.54
Printing and Reproduction	20,000.00	2,155.00	3,292.94	(1,137.94)
Other Expenditures	46,783.00	38,923.00	30,899.11	8,023.89
Appropriations Lapsed	-	-	84,535.26	(84,535.26)
Intergovernmental Allocations	10,979,500.00	11,567,778.60	11,456,502.45	111,276.15
Total Expenditures/Expenses	<u>14,124,539.12</u>	<u>14,712,817.72</u>	<u>14,572,327.20</u>	<u>140,490.52</u>
Excess (Deficiency) of Revenues Over Expenditures	-	-	412,730.08	412,730.08
FUND FINANCIAL STATEMENT-FUND BALANCES				
Fund Balances, Beginning of Year, As Restated	1,107,885.49	1,107,885.49	1,107,885.49	
Fund Balances, August 31, 2006	<u>\$ 1,107,885.49</u>	<u>\$ 1,107,885.49</u>	<u>\$ 1,520,615.57</u>	<u>\$ 412,730.08</u>

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NOTE TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING FOR THE FISCAL YEAR ENDED AUGUST 31, 2006

The financial statements for the Commission are prepared in accordance with generally accepted accounting principles - "GAAP basis". Since the Commission, like most other agencies of the state, prepares its annual budget using the modified accrual basis, which differs from the "GAAP basis", additional schedules of revenues and expenditures are presented for the General Fund to provide a meaningful comparison of actual results.

Adjustments necessary to convert the results of operations of the General Fund for the year ended August 31, 2006 from "budget basis" to "GAAP basis" are as follows:

RECONCILIATION OF BUDGETARY BASIS TO GAAP	
Total Fund Balance - Governmental Funds	\$ 1,520,615.57
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund. These assets consist of:	
Furniture and equipment	202,192.44
Accumulated depreciation	<u>(202,192.44)</u>
Total Capital Assets	-
Some liabilities are not due and payable in the current period and therefore are not reported in the fund. Those liabilities consist of:	
Employee compensated leave	<u>(284,663.53)</u>
Total long-term liabilities	<u>(284,663.53)</u>
Net Assets of Governmental Activities	<u><u>\$ 1,235,952.04</u></u>

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**Other Supplementary Information-
Combining Financial Statements**

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Texas Lottery Commission
Combining Statement of Changes in Assets and Liabilities -
Agency Funds
For the Fiscal Year Ended August 31, 2006

	Beginning Balance September 1, 2005	Additions	Deductions	Ending Balance August 31, 2006
UNAPPROPRIATED RECEIPTS				
<u>Suspense Fund Seized Funds (0900) U/F (0362)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ 24,136.28	\$ 48,272.56	\$ 48,272.56	\$ 24,136.28
Total Assets	<u>\$ 24,136.28</u>	<u>\$ 48,272.56</u>	<u>\$ 48,272.56</u>	<u>\$ 24,136.28</u>
LIABILITIES				
Current				
Funds Held for Others	\$ 24,136.28	\$ 48,272.56	\$ 48,272.56	\$ 24,136.28
Total Liabilities	<u>\$ 24,136.28</u>	<u>\$ 48,272.56</u>	<u>\$ 48,272.56</u>	<u>\$ 24,136.28</u>
<u>Suspense Fund (0900) U/F (0900)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ 2,700.00	\$ 577.60	\$ 3,277.60	\$ -
Total Assets	<u>\$ 2,700.00</u>	<u>\$ 577.60</u>	<u>\$ 3,277.60</u>	<u>\$ -</u>
LIABILITIES				
Current				
Funds Held for Others	\$ 2,700.00	\$ 577.60	\$ 3,277.60	\$ -
Total Liabilities	<u>\$ 2,700.00</u>	<u>\$ 577.60</u>	<u>\$ 3,277.60</u>	<u>\$ -</u>
<u>USPS - Overpayments to employees (0900) U/F (9015)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ 1,297.80	\$ 2,528.57	\$ 3,826.37	\$ -
Total Assets	<u>\$ 1,297.80</u>	<u>\$ 2,528.57</u>	<u>\$ 3,826.37</u>	<u>\$ -</u>
LIABILITIES				
Current				
Funds Held for Others	\$ 1,297.80	\$ 2,528.57	\$ 3,826.37	\$ -
Total Liabilities	<u>\$ 1,297.80</u>	<u>\$ 2,528.57</u>	<u>\$ 3,826.37</u>	<u>\$ -</u>
<u>Warrant Hold Offset (0900) U/F (9016)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ -	\$ 7,644.27	\$ 7,644.27	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 7,644.27</u>	<u>\$ 7,644.27</u>	<u>\$ -</u>
LIABILITIES				
Current				
Funds Held for Others	\$ -	\$ 7,644.27	\$ 7,644.27	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 7,644.27</u>	<u>\$ 7,644.27</u>	<u>\$ -</u>
<u>Savings Bond Fund (0901) U/F (0901)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ 600.00	\$ 6,850.00	\$ 6,800.00	\$ 650.00
Total Assets	<u>\$ 600.00</u>	<u>\$ 6,850.00</u>	<u>\$ 6,800.00</u>	<u>\$ 650.00</u>
LIABILITIES				
Current				
Funds Held for Others	\$ 600.00	\$ 6,850.00	\$ 6,800.00	\$ 650.00
Total Liabilities	<u>\$ 600.00</u>	<u>\$ 6,850.00</u>	<u>\$ 6,800.00</u>	<u>\$ 650.00</u>

Texas Lottery Commission
Combining Statement of Changes in Assets and Liabilities -
Agency Funds
For the Fiscal Year Ended August 31, 2006

	Beginning Balance September 1, 2005	Additions	Deductions	Ending Balance August 31, 2006
<u>Deferred Compensation 401K (0942) U/F (0942)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ -	\$ 480,975.27	\$ 480,975.27	\$ -
Other Receivables	-	521,048.63	521,048.63	-
Total Assets	<u>\$ -</u>	<u>\$ 1,002,023.90</u>	<u>\$ 1,002,023.90</u>	<u>\$ -</u>
LIABILITIES				
Current				
Funds Held for Others	\$ -	\$ 521,048.63	\$ 521,048.63	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 521,048.63</u>	<u>\$ 521,048.63</u>	<u>\$ -</u>
<u>Correction Account - Direct Deposit (0980) U/F (0980)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ -	\$ 309.10	\$ 309.10	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 309.10</u>	<u>\$ 309.10</u>	<u>\$ -</u>
LIABILITIES				
Current				
Funds Held for Others	\$ -	\$ 309.10	\$ 309.10	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 309.10</u>	<u>\$ 309.10</u>	<u>\$ -</u>
<u>Bingo Cash Bonds (0001) Fund (1002)</u>				
ASSETS				
Current				
Cash in State Treasury	\$ -	\$ 67,907.52	\$ 67,907.52	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 67,907.52</u>	<u>\$ 67,907.52</u>	<u>\$ -</u>
LIABILITIES				
Current				
Payables	\$ -	\$ -	\$ -	\$ -
Funds Held for Others	-	-	-	-
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Totals - All Agency Funds				
ASSETS				
Current				
Cash in State Treasury	\$ 28,734.08	\$ 615,064.89	\$ 619,012.69	\$ 24,786.28
Receivables:				
Other	-	521,048.63	521,048.63	-
Total Assets	<u>\$ 28,734.08</u>	<u>\$ 1,136,113.52</u>	<u>\$ 1,140,061.32</u>	<u>\$ 24,786.28</u>
LIABILITIES				
Current				
Funds Held for Others	28,734.08	587,230.73	591,178.53	24,786.28
Total Liabilities	<u>\$ 28,734.08</u>	<u>\$ 587,230.73</u>	<u>\$ 591,178.53</u>	<u>\$ 24,786.28</u>

STATISTICAL SECTION



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Statistical Section

This part of the Texas Lottery Commission's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the commission's overall financial health.

<u>Contents</u>	Page
Financial Trends These schedules contain trend information to help the reader understand how the commission's financial performance and well-being have changed over time.	83
Revenue Capacity These schedules contain information to help the reader assess the commission's most significant revenue source, lottery sales.	91
Demographic Information These schedules offer demographic indicators to help the reader understand the environment within which the Commission's financial activities take place.	95
Operating Information These schedules contain available employee data to help the reader understand how the information in the Commission's financial report relates to the functions/programs the Commission performs.	101
National Lottery Information The schedules contain information from all other state lotteries to help the reader understand how the Commission's financial results compare to similar entities.	105

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The Commission implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.

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Financial Trends

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Schedule 1
Texas Lottery Commission
Net Assets by Component,
Last Five Fiscal Years
(Accrual basis of accounting)

	Fiscal Year				
	<u>2002</u> ^c	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ 27,854.40	\$ 20,206.50	\$ 9,157.56	\$ 4,579.08	\$ -
Unrestricted	291,176.09	(151,595.46)	(51,628.82)	(36,208.14)	1,235,952.04 ^a
Total governmental activities net assets	<u>\$ 319,030.49</u>	<u>\$ (131,388.96)</u>	<u>\$ (42,471.26)</u>	<u>\$ (31,629.06)</u>	<u>\$ 1,235,952.04</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 1,274,432.85	\$ 1,101,588.58	\$ 1,038,243.70	\$ 822,174.10	\$ 750,821.75
Expendable restricted for:					
Pooled Bond Fund	5,000,000.00	5,000,000.00	5,000,000.00	5,000,000.00	5,000,000.00
Prize Reserve Fund	4,562,632.52	6,089,256.57	10,898,145.81	13,774,176.83	13,837,358.66
Unrestricted	90,560,506.33	74,486,448.87	89,245,511.07	72,596,970.66	12,658,647.66 ^b
Total business-type activities net assets	<u>\$ 101,397,571.70</u>	<u>\$ 86,677,294.02</u>	<u>\$ 106,181,900.58</u>	<u>\$ 92,193,321.59</u>	<u>\$ 32,246,828.07</u>
Primary government					
Invested in capital assets, net of related debt	\$ 1,302,287.25	\$ 1,121,795.08	\$ 1,047,401.26	\$ 826,753.18	\$ 750,821.75
Expendable restricted for:					
Pooled Bond Fund	5,000,000.00	5,000,000.00	5,000,000.00	5,000,000.00	5,000,000.00
Prize Reserve Fund	4,562,632.52	6,089,256.57	10,898,145.81	13,774,176.83	13,837,358.66
Unrestricted	90,851,682.42	74,334,853.41	89,193,882.25	72,560,762.52	13,894,599.70
	<u>\$ 101,716,602.19</u>	<u>\$ 86,545,905.06</u>	<u>\$ 106,139,429.32</u>	<u>\$ 92,161,692.53</u>	<u>\$ 33,482,780.11</u>

^a The increase in unrestricted net assets is due to a restatement. See Note 11 in the "Notes to the Financial Statements" for further detail.

^b The decrease in net assets is caused by the marked down of investments to market value in accordance with GASB 31.

^c Fiscal Year 2002 was the first year of GASB 34 implementation

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Schedule 2

Texas Lottery Commission

Changes in Net Assets, Last Five Fiscal Years

(Accrual basis of accounting)

	Fiscal Year				
	2002 ^b	2003	2004	2005	2006
Expenses					
Governmental Activities:					
Bingo Prize Fee Collections and Accounting	\$ -	\$ -	\$ 10,382,387.02	\$ 10,887,111.93	\$ 11,692,325.43
Bingo Licensing	10,681,414.55	11,561,689.33	1,150,873.43	1,426,525.86	1,057,205.84
Bingo Law Compliance Field Operations	1,790,882.60	1,615,025.05	1,579,692.12	1,391,118.04	1,662,947.92
Bingo Education and Development	-	-	152,997.07	156,598.63	190,265.56
Total governmental activities expenses	<u>12,472,297.15</u>	<u>13,176,714.38</u>	<u>13,265,949.64</u>	<u>13,861,354.46</u>	<u>14,602,744.75</u>
Business-type activities:					
Lottery Operations	2,016,236,608.59	2,140,258,823.65	2,405,177,073.73	2,574,111,661.84	2,662,751,734.93
Marketing, Research, and Promotion	3,710,708.79	5,065,432.69	5,219,676.84	4,388,066.17	2,695,298.64
Central Administration	11,268,119.87	12,904,535.59	10,297,034.49	11,287,950.82	19,859,900.95
Enforcement	3,419,028.83	5,460,480.42	5,324,734.69	4,471,298.85	1,779,080.09
Intergovernmental	928,881,809.01	949,088,064.48	1,051,041,006.96	1,070,302,868.51	1,090,333,057.54
Lottery Prize Investments	-	30,162,753.24	-	12,873,963.41	58,685,603.75
Total business-type activities expenses	<u>2,963,516,275.09</u>	<u>3,142,940,090.07</u>	<u>3,477,059,526.71</u>	<u>3,677,435,809.60</u>	<u>3,836,104,675.90</u>
Total primary government expenses	<u>\$ 2,975,988,572.24</u>	<u>\$ 3,156,116,804.45</u>	<u>\$ 3,490,325,476.35</u>	<u>\$ 3,691,297,164.06</u>	<u>\$ 3,850,707,420.65</u>
Program Revenues					
Governmental activities:					
Charges for services:					
Bingo Prize Fee Collections and Accounting	\$ -	\$ -	\$ 10,202,295.64	\$ 10,715,557.44	\$ 11,455,391.72
Bingo Licensing	9,206,540.42	9,475,701.65	12,082.93	1,500.00	106,085.00
Bingo Law Compliance Field Operations	-	-	71,539.32	28,500.00	274,775.00
Bingo Education and Development	-	-	1,265.63	3,693.07	7,563.36
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-
Total governmental activities program revenues	<u>9,206,540.42</u>	<u>9,475,701.65</u>	<u>10,287,183.52</u>	<u>10,749,250.51</u>	<u>11,843,815.08</u>
Business-type activities:					
Charges for services:					
Lottery Operations	2,966,991,960.91	3,131,510,438.52	3,488,768,406.86	3,663,305,470.88	3,775,440,071.64
Marketing, Research, and Promotion	-	-	-	-	-
Central Administration	425,991.84	68,980.48	172,517.05	141,810.15	710,292.65
Enforcement	133,857.50	-	-	-	7,818.07
Intergovernmental	-	-	-	-	-
Lottery Prize Investments	59,860,020.00	-	8,508,477.95	-	-
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-
Total business-type activities program revenues	<u>3,027,411,830.25</u>	<u>3,131,579,419.00</u>	<u>3,497,449,401.86</u>	<u>3,663,447,281.03</u>	<u>3,776,158,182.36</u>
Total primary government program revenue:	<u>\$ 3,036,618,370.67</u>	<u>\$ 3,141,055,120.65</u>	<u>\$ 3,507,736,585.38</u>	<u>\$ 3,674,196,531.54</u>	<u>\$ 3,788,001,997.44</u>
Net (Expense)/Revenues					
Governmental activities:	\$ (3,265,756.73)	\$ (3,701,012.73)	\$ (2,978,766.12)	\$ (3,112,103.95)	\$ (2,758,929.67)
Business-type activities:	<u>63,895,555.16</u>	<u>(11,360,671.07)</u>	<u>20,389,875.15</u>	<u>(13,988,528.57)</u>	<u>(59,946,493.54)</u>
Total primary government net (expense)/revenue:	<u>\$ 60,629,798.43</u>	<u>\$ (15,061,683.80)</u>	<u>\$ 17,411,109.03</u>	<u>\$ (17,100,632.52)</u>	<u>\$ (62,705,423.20)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Legislative appropriations	\$ 3,334,634.80	\$ 3,263,089.11	\$ 3,067,683.82	\$ 3,122,946.15	\$ 3,141,242.20
Total governmental activities	<u>3,334,634.80</u>	<u>3,263,089.11</u>	<u>3,067,683.82</u>	<u>3,122,946.15</u>	<u>3,141,242.20</u>
Total primary government	<u>\$ 3,334,634.80</u>	<u>\$ 3,263,089.11</u>	<u>\$ 3,067,683.82</u>	<u>\$ 3,122,946.15</u>	<u>\$ 3,141,242.20</u>
Change in Net Assets					
Governmental activities	\$ 68,878.07	\$ (437,923.62)	\$ 88,917.70	\$ 10,842.20	\$ 382,312.53
Business-type activities	<u>63,895,555.16</u>	<u>(11,360,671.07)</u>	<u>20,389,875.15</u>	<u>(13,988,528.57)</u>	<u>(59,946,493.54)</u>
Total primary government	<u>\$ 63,964,433.23^a</u>	<u>\$ (11,798,594.69)^a</u>	<u>\$ 20,478,792.85^a</u>	<u>\$ (13,977,686.37)^a</u>	<u>\$ (59,564,181.01)^a</u>

^a The fluctuations from year to year are caused by the marking up/down of investments to market value in accordance with GASB 31.

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Schedule 3
Texas Lottery Commission
Fund Balances, Governmental Funds,
Last Seven Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year						
	<u>2000</u> ^b	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund							
Reserved	\$ 711,897.44	\$ 426,643.71	\$ 499,625.42	\$ 18,017.94	\$ 23,341.00	\$ 22,193.83	\$ 4,920.00
Unreserved	-	13,657.00	3,887.58	62,481.49	168,179.60	200,423.07	1,515,695.57 ^a
Total general fund	<u>\$ 711,897.44</u>	<u>\$ 440,300.71</u>	<u>\$ 503,513.00</u>	<u>\$ 80,499.43</u>	<u>\$ 191,520.60</u>	<u>\$ 222,616.90</u>	<u>\$ 1,520,615.57</u>

^a The increase in unreserved fund balance for 2006 is due to a restatement. See Note 11 in the "Notes to the Financial Statements" for further detail.

^b Governmental Funds were not reported before Fiscal Year 2000.

Schedule 4
Texas Lottery Commission
Changes in Fund Balances, Governmental Funds,
Last Seven Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year						
	<u>2000</u> ^b	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
REVENUES							
Legislative Appropriations:							
Original Appropriations	\$ 3,485,797.00	\$ 2,742,797.00	\$ 2,785,997.00	\$ 2,662,848.77	\$ 2,559,266.00	\$ 2,590,379.00	\$ 2,480,812.00
Additional Appropriations	429,127.42	462,567.87	548,637.80	579,786.67	508,417.82	532,567.15	660,430.20
Licenses, Fees and Permits	-	-	9,175,954.82 ^a	9,349,196.39	10,219,807.78	10,717,449.28	11,455,605.88
Settlement of Claims	-	-	-	-	-	-	262,275.00
Other	24,955.30	-	30,785.60	134,875.70	83,747.25	31,801.23	123,234.20
Total Revenues	<u>3,939,879.72</u>	<u>3,205,364.87</u>	<u>12,541,375.22</u>	<u>12,726,707.53</u>	<u>13,371,238.85</u>	<u>13,872,196.66</u>	<u>14,982,357.28</u>
EXPENDITURES							
Current:							
Salaries and Wages	2,136,392.62	2,219,725.09	2,040,223.35	2,312,622.61	2,065,698.41	2,113,428.08	2,256,118.50
Payroll Related Costs	335,682.91	363,915.05	444,264.98	472,463.04	483,773.18	505,160.61	554,744.12
Professional Fees and Services	227,586.40	261,872.13	185,774.75	458,430.02	167,795.12	41,000.00	55,515.00
Travel	76,221.58	86,765.24	88,811.20	59,112.66	71,996.36	76,792.29	85,564.15
Materials and Supplies	47,200.68	70,537.89	165,280.49	37,815.95	47,229.73	86,811.34	34,443.99
Communication and Utilities	13,691.40	104,567.61	33,657.13	252.72	252.72	1,452.72	252.72
Repairs and Maintenance	120.00	60,752.54	45,109.66	2,400.00	3,040.00	3,322.00	3,614.50
Rentals and Leases	153,044.72	171,725.01	167,958.02	175,165.09	177,079.61	180,103.85	6,844.46
Printing and Reproduction	43,092.40	31,316.19	29,511.10	52,516.85	26,997.79	20,608.71	3,292.94
Claims and Judgements	10,500.01	-	-	-	-	-	-
Other Expenditures	84,132.88	57,759.02	31,308.96	28,717.70	38,824.07	70,363.32	30,899.11
Appropriations Lapsed	285.33	14,869.53	47,415.47	213,111.00	60,000.00	20,735.31	84,535.26
Intergovernmental Payments	-	-	9,175,954.82 ^a	9,349,196.39	10,088,787.35	10,721,323.13	11,456,502.45
Capital Outlay	100,031.35	33,156.30	22,893.00	-	-	-	-
Total Expenditures	<u>3,227,982.28</u>	<u>3,476,961.60</u>	<u>12,478,162.93</u>	<u>13,161,804.03</u>	<u>13,231,474.34</u>	<u>13,841,101.36</u>	<u>14,572,327.20</u>
OTHER FINANCING SOURCES (USES)							
Gain (Loss) on Sale of Capital Assets	-	-	-	-	-	-	2,700.00
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,700.00</u>
Net Change in Fund Balances	<u>\$ 711,897.44</u>	<u>\$ (271,596.73)</u>	<u>\$ 63,212.29</u>	<u>\$ (435,096.50)</u>	<u>\$ 139,764.51</u>	<u>\$ 31,095.30</u>	<u>\$ 412,730.08</u>

^a Starting with Fiscal Year 2002, the Commission was appropriated bingo prize fees collected pursuant to Texas Occupation Code, Section 2001.504 for allocation to cities and counties as required by the Texas

^b Governmental Funds were not reported prior to Fiscal Year 2000.

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Revenue Capacity

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Schedule 5
Texas Lottery Commission
Ticket Sales by Game Type
Last Ten Fiscal Years

(In Millions)

	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Instant Game Sales	\$ 2,357.74	\$ 1,801.89	\$ 1,403.79	\$ 1,663.82	\$ 1,715.72	\$ 1,931.20 ^a	\$ 2,129.80	\$ 2,325.88	\$ 2,705.41	\$ 2,861.40
Online Game Sales	<u>1,387.73</u>	<u>1,288.14</u>	<u>1,167.81</u>	<u>993.47</u>	<u>1,109.57</u>	<u>1,035.06</u>	<u>1,000.90</u>	<u>1,162.05</u>	<u>957.05</u>	<u>913.29</u>
	<u>3,745.47</u>	<u>\$ 3,090.03</u>	<u>\$ 2,571.60</u>	<u>\$ 2,657.29</u>	<u>\$ 2,825.30</u>	<u>\$ 2,966.26</u>	<u>\$ 3,130.69</u>	<u>\$ 3,487.92</u>	<u>\$ 3,662.46</u>	<u>\$ 3,774.69</u>

^a Instant ticket sales have increased by 48% since 2002, because of a change in the Commission's instant ticket game plan which calls for shorter print runs, but a higher variety of instant games, including offering more popular and higher price point games to the public.

^b Total Sales are reported in the Commission's fund financial statements for each year. The source of the detail is internal sales reports.

Schedule 6
Texas Lottery Commission
Online Ticket Sales by Game
Last Ten Fiscal Years

(In Millions)

	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Lotto	\$ 906.33	\$ 801.24	\$ 714.72	\$ 583.47	\$ 695.17	\$ 593.99	\$ 526.32	\$ 477.82	\$ 306.66	\$ 241.71
Pick 3	158.55	180.26	183.66	195.19	206.76	236.42	261.15	277.25	284.95	295.39
Cash 5	322.86	259.65	190.21	163.31	144.29	121.67	141.02	122.38	102.66	90.27
Texas Million	-	46.99	79.22	51.50	30.42	-	-	-	-	-
Texas Two-Step	-	-	-	-	32.94	82.98	72.40	49.16	45.07	47.38
Mega Millions	-	-	-	-	-	-	-	189.87 ^c	177.46	191.85
Megaplier	-	-	-	-	-	-	-	45.56	40.25	46.69
	<u>\$ 1,387.73</u>	<u>\$ 1,288.14</u>	<u>\$ 1,167.81</u>	<u>\$ 993.47</u>	<u>\$ 1,109.57</u>	<u>\$ 1,035.06</u>	<u>\$ 1,000.90</u>	<u>\$ 1,162.05</u>	<u>\$ 957.05</u>	<u>\$ 913.29</u>

^c HB 3459, 78th Legislature, RS, authorized the Commission to enter into an agreement with other jurisdictions to participate in a multijurisdiction lottery game. In October 2003, the Commission joined ten other party lotteries in the Mega Millions multistate lottery game.

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Demographic Information

Schedule 7
Texas Lottery Commission
% of players surveyed that play Lottery games
Last Six Fiscal Years

	2001	2003	2005
Yes	63%	56%	51%
No	37%	44%	49%
	100%	100%	100%

Schedule 8
Texas Lottery Commission
Age of Lottery Players surveyed
Last Six Fiscal Years

	2001	2003	2005 ^a
18 to 25	11%	11%	
26 to 35	20%	19%	
36 to 45	25%	23%	
46 to 55	22%	22%	
56 to 66	13%	14%	
67+	9%	11%	
	100%	100%	

Schedule 9
Texas Lottery Commission
Income Level of Lottery Players surveyed
Last Six Fiscal Years

	2001	2003	2005 ^a
<\$10,000	6%	6%	
\$10,000 - 19,999	10%	10%	
\$20,000 - 29,999	14%	15%	
\$30,000 - 49,999	26%	25%	
\$50,000 +	44%	44%	
	100%	100%	

^a Comparable data is not available as scale changed for the 2005 Study.

(Note) In accordance with Section 466.021 of the State Lottery Act, the Commission was conducted a Demographic Study every two years. These schedules reflects the results of the most recent three studies encompassing the last six fiscal years. Other studies were not included as the methodology for calculating the % of the population for each category changed beginning with the 2001 survey.

Schedule 10
Texas Lottery Commission
Education Level of Lottery Players Surveyed
Last Six Fiscal Years

	2001	2003	2005
< High School	9%	8%	10%
High School	28%	25%	27%
Some College	28%	32%	22%
Collage Graduate	35%	35%	41%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Schedule 11
Texas Lottery Commission
Gender of Lottery Players Surveyed
Last Six Fiscal Years

	2001	2003	2005
Male	49%	46%	47%
Female	51%	54%	53%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Schedule 12
Texas Lottery Commission
Ethnicity of Lottery Players Surveyed
Last Six Fiscal Years

	2001	2003	2005
Caucasian	64%	62%	69%
Hispanic	25%	28%	16%
African-American	9%	8%	11%
Other	2%	2%	4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

(Note) In accordance with Section 466.021 of the State Lottery Act, the Commission was conducted a Demographic Study every two years. These schedules reflects the results of the most recent three studies encompassing the last six fiscal years. Other studies were not included as the methodology for calculating the % of the population for each category changed beginning with the 2001 survey.

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Schedule 13
Texas Lottery Commission
Bingo Players by Education Level

	<u>2004</u>
< High School	18%
High School	40%
Voc-Tech School	7%
Some College	23%
Collage Graduate	12%
	<u>100%</u>

Schedule 14
Texas Lottery Commission
Bingo Players by Income Level

	<u>2004</u>
<\$10,000	16%
\$10,000 - 24,999	23%
\$25,000 - 39,999	20%
\$40,000 - 59,999	15%
\$60,000 +	13%
Refused to Respond	13%
	<u>100%</u>

Schedule 15
Texas Lottery Commission
Bingo Players by Gender

	<u>2004</u>
Male	17%
Female	83%
	<u>100%</u>

Schedule 16
Texas Lottery Commission
Bingo Players by Ethnicity

	<u>2004</u>
Caucasian	56%
Hispanic	24%
African-American	16%
Asian	2%
Native American	1%
Other	1%
	<u>100%</u>

(Note) Unlike the Lottery side of the Commission, the Charitable Bingo Division is not required to report on Demographics every two years. The Division conducted their first demographic study in 2004. These schedules are derived from the 2004 Bingo Demographic Study.

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Operating Information

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Schedule 17
Texas Lottery Commission
Full-Time Equivalent Employees by Function/Program
Current fiscal year

	<u>2006</u>
Governmental Activities:	
Bingo Prize Fee Collections and Accounting	4
Bingo Licensing	16
Bingo Law Compliance Field Operations	21
Bingo Education and Development	3
	<u>44</u>
Business-type activities:	
Lottery Operations	108
Marketing, Research, and Promotion	16
Central Administration	128
Enforcement	15
	<u>267</u>
Total	<u><u>311</u></u>

(Source) Agency Payroll Records

(Note) The Commission has not previously prepared this schedule. The Commission is implementing it prospectively.

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National Statistics

Fiscal 2005 U.S. Lottery Sales, Prizes & Gov't Transfers Measured by Gross State Product

Lottery	Pop. ¹ (Mil)	2004 Gross State Product ²							Ticket Sales as % of GSP	Gov't Transfers as % of GSP	Prizes as % of Ticket Sales	Gov't Transfers as % of Ticket Sale	
			Ticket Sales	VLT (net)	Prizes	Expense	Gov't Transfers	PC Sales					PC Gov't
Arizona	5.9	199,953	397.56		200.30	54.69	116.39	\$67	\$20	0.199%	0.058%	50.4%	29.3%
California	36.1	1,550,753	3,333.62		1,795.25	166.99	1,148.78	\$92	\$32	0.215%	0.074%	53.9%	34.5%
Colorado	4.7	199,969	416.97		249.50	32.43	103.74	\$89	\$22	0.209%	0.052%	59.8%	24.9%
Connecticut	3.5	185,802	932.93		573.00	40.57	268.52	\$266	\$77	0.502%	0.145%	61.4%	28.8%
Delaware ^{3,4}	0.8	54,274	114.06	575.23	59.83	13.31	297.92	\$135	\$353	0.210%	0.549%	52.5%	
D.C.	0.6	76,685	234.93		120.53	29.10	71.45	\$427	\$130	0.306%	0.093%	51.3%	30.4%
Florida	17.8	599,068	3,470.73		2,044.25	142.61	1,103.63	\$195	\$62	0.579%	0.184%	58.9%	31.8%
Georgia	9.1	343,125	2,734.35		1,633.28	111.89	802.24	\$301	\$88	0.797%	0.234%	59.7%	29.3%
Idaho	1.4	43,571	113.50		69.59	13.12	26.00	\$79	\$18	0.260%	0.060%	61.3%	22.9%
Illinois	12.8	521,900	1,814.35		1,042.89	99.79	619.50	\$142	\$49	0.348%	0.119%	57.5%	34.1%
Indiana	6.3	227,569	739.63		455.33	47.14	188.93	\$118	\$30	0.325%	0.083%	61.6%	25.5%
Iowa	3.0	111,114	210.67		113.46	28.57	51.09	\$71	\$17	0.190%	0.046%	53.9%	24.3%
Kansas	2.7	98,946	206.72		112.56	20.86	65.41	\$75	\$24	0.209%	0.066%	54.4%	31.6%
Kentucky	4.2	136,446	707.26		457.69	47.40	158.19	\$169	\$38	0.518%	0.116%	64.7%	22.4%
Louisiana	4.5	152,944	307.01		153.26	29.44	110.39	\$68	\$24	0.201%	0.072%	49.9%	36.0%
Maine	1.3	43,336	209.30		127.02	19.47	50.33	\$158	\$38	0.483%	0.116%	60.7%	24.0%
Maryland	5.6	227,991	1,485.73		856.23	51.36	477.10	\$265	\$85	0.652%	0.209%	57.6%	32.1%
Massachusetts	6.4	317,798	4,465.72		3,211.54	81.50	936.13	\$698	\$146	1.405%	0.295%	71.9%	21.0%
Michigan	10.1	372,169	2,069.48		1,162.01	100.28	667.58	\$204	\$66	0.556%	0.179%	56.1%	32.3%
Minnesota	5.1	223,822	408.00		241.30	36.31	106.17	\$79	\$21	0.182%	0.047%	59.1%	26.0%
Missouri	5.8	203,294	785.60		487.93	38.97	218.64	\$135	\$38	0.386%	0.108%	62.1%	27.8%
Montana	0.9	27,482	33.81		17.80	7.91	6.22	\$36	\$7	0.123%	0.023%	52.7%	18.4%
Nebraska	1.8	68,183	100.66		58.35	12.34	26.37	\$57	\$15	0.148%	0.039%	58.0%	26.2%
N. Hampshire	1.3	51,871	227.98		132.69	15.09	69.35	\$174	\$53	0.440%	0.134%	58.2%	30.4%
New Jersey	8.7	416,053	2,274.36		1,296.81	80.68	812.05	\$261	\$93	0.547%	0.195%	57.0%	35.7%
New Mexico	1.9	61,012	139.24		76.17	17.40	32.23	\$72	\$17	0.228%	0.053%	54.7%	23.1%
New York	19.3	896,739	6,038.77	231.72	3,523.53	254.30	2,062.70	\$314	\$107	0.673%	0.230%	58.3%	34.2%
N. Dakota	0.6	22,687	19.13		9.09	2.78	6.10	\$30	\$10	0.084%	0.027%	47.5%	31.9%
Ohio	11.5	419,866	2,159.13		1,280.79	97.69	645.14	\$188	\$56	0.514%	0.154%	59.3%	29.9%
Oregon ^{3,4}	3.6	128,103	360.17	579.65	245.13	26.69	401.58	\$99	\$110	0.281%	0.313%	68.1%	
Pennsylvania	12.4	468,089	2,644.86		1,529.44	143.64	851.80	\$213	\$69	0.565%	0.182%	57.8%	32.2%
R. Island ^{3,4}	1.1	41,679	241.88	399.19	143.56	8.17	307.55	\$225	\$286	0.580%	0.738%	59.4%	
S. Carolina	4.3	136,125	956.95		573.60	41.88	279.74	\$225	\$66	0.703%	0.206%	59.9%	29.2%
S. Dakota ^{3,4}	0.8	29,386	32.50	216.76	18.35	5.75	119.32	\$42	\$154	0.111%	0.406%	56.5%	
Tennessee	6.0	217,626	783.70		444.24	49.78	234.30	\$131	\$39	0.360%	0.108%	56.7%	29.9%
Texas	22.9	884,136	3,662.46		2,228.00	178.78	1,070.30	\$160	\$47	0.414%	0.121%	60.8%	29.2%
Vermont	0.6	21,921	92.59		57.90	8.41	20.47	\$149	\$33	0.422%	0.093%	62.5%	22.1%
Virginia	7.6	329,332	1,333.95		774.56	66.01	423.50	\$176	\$56	0.405%	0.129%	58.1%	31.7%
Washington	6.3	261,549	458.13		280.86	33.89	115.63	\$73	\$18	0.175%	0.044%	61.3%	25.2%
W. Virginia ^{3,4}	1.8	49,454	194.22	1,199.35	117.13	20.27	563.32	\$107	\$310	0.393%	1.139%	60.3%	
Wisconsin	5.5	211,616	451.87		262.18	28.54	143.40	\$82	\$26	0.214%	0.068%	58.0%	31.7%
Total	266.6	10,633,438	47,364.4	3,201.9	28,236.9	2,305.8	15,779.2	\$178	\$59	0.445%	0.148%	59.6%	

¹ Fiscal year ends June 30 except New York (March 31), Texas (August 31) and D.C. and Michigan (Sept. 30). ¹ Source: U.S. Census Bureau

² Source: U.S. Bureau of Economic Analysis; ³ This data represents only revenue from traditional lottery games; ⁴ Prizes do not include VLT prizes paid

U.S. lotteries' fiscal 2005 sales by game*

(in \$millions)				Online Games								Total Sales	PC Sales	VLT (net)
Lottery	Pop. (M)	Instant	Pulltab	3-digit	4-digit	Lotto	Cash Lotto	Bloc Lotto	Hot Lotto	Keno	Other			
Arizona	5.9	219.65		7.18		54.82	9.43	106.48				397.56	\$67	
California	36.1	1,736.79		136.16		1,098.89	160.76	11.04		174.30	15.68	3,333.62	\$92	
Colorado	4.7	282.74				38.27	15.05	80.91				416.97	\$89	
Connecticut	3.5	592.27		106.44	78.27	35.61	40.78	79.56				932.93	\$266	
Delaware	0.8	28.70		27.56	16.83	4.29	11.51	25.43			-0.26	114.06	\$135	575.23
D.C.	0.6	36.11		68.60	74.14		8.47	31.54	2.20	11.87	2.01	234.94	\$427	
Florida	17.8	1,844.62		345.60	206.98	689.82	252.47				131.25	3,470.73	\$195	
Georgia	9.1	1,653.13		551.50	174.16	67.44	75.85	170.44		41.83		2,734.35	\$301	
Idaho	1.4	77.75	1.33	1.19		3.20		30.04				113.50	\$79	
Illinois	12.8	878.83		307.24	168.35	131.54	131.78	192.60			4.01	1,814.35	\$142	
Indiana	6.3	470.41	19.32	29.56	29.98	60.86	8.00	120.32			1.16	739.63	\$118	
Iowa	3.0	103.26	23.62	6.20	2.04		4.43	54.24	10.44		6.43	210.67	\$71	
Kansas	2.7	93.28	4.39	5.17		2.17	19.31	44.53		37.11	0.77	206.72	\$75	
Kentucky	4.2	385.13	24.22	130.35	35.66	17.55	16.81	90.46			7.10	707.26	\$169	
Louisiana	4.5	104.10		47.79	25.57	32.83	5.36	91.36				307.01	\$68	
Maine	1.3	151.88		5.84	4.43		2.53	44.62				209.30	\$158	
Maryland	5.6	390.97		296.10	225.45	34.10	21.92	99.74		416.51	0.94	1,485.73	\$265	
Massachusetts	6.4	3,135.42	1.81		352.45	51.29	85.68	97.07		742.01		4,465.72	\$698	
Michigan	10.1	662.53	39.07	401.07	308.85	55.64	49.89	203.90		345.86	2.66	2,069.47	\$204	
Minnesota	5.1	253.40		13.10			23.90	92.50	16.30		8.80	408.00	\$79	
Missouri	5.8	467.33	20.73	60.56	21.34	30.31	23.06	114.49		47.62	0.17	785.60	\$135	
Montana	0.9	10.54				2.30	3.83	13.89	2.82		0.44	33.81	\$36	
Nebraska	1.8	56.51		0.53		2.53	10.57	30.51				100.66	\$57	
N. Hampshire	1.3	161.36		10.65			3.14	49.35	3.48			227.98	\$174	
New Jersey	8.7	1066.13		456.58	265.00	109.98	123.25	253.41				2,274.36	\$261	
New Mexico	1.9	90.84		2.06	0.89		9.18	36.26				139.24	\$72	
New York	19.3	3,005.59		790.47	624.20	305.86	348.18	446.21		507.36	10.91	6,038.77	\$314	231.72
N. Dakota	0.6					2.02		13.21	3.90			19.13	\$30	
Ohio	11.5	1,217.20		387.66	170.09	113.06	74.82	176.39			19.91	2,159.13	\$188	
Oregon	3.6	133.24	2.19		1.39	48.28		35.00		122.20	17.87	360.17	\$99	579.65
Pennsylvania	12.4	1301.81		425.36	271.55	151.01	201.26	293.86				2,644.86	\$213	
Rhode Island	1.1	75.60		28.58			3.74	41.97		90.55	1.44	241.88	\$225	399.19
S. Carolina	4.3	578.84		118.85	51.32		29.00	178.94				956.95	\$225	
S. Dakota	0.8	16.15				1.81	1.80	11.15	1.59			32.50	\$42	216.76
Tennessee	6.0	538.35		69.19	6.09	23.40		146.67				783.70	\$131	
Texas	22.9	2,705.41		284.95		306.66	102.66	217.71			45.07	3,662.46	\$160	
Vermont	0.6	71.21		1.55	1.27		1.18	17.39				92.59	\$149	
Virginia	7.6	679.56		253.22	169.18	66.69	28.11	137.18				1,333.95	\$176	
Washington	6.3	294.67		17.24		58.61	21.63	50.24		6.44	9.30	458.13	\$73	
W. Virginia	1.8	111.86		9.29	4.42		6.11	49.21	3.34	9.96		194.19	\$107	1,199.35
Wisconsin	5.5	263.04	6.87	24.50	10.38	18.09	49.71	79.30			-0.01	451.87	\$82	
Total	266.6	25,946.18	143.55	5,427.89	3,300.30	3,618.92	1,985.15	4,059.11	44.07	2,553.62	285.65	47,364.4	\$178	3,201.89
% of total		54.8%	0.3%	11.5%	7.0%	7.6%	4.2%	8.6%	0.1%	5.4%	0.6%	100.0%		

* Fiscal year ends June 30 for all U.S. states, except New York (March 31), Texas (August 31), D.C. and Michigan (Sept. 30)

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**Compliance Section –
Independent Auditors' Report**

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Texas Lottery Commission:
Mr. C. Tom Clowe, Jr., Chairman
Mr. James A. Cox, Jr.

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and remaining fund information of the Texas Lottery Commission (Commission) as of and for the year ended August 31, 2006, and have issued our report thereon dated December 18, 2006. Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We have chosen not to comply with a reporting standard that specifies the wording to be used in discussing restrictions on the use of this report. We believe this wording is not in alignment with our role as a legislative audit function.

Internal Control over Financial Reporting

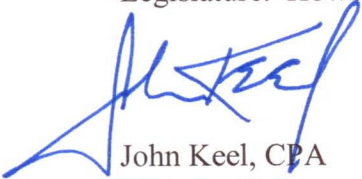
In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have

a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Texas Lottery Commission and the Legislature. However, this report is a matter of public record, and its distribution is not limited.



John Keel, CPA
State Auditor

December 18, 2006

The background of the page is a blue-tinted image of the Texas State Capitol dome. Overlaid on the left side is a large, faint watermark of the Texas State Seal, which features a five-pointed star in the center, surrounded by a wreath, and the words "THE STATE OF TEXAS" in a circular border.

Texas Lottery Commission

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