



2022



AN AGENCY OF THE
STATE OF TEXAS

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED AUGUST 31, 2022 AND INDEPENDENT AUDITOR'S REPORT

TEXAS LOTTERY COMMISSION

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Commissioners:
Robert G. Rivera,
Chairman
Cindy Fields
Mark A. Franz
Erik C. Saenz
Jamey Steen



TEXAS LOTTERY COMMISSION

Gary Grief, *Executive Director*

LaDonna Castañuela, *Charitable Bingo Operations Director*

December 9, 2022

Honorable Greg Abbott, Governor
Honorable Glenn Hegar, Texas Comptroller
Jerry McGinty, Director, Legislative Budget Board
Lisa Collier, State Auditor

Lady and Gentlemen:

We are pleased to submit the annual financial report of the Texas Lottery Commission for the year ended August 31, 2022, in compliance with Texas Government Code Annotated, Section 2101.011, and in accordance with the requirements established by the Texas Comptroller of Public Accounts.

The accompanying annual financial report has been prepared in accordance with GAAP reporting requirements. The financial report has been audited by an independent auditor as required by statute.

If you have any questions, please contact Kelly Stuckey, Controller, at (512) 344-5426.

Sincerely,

A handwritten signature in cursive script that reads "Gary Grief".

Gary Grief
Executive Director

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TEXAS LOTTERY COMMISSION

FINANCIAL SECTION



Independent Auditor's Report

To the Board of Commissioners of the
Texas Lottery Commission

Report on the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Texas Lottery Commission (the Commission), an agency of the State of Texas, as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Commission, as of August 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for one year after the date that the financial statements are issued (or when applicable, one year after the date that the financial statements are available to be issued).

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, during the year ended August 31, 2022, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No.87, *Leases*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule – General Fund, schedule of changes in net pension liability, schedule of employer contributions – pension, notes to the schedule of employer contributions – pension, schedule of proportionate share of net OPEB liability, and schedule of employer contributions – OPEB on pages 7-15 and 69-75 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual financial report. The other information comprises the letter of transmittal but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2022 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
December 9, 2022

Texas Lottery Commission
Management's Discussion and Analysis
For the Year Ended August 31, 2022
(Unaudited)

This section of the Texas Lottery Commission's (Commission) annual financial report presents a comparative discussion and analysis of the Commission's financial performance for the fiscal year ended August 31, 2022, with summarized comparative totals for the fiscal year ended August 31, 2021. 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 liabilities and deferred inflows of resources of the Commission exceeded its assets and deferred outflows of resources at the close of fiscal year 2022 by (\$135.8) million (reported as *net position*). Net position reflects a decrease of \$23.9 million from the previous fiscal year.

Fund Level:

- As of the close of fiscal year 2022, the Commission's governmental funds reported unassigned fund balance of \$0.7 million.
- The proprietary funds reported net position at fiscal year-end 2022 of (\$124.5) million. Net position reflects a decrease of \$24.7 million during the year.

More detailed information regarding these activities and funds begins on page 22.

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 basic financial statements. This report also contains supplementary information in addition to the basic financial statements.

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

The Statement of Net Position 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-custodial 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 Position on page 18 presents all of the Commission's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as "net position". Over time, increases and decreases in net position measure whether the Commission's financial position is improving or deteriorating.

The Statement of Activities on page 20 presents information showing how the Commission's net position changed during fiscal year 2022. All changes in net position 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 (e.g. 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 to change the net position of the Commission.

This report includes two schedules (pages 23 and 25) 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 and pension and OPEB liabilities 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 35 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 are considered major. The fund financial statements begin on page 22 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 two categories: governmental and proprietary 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 Operations 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. The General Revenue Fund, Child Support Employee Deduction, Bingo Cash Bonds and Lottery Retailer Security Funds are also reported in the Governmental Fund.
- *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 services for the government’s other programs and activities. The Commission records all transactions related to the operation of the State Lottery and its investment activities in Enterprise Funds.

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, a schedule of changes in net pension liability, a schedule of employer contributions – pension, a schedule of proportionate share of net OPEB liability and a schedule of employer contributions - OPEB.

Financial Analysis of the Government as a Whole

Statement of Net Position (in millions)

Financial Analysis of the Government as a Whole Statement of Net Position							
	Governmental Activities		Business-Type Activities		Totals		
	2022	2021	2022	2021	2022	2021	
ASSETS							
Current and Other Non-current Assets	\$ 18.57	\$ 18.44	\$ 606.20	\$ 647.77	\$ 624.77	\$ 666.21	
Capital Assets	0.01	0.01	4.05	1.86	4.06	1.87	
Total Assets	18.58	18.45	610.25	649.63	628.83	668.08	
DEFERRED OUTFLOWS OF RESOURCES	2.45	3.48	24.41	36.27	26.86	39.75	
LIABILITIES							
Long-term Liabilities	8.67	14.62	312.54	417.61	321.21	432.23	
Other Liabilities	18.08	17.86	388.49	356.60	406.57	374.46	
Total Liabilities	26.75	32.48	701.03	774.21	727.78	806.69	
DEFERRED INFLOWS OF RESOURCES	5.56	1.51	58.17	11.56	63.73	13.07	
NET POSITION							
Invested in Capital Assets	0.01	0.01	1.99	1.86	2.00	1.87	
Restricted	-	-	5.00	5.00	5.00	5.00	
Unrestricted	(11.29)	(12.07)	(131.53)	(106.73)	(142.82)	(118.80)	
Total Net Position	\$ (11.28)	\$ (12.06)	\$ (124.54)	\$ (99.87)	\$ (135.82)	\$ (111.93)	

Unrestricted net position is reflected at (\$142.8) million, which may be used at the Commission’s discretion, but often have limitations on use based on State statutes. Restricted net position comprising \$5.0 million represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion represents the amount invested in capital assets. 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, 2022, the Commission’s assets included \$247.3 million in cash and cash equivalents as compared with \$167.8 million at August 31, 2021. The Commission’s short and long-term investments approximated \$297.2 and \$384.0 million, respectively, at August 31, 2022 and 2021.

The Commission’s liabilities included at the balance sheet date are amounts owed to the State’s lottery beneficiaries for August accrued sales and unclaimed prizes for fiscal year 2022, vendor payables, prize payment obligations, and pension and OPEB liabilities.

Reported as Due to Other Agencies is the amount due to the Foundation School Fund was approximately \$120.4 million at August 31, 2022, as compared with \$116.7 million at August 31, 2021. The amount due

to the Texas Veterans Commission was approximately \$2.2 million at August 31, 2022 compared to \$1.7 million at August 31, 2021. At August 31, 2022, payments due to the State Comptroller for the state share of Bingo prize fees amounted to \$17.0 million as compared to \$16.6 million at August 31, 2021.

Other liabilities included prize obligations, made up largely of scratch ticket installment payments, were \$455.1 million and \$464.9 million at August 31, 2022 and 2021, respectively. Vendor payables were \$45.7 million at August 31, 2022, as compared to \$46.5 million at August 31, 2021. Other payable balances totaled \$8.8 million and \$6.6 million, at August 31, 2022 and 2021, respectively.

Liabilities for pension and OPEB amounted to \$78.7 million at August 31, 2022 compared to \$153.7 million at August 31, 2021.

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

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

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

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Program Revenue						
Governmental Activities						
General Revenue	\$ 3.01	\$ 3.10	\$ -	\$ -	\$ 3.01	\$ 3.10
Other Income						
Bingo Prize Fee Collections and Accounting	16.29	16.00	-	-	16.29	16.00
Bingo Licensing	0.71	0.60	-	-	0.71	0.60
Bingo Law Compliance Field Operations	-	-	-	-	-	-
Bingo Education and Development	-	-	-	-	-	-
Business-type Activities						
Lottery Operations	-	-	8,297.73	8,107.87	8,297.73	8,107.87
Other Income						
Marketing, Research, and Promotions	-	-	-	-	-	-
Central Administration	-	-	0.45	0.46	0.45	0.46
Lottery Prize Investments	-	-	-	-	-	-
Total Revenue	20.01	19.70	8,298.18	8,108.33	8,318.19	8,128.03
Program Expense:						
Governmental Activities						
Bingo Prize Fee Collections and Accounting	(0.31)	(0.46)	-	-	(0.31)	(0.46)
Bingo Licensing	(0.66)	(0.81)	-	-	(0.66)	(0.81)
Bingo Law Compliance Field Operations	(1.18)	(2.51)	-	-	(1.18)	(2.51)
Bingo Education and Development	(0.10)	(0.26)	-	-	(0.10)	(0.26)
Intergovernmental	(16.98)	(16.59)	-	-	(16.98)	(16.59)
Business-type Activities						
Lottery Operations	-	-	(6,261.40)	(6,095.54)	(6,261.40)	(6,095.54)
Marketing, Research, and Promotions	-	-	(4.10)	(5.06)	(4.10)	(5.06)
Central Administration	-	-	(19.29)	(26.82)	(19.29)	(26.82)
Enforcement	-	-	(1.66)	(2.50)	(1.66)	(2.50)
Intergovernmental	-	-	(1,998.41)	(1,998.31)	(1,998.41)	(1,998.31)
Lottery Prize Investments	-	-	(37.99)	(16.75)	(37.99)	(16.75)
Total Expense	(19.23)	(20.63)	(8,322.85)	(8,144.98)	(8,342.08)	(8,165.61)
Change in Net Position	0.78	(0.93)	(24.67)	(36.65)	(23.89)	(37.58)
Beginning Net Position	(12.06)	(11.13)	(99.87)	(63.22)	(111.93)	(74.35)
Ending Net Position	\$ (11.28)	\$ (12.06)	\$ (124.54)	\$ (99.87)	\$ (135.82)	\$ (111.93)

Sales

Lottery sales consist of draw and scratch ticket lottery games. The first category is draw games, which included *Lotto Texas* with *Lotto Extra*, *Pick 3* with *Fireball*, *Daily 4* with *Fireball*, *Cash Five*, *Texas Two Step*, *Mega Millions* with *Megaplier* and *Just the Jackpot*, *Powerball* with *Power Play*, and *All or Nothing* at August 31, 2022. In total, draw games sales increased by \$79.4 million over the prior year's sales total.

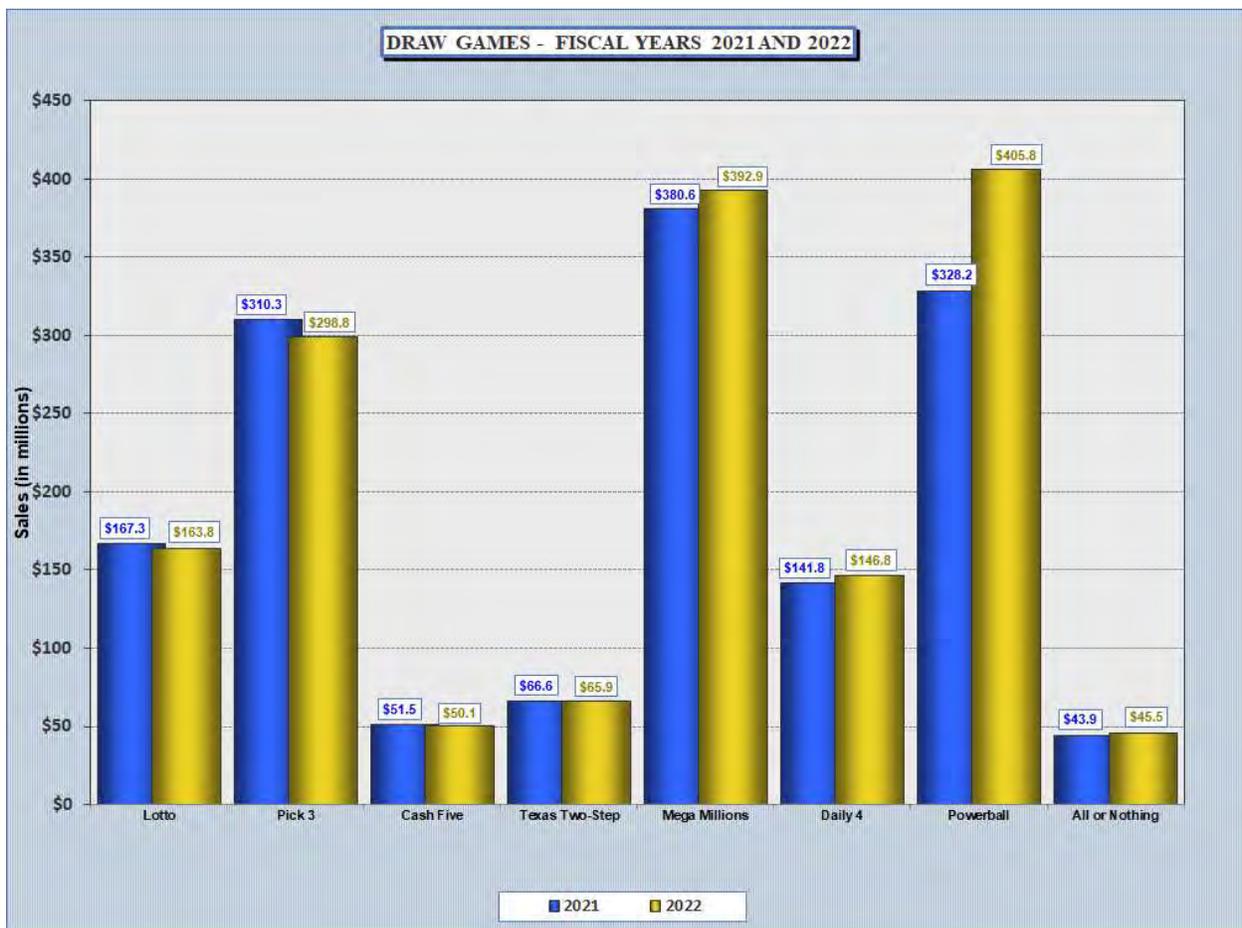
The majority of the increase in draw games sales is attributable to multi-state games. *Mega Millions*, *Megaplier* and *MM Just the Jackpot*, experienced an increase of \$12.3 million, or 3.2% as compared to

fiscal year 2021. Sales for *Powerball with Powerplay* for the fiscal year ended August 31, 2022 increased by \$77.6 million, an increase of 23.6%.

Other draw games experienced an increase in sales as compared to fiscal year 2021 sales. *Daily 4 with Fireball* sales for the fiscal year ended August 31, 2022 increased over fiscal year 2021 by \$5.0 million, or 3.5%. Another draw game with an increase in sales as compared to fiscal year 2021 was *All or Nothing* with an increase of \$1.5 million or 3.5%.

Other draw games experienced a decrease in sales as compared to fiscal year 2021 sales. *Lotto with Lotto Extra* sales for the fiscal year ended August 31, 2022 decreased from fiscal year 2021 by \$3.5 million, or 2.1%. *Pick 3 with Fireball* sales for the fiscal year ended August 31, 2022 decreased from fiscal year 2021 by \$11.5 million, or 3.7%. Other draw games with a decrease in sales as compared to fiscal year 2021 include: *Cash 5* and *Texas Two Step*.

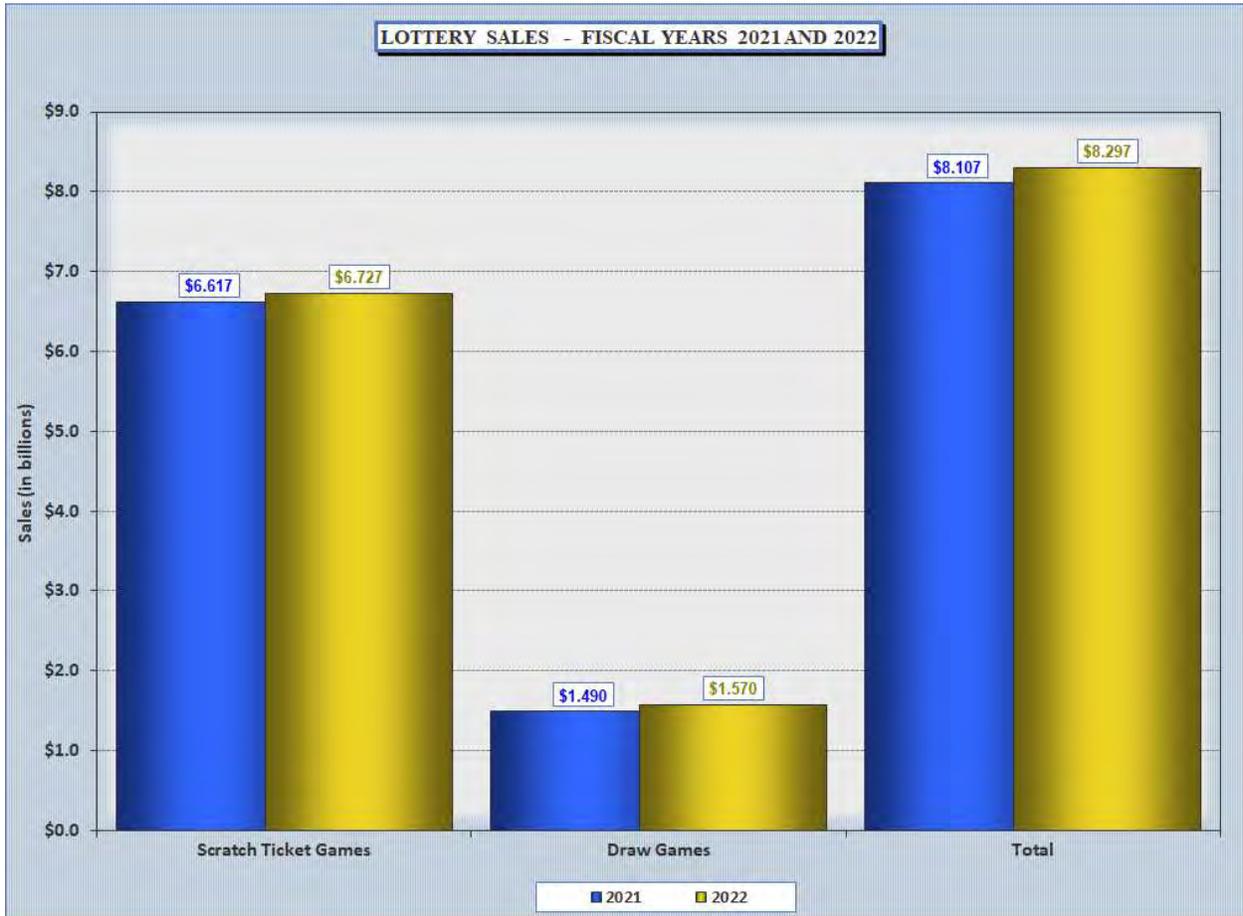
The following graph depicts the Commission’s draw sales for the fiscal years ended August 31, 2022 and 2021. Draw game sales includes both base game sales and add-on features.



Source: Texas Lottery Commission

Scratch tickets are the other category of Lottery games offered to the public. Scratch ticket sales for the fiscal year ended August 31, 2022 increased by \$110.3 million or 1.7% over the preceding fiscal year’s sales. These sales represent the highest level of scratch ticket sales in the Commission’s history.

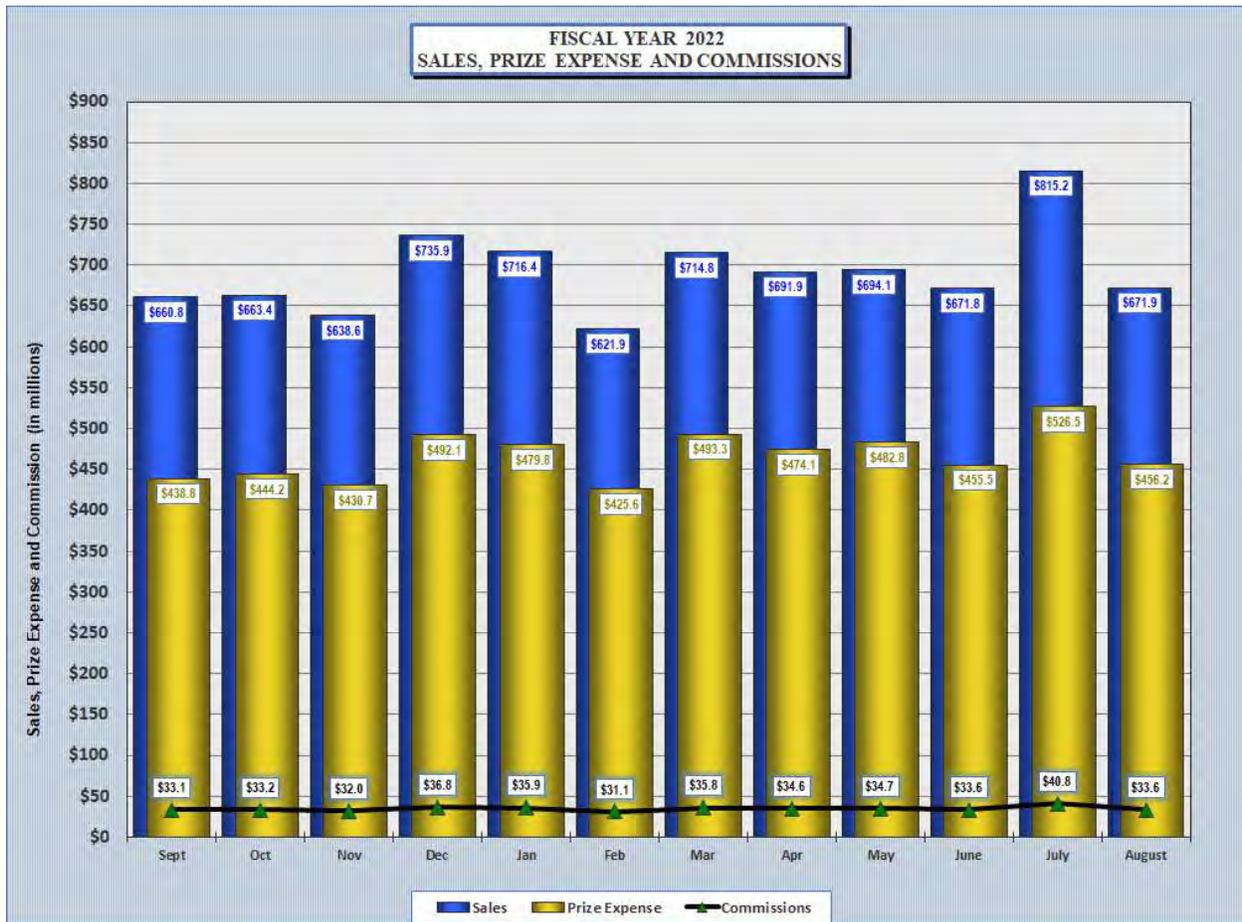
The following graph depicts the Commission's draw, scratch and total lottery sales for the fiscal year ended August 31, 2022 in comparison to the fiscal year ended August 31, 2021.



Source: Texas Lottery Commission

Commissions and Prize Awards Expense

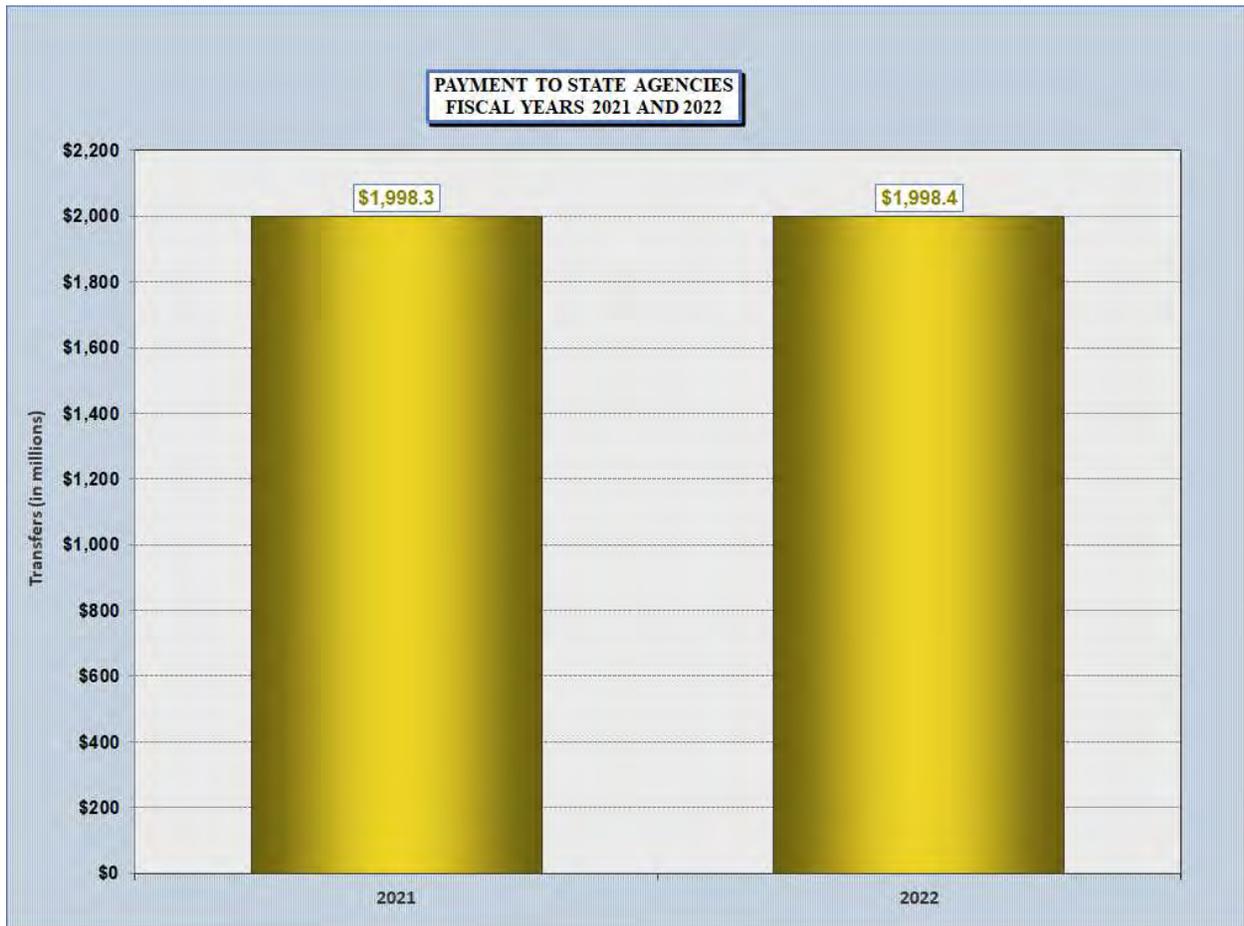
As the following graph depicts, the Commission's most significant expenses (commissions and prize expense) are predictable because they have a direct correlation to sales. As lottery sales increase, so do the related prizes and commissions paid by the Commission. While each lottery game has a predetermined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



Source: Texas Lottery Commission

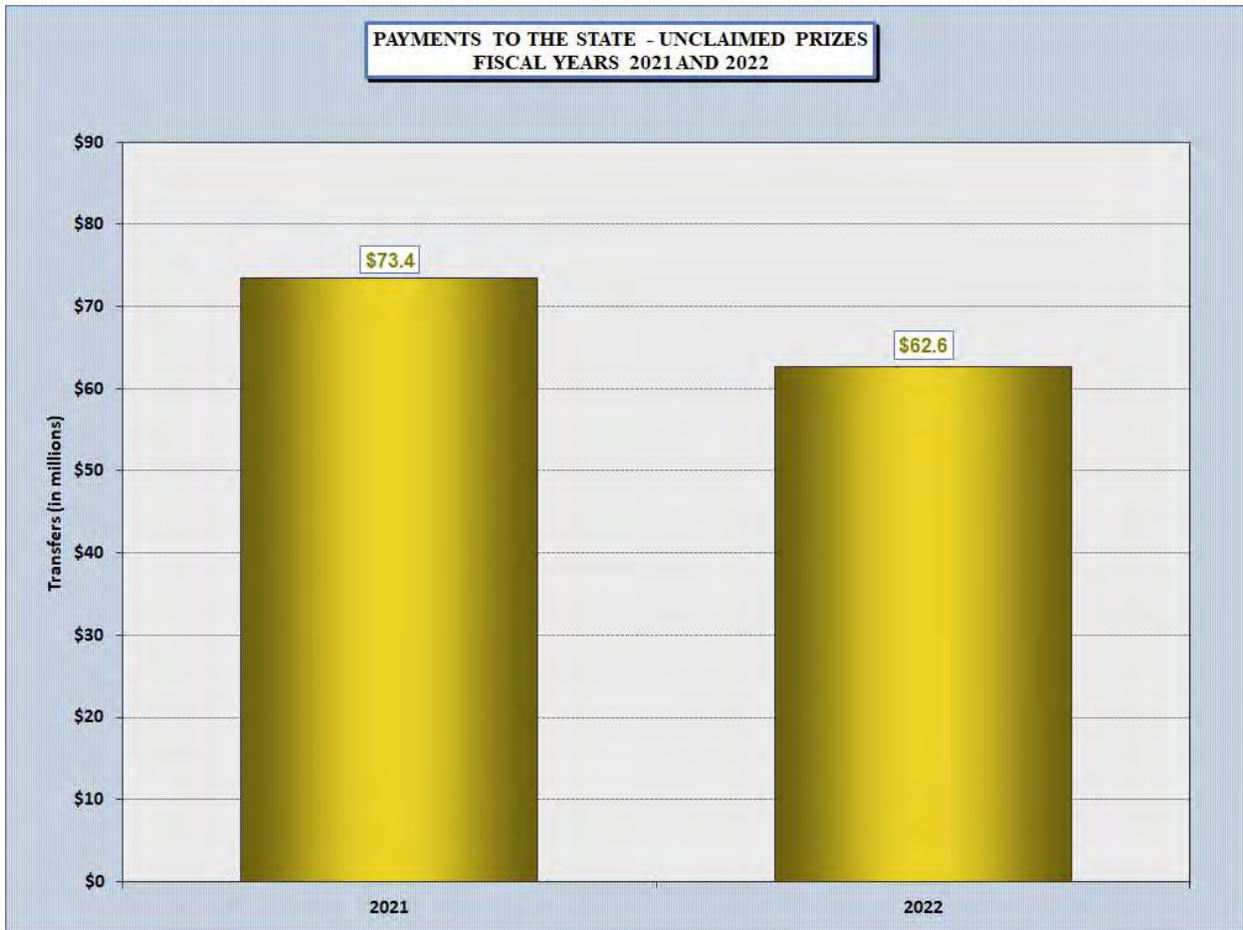
Payments to the State

The Commission recorded its highest level of total sales and payments to the State in its 30-year history during the current fiscal year. Lottery sales for the fiscal year ended August 31, 2022 totaled \$8,296.9 million, an increase of 2.3% over the previous year's total of \$8,107.2 million. Payments to state agencies for the period totaled \$1,998.4 million, as compared to \$1,998.3 million for the fiscal year ended August 31, 2021.



Source: Texas Lottery Commission

During fiscal years 2022 and 2021, the Commission transferred unclaimed lottery prize winnings totaling \$62.6 million and \$73.4 million, respectively. This represents a decrease of \$10.8 million or 14.7% as compared to prior year.



Source: Texas Lottery Commission

General Fund Budgetary Highlights

During the year there were no significant changes between the “Original” and “Final” budgets as approved by the Commission.

Capital Assets

As of August 31, 2022, the Commission had \$4.06 million in net capital assets. This represents an increase of 116.4% in net capital assets from fiscal year 2021. The Commission’s capital assets include building and building improvements, furniture and equipment, vehicles, computer software, and the Right to Use Asset of Buildings. 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.

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TEXAS LOTTERY COMMISSION

BASIC FINANCIAL STATEMENTS

Texas Lottery Commission
Government-wide Statement of Net Position
August 31, 2022
With Summarized Comparative Totals for August 31, 2021

	Primary Government			Total 2021
	Governmental Activities	Business-type Activities	Total 2022	
ASSETS				
Current Assets:				
Cash and Cash Equivalents:				
Cash in Bank	\$ -	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00
Cash in State Treasury	17,890,269.30	229,446,666.13	247,336,935.43	167,809,489.70
Restricted:				
Short Term Investments	-	58,613,660.91	58,613,660.91	70,377,392.73
Receivables from:				
Accounts	-	29,453,910.41	29,453,910.41	76,765,406.17
Other	-	2,330,429.62	2,330,429.62	697,791.71
Consumable Inventories	-	1,612,625.93	1,612,625.93	2,016,004.76
Merchandise Inventories	-	46,143,602.66	46,143,602.66	34,069,949.78
Other Current Assets	685,000.00	-	685,000.00	800,000.00
Total Current Assets	18,575,269.30	367,602,395.66	386,177,664.96	352,537,534.85
Non-Current Assets:				
Restricted:				
Investments	-	238,598,733.56	238,598,733.56	313,671,030.33
Capital Assets:				
Depreciable:				
Building and Building Improvements	-	1,699,822.89	1,699,822.89	1,466,770.00
Less Accumulated Depreciation	-	(76,163.49)	(76,163.49)	(5,278.14)
Furniture and Equipment	33,713.32	4,260,840.40	4,294,553.72	5,098,133.77
Less Accumulated Depreciation	(27,463.30)	(3,873,293.97)	(3,900,757.27)	(4,684,766.96)
Vehicles, Boats, and Aircraft	-	48,176.20	48,176.20	48,176.20
Less Accumulated Depreciation	-	(48,176.20)	(48,176.20)	(48,176.20)
Computer Software	1,313,072.30	58,019.32	1,371,091.62	1,377,424.74
Less Accumulated Amortization	(1,313,072.30)	(58,019.32)	(1,371,091.62)	(1,377,424.74)
Right to Use Asset - Amortizable				
Building and Building Improvements	-	2,491,161.69	2,491,161.69	-
Less Accumulated Amortization	-	(451,727.88)	(451,727.88)	-
Total Non-Current Assets	6,250.02	242,649,373.20	242,655,623.22	315,545,889.00
Total Assets	18,581,519.32	610,251,768.86	628,833,288.18	668,083,423.85
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources	2,447,258.66	24,414,576.98	26,861,835.64	39,744,458.63
Total Deferred Outflows of Resources	2,447,258.66	24,414,576.98	26,861,835.64	39,744,458.63
LIABILITIES				
Current Liabilities:				
Payables from:				
Accounts	9,322.07	39,461,665.02	39,470,987.09	34,908,240.24
Vouchers	-	5,103,385.30	5,103,385.30	10,559,946.19
Payroll	161,780.24	2,355,300.81	2,517,081.05	2,473,696.13
Annuities	-	4,997,536.71	4,997,536.71	6,005,573.79
Interest	-	1,706.14	1,706.14	-
Other	-	1,092,667.26	1,092,667.26	1,061,633.53
Due to Other Agencies	16,984,998.40	122,600,241.39	139,585,239.79	134,949,304.22
Retailer Deposits	685,000.00	-	685,000.00	800,000.00
Employees' Compensable Leave	116,134.21	1,730,015.99	1,846,150.20	1,731,837.08
Right to Use Lease Obligations	-	442,615.69	442,615.69	-
Net Other Post-Employment Benefits Liability	128,088.49	1,194,403.15	1,322,491.64	1,507,074.01
Payable From Restricted Assets	-	209,514,435.22	209,514,435.22	180,457,509.27
Total Current Liabilities	18,085,323.41	388,493,972.68	406,579,296.09	374,454,814.46

Texas Lottery Commission
Government-wide Statement of Net Position
August 31, 2022
With Summarized Comparative Totals for August 31, 2021

	Primary Government			Total 2021
	Governmental Activities	Business-type Activities	Total 2022	
Non-Current Liabilities:				
Employees' Compensable Leave	\$ 106,342.83	\$ 1,580,341.71	\$ 1,686,684.54	\$ 1,634,646.14
Right to Use Lease Obligations	-	1,614,127.85	1,614,127.85	-
Net Pension Liability	3,963,260.38	25,562,649.19	29,525,909.57	108,479,502.11
Net Other Post-Employment Benefits Liability	4,600,332.52	43,218,649.45	47,818,981.97	43,673,849.66
Payable From Restricted Assets	-	240,561,412.83	240,561,412.83	278,445,466.96
Total Non-Current Liabilities	<u>8,669,935.73</u>	<u>312,537,181.03</u>	<u>321,207,116.76</u>	<u>432,233,464.87</u>
Total Liabilities	<u>26,755,259.14</u>	<u>701,031,153.71</u>	<u>727,786,412.85</u>	<u>806,688,279.33</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources	<u>5,559,815.52</u>	<u>58,172,674.72</u>	<u>63,732,490.24</u>	<u>13,071,693.24</u>
Total Deferred Inflows of Resources	<u>5,559,815.52</u>	<u>58,172,674.72</u>	<u>63,732,490.24</u>	<u>13,071,693.24</u>
NET POSITION				
Invested in Capital Assets	6,250.02	1,993,896.10	2,000,146.12	1,874,858.67
Expendable Restricted for:				
Pooled Bond Fund	-	5,000,000.00	5,000,000.00	5,000,000.00
Prize Reserve Fund	-	-	-	-
Unrestricted	<u>(11,292,546.70)</u>	<u>(131,531,378.69)</u>	<u>(142,823,925.39)</u>	<u>(118,806,948.76)</u>
Total Net Position	<u>\$ (11,286,296.68)</u>	<u>\$ (124,537,482.59)</u>	<u>\$ (135,823,779.27)</u>	<u>\$ (111,932,090.09)</u>

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

Texas Lottery Commission
Government-wide Statement of Activities
For the Fiscal Year Ended August 31, 2022
With Summarized Comparative Totals for the Year Ended August 31, 2021

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental Activities:			
Bingo Prize Fee Collections and Accounting	\$ 305,334.66	\$ 16,294,019.69	\$ -
Bingo Licensing	658,384.63	708,610.61	-
Bingo Law Compliance Field Operations	1,182,534.19	108.47	-
Bingo Education and Development	102,425.72	188.46	-
Intergovernmental	16,984,998.40	-	-
Total Governmental Activities	<u>19,233,677.60</u>	<u>17,002,927.23</u>	<u>-</u>
Business-type Activities:			
Lottery Operations	6,261,398,103.59	8,297,730,181.80	-
Marketing, Research, and Promotion	4,101,494.94	142.90	-
Central Administration	19,287,342.92	451,912.40	-
Enforcement	1,657,136.19	112.76	-
Intergovernmental	1,998,416,917.51	-	-
Lottery Prize Investments	37,991,294.03	-	-
Total Business-type Activities	<u>8,322,852,289.18</u>	<u>8,298,182,349.86</u>	<u>-</u>
Total Primary Government	<u>\$ 8,342,085,966.78</u>	<u>\$ 8,315,185,277.09</u>	<u>\$ -</u>

General Revenues - Detailed
Legislative Appropriations

Change in Net Position

Net Position, Beginning of Year

Net Position, End of Year

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total 2022	Total 2021
\$ 15,988,685.03	\$ -	\$ 15,988,685.03	\$ 15,538,322.38
50,225.98	-	50,225.98	(210,553.89)
(1,182,425.72)	-	(1,182,425.72)	(2,510,588.02)
(102,237.26)	-	(102,237.26)	(255,305.52)
(16,984,998.40)	-	(16,984,998.40)	(16,594,502.62)
<u>(2,230,750.37)</u>	<u>-</u>	<u>(2,230,750.37)</u>	<u>(4,032,627.67)</u>
-	2,036,332,078.21	2,036,332,078.21	2,012,343,622.00
-	(4,101,352.04)	(4,101,352.04)	(5,061,583.75)
-	(18,835,430.52)	(18,835,430.52)	(26,363,957.32)
-	(1,657,023.43)	(1,657,023.43)	(2,502,088.02)
-	(1,998,416,917.51)	(1,998,416,917.51)	(1,998,313,536.04)
-	(37,991,294.03)	(37,991,294.03)	(16,751,822.58)
-	(24,669,939.32)	(24,669,939.32)	(36,649,365.71)
<u>\$ (2,230,750.37)</u>	<u>\$ (24,669,939.32)</u>	<u>\$ (26,900,689.69)</u>	<u>\$ (40,681,993.38)</u>
\$ 3,009,000.51	\$ -	\$ 3,009,000.51	\$ 3,101,933.30
778,250.14	(24,669,939.32)	(23,891,689.18)	(37,580,060.08)
(12,064,546.82)	(99,867,543.27)	(111,932,090.09)	(74,352,030.01)
<u>\$ (11,286,296.68)</u>	<u>\$ (124,537,482.59)</u>	<u>\$ (135,823,779.27)</u>	<u>\$ (111,932,090.09)</u>

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

Texas Lottery Commission
Balance Sheet – Governmental Fund
August 31, 2022
With Summarized Comparative Totals for August 31, 2021

	General Fund	Total Governmental Fund	
		2022	2021
ASSETS			
Current Assets:			
Cash and Cash Equivalents:			
Cash in State Treasury	\$ 17,890,269.30	\$ 17,890,269.30	\$ 17,633,944.42
Other Current Assets	685,000.00	685,000.00	800,000.00
Total Current Assets	18,575,269.30	18,575,269.30	18,433,944.42
Total Assets	\$ 18,575,269.30	\$ 18,575,269.30	\$ 18,433,944.42
LIABILITIES AND FUND BALANCES			
Liabilities:			
Current Liabilities:			
Payables From:			
Accounts	\$ 9,322.07	\$ 9,322.07	\$ 7,258.38
Vouchers	-	-	7,387.50
Payroll	161,780.24	161,780.24	170,964.97
Due To Other Agencies	16,984,998.40	16,984,998.40	16,594,484.77
Retailer Deposits	685,000.00	685,000.00	800,000.00
Total Current Liabilities	17,841,100.71	17,841,100.71	17,580,095.62
Total Liabilities	17,841,100.71	17,841,100.71	17,580,095.62
FUND FINANCIAL STATEMENT-FUND BALANCES			
Fund Balances:			
Unassigned	734,168.59	734,168.59	853,848.80
Total Fund Balances	734,168.59	734,168.59	853,848.80
Total Liabilities and Fund Balances	\$ 18,575,269.30	\$ 18,575,269.30	\$ 18,433,944.42

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

Texas Lottery Commission
Reconciliation of Total Governmental Fund Balance
to Net Position of Governmental Activities
August 31, 2022

Total Governmental Fund Balance \$ 734,168.59

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

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

Furniture and equipment	33,713.32	
Accumulated depreciation	(27,463.30)	
Computer software	1,313,072.30	
Accumulated amortization	<u>(1,313,072.30)</u>	
Total capital assets		6,250.02

Some liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.

Those liabilities consist of:

Employee compensable leave	(222,477.04)	
Net pension liability	(3,963,260.38)	
Net other post-employment benefits liability	<u>(4,728,421.01)</u>	
Total long-term liabilities		(8,914,158.43)

Amounts reported as deferred outflows and inflows of resources related to pensions and other post-employment benefits are not reported in the governmental fund.

These deferred amounts consist of:

Deferred outflows of resources	2,447,258.66	
Deferred inflows of resources	<u>(5,559,815.52)</u>	
Total deferred inflow and outflow amounts		<u>(3,112,556.86)</u>

Net Position of Governmental Activities \$ (11,286,296.68)

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

Texas Lottery Commission
Statement of Revenues, Expenditures and
Changes in Fund Balance – Governmental Fund
for the Fiscal Year Ended August 31, 2022
With Summarized Comparative Totals for the Year Ended August 31, 2021

	<u>General Fund</u>	<u>Total Governmental Fund</u>	
		<u>2022</u>	<u>2021</u>
REVENUES			
Legislative Appropriations:			
Original Appropriations	\$ 2,419,590.00	\$ 2,419,590.00	\$ 2,549,315.00
Additional Appropriations	589,410.51	589,410.51	552,618.30
Licenses, Fees and Permits	16,985,172.40	16,985,172.40	16,594,756.78
Sales of Goods and Services	17,581.28	17,581.28	1,142.85
Other	-	-	15.19
Total Revenues	<u>20,011,754.19</u>	<u>20,011,754.19</u>	<u>19,697,848.12</u>
EXPENDITURES			
Current:			
Salaries and Wages	1,527,122.44	1,527,122.44	1,535,679.59
Payroll Related Costs	615,203.59	615,203.59	588,095.31
Professional Fees and Services	86,127.66	86,127.66	86,541.30
Travel	6,411.40	6,411.40	-
Materials and Supplies	10,290.25	10,290.25	11,983.88
Communication and Utilities	724.58	724.58	838.28
Repairs and Maintenance	1,818.36	1,818.36	1,730.16
Rentals and Leases	16,435.72	16,435.72	16,516.00
Other Expenditures	10,871.92	10,871.92	9,280.83
Appropriations Lapsed	853,848.80	853,848.80	806,236.70
Intergovernmental Payments	17,002,579.68	17,002,579.68	16,595,645.47
Total Expenditures	<u>20,131,434.40</u>	<u>20,131,434.40</u>	<u>19,652,547.52</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(119,680.21)</u>	<u>(119,680.21)</u>	<u>45,300.60</u>
Net Change in Fund Balance	<u>(119,680.21)</u>	<u>(119,680.21)</u>	<u>45,300.60</u>
FUND FINANCIAL STATEMENT-FUND BALANCE			
Fund Balance, Beginning of Year	<u>853,848.80</u>	<u>853,848.80</u>	<u>808,548.20</u>
Fund Balance, End of Year	<u>\$ 734,168.59</u>	<u>\$ 734,168.59</u>	<u>\$ 853,848.80</u>

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

Texas Lottery Commission
Reconciliation of Changes in Fund Balance of Governmental Fund
to Changes in Net Position of Governmental Activities
for the Fiscal Year Ended August 31, 2022

Net Change in Fund Balance Total - Governmental Fund \$ (119,680.21)

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

Capital outlays are reported as 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	(2,142.84)	
	(2,142.84)	
Excess of capital outlay over depreciation expense		(2,142.84)

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:

Change in pension liability and related deferred inflows and outflows	732,071.58	
Change in other post-employment benefits liability and related deferred inflows and outflows	183,898.24	
Change in compensable leave	(15,896.63)	
	900,073.19	
Total change in long-term liabilities		900,073.19

Change in Net Position of Governmental Activities **\$ 778,250.14**

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

Texas Lottery Commission
Statement of Net Position - Proprietary Fund
August 31, 2022
With Summarized Comparative Totals for August 31, 2021

	Enterprise		
	Lottery	Total Proprietary Fund	
	Fund	2022	2021
ASSETS			
Current Assets:			
Cash and Cash Equivalents:			
Cash in Bank	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00
Cash in State Treasury	229,446,666.13	229,446,666.13	150,175,545.28
Restricted:			
Short Term Investments	58,613,660.91	58,613,660.91	70,377,392.73
Receivables from:			
Accounts	29,453,910.41	29,453,910.41	76,765,406.17
Other	2,330,429.62	2,330,429.62	697,791.71
Consumable Inventories	1,612,625.93	1,612,625.93	2,016,004.76
Merchandise Inventories	46,143,602.66	46,143,602.66	34,069,949.78
Total Current Assets	367,602,395.66	367,602,395.66	334,103,590.43
Non-Current Assets:			
Restricted:			
Investments	238,598,733.56	238,598,733.56	313,671,030.33
Capital Assets:			
Depreciable:			
Building and Building Improvements	1,699,822.89	1,699,822.89	1,466,770.00
Less Accumulated Depreciation	(76,163.49)	(76,163.49)	(5,278.14)
Furniture and Equipment	4,260,840.40	4,260,840.40	5,032,675.45
Less Accumulated Depreciation	(3,873,293.97)	(3,873,293.97)	(4,627,701.50)
Vehicles, Boats, and Aircraft	48,176.20	48,176.20	48,176.20
Less Accumulated Depreciation	(48,176.20)	(48,176.20)	(48,176.20)
Computer Software	58,019.32	58,019.32	64,352.44
Less Accumulated Amortization	(58,019.32)	(58,019.32)	(64,352.44)
Right to Use Asset - Amortizable:			
Building and Building Improvements	2,491,161.69	2,491,161.69	-
Less Accumulated Amortization	(451,727.88)	(451,727.88)	-
Total Non-Current Assets	242,649,373.20	242,649,373.20	315,537,496.14
Total Assets	610,251,768.86	610,251,768.86	649,641,086.57
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources	24,414,576.98	24,414,576.98	36,266,590.13
Total Deferred Outflows of Resources	24,414,576.98	24,414,576.98	36,266,590.13

Texas Lottery Commission
Statement of Net Position - Proprietary Fund
August 31, 2022
With Summarized Comparative Totals for August 31, 2021

	Enterprise		
	Lottery	Total Proprietary Fund	
	Fund	2022	2021
LIABILITIES			
Current Liabilities:			
Payables from:			
Accounts	\$ 39,461,665.02	\$ 39,461,665.02	\$ 34,900,981.86
Vouchers	5,103,385.30	5,103,385.30	10,552,558.69
Payroll	2,355,300.81	2,355,300.81	2,302,731.16
Annuities	4,997,536.71	4,997,536.71	6,005,573.79
Interest	1,706.14	1,706.14	-
Other	1,092,667.26	1,092,667.26	1,061,633.53
Due to Other Agencies	122,600,241.39	122,600,241.39	118,354,819.45
Employees' Compensable Leave	1,730,015.99	1,730,015.99	1,596,582.25
Right to Use Lease Obligations	442,615.69	442,615.69	-
Net Other Post-Employment Benefits Liability	1,194,403.15	1,194,403.15	1,364,218.93
Payable from Restricted Assets	209,514,435.22	209,514,435.22	180,457,509.27
Total Current Liabilities	388,493,972.68	388,493,972.68	356,596,608.93
Non-Current Liabilities:			
Employees' Compensable Leave	1,580,341.71	1,580,341.71	1,563,320.56
Right to Use Lease Obligations	1,614,127.85	1,614,127.85	-
Net Pension Liability	25,562,649.19	25,562,649.19	98,199,954.33
Net Other Post-Employment Benefits Liability	43,218,649.45	43,218,649.45	39,405,127.72
Payable from Restricted Assets	240,561,412.83	240,561,412.83	278,445,466.96
Total Non-Current Liabilities	312,537,181.03	312,537,181.03	417,613,869.57
Total Liabilities	701,031,153.71	701,031,153.71	774,210,478.50
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources	58,172,674.72	58,172,674.72	11,564,741.47
Total Deferred Inflows of Resources	58,172,674.72	58,172,674.72	11,564,741.47
NET POSITION			
Invested in Capital Assets	1,993,896.10	1,993,896.10	1,866,465.81
Restricted for:			
Expendable:			
Restricted by Other:			
Pooled Bond Fund	5,000,000.00	5,000,000.00	5,000,000.00
Unrestricted	(131,531,378.69)	(131,531,378.69)	(106,734,009.08)
Total Net Position	\$ (124,537,482.59)	\$ (124,537,482.59)	\$ (99,867,543.27)

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

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Texas Lottery Commission
Statement of Revenues, Expenses, and
Changes in Net Position - Proprietary Fund
for the Fiscal Year Ended August 31, 2022
With Summarized Comparative Totals for the Year Ended August 31, 2021

	Enterprise Lottery Fund	Total Proprietary Fund	
		2022	2021
OPERATING REVENUES:			
Sales of Goods and Services:			
Lottery Proceeds:			
Ticket Sales	\$ 8,296,892,076.00	\$ 8,296,892,076.00	\$ 8,107,203,394.00
Lottery License Application Fees	338,497.50	338,497.50	302,767.50
Lottery Security Proceeds	57,425.00	57,425.00	51,825.00
Other Operating Revenues	904,434.61	904,434.61	778,501.92
Total Operating Revenues	<u>8,298,192,433.11</u>	<u>8,298,192,433.11</u>	<u>8,108,336,488.42</u>
OPERATING EXPENSES:			
Salaries and Wages	20,792,621.62	20,792,621.62	20,228,461.52
Payroll Related Costs	(3,212,727.79)	(3,212,727.79)	17,877,567.19
Professional Fees and Services	5,496,368.50	5,496,368.50	4,988,306.74
Travel	231,079.17	231,079.17	103,338.82
Materials and Supplies	1,298,384.72	1,298,384.72	1,147,597.03
Communication and Utilities	574,123.44	574,123.44	580,451.74
Repairs and Maintenance	738,802.22	738,802.22	447,422.35
Rentals and Leases	7,314,163.58	7,314,163.58	6,689,415.57
Printing and Reproduction	46,399,991.00	46,399,991.00	64,480,258.93
Depreciation and Amortization	660,174.83	660,174.83	174,089.23
Bad Debt Expense	173,446.76	173,446.76	306,192.35
Interest	178.48	178.48	182.60
Lottery Prizes	5,599,717,953.59	5,599,717,953.59	5,418,271,881.68
Retailer Commissions	415,358,212.19	415,358,212.19	405,847,847.87
Retailer Bonuses	24,155,125.00	24,155,125.00	26,249,999.72
Other Operating Expenses:			
Lottery Operator Fees	148,667,479.95	148,667,479.95	139,021,852.55
Advertising	10,151,304.93	10,151,304.93	17,641,406.97
Other	7,900,082.60	7,900,082.60	5,864,222.65
Intergovernmental Payments	1,998,416,917.51	1,998,416,917.51	1,998,313,536.04
Total Operating Expenses	<u>8,284,833,682.30</u>	<u>8,284,833,682.30</u>	<u>8,128,234,031.55</u>
Operating Income (Loss)	<u>13,358,750.81</u>	<u>13,358,750.81</u>	<u>(19,897,543.13)</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest Expenses and Fiscal Charges	(21,812.85)	(21,812.85)	-
Loss on Disposal of Capital Assets	(10,083.25)	(10,083.25)	-
Net Increase (Decrease) Fair Value	(37,991,294.03)	(37,991,294.03)	(16,751,822.58)
Settlements and Judgments	(5,500.00)	(5,500.00)	-
Total Non-operating Revenues (Expenses)	<u>(38,028,690.13)</u>	<u>(38,028,690.13)</u>	<u>(16,751,822.58)</u>
Change in Net Position	(24,669,939.32)	(24,669,939.32)	(36,649,365.71)
Total Net Position, Beginning of Year	<u>(99,867,543.27)</u>	<u>(99,867,543.27)</u>	<u>(63,218,177.56)</u>
Total Net Position, End of Year	<u>\$ (124,537,482.59)</u>	<u>\$ (124,537,482.59)</u>	<u>\$ (99,867,543.27)</u>

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

Texas Lottery Commission
Statement of Cash Flows - Proprietary Fund
For the Fiscal Year Ended August 31, 2022
With Summarized Comparative Totals for the Year Ended August 31, 2021

	<u>Enterprise</u>	<u>Total Proprietary Fund</u>	
	<u>Lottery Fund</u>	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from Customers	\$ 8,343,695,848.42	\$ 8,343,695,848.42	\$ 8,092,662,488.23
Payments to Suppliers for Goods and Services	(680,844,060.06)	(680,844,060.06)	(652,368,891.63)
Payments to Employees	(27,908,526.30)	(27,908,526.30)	(27,225,276.85)
Payments for Other Expenses	(7,556,037,526.56)	(7,556,037,526.56)	(7,404,323,660.13)
Net Cash Provided by (Used in) Operating Activities	<u>78,905,735.50</u>	<u>78,905,735.50</u>	<u>8,744,659.62</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Payments for Other Uses	(60,357,500.00)	(60,357,500.00)	(69,733,000.00)
Proceeds from Other Financing	1,976,000.00	1,976,000.00	-
Net Cash Used in Noncapital Financing Activities	<u>(58,381,500.00)</u>	<u>(58,381,500.00)</u>	<u>(69,733,000.00)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments for Additions to Capital Assets	(363,270.22)	(363,270.22)	(1,610,714.07)
Payments for Leases	(454,524.86)	(454,524.86)	-
Net Cash Used in Capital and Related Financing Activities	<u>(817,795.08)</u>	<u>(817,795.08)</u>	<u>(1,610,714.07)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sales of Investments	61,540,680.43	61,540,680.43	69,733,000.00
Payments to Acquire Investments	(1,976,000.00)	(1,976,000.00)	1,114,239.40
Net Cash Provided by Investing Activities	<u>59,564,680.43</u>	<u>59,564,680.43</u>	<u>70,847,239.40</u>
Net Increase (Decrease) in Cash and Cash Equivalents	79,271,120.85	79,271,120.85	8,248,184.95
Cash and Cash Equivalents, Beginning of Year	<u>150,177,045.28</u>	<u>150,177,045.28</u>	<u>141,928,860.33</u>
Cash and Cash Equivalents, End of Year	<u>\$ 229,448,166.13</u>	<u>\$ 229,448,166.13</u>	<u>\$ 150,177,045.28</u>

Texas Lottery Commission
Statement of Cash Flows - Proprietary Fund
For the Fiscal Year Ended August 31, 2022
With Summarized Comparative Totals for the Year Ended August 31, 2021

	Enterprise		
	Lottery Fund	Total Proprietary Fund	
		2022	2021
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating Income (Loss)	\$ 13,358,750.81	\$ 13,358,750.81	\$ (19,897,543.13)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Amortization and Depreciation	660,174.83	660,174.83	174,089.23
Bad Debt Expense	173,446.76	173,446.76	306,192.35
Grant Revenue-OPEB Related	(1,995.78)	(1,995.78)	(2,224.18)
Pension Expense	(8,418,823.13)	(8,418,823.13)	13,172,904.43
Other Post-Employment Benefits Expense	(2,112,833.88)	(2,112,833.88)	(2,471,298.73)
Operating Income and Cash Flow Categories:			
Changes in Assets and Liabilities:			
(Increase) Decrease in Receivables	45,505,411.09	45,505,411.09	(15,671,776.01)
(Increase) Decrease in Inventories	(11,670,274.05)	(11,670,274.05)	(5,035,731.77)
(Increase) Decrease in Prepaid Items	-	-	-
Increase (Decrease) in Payables	41,411,878.85	41,411,878.85	38,170,047.43
Total Adjustments	<u>65,546,984.69</u>	<u>65,546,984.69</u>	<u>28,642,202.75</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 78,905,735.50</u>	<u>\$ 78,905,735.50</u>	<u>\$ 8,744,659.62</u>
Non Cash Transactions			
Net Increase (Decrease) in Fair Value of Investments	\$ (37,991,294.03)	\$ (37,991,294.03)	\$ (16,751,822.58)
Interest from Right to Use Obligations	(21,812.85)	(21,812.85)	-
Other	(10,083.25)	(10,083.25)	-
Total Non Cash Transactions	<u>\$ (38,023,190.13)</u>	<u>\$ (38,023,190.13)</u>	<u>\$ (16,751,822.58)</u>

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

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TEXAS LOTTERY COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

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TEXAS LOTTERY COMMISSION

Notes to the Basic Financial Statements

<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 Texas Comptroller of Public Accounts’ Reporting Requirements for State Agencies.

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

Effective April 1, 1994, House Bill No. 2771 transferred Bingo operations from the Texas Alcoholic Beverage Commission to the Commission. The Charitable Bingo Operations Division of the Commission collects fees and regulates the operations of charitable bingo in the state of Texas. Fees collected are allocated to cities and counties with the balance deposited in the General Revenue Fund. Effective January 1, 2020, pursuant to House Bill No. 914, the Commission no longer has a role in the disbursement of prize fees to counties and municipalities.

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

BASIS OF PRESENTATION

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

Governmental Accounting Standards Board Statement No. 87 (GASB 87), Leases was adopted effective September 1, 2021. The objective of the Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by government. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. The Statement requires recognition of intangible right-to-use asset and liability for certain leases that were previously classified as operating leases. The agency assessed all current leases and determined that six operating leasing agreements meet the provisions of GASB 87 as of August 31, 2022. A right-to-use asset and right-to-use obligation have been recognized in accordance with the Statement. The impact of the adoption of GASB 87 was not material to the net position of the Commission at August 31, 2021 and therefore no adjustment to the opening net position is recorded in these financial statements.

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 may not include sufficient detail to constitute a presentation in conformity with accounting principles 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, 2021, from which the summarized information was derived.

Government-wide Financial Statements

The government-wide financial statements (Statement of Net Position 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 Position, 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 Prize Fee Collections and Accounting, Bingo Licensing, Bingo Law Compliance Field Operations and Bingo Education and Development), which are otherwise supported by general government revenues. 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 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 financed by general revenues.

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.

Fund Structure

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

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

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

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

The Commission accounts for the General Revenue Fund, Child Support Deductions Fund, Bingo Cash Bond Fund and Lottery Retailer Security Fund in its governmental activities as separate sub funds, which are presented as one general fund for financial reporting purposes.

Proprietary Fund Types

Enterprise Funds

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

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

The Commission accounts for its proprietary activities in separate sub-funds, which are presented as one fund for financial reporting purposes, as discussed below:

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

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

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 governmental or proprietary 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.

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

The governmental activities included in the Statement of Net Position 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 business-type activities and proprietary fund are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

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

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 Position

ASSETS

Cash and Cash Equivalents

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

Allocation of Income

Revenues from scratch and draw lottery ticket sales and fees, net of retailer commissions and direct retailer prize payments, are deposited directly into an account in the Enterprise Fund (5025). From this account, prize payment reimbursements are made to a separate local bank account ("Lottery Prize Payment Account") to provide for prize payments. The Commission retains 12 percent of gross lottery revenues, subject to appropriation limitation, accruing from the sales of tickets for the payment of costs

incurred in the operation and administration of the lottery operations, including not less than 5 percent for retailer commissions.

During fiscal year 2023, net proceeds from sales will continue to be transferred to the Foundation School Fund and the Texas Veterans Commission. Obligated amounts in the Lottery operations account at August 31, 2022 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 \$122,600,241.39 are recorded as "Due to Other Agencies" as of August 31, 2022. \$2,222,483.54 is due to the Texas Veterans Commission (Fund 0030) for August sales and unclaimed prizes. The remaining balance is due to the Foundation School Fund (Fund 0193) for August sales and unclaimed prizes.

Other Current Assets

Other Current Assets represents funds, provided by lottery retailers that do not meet certain credit criteria during the licensing process, which are held as financial security to protect the state in the event the retailer is unable to settle its debt to the Commission during the collections process. The securities are typically in the form of a Certificate of Deposit, maintained at a bank and assigned to the Commission.

Investments

Investments are measured at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement 72, *Fair Value Measurement and Application*. Investments are purchased to meet future installment payments to prize winners. The investments are measured at fair value and the related short-term prizes payable is reported at par value. The related long-term prizes payable is reported at book value. The net unrealized gain (loss) on investment securities, which is the difference between the fair value and the amortized cost, is reflected as Unrestricted-Net Position in the "Statement of Net Position – Proprietary Fund".

Restricted Assets

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

Inventories

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

Capital Assets

Assets with an initial individual cost equal to or greater than \$5,000.00 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 lives of the assets using the straight-line method.

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

Right to Use Asset of Buildings represents the leases that meet the recognition criteria per GASB 87. The underlying asset is amortized over the lease term.

Receivables from – Other

The disaggregation of receivables from other as reported in the financial statements is disclosed in Note 16.

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 salaries and related payroll costs earned by employees at the balance sheet date for which payment is pending.

Retailer Deposits

Retailer Deposits represents funds, held by the Commission that have been received from lottery retailers that do not meet certain credit criteria during the licensing process, which are held as financial security to protect the state in the event the retailer is unable to settle its debt to the Commission during the collections process.

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, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments ("GASB 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. An employee 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 Commission'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.

Right to Use Lease Obligations

Right to Use Lease Obligations balances represent the amount recognized by a lessee on its financial statements regarding its leases. It is initially measured at the present value of lease payments and is measured whenever there is a change in lease payments or lease modification. Liabilities are reported separately as either current or non-current.

Liabilities Payable from Restricted Assets

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

The amortization of the discount of investments held for prizes payable is based on yields ranging from 0.19 percent to 6.97 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, 2022:

	2022
Total Obligation	\$337,730,000.00
Less – unamortized discount	46,588,587.17
Total carrying amount	291,141,412.83
Less – prizes payable within one year	50,580,000.00
Long-term prizes payable	\$240,561,412.83

The aggregate amounts of prizes payable due in each of the five fiscal years following August 31, 2022 and 2021, and the total thereafter are as follows:

Aggregate Amounts of Prizes Payable Business-Type Activities			
	Principal 2022		Principal 2021
2023 (Future Year 1)	\$ 50,580,000.00	2022 (Future Year 1)	\$ 60,352,000.00
2024 (Future Year 2)	44,354,000.00	2023 (Future Year 2)	50,476,000.00
2025 (Future Year 3)	39,038,000.00	2024 (Future Year 3)	44,250,000.00
2026 (Future Year 4)	33,828,000.00	2025 (Future Year 4)	38,934,000.00
2027 (Future Year 5)	28,270,000.00	2026 (Future Year 5)	33,724,000.00
2028-2032	112,434,000.00	2027-2031	120,394,000.00
2033-2037	28,602,000.00	2032-2036	47,296,000.00
2038-2041	624,000.00	2037-2039	680,000.00
Total Prizes Payable	\$ 337,730,000.00	Total Prizes Payable	\$ 396,106,000.00

There were no prizes payable for the governmental activities as of August 31, 2022 and 2021.

Unclaimed Prizes

In accordance with Subsection 466.408 of the State Lottery Act, the ticket holder forfeits prizes that remain unclaimed for 180 days after the drawing date or 180 days after the close of a scratch game. During fiscal year 2022, the Commission transferred a total of \$62,626,357.15 in unclaimed lottery prize winnings on a quarterly basis to the following agencies: The Texas Education Agency received \$59,468,115.40 for credit to the Foundation School Fund, the Texas Veterans Commission received \$2,718,798.75 for credit to the Fund for Veterans Assistance, and the Health and Human Services Commission received \$439,443.00 for credit to the Multi-categorical Teaching Hospital Account.

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

The statement of net position includes a separate section, in addition to assets, for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position/fund balance that applies to a future period(s) and therefore will not be recognized as an expense/expenditure until that time. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as revenue until that time.

The Commission's deferred outflows and deferred inflows are related to its net pension and postemployment benefits other than pension amounts. Refer to Notes 7 and 9 for additional information and description of these amounts.

FUND BALANCE/NET POSITION

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

Fund Balance Components

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

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

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

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

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

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

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

Invested in Capital Assets

Invested in capital assets consists of capital assets 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 this balance. Net position invested in capital assets at August 31, 2022, was \$2,000,146.12.

Restricted Net Position

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

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

	2022
Reserved for Pooled Bond Fund	\$ 5,000,000.00

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

Pooled Bond Fund

The Reserve for Pooled Bond Fund is established in accordance with the Texas Government Code, Chapter 466. Specifically, Texas Government Code, Section 466.156 authorizes the executive director of the Commission to establish a pooled bond fund from the collection of cash from each sales agent

to be used to reimburse the state for losses to the state from the operation of the Commission's sales. As of August 31, 2022, the balance in the Pooled Bond Fund did not exceed the statutory cap of \$5 million.

Unrestricted Net Position

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

Unrestricted net position in the Proprietary Fund consists of the following:

	2022
Unrestricted	(\$131,531,378.69)

Unrestricted

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

INTERAGENCY TRANSACTIONS AND BALANCES

The Commission has the following types of transactions:

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

Payments to Foundation School Fund during fiscal year 2022 were as follows:

	2022
Cash payments	\$ 1,968,255,614.03
Accrued payments at beginning of fiscal year	(116,688,067.48)
Amount paid from current year revenue	1,851,567,546.55
Accrued payments at end of fiscal year	120,377,757.85
Total Payments to Foundation School Fund	\$ 1,971,945,304.40

Payments to the Texas Veterans Commission during fiscal year 2022 were as follows:

	2022
Cash payments	\$ 25,476,438.54
Accrued payments at beginning of fiscal year	(1,666,751.97)
Amount paid from current year revenue	23,809,686.57
Accrued payments at end of fiscal year	2,222,483.54
Total Payments to Texas Veterans Commission	\$ 26,032,170.11

Payments to the Health and Human Services Commission for credit to the Multicategorical Teaching Hospital Account for unclaimed prizes during fiscal year 2022 were as follows:

	<u>2022</u>
Cash payments	\$ 439,443.00
Accrued payments at beginning of fiscal year	-
Amount paid from current year revenue	439,443.00
Accrued payments at end of fiscal year	-
Total Payments to Health and Human Services Commission	\$ 439,443.00

Payments to the Comptroller of Public Accounts - General Revenue during fiscal year 2022 were as follows:

	<u>2022</u>
Cash payments	\$ 17,581.28
Accrued payments at beginning of fiscal year	-
Amount paid from current year revenue	17,581.28
Accrued payments at end of fiscal year	16,984,998.40
Total Payments to the Comptroller of Public Accounts - General Revenue	\$ 17,002,579.68

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, and other contributions are treated as non-operating revenues.

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

Recognition of Revenue

Lottery revenues are primarily composed of revenues from scratch and draw lottery ticket sales and retailer fees. Scratch ticket sales are recognized as revenue when ticket packs are settled with retailers. There are four (4) traditional ways retailers are charged for the cost of a pack of scratch tickets. Ticket packs are considered settled on the earlier of the date when 70 percent of the low-tier prizes in the pack are validated, 45 days after the pack is activated by the retailer, manual settlement by the retailer upon activation of the pack, or game closing in which retailers are charged for any ticket in their possession after end of game date. The commission introduced an additional 21-day settlement class option September 1, 2016. Draw ticket sales are recognized as revenue when tickets are purchased by lottery players. Revenues from retailer license and application fees are recorded when received. Lottery revenues are used for payment of prizes and to pay costs incurred in the operation and administration of the Lottery, such costs being limited to 12 percent of gross lottery revenues, subject to appropriation limitation, accruing from the sales of tickets, including not less than 5 percent for retailer commissions. Any funds not used for these purposes are transferred to the Foundation School Fund of the state of Texas at the end of each fiscal year.

Lottery Prizes

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

Retailer Commissions

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

Retailer Bonuses

The Commission provides retailers additional compensation in the form of bonuses for selling certain prize-winning tickets.

The following table identifies the games offering a bonus option and the amount of the bonus:

Game	Bonus Structure
Mega Millions	1% bonus of grand/jackpot portion won in Texas capped at \$1,000,000; retailer bonus is pari-mutuel.
Powerball	1% bonus of grand/jackpot portion won in Texas capped at \$1,000,000; retailer bonus is pari-mutuel.

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

Lottery Operator Fees

The lottery operator received a fee of 2.0773 percent for fiscal year 2022, based on the total lottery tickets sold, as defined in Amendment No. 8 of the contract for Lottery Operations and Services, dated October 13, 2016. In addition to the operator, the Commission contracts for other goods and services in the ordinary course of business. Payments under such contracts, less rebates, credits, and sanctions, are charged to expense as the goods and services are received.

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 materially 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 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 year 2022. 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.

A summary of changes in Capital Assets and useful lives for the year ended August 31, 2022 is presented below:

Fiscal Year 2022

GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT							
	Balance 9/1/2021	Reclassifications			Additions	Deletions	Balance 8/31/2022	
		Adj	Completed CIP	Increase Int'agy Trans				Decrease Int'agy Trans
Depreciable Assets								
Furniture and Equipment	\$ 65,458.52	-	-	-	-	(31,745.00)	\$ 33,713.52	
Total Depreciable Assets at Historical Costs	\$ 65,458.52	-	-	-	-	(31,745.00)	\$ 33,713.52	
Less Accumulated Depreciation for:								
Furniture and Equipment	\$ (57,065.46)	-	-	-	(2,142.84)	31,745.00	\$ (27,463.30)	
Total Accumulated Depreciation	(57,065.46)	-	-	-	(2,142.84)	31,745.00	(27,463.30)	
Depreciable Assets, Net	8,392.86	-	-	-	(2,142.84)	-	6,250.02	
Intangible Capital Assets - Amortizable								
Computer Software - Intangible	\$ 1,313,072.30	-	-	-	-	-	\$ 1,313,072.30	
Total Intangible Capital Assets - Amortizable	\$ 1,313,072.30	-	-	-	-	-	\$ 1,313,072.30	
Less Accumulated Amortization for:								
Computer Software - Intangible	\$ (1,313,072.30)	-	-	-	-	-	\$ (1,313,072.30)	
Total Accumulated Amortization	(1,313,072.30)	-	-	-	-	-	(1,313,072.30)	
Intangible Capital Assets - Amortizable, Net	-	-	-	-	-	-	-	
Governmental Activities Capital Assets, Net	\$ 8,392.86	-	-	-	\$(2,142.84)	-	\$ 6,250.02	
BUSINESS-TYPE ACTIVITIES								
Depreciable Assets								
Furniture and Equipment	\$ 5,032,675.45	-	-	-	130,217.33	(902,052.38)	\$ 4,260,840.40	
Vehicle, Boats & Aircraft	48,176.20	-	-	-	-	-	48,176.20	
Buildings and Improvements	1,466,770.00	-	-	-	233,052.89	-	1,699,822.89	
Total Depreciable Assets at Historical Costs	\$ 6,547,621.65	-	-	-	\$ 363,270.22	(902,052.38)	\$ 6,008,839.49	
Less Accumulated Depreciation for:								
Furniture and Equipment	\$ (4,627,701.50)	-	-	-	(137,561.60)	891,969.13	\$ (3,873,293.97)	
Vehicles, Boats & Aircraft	(48,176.20)	-	-	-	-	-	(48,176.20)	
Buildings and Improvements	(5,278.14)	-	-	-	(70,885.35)	-	(76,163.49)	
Total Accumulated Depreciation	(4,681,155.84)	-	-	-	(208,446.95)	891,969.13	(3,997,633.66)	
Depreciable Assets, Net	1,866,465.81	-	-	-	154,823.27	(10,083.25)	2,011,205.83	
Intangible Capital Assets - Amortizable								
Computer Software - Intangible	\$ 64,352.44	-	-	-	-	(6,333.12)	\$ 58,019.32	
Total Intangible Capital Assets - Amortizable	\$ 64,352.44	-	-	-	-	(6,333.12)	\$ 58,019.32	
Less Accumulated Amortization for:								
Computer Software - Intangible	\$ (64,352.44)	-	-	-	-	6,333.12	\$ (58,019.32)	
Total Accumulated Amortization	(64,352.44)	-	-	-	-	6,333.12	(58,019.32)	
Intangible Capital Assets - Amortizable, Net	-	-	-	-	-	-	-	
Business-Type Activities Capital Assets, Net	\$ 1,866,465.81	-	-	-	\$ 154,823.27	(10,083.25)	\$ 2,011,205.83	
Right to Use Assets - Amortizable								
Buildings and Building Improvements	\$ -	-	-	-	2,491,161.69	-	\$ 2,491,161.69	
Total Right to Use Assets at Historical Costs	\$ -	-	-	-	2,491,161.69	-	\$ 2,491,161.69	
Less Accumulated Amortization for:								
Building and Building Improvements	\$ -	-	-	-	(451,727.88)	-	\$ (451,727.88)	
Total Accumulated Amortization	\$ -	-	-	-	(451,727.88)	-	(451,727.88)	
Business-Type Activities Right to Use, Net	\$ -	-	-	-	\$ 2,039,433.81	-	\$ 2,039,433.81	

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

Description	Life
Furniture and Equipment	3-10
Vehicles, Boats, & Aircraft	5-7
Leasehold Improvements & Right to Use Assets	Life of Lease
Building Improvements	22
Intangibles-Purchased Software	5

Depreciation and amortization expense were charged to activities as follows:

Governmental Activities:	
Bingo Licensing	\$ 2,142.84
Total Governmental Activities	<u>\$ 2,142.84</u>
Business-type Activities:	
Lottery Operations	\$ 308,565.71
Marketing, Research, and Promotion	47,268.52
Central Administration	267,040.72
Enforcement	37,299.88
Total Business-type Activities	<u>660,174.83</u>
Total Primary Government	<u><u>\$ 662,317.67</u></u>

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 in the Lottery Prize Payment account were fully collateralized at August 31, 2022.

Deposits of Cash in Bank

As of August 31, 2022, the carrying amount of deposits was \$1,500.00 as presented below:

Governmental and Business-Type Activities	
Cash in Bank - Carrying Value	\$1,500.00
Total Cash in Bank	<u>\$1,500.00</u>
Proprietary Fund Current Assets Cash in Bank	
Proprietary Fund Current Assets Cash in Bank	\$1,500.00
Governmental Fund Current Assets Cash in Bank	0.00
Total Cash in Bank	<u>\$1,500.00</u>

As of August 31, 2022, the total bank balance was as follows:

Governmental and Business Type Activities	\$1,500.00
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Investments

The Commission's investments consist of United States Government Securities (Treasury and REFCO Strips). These investments have been purchased to provide for the payment of the *Lotto Texas*, *Mega Millions*, and *Powerball* jackpot prizes, as well as the installment payments for several scratch ticket games, as described in Note 1 under Liabilities Payable from Restricted Assets. All investments are held to maturity; therefore, fluctuations in market price have no effect on the ability of the Commission to meet installment payment obligations as they become due. The Commission's investments are held by the Texas Treasury Safekeeping Trust Company or its agent in the Texas Treasury Safekeeping Trust Company's name.

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

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

The Commission had the following recurring fair value measurements as of August 31, 2022:

Investments Fair Values Governmental and Business-Type Activities	Fair Value Hierarchy			Total
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
U.S. Government				
U.S. Treasury Strips	\$ 162,095,243.60			\$ 162,095,243.60
Resolution Funding Corporation Strips		126,238,753.79		126,238,753.79
Total Investments at Fair Value	\$ 162,095,243.60	\$ 126,238,753.79	\$ 0.00	\$ 288,333,997.39
Investments at Amortized Costs or Not Subject to GASB Statement No. 72				
Repurchase Agreement (Texas Treasury Safekeeping Trust Co.)				\$ 8,878,397.08
Total of Investments - Governmental and Business-Type Activities				\$ 297,212,394.47
Reconciliation of Investments per Exhibits - Governmental and Business-Type Activities				
Proprietary Funds Current Assets Restricted Short-Term Investments				\$ 58,613,660.91
Proprietary Funds Non-Current Assets Restricted Investments				238,598,733.56
Investments per Exhibits				\$ 297,212,394.47

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

The following schedule details the fair values and maturities of the Commission's investment in U.S. Government Securities and Repurchase Agreement as of August 31, 2022.

Investment Type	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Government and Agency Investments	\$ 288,333,997.39	\$ 49,735,263.83	\$ 131,471,778.87	\$ 87,406,717.14	\$ 19,720,237.55
Repurchase Agreement	8,878,397.08	8,878,397.08			
Total	\$ 297,212,394.47	\$ 58,613,660.91	\$ 131,471,778.87	\$ 87,406,717.14	\$ 19,720,237.55

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 and Agency Obligations. These investments are explicitly guaranteed by the U.S. Government and therefore are not rated by nationally recognized statistical rating organizations.

Interest rate risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. The Commission, through the Texas Treasury Safekeeping Trust Company, manages its exposure to fair value losses arising from increasing interest rates by limiting the modified duration of its investment portfolio.

Texas Lottery Commission	
U.S. Government -	Modified Duration Years
U.S. Treasury Strips	5.977
Resolution Funding Corporation Strips	2.515

Reverse Repurchase Agreements

At August 31, 2022, 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, 2022, was approximately \$5,390,503.07 at book value. The fair value of the securities underlying these agreements at August 31, 2022, was \$5,228,703.66.

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

During the year ended August 31, 2022, the following changes occurred in long-term liabilities.

Year Ended August 31, 2022

Governmental Activities	Balance 09/01/2021	Additions	Deletions	Balance 08/31/2022	Amounts Due Within One Year
Compensable Leave	\$206,580.41	167,178.34	151,281.71	222,477.04	\$116,134.21
Total Governmental Activities	\$206,580.41	\$167,178.34	\$151,281.71	\$222,477.04	\$116,134.21

Business-Type Activities	Balance 09/01/2021	Additions	Deletions	Balance 08/31/2022	Amounts Due Within One Year
Compensable Leave	\$3,159,902.81	2,553,170.27	2,402,715.38	3,310,357.70	\$1,730,015.99
Right to Use Obligations	\$0.00	2,491,161.69	434,418.15	2,056,743.54	\$442,615.69
Long-Term Prizes Payable	\$458,902,976.23	70,747,974.66	79,575,102.84	450,075,848.05	\$209,514,435.22
Total Business Type Activities	\$462,062,879.04	\$75,792,306.62	\$82,412,236.37	\$455,442,949.29	\$211,687,066.90

Employees' Compensable Leave

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

Right to Use Lease Obligations

Lease agreements in accordance with GASB 87 are measured at the present value of lease payments expected to be made during the lease term. The Right to Use Lease Obligations balance represents the future lease payments that are discounted using the estimated incremental borrowing rate and is reduced by the lease payments made in the fiscal year.

Long-Term Prizes Payable

Certain Texas Lottery games provide prize winners the ability to receive winnings over time. Maturity of these prizes range from 1 year to 29 years. The Long-Term Prizes Payable balance represents future installments due to winners. These prizes are paid weekly, monthly, quarterly and annually.

NOTE 5: Leases

The Texas Lottery Commission has leased buildings and a parking garage with remaining lease terms through 2037. The leases consist of a warehouse/disaster recovery center in Austin as well as claim centers in Abilene, Amarillo, Beaumont, Corpus Christi, Dallas, Fort Worth, Houston, Laredo, Lubbock, McAllen, Odessa, San Antonio, Tyler, and Victoria. The Austin, Dallas, Houston, Odessa, and San Antonio offices also house 5 Bingo regional offices. These lease agreements generally do not require payment of taxes, insurance and maintenance by the Commission, except for utility costs directly attributable to computer equipment at the central office and utility and janitorial costs at some claim/regional centers. Generally, management expects that leases will be renewed or replaced by other leases in the normal course of business.

Included in the expenditures reported in the financial statements are the following amounts of rent paid:

Fund Type	Amount
General Revenue	\$16,435.72
GR Dedicated-Lottery Account No. 5025	\$7,314,163.58

Future Lease Payments Year Ended August 31, 2022 are as follows:

Business-Type Activities			
Year	Principal	Interest	Total Future Min. Lease Payments
2023	\$ 442,615.69	\$ 19,626.50	\$ 462,242.19
2024	451,653.96	17,170.20	468,824.16
2025	287,941.68	14,700.48	302,642.16
2026	89,155.63	13,175.14	102,330.77
2027	80,156.79	11,905.52	92,062.31
2028-2032	418,221.66	39,901.02	458,122.68
2033-2037	286,998.13	8,916.54	295,914.67
Total	\$ 2,056,743.54	\$ 125,395.40	\$ 2,182,138.94

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

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.

As of August 31, 2022, there were no significant Interfund payables or receivables.

NOTE 7: Pension

The Board of Trustees of ERS is the administrator of four pension plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. In addition to the state of Texas, the employers of the ERS plan include various component units of the state. The Employees Retirement System and the Texas Treasury Safekeeping Trust Company, which are blended component units, and the State Bar of Texas, which is a discrete component unit, are also employers of the ERS plan. The Employees Retirement System of Texas Plan (ERS Plan) is considered a single employer defined benefit plan under GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. ERS plan covers members in employee and elected

classes. Employee class includes employees and appointed officers of the agencies of the state of Texas except those who are included in the coverage of Teacher Retirement System of Texas, Judicial Retirement System Plan I (JRS I) and Plan II (JRS II). Elected class includes elected state officials not included in the coverage of JRS I and JRS II, and members of the Legislature and district and criminal district attorneys.

The benefit and contribution provisions of the ERS Plan are authorized by state law (*Texas Government Code, Title 8, Subtitle B*) and may be amended by the Legislature. The monthly benefit may vary by membership class.

The monthly standard annuity of the employee class is determined by a statutory percentage of 2.3 percent of a member’s average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the employee class may vary depending on the hire date. For members hired on or before August 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after September 1, 2009 and before September 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after September 1, 2013, the average monthly compensation is the average of highest 60 months of compensation.

The monthly standard annuity of the elected class is determined by a statutory percentage of 2.3 percent of a district judge’s average monthly compensation multiplied by the number of years of service credit. The average monthly compensation of the elected class may vary depending on the hire date. For members hired prior to September 1, 2019, the monthly standard annuity equals the statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by the number of years of service credit. For members hired on or after September 1, 2019, the monthly standard annuity equals the statutory percentage of 2.3 percent of the current base salary of a district judge multiplied by the number of years of service credit. For district attorneys hired on or after September 1, 2019, the monthly standard annuity equals the statutory percentage of 2.3 percent of the salary of a district judge based on the same number of years of contributing service.

Retirement benefits are automatically adjusted should state judicial salaries change.

The ERS plan’s membership as of the measurement date of August 31, 2021 is presented in the table below:

Employees Retirement System's Membership

	ERS
<hr/>	
Retirees and Beneficiaries Currently Receiving Benefits	120,294
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	145,050
Current Employees Vested and Non-Vested	<u>136,726</u>
Total Members	<u><u>402,070</u></u>

The contribution rates for the state and the members for the ERS plan for the measurement period of fiscal 2021 are presented in the table below:

Required Contribution Rates

Plan	Employer			Members		
	Employee Class	Elected Class – Legislators	Elected Class – Other	Employee Class	Elected Class – Legislators	Elected Class – Other
ERS	10.0%	10.0%	10.0%	9.5%	9.5%	9.5%

The amount of Texas Lottery Commission’s contributions recognized by the ERS plan during the fiscal 2021 measurement period was \$2,064,912.71.

The total pension liability, net pension liability, and certain sensitivity information shown in this report are based on an actuarial valuation performed as of August 31, 2021. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of August 31, 2021:

Actuarial Methods and Assumptions

	ERS Plan
Actuarial Valuation Date	August 31, 2021
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	31 Years
Asset Valuation Method	Marked to market as of August 31, 2017. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.
Actuarial Assumptions:	
Discount Rate	7.0%
Investment Rate of Return	7.0%
Inflation	2.3%
Retirement Age	Experience-based table of rates that are specific to the class of employee. Updated for the 2020 valuation pursuant to an experience study of the 5-year period from September 1, 2014 to August 31, 2019.
Salary Increase	0.0% to 8.8%
Mortality	2020 State Retirees of Texas (SRT) Mortality Tables. Generational mortality improvements in accordance with the ultimate rates from the scale most recently published by Retirement Plans Experience Committee of the Society of Actuaries (“Scale U-MP”) and projected from the year 2019. Rates for male LECO members are set forward one year.
Cost-of-living Adjustments	None - Employee 2.3% - Elected

A single discount rate of 7% was applied to measure the total pension liability. The 7% discount rate incorporated a 7.00% long-term expected rate of return on pension plan investments and 1.95% 20-year municipal bond rate based on the rate for Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-Year Municipal GO AA Index”. The long-term expected investment rate of return was applied to all projected benefit payments as the investment assets were projected to be available to satisfy all such benefit payments.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employers are based on contributions for the most recent five-year period as of the measurement date, adjusted on consideration of subsequent events. The 87th legislative session passed Senate Bill (SB) 321, providing a legacy payment annually to ERS to pay off the current unfunded liability by 2054. The legacy payment began September 1, 2021 for fiscal year 2022. SB 321 establishes a cash balance benefit in the defined benefit plan for state employees hired on or after September 1, 2022. Additionally, in August 2020, the Board of Trustees adopted a new set of assumptions that are currently reflected in the actuarial valuations for this fiscal year. Projected employer contributions are based on fiscal year 2021 funding levels.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the plan’s investment portfolio are presented below:

Asset Class	Target Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Global Equity	37.00%	8.10%	2.15%
Private Equity	13.00%	11.20%	1.16%
Global Credit	13.00%	5.80%	0.39%
Special Situations	1.00%	7.80%	0.17%
Real Estate Investment Trust	3.00%	7.60%	0.16%
Private Real Asset-Infrastructure/Land	7.00%	7.20%	0.34%
Private Real Estate	9.00%	5.70%	0.31%
Fixed Income-Rates	11.00%	1.90%	(0.04)%
Absolute Returns	5.00%	5.80%	0.18%
Cash	1.00%	1.80%	(0.01)%
Total	100.00%		4.79%
Inflation			2.30%
Expected Nominal Rate of Return			7.09%

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of Texas Lottery Commission’s net pension liability. The result of the analysis is presented in the table below:

Sensitivity of Texas Lottery Commission’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

1% Decrease 6%	Current Discount Rate 7%	1% Increase 8%
\$ 44,304,199.65	\$ 29,525,909.57	\$ 17,225,209.48

The pension plan’s fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by Employees Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the pension trust fund are reported at fair value in accordance with GASB Statement No. 72. Employees Retirement System issues stand-alone audited Annual Comprehensive Financial Report (ACFR), which may be obtained from their website at www.ers.texas.gov and searching for reports and studies.

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Texas Lottery Commission's total pension liability is based on an actuarial valuation performed as of August 31, 2021. For fiscal year 2022 reporting, the measurement date of Texas Lottery Commission's net pension liability is August 31, 2021. The schedule of changes in Texas Lottery Commission's net pension liability for the fiscal year ending August 31, 2022 is presented below:

**Schedule of Changes in
Texas Lottery Commission's Net Pension Liability
For Fiscal Year Ending August 31, 2022**

Total Pension Liability	2022
Service Cost	\$ 5,992,174.77
Interest on the Total Pension Liability	6,635,550.39
Benefit Changes	-
Difference between Expected and Actual Experience of the Total Pension Liability	(2,087,111.20)
Assumption Changes*	(67,890,946.61)
Benefit Payments and Refunds	(7,569,641.52)
Net Change in Total Pension Liability	(64,919,974.17)
Total Pension Liability - Beginning	188,277,793.34
Total Pension Liability - Ending	\$ 123,357,819.17
Plan Fiduciary Net Position	
Contributions - Employer	\$ 2,064,836.75
Contributions - Member	2,005,604.06
Pension Plan Net Investment Income	19,368,227.26
Benefit Payment and Refunds	(9,344,043.98)
Pension Plan Administrative Expense	(61,005.72)
Net Change in Plan Fiduciary Net Position	14,033,618.37
Plan Fiduciary Net Position - Beginning	79,798,291.19
Plan Fiduciary Net Position - Ending	\$ 93,831,909.56
Net Pension Liability - Beginning	\$ 108,479,502.15
Net Pension Liability - Ending***	29,525,909.61
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	76.06%
Covered-Employee Payroll	20,069,428.47
Net Pension Liability as a Percentage of Covered-Employee Payroll	147.12%

Notes to schedule:

* The change in the total pension liability due to the change in the single discount rate is included as an assumption change.

** The covered employee payroll is the actual annual payroll for fiscal 2021 - the measurement period.

*** The Texas Lottery Commission allocates the total net pension liability to governmental and business-type activities based on their respective payroll amounts. For the year ended August 31, 2022 that ratio was 92% business-type and 8% governmental activities.

There have been no changes to the benefit terms of the plan since the prior measurement date.

The average monthly compensation of the elected class may vary depending on the hire date and a new defined benefit retirement structure will be created for employees hired after August 31, 2022.

Assumption changes include the single discount rate changing from 3.62% to 7.0%; prior changes noted in the FY 2021 AFR were the investment rate of return changing from 7.5% to 7.0%; the inflation rate from 2.5% to 2.3%; updated experience study 5-year period from September 1, 2011 through August 31, 2016 to September 1, 2014 through August 31, 2019 and updated mortality rate tables from 2017 SRT to 2020 SRT. Finally, cost of living adjustments for the elected class changed from 2.5% to 2.3%.

The Texas Lottery Commission's proportion to the entire ERS plan was 0.27919313% in fiscal year 2022 as compared with the 0.28554248% in the prior measurement period.

For the fiscal year ending August 31, 2022, Texas Lottery Commission recognized pension expense of \$(7,031,007.05). At August 31, 2022, Texas Lottery Commission reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 569,431.21	\$ 1,622,433.94
Changes of assumptions	9,758,242.23	43,981,664.17
Net difference between projected and actual investment return	-	9,709,711.83
Change in proportion & contribution difference	-	1,740,035.23
Contributions subsequent to the measurement date	<u>2,119,887.66</u>	<u>-</u>
Total	\$ 12,447,561.10	\$ 57,053,845.17

The \$2,119,887.66 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2023.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years:

Year ended August 31:

2023	\$ (15,281,913.58)
2024	(21,133,206.55)
2025	(7,504,819.15)
2026	(2,806,232.45)
2027	-
Thereafter	-

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 nor the Commission has 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 nor the Commission has a liability related to this plan.

NOTE 9: Post Employment Health Care and Life Insurance Benefits

Employees Retirement System is the administrator of the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer defined benefit OPEB plan with a special funding situation. The 61 employers of SRHP include state of Texas agencies and universities, community and junior colleges, and other entities specified by the Legislature. Benefits are provided to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551. This plan covers retired employees of the State, and other entities specified by the State legislature. Benefit and contribution provisions of the State Retiree Health Plan are authorized by State law and may be amended by the Texas Legislature. The principal participating employer is the state of Texas. The SRHP is currently funded as a pay-as-you-go plan. Employees Retirement System (ERS) issued a stand-alone audited Annual Comprehensive Financial Report (ACFR). The ERS ACFR may be obtained from their website at www.ers.texas.gov and searching for reports and studies.

Benefits

The SRHP provides postemployment health care, life and dental insurance benefits to retirees. The benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Legislature. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the plan. The plan does not provide automatic cost of living adjustments (COLAs).

Contributions

During the measurement period of 2021 for fiscal 2022 reporting, the amount of Texas Lottery Commission’s contributions recognized by the plan was \$4,116,861.56. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. The contribution requirements for the state and the members in the measurement period are presented in the table below:

**Employer Contribution Rates
Retiree Health and Basic Life Premium**

Retiree Only	\$624.82
Retiree & Spouse	1,339.90
Retiree & Children	1,103.58
Retiree & Family	1,818.66

The total other postemployment benefits (OPEB) liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total OPEB liability as of the August 31, 2021 measurement date.

Actuarial Methods and Assumptions

	SRHP
Actuarial Valuation Date	August 31, 2021
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
Actuarial Assumptions:	
Discount Rate	2.14%*
Inflation	2.30%
Salary Increase Healthcare Cost and Trend Rate	2.30% to 9.05%, including inflation
HealthSelect	5.25% for FY 2023, 5.15% for FY 2024, 5.00% for FY 2025, 4.75% for FY 2026, 4.60% for FY 2027, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY 2030 and later years
HealthSelect Medicare Advantage	0.00% for FY 2023, 66.67% for FY 2024, 24.00% for FY 2025, 4.75% for FY 2026, 4.60% for FY 2027, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY 2030 and later years
Pharmacy	10.00% for FY 2023 and FY 2024, decreasing 100 basis points per year to 5.00% for FY 2029, and 4.30% for FY 2030 and later years
Aggregate Payroll Growth	2.70%
Retirement Age	Experience-based tables of rates that are specific to the class of employee
Mortality	
State Agency Members	
Service Retirees, Survivors and Other Inactive Members	2020 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2020
Disabled Retirees	2020 State Retirees of Texas Mortality table with a 3 year set forward for males and females with minimum rates at all ages of 3.0% for males and 2.5% for females, respectively, and Ultimate MP Projection Scale projected from the year 2020
Active Members	Pub-2010 General Employees Active Member Mortality table for non-CPO/CO members and Pub-2010 Public Safety Active Member Mortality table for CPO/CO members with Ultimate MP Projection Scale from the year 2010
Ad Hoc Post-Employment Benefit Changes	None

**The source of the municipal bond rate is the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard and Poor's Corp.'s AA.*

The many actuarial assumptions used in the valuation were primarily based on the result of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period September 1, 2014 to August 31, 2019 for state agency members and for the period September 1, 2010 to August 31, 2017 for higher

education members. The mortality rates were based on the tables identified in the table above titled *Actuarial Methods and Assumptions*.

The following assumptions and other inputs have been adopted since the prior valuation to reflect plan experience and trends as expected by ERS and the actuaries attesting to the results of the valuation:

- a. The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence;
- b. The percentage of future female retirees assumed to be married and electing coverage for their spouse;
- c. The proportion of future retirees assumed to elect health coverage at retirement and proportion of future retirees expected to receive the Opt-Out Credit at retirement;
- d. The percentage of Higher Education vested terminated members assumed to have terminate less than one year before the valuation date;
- e. Assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution trends have been updated to reflect recent health plan experience and its effects on our short-term expectations. The annual rate of increase in the Patient-Centered Outcomes Research Institute Fee payable under the Affordable Care Act has been updated to reflect recent health plan experience and its effects on our short-term expectations. Assumed expenses directly related to the payment of GBP HealthSelect medical benefits have been updated to reflect recent contract revisions; and,
- f. The discount rate was changed from 2.20% as of August 31, 2020 to 2.14% as of August 31, 2021 as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

The discount rate that was used to measure the total OPEB liability is the municipal bond rate of 2.14% as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.20%. Projected cash flows into the plan are equal to projected benefit payments out of the plan. As the plan operates on a pay as you go basis and is not intended to accumulate assets, there is no long-term expected rate of return. ERS' board of trustees adopted an amendment to the investment policy in August 2017 to require that all funds in this plan be invested in short-term fixed income securities and specify that the expected rate of return on these investments be at least 2.4%. The investment rate of return used to calculate the projected earnings on OPEB plan investments was 2.20%.

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of Texas Lottery Commission's net OPEB liability. The result of the analysis is presented in the table below:

Sensitivity of Texas Lottery Commission's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

1% Decrease (1.14%)	Current Discount Rate (2.14%)	1% Increase (3.14%)
\$58,529,361.13	\$49,141,473.61	\$41,796,855.15

Sensitivity analysis was performed on the impact of changes in the healthcare cost trend rates on the proportionate share of Texas Lottery Commission's net OPEB liability. The result of the analysis is presented in the table below:

**Sensitivity of Texas Lottery Commission's Proportionate Share of the Net OPEB Liability to
Changes in the Healthcare Cost Trend Rate
HealthSelect (HS) or HealthSelect Medicare Advantage (HSMA)**

1% Decrease HS/HSMA/Pharmacy: 4.25%/-1.00%/9.00% decreasing to 3.30%	Current Healthcare Cost Trend Rates HS/HSMA/Pharmacy: 5.25%/0.00%/10.00% decreasing to 4.30%	1% Increase HS/HSMA/Pharmacy: 6.25%/1.00%/11.00% decreasing to 5.30%
\$41,150,199.24	\$49,141,473.61	\$59,611,464.54

The OPEB plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the Other Employee Benefit Trust Fund are reported at fair value in accordance with GASB Statement No. 72. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. More detailed information on the plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2021 ACFR.

At August 31, 2022, Texas Lottery Commission reported a liability of \$49,141,473.61 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of August 31, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. Texas Lottery Commission's proportion at August 31, 2021 was 0.13697778 percent. Texas Lottery Commission's proportion of the collective net OPEB liability was based on its contributions to the OPEB plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the period September 1, 2020 through August 31, 2021.

For the year ending August 31, 2022, the Texas Lottery Commission recognized OPEB expense of \$1,917,938.53. At August 31, 2022, the Texas Lottery Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$1,205,385.04
Changes of assumptions	3,364,417.88	5,473,260.03
Net difference between projected and actual investment return	8,703.24	-
Effect of change in proportion and contribution difference	6,826,656.33	-
Contributions subsequent to the measurement date	4,214,497.10	-
Total	\$14,414,274.55	\$6,678,645.07

The \$4,214,497.10 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liability for the year ending August 31, 2023.

Remaining amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense in the following years:

Year ended August 31:

2023	\$ (29,753.79)
2024	(1,226,089.69)
2025	(1,008,895.40)
2026	(715,132.65)
2027	(541,260.83)
Thereafter	-

NOTE 10: Continuance Subject to Review

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

NOTE 11: 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 12: Concentration

The Commission entered into a contract (from September 1, 2011 through August 31, 2020) with a lottery operator as the sole provider of gaming systems, certain application control systems, scratch ticket services and warehousing of lottery tickets to the Commission. The term of the contract was extended by exercising the three two-year renewals. The six-year extension begins September 1, 2020 and continues through August 31, 2026. The contract with the lottery operator represents a significant concentration of business with one vendor.

NOTE 13: Commitments and Contingencies

As of August 31, 2022, there are no potential loss contingencies to report.

NOTE 14: Risk Financing

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

The Commission assumes substantially all risks with tort claims and liability claims due to the performance of its duties. Currently, there is no purchase of commercial insurance. The Commission also participates in the State Office of Risk Management's (SORM) Risk Management and Workers' Compensation Coverage Program. The Commission's assessment for fiscal year 2022 was \$27,079.34. The assessment covers workers' compensation and risk management costs.

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

Changes in the balances of the Commission's claims liabilities during fiscal years 2021 and 2022 were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2021	\$0.00	\$0.00	\$0.00	\$0.00
2022	\$0.00	\$0.00	\$0.00	\$0.00

NOTE 15: Stewardship, Compliance, and Accountability

Changes in Accounting Principles

The implementation of GASB Statements is addressed in Note 1.

NOTE 16: Disaggregation of Receivable and Payable Balances

Receivables from other as of August 31, 2022, as reported in the enterprise fund, are detailed by type as follows:

Receivables from Other-Current

Receivables due from Multi-State Lottery Association for winner prize payments.	\$ 2,127,828.99
Receivables related to external parties/ other companies.	198,520.63
Receivables related to refunds from financial institution.	<u>4,080.00</u>
Total Receivables from Other-Current	\$ 2,330,429.62

NOTE 17: Deficit Net Position

In fiscal year 2022, the Commission reported a \$11,286,296.68 deficit in its government-wide governmental activities and a \$124,537,482.59 deficit in its government-wide business-type activities. These deficits are primarily due to recording OPEB and pension liabilities disclosed in Note 7 and Note 9.

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TEXAS LOTTERY COMMISSION

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, 2022
(Unaudited)

	GENERAL FUND			
	Budgetary Amounts		Actual Amounts* (GAAP)	Variance with Budget
	Budget (Original)	Budget (Final)		
REVENUES				
Legislative Appropriations:				
Original Appropriations	\$ 2,419,590.00	\$ 2,419,590.00	\$ 2,419,590.00	\$ -
Additional Appropriations	542,531.88	446,146.45	589,410.51	143,264.06
Licenses, Fees and Permits	-	-	16,985,172.40	16,985,172.40
Sales of Goods and Services	-	-	17,581.28	17,581.28
Other	-	-	-	-
Total Revenues	<u>2,962,121.88</u>	<u>2,865,736.45</u>	<u>20,011,754.19</u>	<u>17,146,017.74</u>
EXPENDITURES				
Current:				
Salaries and Wages	1,872,806.00	1,872,806.00	1,527,122.44	345,683.56
Payroll Related Costs	542,531.88	446,146.45	615,203.59	(169,057.14)
Professional Fees and Services	90,989.00	90,989.00	86,127.66	4,861.34
Travel	42,250.00	42,250.00	6,411.40	35,838.60
Materials and Supplies	5,800.00	5,800.00	10,290.25	(4,490.25)
Communication and Utilities	846.00	846.00	724.58	121.42
Repairs and Maintenance	2,231.00	2,231.00	1,818.36	412.64
Rentals and Leases	16,516.00	16,516.00	16,435.72	80.28
Other Expenditures	35,782.00	35,782.00	10,871.92	24,910.08
Appropriations Lapsed	-	-	853,848.80	(853,848.80)
Intergovernmental Payments	-	-	17,002,579.68	(17,002,579.68)
Total Expenditures	<u>2,609,751.88</u>	<u>2,513,366.45</u>	<u>20,131,434.40</u>	<u>(17,618,067.95)</u>
Excess of Revenues Over Expenditures	<u>352,370.00</u>	<u>352,370.00</u>	<u>(119,680.21)</u>	<u>(472,050.21)</u>
FUND FINANCIAL STATEMENT-FUND BALANCES				
Fund Balance, Beginning of Year	853,848.80	853,848.80	853,848.80	-
Fund Balance, August 31, 2022	<u>\$ 1,206,218.80</u>	<u>\$ 1,206,218.80</u>	<u>\$ 734,168.59</u>	<u>\$ (472,050.21)</u>

* Actual amounts reflect expenditures paid in Fiscal Year 2022 regardless of budget appropriation year.

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**Schedule of Changes in
Texas Lottery Commission's Net Pension Liability**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability								
Service Cost	\$ 5,992,174.77	\$ 5,219,327.40	\$ 3,901,306.58	\$ 4,205,675.60	\$ 4,165,477.34	\$ 3,378,297.09	\$ 3,737,516.40	\$ 3,359,249.42
Interest on the Total Pension Liability	6,635,550.39	7,186,314.76	7,802,932.39	7,447,206.76	7,175,016.34	7,431,324.81	7,206,205.45	6,851,981.12
Benefit Changes	-	-	-	-	-	-	(266,636.21)	-
Difference between Expected and Actual Experience of the Total Pension Liability	(2,087,111.20)	1,458,142.14	(1,674,639.37)	267,316.49	330,526.66	393,441.71	(864,407.70)	(745,778.54)
Assumption Changes*	(67,890,946.61)	15,835,526.89	23,904,248.96	(3,311,220.46)	2,477,807.70	12,272,767.75	(6,951,272.07)	3,535,005.41
Benefit Payments and Refunds	(7,569,641.52)	(7,486,174.02)	(7,357,417.86)	(7,001,020.95)	(6,542,436.74)	(6,325,686.07)	(6,220,955.36)	(5,788,596.72)
Net Change in Total Pension Liability	<u>(64,919,974.17)</u>	<u>22,213,137.17</u>	<u>26,576,430.70</u>	<u>1,607,957.44</u>	<u>7,606,391.30</u>	<u>17,150,145.29</u>	<u>(3,359,549.49)</u>	<u>7,211,860.69</u>
Total Pension Liability - Beginning	<u>188,277,793.34</u>	<u>166,064,656.17</u>	<u>139,488,225.47</u>	<u>137,880,268.03</u>	<u>130,273,876.73</u>	<u>113,123,731.44</u>	<u>116,483,280.93</u>	<u>109,271,420.24</u>
Total Pension Liability - Ending	<u>\$ 123,357,819.17</u>	<u>\$ 188,277,793.34</u>	<u>\$ 166,064,656.17</u>	<u>\$ 139,488,225.47</u>	<u>\$ 137,880,268.03</u>	<u>\$ 130,273,876.73</u>	<u>\$ 113,123,731.44</u>	<u>\$ 116,483,280.93</u>
Plan Fiduciary Net Position								
Contributions - Employer	\$ 2,064,836.75	\$ 2,101,180.65	\$ 2,064,057.39	\$ 2,028,388.94	\$ 2,001,121.83	\$ 2,023,115.15	\$ 1,519,030.24	\$ 1,421,702.86
Contributions - Member	2,005,604.06	2,038,730.58	2,012,331.85	1,989,820.49	1,959,341.36	1,987,512.94	1,402,960.32	1,269,449.32
Pension Plan Net Investment Income	19,368,227.26	5,114,241.36	2,196,764.19	7,070,657.56	8,096,856.94	3,751,309.63	172,852.76	9,588,545.00
Benefit Payments and Refunds	(9,344,043.98)	(8,604,776.18)	(7,719,807.03)	(5,657,276.14)	(8,681,785.36)	(8,480,581.69)	(4,028,234.75)	(5,788,596.72)
Pension Plan Administrative Expense	(61,005.72)	(69,051.12)	(80,377.63)	(68,515.79)	(66,016.52)	(60,239.11)	(66,297.73)	(59,537.43)
Net Change in Plan Fiduciary Net Position	<u>14,033,618.37</u>	<u>580,325.29</u>	<u>(1,527,031.23)</u>	<u>5,363,075.06</u>	<u>3,309,518.25</u>	<u>(778,883.08)</u>	<u>(999,689.16)</u>	<u>6,431,563.03</u>
Plan Fiduciary Net Position - Beginning	<u>79,798,291.19</u>	<u>79,217,965.90</u>	<u>80,744,997.13</u>	<u>75,381,922.07</u>	<u>72,072,403.82</u>	<u>72,851,286.90</u>	<u>73,850,976.06</u>	<u>67,419,413.03</u>
Plan Fiduciary Net Position - Ending	<u>\$ 93,831,909.56</u>	<u>\$ 79,798,291.19</u>	<u>\$ 79,217,965.90</u>	<u>\$ 80,744,997.13</u>	<u>\$ 75,381,922.07</u>	<u>\$ 72,072,403.82</u>	<u>\$ 72,851,286.90</u>	<u>\$ 73,850,976.06</u>
Net Pension Liability - Beginning	\$ 108,479,502.15	\$ 86,846,690.27	\$ 58,743,228.33	\$ 62,498,345.95	\$ 58,201,472.90	\$ 40,272,444.54	\$ 42,632,304.87	\$ 41,852,007.21
Net Pension Liability - Ending***	29,525,909.61	108,479,502.15	86,846,690.27	58,743,228.33	62,498,345.95	58,201,472.90	40,272,444.54	42,632,304.87
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	76.06%	42.38%	47.70%	57.89%	54.67%	55.32%	64.40%	63.40%
Covered-Employee Payroll	20,069,428.47	20,440,373.12	20,122,561.85	19,818,479.88	19,607,965.02	19,861,472.86	18,669,914.68	17,557,466.71
Net Pension Liability as a Percentage of Covered-Employee Payroll	147.12%	530.71%	431.59%	296.41%	318.74%	293.04%	215.71%	242.82%

Notes to schedule:

- * The change in total pension liability due to the change in the single discount rate is included as an assumption change.
- ** The covered employee payroll is the actual payroll for fiscal 2021 - the measurement period.
- *** The Texas Lottery allocates the total net pension liability to governmental and business-type activities based on their respective payroll amounts. For the year ended August 31, 2022 that ratio was 92% business-type and 8% governmental activities.
- **** This schedule is intended to present 10 years of information. Currently only eight years of information is available. Information for future years will be added when it becomes available.

Texas Lottery Commission
Schedule of Employer Contributions-Pension

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contributions	\$ 3,594,550.40	\$ 3,207,094.67	\$ 2,812,595.34	\$ 2,740,692.92	\$ 2,717,113.59	\$ 2,039,566.65	\$ 2,002,619.74	\$ 2,237,620.33	\$ 2,145,920.01
Contributions in relation to the actuarially determined contributions	3,594,550.40	2,064,836.75	2,101,180.64	2,064,057.38	2,028,495.13	2,001,121.83	2,023,115.15	1,519,030.24	1,421,702.86
Contribution deficiency (excess)	-	1,142,257.92	711,414.70	676,635.54	688,618.46	38,444.82	(20,495.41)	718,590.09	724,217.15
Covered-employee payroll	20,558,188.61	20,069,428.47	20,440,373.12	20,122,561.85	19,818,479.88	19,607,965.02	19,861,472.86	18,669,914.68	17,557,466.71
Contributions as a percentage of covered-employee payroll	17.48%	10.29%	10.28%	10.26%	10.23%	10.21%	10.19%	8.14%	8.10%

Notes to Schedule of Employer Contributions-Pension

Valuation Date Actuarially determined contribution rates are calculated as of August 31, 2020. Members and employers contribute based on statutorily fixed rates.

Provisions of the Legacy Payment structure adopted during the 2021 legislative session were reflected in disclosures for the 2022 fiscal year.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll plus Level Dollar Legacy Payment
Remaining Amortization Period	UAAL to be eliminated by 2054
Asset Valuation Method	Marked to market as of August 31, 2017. Future gains and losses each recognized over closed five-year period, with allowance of direct offsetting of deferrals by subsequent gains or losses.
Actuarial Assumptions:	
Inflation	2.30%
Salary Increases	0.0% to 8.80%
Investment Rate of Return	7.0%
Retirement Age	Experience-based table of rates specific to the class of employees. Updated for the 2020 valuation pursuant to an experience study of the 5-year period from September 1, 2014 through August 31, 2019.
Mortality	2020 State Retirees of Texas (SRT) Mortality Tables. Generational mortality improvements in accordance with the ultimate rates from the scale most recently published by Retirement Plans Experience Committee of the Society of Actuaries ("Scale U-MP") and projected from the year 2020. Rates for male LECO members are set forward one year.

Other Information:

1. Actuarially determined contributions are adjusted for actual payroll and administrative expenses.
2. The covered payroll is the actual annual payroll for the fiscal year as reported by ERS.
3. This schedule is intended to present 10 years of information. Currently only nine years of information is available. Information for future years will be added when it becomes available.

Texas Lottery Commission
Schedule of Proportionate Share of Net OPEB Liability*
(Unaudited)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Texas Lottery Commission's proportion of the net OPEB liability (asset)	0.13697778%	0.13672697%	0.13757127%	0.13447433%	0.12615035%
Texas Lottery Commission's proportionate share of the net OPEB liability (asset)	\$49,141,473.61	\$45,180,923.67	\$47,548,310.41	\$39,855,155.42	\$42,983,223.56
Texas Lottery Commission's covered-employee payroll	\$17,240,557.79	\$17,303,135.34	\$16,948,819.21	\$16,200,346.65	\$14,816,749.75
Texas Lottery Commission's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	285.03%	261.11%	280.54%	246.01%	290.10%
Plan fiduciary net position as a percentage of the total OPEB liability	0.38%	0.32%	0.17%	1.27%	2.04%

* This schedule is intended to present 10 years of information. Currently only five years of information is available. Information for future years will be added when it becomes available.

Texas Lottery Commission
Schedule of Employer Contributions-OPEB*
(Unaudited)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contributions	\$ 2,891,639.14	\$ 3,719,682.01	\$ 3,563,421.08	\$ 3,613,604.83	\$ 2,942,638.19
Contributions in relation to the actuarially required contributions	\$ 1,011,358.60	\$ 1,104,017.49	\$ 1,083,888.69	\$ 568,755.71	\$ 410,028.42
Contribution deficiency (excess)	\$ 1,880,280.54	\$ 2,615,664.52	\$ 2,479,532.39	\$ 3,044,849.13	\$ 2,532,609.77
Covered-employee payroll	\$ 17,442,928.48	\$ 17,208,989.86	\$ 17,409,983.59	\$ 16,567,275.33	\$ 15,197,542.90
Contributions as a percentage of covered-employee payroll	5.80%	6.42%	6.23%	3.43%	2.70%

* This schedule is intended to present 10 years of information. Currently only five years of information is available. Information for future years will be added when it becomes available.

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TEXAS LOTTERY COMMISSION

COMPLIANCE SECTION – INDEPENDENT AUDITOR’S REPORT

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

To the Board of Commissioners of the
Texas Lottery Commission

We have audited, 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, the financial statements of the governmental activities, the business-type activities and each major fund of the Texas Lottery Commission (the Commission) as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 9, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

The Board of Commissioners of the
Texas Lottery Commission

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
December 9, 2022



2022



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