



**BresnenAssociates**

November 27, 2017

To: The Honorable J. Winston Krause, Chair, Texas Lottery Commission  
The Honorable Carmen Arrieta-Candelaria, Commissioner, Texas Lottery Commission  
The Honorable Doug Lowe, Commissioner, Texas Lottery Commission  
The Honorable Robert Rivera, Commissioner, Texas Lottery Commission

From: Steve Bresnen 

Subj: What's the Right Number?

I've attached a transcript of the October 5th Texas Lottery Commission meeting during which staff of the Charitable Bingo Operations Division presented bingo financial performance data and Commissioners discussed and asked questions about those data. I've highlighted in the transcript questions and observations that have formed the basis of the presentation we will provide at your December 7th meeting.

**I want to make one point over all others: Before you can decide the "should" you need to understand the "what."**

The PowerPoint presentation accompanying this memo should go a long way toward informing you of the "what." Several bottom lines are presented:

- The 2009 Legislature told the Commission how to properly measure money earned for the charities' use, yet the Commission's reporting continues to foster confusion.
- The proper measure of money earned for the charities' use *starts with* "adjusted gross receipts," meaning money left over after paying prizes. That is the only money from which charities' expenses can be paid and profits earned. The proper measure *ends with* "net proceeds," meaning money charities have left after their expenses are paid. Net proceeds in 2016 (\$31.8 million) were 17.5% of adjusted gross receipts based on expenses of 82.5% of adjusted gross receipts.
- Gaming businesses do not use "gross receipts" to judge financial performance, mostly because of a phenomenon called "playback" or "churn" that does not occur in other businesses. If players use money they've won to play more games, this "playback" money would be counted more than once as gross receipts. How much a gaming business "holds" after paying prizes--adjusted gross receipts--is used for sound accounting.
- Your October 5th discussion ignored more than one-half of the money that results from the charities' efforts. Based on 2016 numbers, charities *netted* \$31.8 million for themselves *but they also earned* another \$33 million --*net*-- for state and local governments. But for people making the investments, taking the risks and doing the

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Members, Texas Lottery Commission  
November 27, 2017

work, these governments would not have received this money, which they use for general expenses that serve the public good. State regulatory costs are NOT paid from these funds, they were paid solely from license fees. Local governments had zero regulatory expenses. This \$33 million was pure profit to these governments.

A long-term review of charitable bingo shows that:

- In 1991, there were 1827 charities and 534 lessors involved in charitable bingo. In 2016, there were 1001 charities and 272 lessors. Annual attendance plummeted by a third-- *more than 6.2 million people per year*--from 2003 to 2016.
- The competition that began in the mid-'90s--rampant illegal gaming, legal gaming in surrounding states (and Eagle Pass, Texas) and the state lottery routinely offering prizes in the tens of millions of dollars--has made it very difficult for low-stakes charitable bingo to survive, much less thrive.
- Meanwhile, increased prices for all the expenses that affect any business--employee wages and benefits, commercial space, property taxes, insurance, etc.--impacted charitable bingo while these other forms of gaming and statutorily-capped low prizes sapped the customer base.

The passage of House Bill 2578 in the 2017 session can reduce charity expenses by some \$4.1 million *per year* going forward by reducing the money government takes from bingo. The bill will eliminate charities' license fees and allow more games to be played without the drag of the prize tax. In addition, recent clarifications of the charitable bingo rules and regulations represent some progress that will help reduce regulatory costs.

All that said, there is much to be done in the future--within the Legislature and the Commission--to improve the opportunities for charitable bingo to succeed.

It's our hope that your December 7th Commission meeting will begin to lay a foundation for that future progress based on your better understanding the "what" of charitable bingo.

I look forward to talking with you on December 7th.

CC: Mr. Alfonso Royal, Director, Charitable Bingo Operations Division







**Excerpt from October 5, 2017 TLC Meeting  
Regarding CBOD Quarterly Financial Data,  
Including Charitable Distributions**

**Krause:** We are down to our Bingo Operations Division report. Alfonso Royal.

**Royal:** Thank you, Chairman.

**Krause:** You're up.

**Royal:** Commissioners, this is somewhat of a new agenda item. As previously, the Bingo Division has only brought forth for discussion financial data from the annual report generally at the April meeting. We compiled data from the submission of Texas Bingo reports from licensees that is submitted quarterly, so I think it more appropriate and transparent to report the data in the same time frame. I've asked Desira Glenn, the Bingo Division's Licensing and Accounting Services Manager, to highlight the financial data in the report. Desira?

**Glenn:** Thank you, Alfonso. Good morning, Mr. Chairman and Commissioners. This report compares the bingo operations of licensed conductors in the areas of gross receipts, prizes awarded to players, total expenses and charitable distributions, for the first two quarters, that's January through June, of calendar year 2017, to the same period for 2016 and 2015. The information in this report is as of September 12th, 2017, and is unaudited. Gross receipts for the first two quarters of 2017 was 395.5-million. This represents a .3 percent or 1.1-million increase in comparison to 2016 and a 1.1 percent or a 4.4-million increase, compared to 2015. In the first two quarters of 2015, prizes awarded was 295.3-million. There was a 2.4-million increase for the same period in 2016, and an additional 900,000 increase for the same period in 2017, resulting in total prizes awarded of 298.6-million for 2017. This represents a .3 percent increase from 2016 and a 1.1 percent increase from 2015. Total expenses for the first two quarters of 2017 was 77.7-million. This is a .9 percent or 686,000 increase in comparison to 2016 and a 1.8 percent or 1.4-million increase in comparison to 2015. Total expenses can be further delineated by rent, which was shown -- which as shown on the slide was approximately 22.9-million in the first two quarters of 2015, and increased 3.3 percent or 757,000 to 23.6 million in 2016, and then increased an additional 1 percent or 229,000, for the first two quarters of 2017, to approximately 23.9-million. Other expenses total approximately 53.8-million for quarters one and two of 2017. This is a .9 percent or 457,000 increase in comparison to 2016, and a .7 percent or 364,000 increase from 2015. Also, if you look at 2016, you will notice that there was a decrease in expenses of approximately \$93,000. Included in this other expense category are bingo worker salaries, professional fees, advertising and promotions, and premise expense, which has varied from 2015 through 2017. Cost of goods sold which has remained steady at approximately 17.5-million each year, and license fees, which, although they have been statutorily eliminated beginning September 1st, account for less than half of 1 percent of total expenses. From the first two quarters of 2015 when charitable distributions totaled approximately 15.8-million, to the same period for 2017, where charitable distributions total approximately 16.2-million, we see that nearly 485,000 more dollars went to various charitable purposes around Texas in 2017 than in 2015. This is an increase of 3.1 percent. Thank you. That concludes my report and I turn it back to Alfonso.

**Royal:** Commissioners, 2017 is trending up thus far, and I look forward to the continued success of bingo as a fundraiser, for the many Texas charities to help them with the various submissions. As I look back on where we have come from in some three years ago, instituting a robust audit and game inspection program, as well as a constant and steady focus on education, promoting voluntary compliance, the industry has been responsive. So much so that prizes awarded to players, gross receipts, have all increased, cost of goods sold has decreased. Thank you distributors and manufacturers. Expenses increased and, in particular, charitable distributions increased. A true measure of successful bingo. Lastly, rent paid to lessors also increased some 13 percent. We still have some work to do, particularly in the area of reasonable and necessary expenses, including rent, but I'm extremely encouraged about the future of bingo and where the results are so far. Thank you, Commissioners.

**Krause:** Questions, comments?

**Lowe:** So to back up just a bit, Desira, the gross sales were 700-million or something? Tell me the number again?

**Glenn:** The gross receipts for the first two quarters of 2017 was 395.9 million.

**Lowe:** The cost of goods sold was tell me again?

**Glenn:** The cost of goods sold I did not provide a specific data, however, I did state that it remains pretty consistent at approximately 17.5-million per year.

**Lowe:** So as a percentage of sales, the distribution to charities, do you know what that percentage is, 16 --

**Glenn:** That --

**Candelaria:** It's 4 -- I've heard 4 percent.

**Glenn:** Yeah.

**Candelaria:** I had the same question. It says 4.02, 4.08, 4.1, '15, '16, '17.

**Lowe:** So 4 percent is going to charities out of the gross receipts? Okay. Do you have a -- do we divide it out based on the business models? So if we have a -- a model like our VFWs or American Legions versus the model, the business model, where you have an operator and a lessor that basically handles everything?

**Glenn:** If you're referring to our charitable distributions?

**Lowe:** Yes.

**Glenn:** So the required distribution is set on a formula and as soon as we get in our calculated data it's set on a formula. And once they meet their charitable distribution requirement,



you know, we're fine with those numbers. However, historically, all of our organizations tend, again, the majority of our organizations tend, to distribute way more than their required minimum distribution. So we go -- so every number above that is just what the organization itself has brought in in revenue, minus their expenses, their prize fees, and their retained operating capital. Everything else goes out as charitable distributions. However, we require a specific minimum charitable distribution based, again, on the calculation, on the formula, however, anything they put out above that is not as a requirement of us.

**Lowe:** So it is a floating percentage or is it -- tell me what the percentage is.

**Glenn:** It is. It -- I can't -- it's completely based off of that specific organization's operations and it's calculated by our system. So at a later time I can provide the formula to you.

**Lowe:** So I don't know if this is an appropriate time to bring this up or not, but tell me, from as far as reporting, how we're going to deal with this law that allows lessors and operators to essentially loan money to a charity? Is that -- can we talk about that now?

**Glenn:** I believe I'll turn that over to you.

**Royal:** Commissioner, that was a change in part of what was in the enacted legislation that previously a commercial lessor was a qualification so that you cannot give them, award them a license, if they loaned money to or extended credit to a licensed organization. So that is no longer a disqualifying factor for receipt of a license.

**Lowe:** And I understand to some extent why the legislature would want to do something like this, but I think it's going to present problems to us being able to get an accurate picture, financial picture, of the charity, what's going on, because you -- unless you see a balance sheet, you're not going to know how much somebody is making because what happens is you just push -- you just push those expenses over to a liability on the balance sheet, and we don't ask for a balance sheet, we don't ask for how much you owe the lessor. So we're not going to be able to get an accurate picture of what's going on in these charities, because you can manipulate the financial statements and not catch it. So I think that we're going to have -- have to have some rulemaking on this issue to convince -- so that we know what's going on and we're not just dealing with financial manipulation. So anyway, thank you, Desira, and I appreciate -- I know this -- that this -- I'm pushing this report thing on you guys because I think it's important, even though we're not as big as the lottery, but it's important to the people that are involved in the Bingo Division to have these reports and I do thank you and Alfonso for making this work and making these presentations to us.

**Glenn:** Yes, sir.

**Lowe:** Thank you.

**Candelaria:** And I also have a question. And thank you so much for the presentation. I think I brought this issue up last time when you presented. So the charitable distributions, it's still in my opinion a very small percentage when you look at the total sales. And maybe I'm comparing



that to the lottery distributions, but only 4 percent of your sales goes to charitable distributions and 75 percent goes to prizes awarded, it seems like the intent is not for charity, the intent is for something else. So I -- I'm assuming that that's not statutory because the numbers are pretty consistent for the last three years, right, so the expenses is -- are incredibly consistent for these last three years. So is there -- it's not in statute that says we have to at least distribute a certain amount, is it?

**Royal:** No, ma'am. It is not.

**Candelaria:** So --

**Royal:** We are working toward and that's through the, you know, the case by case basis, where we do the audits, we focus in on those expenditures, because each individual organization, each one of those charities, is basically the -- bingo is their own business model. And so how they operate, we look at in combined totality all of our, you know, one -- over 1000 licensees, but there are some operators who, if you look at their percentage of sales, it's in the 40, 45 percent -- percentile, and then there is others that are less than 1 percent. So overall, that averages how we get to that almost 4 percent. Three years ago -- I know it's still a small number; three years ago, we were just over 3 percent, so there has been some improvement. In 2014 there was a joint select committee, senate and house members, who legislated to study this issue and that was the whole basis for it, increasing what can be done to increase that charitable distribution, those monies that flowed to those charities.

**Candelaria:** So do you see with any of the legislative changes, do you see those percentages increasing for the charities?

**Royal:** I see the charities will not be, you know, in particular there's no longer a license fee, so as Mr. Bresnen spoke earlier, those are fees that no longer they'll have to expend. But when you look at our highest license class, it used to be at \$3300 and those are for sales in excess of \$400,000. And on average, those organizations had sales of \$1.2-million. To say that \$3000 is going to significantly change your operations one is naive to think so. We have to look at those areas of expenses in reasonable and necessariness. And it's also combined with increasing attendance, increasing marketing, getting foot traffic to the games, exciting the attractiveness of games that are played in the various halls. So it's a combination. I don't want to say that poking one particular area, expenses or marketing, but expenses are the largest component of that.

**Candelaria:** Okay. I just think it's considerable. So on the rent component, is it -- this is for like a third party individual that has renting out a gaming facility or bingo hall; is that what --

**Royal:** Commissioner, it varies.

**Candelaria:** Something they pay it back to themselves?

**Royal:** There are commercial lessors who have the hall themselves and they lease directly to licensed organizations. There are some conductors who have associations where two or more charities get together and they become the lessor.

**Candelaria:** Okay.

**Royal:** And so those rental rates vary. The agreements vary.

**Candelaria:** I just think it's significant, like 4 percent is --

**Heeg:** Is there something -- just so I understand, there are authorities, is there something we could do if we wanted to, to have a minimum percentage of revenues go to charity? Could we adopt a rule or is that outside our authority?

**Royal:** I'm going to defer to Bob.

**Biard:** Under the Bingo Act, the Commission has the ability to determine what reasonable -- what expenses are reasonable, and I think that's probably the focus of this agency's authority. I mean, they can audit all of these licensed entities and determine, for lessor rents, what are reasonable. I'm talking about the charities, and their expenses.

**Lowe:** And you know, I'd hesitate to do that, because as Alfonso pointed out, there's these different business models that are in place. Just for example, I've got a dog named Hope, and the reason we call her Hope is we hope she comes home. So anyway, the lady that found her is the -- she runs the animal rescue or raises money for animal rescue, and I said Brenda, how's it working out with bingo, because they're one of the bingo -- they have a bingo license there in Palestine, she said it's wonderful. We don't hardly do anything and we get a check. I said, well, do you know anything about, you know, what's going on? No, we just get a check. So you've got those kind of operations, they just -- they're getting money, and then you've got the VFWs and the American Legions that are operating themselves. So I'm not sure we can just say -- maybe if we look at it over a long period of time and do some studies, but I'm not -- at this point in time, I'm not sure that's really an appropriate thing. But I think we've got to deal with these issues, because what's the ma -- what -- the maximum amount of money the lessor can charge for a bingo occasion, for one bingo occasion?

**Royal:** \$600.

**Lowe:** \$600. That's pretty steep for one bingo occasion. I don't know if that's happening as a practical matter on a wide scale basis, but that's a lot of money for one bingo event. And that happens -- what's the maximum amount of time you can have a -- for a week, how many bingo occasions?

**Royal:** Three occasions a week in an organization.

**Lowe:** Three occasions a week, \$1800 a week. So I think we have -- and I know we've got folks from the industry here that are -- that represent various factions, but I think we're going to have to sit down and say look, at some point in time somebody's going to say -- figure this whole thing out and say what's going on, why is the lottery such more an efficient model to raise money for charity as opposed to bingo? It's a much more efficient model. Of course, the -- we own the



lottery and we regulate bingo, so there's a lot of difference. But I think that, you know, and the thing about it is, like Brenda, she doesn't really know what's going on as far as -- I mean, and she's a great person, but she's -- they're not involved in the bingo operation. So the Charitable Bingo Division, we've got to make sure that they're being treated fairly and that even though they're getting this money, that they -- that they're being -- getting a fair share.

**Royal:** And Commissioner --

**Lowe:** And so I want -- I encourage -- we're going to work together with the industry to figure this issue about the loans out and move this forward, because we've gone about as far as we can now, I think it's happened to the illegal gambling and we were kind of -- we were kind of -- we didn't really get a good reaction on our bill that you guys were pushing. So -- and I don't know what we're going to do with illegal gambling, just -- we're not making progress, but we can make progress on this issue, so that we don't get a black eye from some media report that looks and says well, there's -- the charities are not being treated fairly. Anyway, that was my two cents worth, Chairman. Thank you.

**Krause:** Great cents. Great cents. I'll also like to point out that, you know, when you look at the pie, you know, payouts to prize winners is important, too.

**Lowe:** Absolutely.

**Krause:** That's a big one. Because if they don't feel like they're getting paid, they don't show up at the bingo hall. So anyway, it's a tension between all the people who split up the pie. You know, our hearts are always there with the charities, but we also care about the customers as well.

**Fenoglio:** Mr. Chairman, I did not register for this. I have filed a notice and I will either 10 amend it or file a new one. I think there's some misconceptions that need to be cleared up, five minutes or less.

**Krause:** We'll entertain your testimony.

**Fenoglio:** Thank you. The first is, you cannot compare lottery to bingo. Number one, you have no sales employees selling lottery tickets, period. They're all the employees of the retailer. In bingo, there are about 10,000 employees paid, so in addition to the scale, there's no comparison of the model. And anyone who suggests that you can look at lottery and make conclusions about bingo, is naive or uninformed. Second, on the return for bingo, if I have \$100 revenue, but I pay out 80, and this is true experience in many halls, they're paying out \$80 for every 100 they raise in prizes. It's not a good model. The statewide average is almost 76 percent. Why would you look at -- and by the way -- why would you look at the gross number as opposed to what's held at the end of the day by the charity? And in fact, your legislature told this Agency to start reporting on net, not gross. And you'll notice that report doesn't show what -- you can do the math and figure out what the hold is. By the way, every casino that's regulated, and there are many publicly traded, you can look at their SEC reports and you will never find what their gross revenue is, period. They have a specific accounting rule that says they report the hold. And if you



think about it for a moment, if you put \$100 into a slot machine, some of us have played slot machines, you, on the first dollar spin or \$.50 spin, you'll lose and you'll win and you'll lose, you'll win, you lose, you win. They're set at about 94 percent, most of them. If you run that math, 100 times 94 every time, you'd show \$1000 into that machine, but at the end of the day you've only got \$100. So casinos don't report, they know it's a fiction to try to report the gross. So why don't you look at a comparison of net; bingo, the net is, according to these reports, 16.7 percent. Wow. N What publicly traded company gets a 16.7 percent return? And by that I mean, gross less the hold. Charities don't have that money to play with. And then look at the return, the charitable distribution, off of that net, it's 16.7 percent. That's a pretty damn good return. No fortune 100 company has that. So it's a lot more nuanced than you would think just generally looking at numbers. As far as the accounting issue, charities report on a cash basis. That's what they report, as opposed to accrual. And an accrual accounting I believe is far more effective and accurate. So it would report known expenses that you haven't paid yet. But charities are barred from reporting on accrual basis. Your comment about a balance sheet, no problem if -- some charities I'm not sure would know how to prepare a balance sheet, smaller charities, but the larger charities, they can do that in QuickBooks. So I'd be happy to answer any questions. Thank you, Mr. Chairman.

**Krause:** Any questions for Mr. Fenoglio?

**Heeg:** I have a question. I want to ask a question that I asked earlier. Do you think, assuming this Agency wanted to, that this Agency has the authority to set a minimal charitable percentage off of revenues?

**Fenoglio:** No, I do not.

**Heeg:** Thank you. And I do want to say I think it's not appropriate to compare public company casinos to a charitable bingo operation.

**Fenoglio:** I don't disagree. But again, they don't look at what's their gross, they look at what they have to play with. Thank you.

**Krause:** All right. That takes care of that item. I guess the next item is Mr. Royal's as well.

**Bresnen:** Mr. Chairman, may I make a real quick suggestion? I swear to God I'll be brief.

**Krause:** Yeah, all right.

**Bresnen:** I've been dealing with this for over 20 years; Steve Bresnen on behalf of the Bingo Interest Group. I would strongly urge the Commission to put on the agenda a workshop, an informative presentation, and let us come in and talk to you about this issue. Because we have addressed it with the Legislature time and again and we'd like to come address it with you, and I'm afraid that it's astonishing to me, as long as y'all have been here regulating bingo, that you still don't have a good command of these numbers. I don't mean that pejoratively at all. I think we need to -- I think we need to sit down and devote a little time to this, and I would strongly request that you do so. Thank you.





# Charitable Bingo

## *Power in Numbers*

*But, What are the Right Numbers?*

Steve Bresnan

Bingo Interest Group  
and Texas Charity Advocates  
December 7, 2017



**You can't decide the  
“should” without  
understanding the “what.”**



# What's the Right Number?

**\$761.5 million?**

**\$604.6 million?**

**\$181.8 million?**

**\$64.8 million?**

**\$33 million?**

**\$31.8 million?**

**4%?**

**5.5%?**

**17.5%?**

**35.5%?**



**NOT the Right Number**

**Gross Revenue**

**Or**

**\$761.5 million**



# “Playback” Phenomenon

## What is “playback” or “churn”?

When a player uses bingo prize winnings — rather than new money — to buy more bingo cards or pull-tabs.

### Example

A player buys two pull-tabs for 50 cents each.  $2 \text{ pull-tabs} \times \$0.50 = \$1$  in gross receipts.

One pull-tab is a \$1 winner. The player collects \$1.

The player decides to play again using the \$1 dollar they just won. She buys two more pull-tabs for 50 cents each.

$2 \text{ more pull-tabs} \times \$0.50 = \$1$  more in gross receipts.



# Gross Receipts? NOT the Right Number

**IN THE EXAMPLE**, there were two transactions for \$1 each.

Reports required by the TLC will show \$2 in gross receipts.

**IN FACT**, the bingo operator took in the same dollar twice.

**IN THE EXAMPLE**, 50% of “gross receipts” resulted from “playback” or “churn.”

*People are confused because the TLC’s bingo reporting system does not take into account the playback phenomenon. That’s why, in 2009, the Legislature instructed the TLC to report differently.*



# The Survey Shows

2015 BIG/TCA Study: 20.6% of gross receipts are playback or churn

Gross Receipts – Playback = Real Gross Receipts

Or

Estimated \$604.6 million “real” gross receipts in 2016

But, still not the right number!



# Prizes Are 75% Of Gross Receipts

Bingo prizes capped by law. Small amounts relative to most gaming:

- \$750 per game
- \$2500 per occasion for regular bingo (not including games \$50 and less)

The money left over after prizes are paid is:

## **ADJUSTED GROSS RECEIPTS.**

*Charities pay operating expenses and generate net proceeds from the money left over after prizes are paid. In 2016, adjusted gross receipts totaled \$181.8 million.*



# Bingo Cash Flow

*This is the charities' money!*

**Gross Receipts – Prizes = Adjusted Gross Receipts**

**Adjusted Gross Receipts – Expenses = Net Proceeds**

**The charities own 100% of Net Proceeds**

Charities use Net Proceeds for two purposes:

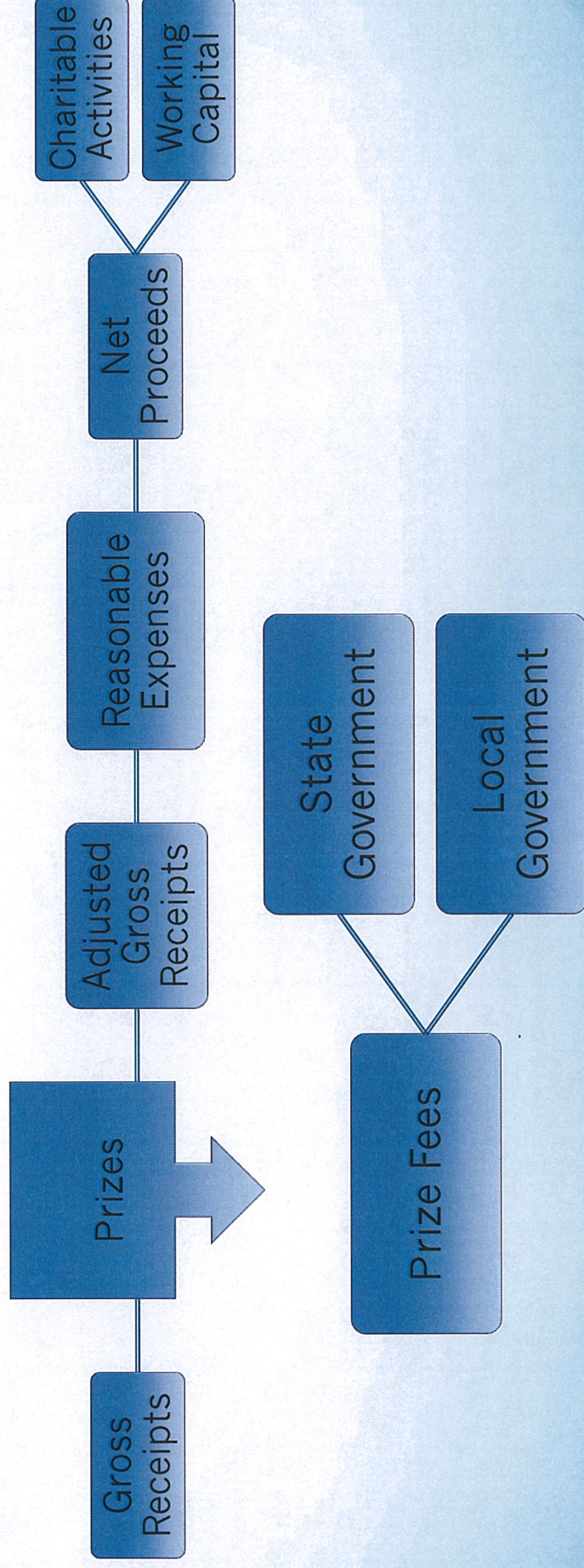
- Charitable Activities
- Working Capital (capped)

*This is the governments' money!*

**5% of Prizes = State/Local Revenue**



# Bingo Cash Flow





# What are the Right Numbers?

In 2009, Legislature instructed TLC to report annually based on **ADJUSTED GROSS RECEIPTS & NET PROCEEDS** [Occ's. Code 2001.060]

TLC continues to report using pre-2009 methods, which confuses people. (TLC 2016 Annual Report, MESSAGE FROM THE CHAIRMAN & DIRECTOR)

*The right numbers are*

- 2016 Adjusted Gross Receipts (AGR) - \$181.8 million
- 2016 Net Proceeds to Charities - \$31.8 million (17.5% of AGR)
- Plus, 2016 Prize Fees to State/Local Government - \$33 million (18% of AGR)

**\$64.8 MILLION or 35.5% of AGR  
FOR PUBLIC GOOD!**



# Charitable Bingo Proceeds For Public Good

Net proceeds to Charities: \$31.8 million (17.5% of AGR)

State & Local Governments: \$33 million (18% of AGR)

**\$64.8 million for the Public Good  
from the Charities' investment and efforts**

8.5% of "gross" receipts

10.7% of "real" receipts

35.5% of Adjusted Gross Receipts



# Powerful Takeaways

**The right numbers:**

- **Adjusted Gross Receipts**
- **Net Proceeds to Charities**
- **Government Share**

**\$64.8 million or 35.5% AGR for Public Good**







## **A MESSAGE FROM THE CHAIRMAN OF THE TEXAS LOTTERY COMMISSION AND THE DIRECTOR OF THE CHARITABLE BINGO OPERATIONS DIVISION**

On behalf of the Commissioners and the Charitable Bingo Operations Division of the Texas Lottery Commission, we want to thank all the members of the charitable bingo industry for making 2016 another great year. We are pleased to present the Charitable Bingo Operations Division 2016 Annual Report.

Charitable bingo continues to play an important role in assisting many of Texas' nonprofit organizations with their charitable purposes.

In calendar year 2016, reported total gross receipts were over \$761.5 million, a \$4.7 million increase from 2015. Gross receipts have steadily increased in the past four years. Pull-tab sales have seen an increase in sales every year since 2002 and account for approximately 54 percent of total gross receipts. Total prizes reported paid to players were more than \$579.7 million, the highest in the history of charitable bingo in Texas.

Charitable distributions saw a 5.8 percent increase over 2015 with licensed authorized organizations reporting that they distributed \$30.2 million for their charitable purposes; 1,001 charitable organizations in Texas were licensed to conduct charitable bingo in 2016. These non-profit Texas charities through a variety of actions provide a multitude of services throughout the state that support the local community with the use of their charitable distributions to benefit a wide range of charitable causes including, but not limited to, education scholarships, assisting needy children, the disabled, veterans, senior citizens, Meals on Wheels, Boys and Girls Clubs, food banks, job and disaster assistance.

Furthermore, during calendar year 2016, \$19.1 million was deposited into the General Revenue Fund and an additional \$13.9 million was allocated to cities and counties that share in the prize fees collected, due to the conduct of bingo games.

The year covered by this report includes some key Division accomplishments. Most notable are:

- A bingo industry stakeholder workgroup was created. The workgroup is comprised of various industry representatives of the bingo community and Commission staff. The purpose of the workgroup is to collaborate on industry related topics, rules and to review challenges and opportunities in an effort to better serve and improve charitable bingo in Texas.
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- The redesigned CBOD website was launched. It allows users to browse information with improved user accessibility. The website provides an enhanced experience when navigating bingo information provided on various web pages or searching for updated forms and instructions.
- A new social media page was unveiled. By implementing a social media presence through Facebook, CBOD is able to further foster communications with the bingo industry and the public by disseminating helpful bingo related information, articles and announcements. A link to the Facebook page is available on the redesigned website.
- Audits resulted in an increase in charitable distributions of \$45,062. The audits revealed incorrect valuation of merchandise prizes, lack of documentation for expenses and unreasonable or unnecessary expenses. With the expense obligations from the audited period having already been paid, the required re-deposit of funds into the affected organizations' bingo bank account went directly to the charities as charitable distributions.

We strive to provide consistent, effective and efficient regulation to the charitable bingo industry in Texas. We will continue to work in partnership with industry representatives to further develop and implement policies and procedures that benefit the non-profit organizations conducting authorized bingo activities in Texas to raise funds for their charitable purposes and ultimately the citizens of Texas. We look forward to the future and new opportunities to fulfill our mission to regulate Charitable Bingo in the state of Texas.



J. Winston Krause, Chairman  
Texas Lottery Commission



Alfonso D. Royal III, Director  
Charitable Bingo Operations Division



## CHARITABLE BINGO OPERATIONS DIVISION 2016 ANNUAL REPORT

### §2001.060 REPORTING

TEX. OCC. CODE ANN § 2001.060(a) requires that the Commission on or before June 1 of each even-numbered year, shall prepare and deliver to the Governor, the Lieutenant Governor, the Speaker of the House of Representatives, and the chairs of the standing committees of the Senate and House of Representatives with primary jurisdiction over charitable bingo a report stating for each of the preceding two calendar years:

- (1) the total amount of adjusted gross receipts reported by licensed authorized organizations from their bingo operations;
  - (2) the total amount of net proceeds reported by licensed authorized organizations from their bingo operations; and
  - (3) a comparison of the amounts reported under Subdivisions (1) and (2), including the percentage that the net proceeds represents of the adjusted gross receipts.
- (b) For purposes of Subsection (a), "adjusted gross receipts" means the amount remaining after deducting prizes paid, excluding prize fees collected from bingo players.
- (c) For purposes of Subsection (a), the Commission shall determine the total amount of net proceeds in a manner that does not reduce gross receipts by the amount of rent paid for the rental of bingo premises by a licensed authorized organization to another licensed authorized organization if the other organization pays rent for the premises to a licensed commercial lessor.

The table below provides the information requested in §2001.060 of the Bingo Enabling Act:

	2015	2016
Adjusted Gross Receipts (AGR)	\$181,521,189	\$181,786,832
Total Expenses	\$150,391,417	\$151,011,089
Net Proceeds (NP)	\$32,382,452	\$31,808,346
NP as a percentage of AGR	17.67%	17.50%
Rent Income reported by Lessors	\$41,681,324	\$43,321,575
Rent Income reported by Conductor/Lessors	\$1,726,082	\$1,327,535
Rent Payments reported by conductors	\$44,935,298	\$45,817,629
Rent Income reported twice	\$710,625	\$635,502
Actual Rent Income	*\$43,407,406	\$44,655,110

Source: Texas Lottery Commission. Figures as of 3/7/2017. Unaudited.  
\*Revised to correct reporting error. Previously reported as \$44,224,673.