



INTEROFFICE MEMO

Gary Grief, Executive Director

LaDonna Castañuela, Charitable Bingo Operations Director

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

From: Kathy Pyka, Controller

A handwritten signature in blue ink, appearing to be "KP", is written next to the name Kathy Pyka.

Date: January 27, 2022

Re: FY 2021 Financial Audit

The audited annual financial report was issued on December 15, 2021 and was previously distributed separately. The audited annual financial report is also be posted on the Commission's website at: https://www.texaslottery.com/export/sites/lottery/Documents/financial/FY21_Audited_Financials_FI_NAL.pdf.

Attached is a copy of the Governance Letter issued by Weaver on December 9, 2021.

The report will be presented to the Commissioners by Mr. Kevin Sanford, Engagement Partner.

Please feel free to contact me at 512-344-5410 if you need additional information or have any questions.



December 9, 2021

To the Board of Commissioners of the
Texas Lottery Commission

We have audited the financial statements of the Texas Lottery Commission (the Commission) as of and for the year ended August 31, 2021 and have issued our report thereon dated December 9, 2021. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated December 1, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Commission solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have no findings regarding significant control deficiencies over financial reporting and material noncompliance, or other matters noted during our audit.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we communicated in our engagement letter.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Weaver and Tidwell, L.L.P.
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Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Commission is included in Note 1 to the financial statements. There have been no initial selection of accounting policies during 2021. During 2021, the Commission adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*. This standard establishes a consistent framework for reporting fiduciary activities within governmental financial statements. As a result of the adoption of this standard the Commission reclassified certain funds previously reported as custodial funds to governmental funds. This reclassification did not have any impact on governmental fund balance as previously reported. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the fair value of investments is based on the fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. We evaluated the key factors and assumptions used to develop the fair value of investments and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of the net pension liability and net other post-employment benefits liability and related deferred inflows and outflows is based upon information received from ERS of Texas. We evaluated the key factors and assumptions used to develop these amounts and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

The Commission's financial statement disclosures are neutral, consistent, and clear.

Identified or Suspected Fraud

We have not identified or obtained information that indicates that fraud may have occurred.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. There were no uncorrected misstatements as a result of our audit procedures.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no material, corrected misstatements identified as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Commission's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the letter dated December 9, 2021.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Commission, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Commission's auditors.

This report is intended solely for the information and use of the Board of Commissioners and management of the Texas Lottery Commission and is not intended to be and should not be used by anyone other than these specified parties.

Weaver and Tidwell, L.L.P.

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