

**GOVERNMENT OF THE
DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE
GAMES CONTROL BOARD**

**FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND
ANALYSIS (WITH INDEPENDENT
AUDITORS' REPORT THEREON)**

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

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Independent Auditor's Report

To the Mayor and Members of
The Council of the Government of the District of Columbia, and
The Lottery and Charitable Games Control Board
Washington, D.C.

We have audited the accompanying financial statements of the District of Columbia Lottery and Charitable Games Control Board, an enterprise fund of the Government of the District of Columbia, as of and for the year ended September 30, 2008, as listed in the Table of Contents. These financial statements are the responsibility of the District of Columbia Lottery and Charitable Games Control Board management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the District of Columbia Lottery and Charitable Games Control Board, as of September 30, 2007, were audited by other auditors whose report dated February 22, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 2, the financial statements only present the District of Columbia Lottery and Charitable Games Control Board and do not purport to, and do not, present fairly the financial position of the Government of the District of Columbia as of September 30, 2008, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District of Columbia Lottery and Charitable Games Control Board as of September 30, 2008, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 30, 2009 on our consideration of District of Columbia Lottery and Charitable Games Control Board'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Raffa, P.C.

Washington, DC
January 30, 2009

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Management's Discussion and Analysis

September 30, 2008 and 2007

(Dollar amounts in thousands)

The discussion and analysis of the D.C. Lottery and Charitable Games Control Board's (the Lottery) financial performance provides an overview of its financial activities for the fiscal year ended September 30, 2008. This discussion and analysis should be read in conjunction with the attached financial statements.

Background and Other Significant Information

The Lottery was established by Public Law 3-172 as an independent agency of the Government of the District of Columbia (District). In accordance with law, the Lottery is responsible for generating revenues through the sale of lottery products and required to remit monthly gaming revenues less prizes, operating expenses and a reserve not to exceed 2% of annual prize payments to the General Fund of the District.

The Lottery's financial transactions are accounted for as an enterprise fund in the District's basic financial statements.

Financial Highlights

- Gross revenues from lottery gaming activities decreased \$4,103 or 1.60% from prior year amount.
- The Agency generated ticket sales of \$252,325 for an aggregate decrease of \$3,614 or 1.41% less than the prior year total of \$255,939.
- Total operating expenses decreased by \$9,356 or 4.86% as a result of decrease in revenue and reduction in prize payouts to 53.53% of ticket sales versus the prior year record payout of 56.79%.
- The D.C. Four game's prize payout percentage rate decreased to 51.67% of sales from the prior year's historical payout rate of 62.43%.
- Overall prize payouts decreased \$10,278 or 7.07% from the prior year total.
- Transfers to the District's General Fund increased \$4,925, which is equivalent to 7.53% of the prior year's total due to overall decrease in operating expenses..

To effectively understand the Lottery's operations and to assess its financial activities, the reader must pay attention to individual game sales, related prize expenses and payout percentages, and the resulting impact on change in net assets or amounts transferred to the District's General Fund. Prize payouts and the volume of Powerball sales have the most dramatic effect on transfer levels but are beyond the control of management.

Using This Financial Report

This financial report consists of a series of financial statements, prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. These statements focus on the financial condition, the results of operations, and cash flows of the Lottery as a whole.

One of the most important questions asked about the Lottery's finances is whether or not they have improved as a result of the year's activities. The key to understanding this core question is the Statements of Net Assets; the Statements of Revenues, Expenses, and Changes in Net Assets; and the Statements of Cash Flows. These statements present financial information in a form that is similar to that used by commercial entities.

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The Lottery's net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of financial health. The Statements of Net Assets include all assets and liabilities. It is prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when the related liability is incurred.

The Statements of Revenues, Expenses and Changes in Net Assets present the revenues earned and the expenses incurred during each year. Activities are reported as either operating or non-operating. Another important factor to consider when evaluating financial viability is the Lottery's ability to meet financial obligations as they come due. The Statements of Cash Flows present information related to cash inflows and outflows summarized by operating, capital and non-capital financing and investing activities.

Financial Analysis

The Lottery's net assets increased by \$68 for the year ended September 30, 2008 and increased by \$52 for the year ended September 30, 2007. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2008, 2007, and 2006.

**Table 1: Summary of Net Assets
 (In Thousands)**

	September 30		
	2008	2007	2006
Assets:			
Current and other assets	\$ 14,675	\$ 14,559	\$ 16,513
Capital assets (net of accumulated depreciation)	364	311	382
Restricted investments	41,379	46,725	52,584
Total assets	56,418	61,595	69,479
Liabilities:			
Accounts payable and accrued expenses	3,682	3,173	3,215
Deferred revenues	303	149	184
Accrued prizes and commissions	7,233	7,795	9,795
Obligations for unpaid prizes - current	8,631	8,631	8,631
Obligations for unpaid prizes - noncurrent	32,748	38,094	43,953
Total liabilities	52,597	57,842	65,778
Net assets:			
Invested in capital assets	364	311	382
Unrestricted	3,457	3,442	3,319
Total net assets	\$ 3,821	\$ 3,753	\$ 3,701

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Financial Analysis (continued)

Unrestricted net assets were \$3,457, \$3,442 and \$3,319 at September 30, 2008, 2007 and 2006, which represented increases of \$15, \$123 and \$448, respectively. Current assets increased by \$116 and decreased \$1,954 in 2008 and 2007, respectively. Total liabilities decreased \$5,245 or 9.07% for the year ended September 30, 2008 and \$7,936 or 12.06% for the year ended September 30, 2007 primarily due to the decrease in the Lottery's obligations for unpaid prizes. The Multi-State Lottery Association (MUSL) purchases U.S. government securities in the name of the Lottery for Lotto America and Powerball jackpot winners from the District of Columbia. Jackpot winners have the option of accepting the cash value of the jackpot amount or annuity payments for 25 years. The restricted investments balance of \$41,379, \$46,725 and \$52,584 in 2008, 2007 and 2006, respectively, represents the net present value of securities totaling \$45,613, \$54,244, and \$62,785 in 2008, 2007 and 2006, respectively, to fund future annuity installment payments. The restricted investments value decreased by \$5,346 and \$5,859 during 2008 and 2007, respectively, due to payments of \$8,631 net of unrealized losses of \$356 and \$297 in 2008 and 2007, respectively, and accretion of investments totaling \$3,641 and \$3,069 in 2008 and 2007, respectively. Corresponding amounts are recorded as obligations for unpaid prizes.

**Table 2: Summary of Revenues, Expenses,
 and Changes in Net Assets
 (In Thousands)**

	Years Ended September 30		
	2008	2007	2006
Operating revenues:			
Gaming revenues	\$ 252,721	\$ 256,824	\$ 266,391
Operating expenses:			
Prizes	135,060	145,338	146,687
Other	47,921	46,999	47,220
Total operating expenses	182,981	192,337	193,907
Operating income	69,740	64,487	72,484
Nonoperating revenues – interest and dividends	628	940	1,375
Income before transfers	70,368	65,427	73,859
Transfers to the District's General Fund	(70,300)	(65,375)	(73,800)
Change in net assets	\$ 68	\$ 52	\$ 59

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Table 3: Gaming revenues, Prizes, Commissions and Transfers

2008													
	Lucky				Hot			Rolling			Instant		
	Numbers	D.C. Four	Powerball	Hot Five	Keno	Lotto	Daily 6	Cash 5	Raffles	Games	Others	Total	
Gaming revenues	\$ 66,409	\$ 84,156	\$ 32,774	\$ —	\$ 13,640	\$ 2,945	\$ 4,270	\$ 3,111	\$ —	\$ 45,020	\$ 396	\$ 252,721	
Prizes	(33,387)	(43,486)	(15,698)	—	(8,425)	(1,445)	(1,777)	(1,708)	19	(29,153)	—	(135,060)	
Agent's commissions	(4,323)	(4,786)	(1,813)	—	(926)	(166)	(257)	(190)	—	(3,321)	—	(15,782)	
Gross margin	\$ 28,699	\$ 35,884	\$ 15,263	\$ —	\$ 4,289	\$ 1,334	\$ 2,236	\$ 1,213	\$ 19	\$ 12,546	\$ 396	\$ 101,879	
Transfers	\$ 21,150	\$ 26,210	\$ 11,065	\$ —	\$ 2,765	\$ 900	\$ 1,635	\$ 765	\$ 18	\$ 5,792	\$ —	\$ 70,300	
2007													
	Lucky				Hot			Rolling			Instant		
	Numbers	D.C. Four	Powerball	Hot Five	Keno	Lotto	Daily 6	Cash 5	Raffles	Games	Others	Total	
Gaming revenues	\$ 69,757	\$ 84,607	\$ 35,748	\$ —	\$ 13,444	\$ 3,536	\$ 4,398	\$ 3,650	\$ 401	\$ 40,398	\$ 885	\$ 256,824	
Prizes	(35,002)	(52,824)	(15,429)	13	(8,216)	(1,717)	(2,219)	(2,113)	(1,250)	(26,581)	—	(146,338)	
Agent's commissions	(4,542)	(4,893)	(1,918)	—	(895)	(214)	(268)	(225)	(30)	(3,006)	—	(15,991)	
Gross margin	\$ 30,213	\$ 26,890	\$ 18,401	\$ 13	\$ 4,333	\$ 1,605	\$ 1,911	\$ 1,312	\$ (879)	\$ 10,811	\$ 885	\$ 95,495	
Transfers	\$ 23,475	\$ 17,825	\$ 13,890	\$ 13	\$ 3,025	\$ 1,145	\$ 1,290	\$ 894	\$ (1,160)	\$ 4,978	\$ —	\$ 65,375	
2006													
	Lucky			Quick		Hot		Rolling			Instant		
	Numbers	D.C. Four	Powerball	Cash	Hot Five	Keno	Lotto	Daily 6	Cash 5	Games	Others	Total	
Gaming revenues	\$ 70,310	\$ 80,014	\$ 51,770	\$ —	\$ 554	\$ 13,165	\$ 2,432	\$ 4,738	\$ 3,435	\$ 39,785	\$ 188	\$ 266,391	
Prizes	(34,203)	(47,099)	(24,977)	86	(209)	(7,975)	(1,158)	(2,616)	(2,056)	(26,480)	—	(146,687)	
Agent's commissions	(4,541)	(4,643)	(2,828)	3	(33)	(875)	(152)	(293)	(211)	(2,961)	—	(16,534)	
Gross margin	\$ 31,566	\$ 28,272	\$ 23,965	\$ 89	\$ 312	\$ 4,315	\$ 1,122	\$ 1,829	\$ 1,168	\$ 10,344	\$ 188	\$ 103,170	
Transfers	\$ 25,250	\$ 20,000	\$ 18,310	\$ 85	\$ 235	\$ 3,120	\$ 815	\$ 1,265	\$ 300	\$ 4,420	\$ —	\$ 73,800	

Table 3 provides a comparison of sales, prizes, agent commissions, gross margin, and transfers to the District's General Fund generated by each lottery product offered. Overall gaming revenues totaled \$252,721, \$256,824 and \$266,391 in fiscal years 2008, 2007 and 2006, respectively. Prize expenses decreased \$10,278 or 7.07% in 2008 and \$1,349 or .92% in 2007. Total prize payouts as a percentage of gaming revenue decreased to 53.44% in 2008 in comparison to 56.59% in 2007. Agent commissions decreased \$209 and \$543 in 2008 and 2007, respectively, due to the related decreases in ticket sales and prize payouts.

Lucky Numbers

Lucky Numbers is a daily three-digit game in which players may wager 50 cents or one dollar with nine ways to win prizes ranging from 25 to 500 dollars. Sales totaled \$66,409 in 2008 for a \$3,348 or 4.80% decrease from the prior year's sales level of \$69,757. The Lottery Board continued to strategically implement marketing and promotional campaigns during the fiscal year in an attempt to stabilize and enhance sales for the game.

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Lucky Numbers (continued)

Prizes amounted to \$33,387 in 2008, a \$1,615 or 4.61% decrease from the \$35,002 expensed in 2007. Agents/retailers commission expense decreased \$219 as a result of corresponding decreases in sales and prizes from the prior year. Net proceeds to the District's General Fund totaled \$21,150 for a \$2,325 decrease from the \$23,475 generated in 2007. The decrease in transfer amount can be attributed to lower sales, prize payouts and commissions, and decrease in other miscellaneous income and other operating expenses allocated to the game from prior year totals. The Lucky Numbers game accounted for 26.28% of total gaming revenue and 28.17% of the overall gross margin reflecting a slight decrease in the gaming revenue percentage contribution and essentially the same gross margin contribution over the prior year due to net decrease in sales and prizes for the game.

In 2007, sales totaled \$69,757 in 2007 for a \$553 or .79% decrease from the prior year's sales level of \$70,310.

Prizes increased to \$35,002 in 2007, an increase of \$799 or 2.34% over the \$34,203 expensed in 2006. Agents/retailers commission expense of \$4,542 was equivalently the same for 2007 and 2006. Net proceeds to the District's General Fund totaled \$23,475, a \$1,775 decrease from the \$25,250 generated in 2006. The decrease in transfer amount can be attributed to the decrease in sales and increase in prize payouts and other operating expenses over prior year totals. The Lucky Numbers game accounted for 27.16% of total gaming revenue and 28.17% of the overall gross margin reflecting slight decreases in percentages contributions over the prior year due to decrease in the game's sales and prizes.

DC Four

DC Four is a daily four-digit game with a fixed payout. Players may wager 50 cents or one dollar for a chance to win seven different ways. Ticket sales totaled \$84,156 in 2008 for a \$451 or .53% decrease from the \$84,607 generated in 2007. The game continued to reflect the national trend of steady annual sales without major advertising and promotions and despite economic conditions.

Prizes in 2008 totaled \$43,486 representing a \$9,338 or 17.68% decrease from the record prize payout of \$52,824 or 62.43% of tickets sold in 2007. Other operating costs increased \$489 over the prior year's total primarily due to decreases in agent/retailer commissions, and gaming contractual fees offset by increases in other direct and administrative cost allocations to the game. Net proceeds to the District's General Fund totaled \$26,210 for a \$8,385 increase over the \$17,825 transferred in 2007. The marginal decrease in sales offset by significantly lower prize expense contributed to an \$8,965 or 33.34% increase in gross margin when compared to the prior year. The DC Four game accounted for 33.30% of total gaming revenue and 35.19% of the overall gross margin. The increase in contribution to gross margin percentage from the 28.16% reported in 2007 can be directly associated to lower prize payouts.

In 2007, sales totaled \$84,607 for a \$4,593 or 5.74% increase over the \$80,014 recorded in 2006. Prizes totaled \$52,824 in 2007, a \$5,725 or 12.16% increase over the \$47,099 reported the prior year. Other operating costs increased \$1,043 over 2006 amounts primarily due to increased agents/retailer commissions and gaming contractual fees, and other direct and administrative cost allocations to the game. The increase in sales offset by higher prize expense contributed to a \$1,382 or 4.89% decline in gross margin when compared to the prior year. Net proceeds to the District's General Fund totaled \$17,825, a \$2,175 or 10.88% decline from the \$20,000 transferred in 2006. The DC Four game accounted

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DC Four (continued)

for 32.94% of total gaming revenue and 28.16% of the overall gross margin. Increases in the percentages of gaming revenue and contribution to gross margin from prior year amounts can be directly attributed to the game's higher sales and overall net decrease in prize payouts for other lottery games.

Powerball

The Powerball game is a five out of fifty-three plus one out of forty-two online lottery game that pays a grand prize on an annuitized pari-mutuel basis and all other prizes on a fixed basis. The Powerball game is sponsored by the Multi-State Lottery Association (MUSL), a conglomerate of twenty-nine states, the District of Columbia and Virgin Islands, that combines resources and sales to offer larger jackpots. Party lotteries pool their sales and other resources, but otherwise account for operations separately. The prize structure matrix for the game was changed effective August 28, 2005 to increase the chances for second tier winners to receive greater sums once the jackpot reaches a maximum level.

Powerball sales totaled \$32,774 in 2008 representing a \$2,974 or 8.32% decrease from the \$35,748 generated in 2007. The Powerball game sales are jackpot driven and high jackpots impact sales levels. The game continues to be plagued by the inability to generate jackpots to levels necessary to increase player participation and sales volume.

Prizes amounted to \$15,698 for the year representing a \$269 or 1.74% increase over the \$15,429 expensed in 2007. Powerball prizes are expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Prizes decreased proportionately as a percentage of sales in 2008, but this was offset by fewer lapsed. Operating expenses excluding prizes decreased \$618 as a result of lower agents/retailers commissions, gaming fees, and advertising costs. The decline in ticket sales offset by overall reduced expenses primarily accounts for the \$2,825 or 20.34% decrease in transfers to the District's General Fund to \$11,065 from the \$13,890 transferred in 2007.

Powerball sales amounted to \$35,748 in 2007 and represented a \$16,022 or 30.95% decrease from the \$51,770 generated in 2006. The decrease in sales can be attributed to only two jackpots exceeding \$200 million compared to five jackpots surpassing that mark in 2006.

Prizes amounted to \$15,429 for the year representing a decrease of \$9,548 or 38.23% in relation to the \$24,977 expensed in 2006. Powerball prizes are expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Accordingly, the decrease in prize expense is in proportion to decreased ticket sales. Other expenses, less prizes and agents/retailer commissions, decreased \$884 as a result of lower gaming fees and administrative cost allocations associated with lower sales offset by increases in other direct costs in 2007. The decline in ticket sales offset by reduced expenses over 2006 totals account for the \$4,420 or 24.14% decrease in transfers to the District's General Fund to \$13,890 from the \$18,310 transferred in 2006.

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Hot Five

The Hot Five game was a five out of thirty-three numbers online lotto type game that pays fixed prize payouts ranging from one dollar to 25,000 dollars. Player receives one wager (set of five numbers) for the sum of one dollar. Hot Five game sales were discontinued and replaced by the DC Rolling Cash Game effective November 19, 2005. Transactions recorded in 2007 essentially represent reversal of prize expense for lapsed prizes.

There were no sales in 2007. Negative expenses of \$13 represented lapsed prizes and reversed agents/retailers commissions which essentially accounts for the transfer to the District's General Fund of the same amount.

Keno

Keno is a 10/20/80 game with fixed prizes. Players choose to play from 1 to 10 spots, with each spot having a different prize structure. Players select twenty numbers from a field of 80 numbers. Draws are held every four minutes during valid game times. Payouts range from five dollars to 100,000 dollars. Tier 1 prizes start as a fixed payout and transitions to a pari-mutuel payout when the number of winners per draw exceeds 10. The game is supplemented by Keno Spin which features a multiplier option to the game's prizes. Ticket sales totaled \$13,640 in 2008 and represented a \$196 or 1.45% increase over 2007 sales of \$13,444. The Keno game's sales increase rate continues to reflect a marginal decline from the prior year's rate due to changing demographics in the District of Columbia and inability to add new social settings and set-up locations. Keno sales are offered at all agent/retailers locations. The Lottery continues to market the game to new players through targeted awareness and promotional campaigns.

Prizes expense totaled \$8,425 for a \$209 or 2.54% increase in comparison to the \$8,216 expensed in 2007. Overall operating expenses less prizes and agents/retailer commission expenses increased \$218 primarily due to increased advertising, and other direct and administrative cost allocations to the game. The decrease of \$260 in net proceeds and transfers to the District's General Fund to \$2,765 in 2008 from the \$3,025 transferred in 2007 can be directly attributed to increased prizes, agents/retailers commissions and other operating expenses.

Ticket sales in 2007 totaled \$13,444 for a \$279 or 2.12% increase over the \$13,165 generated in 2006. The increase in prizes expense of \$241 to \$8,216 was in direct proportion to increase in sales volume for the year. Overall operating expenses less prizes and agents/retailer commission expenses increased \$113 primarily due to gaming fees and advertising costs. The decrease of \$95 in net proceeds and transfers to the District's General Fund to \$3,025 in 2007 from the \$3,120 transferred in 2006 can be directly attributed to increased prizes and other operating expenses.

Hot Lotto

Hot Lotto is a five out of thirty-nine plus one out of nineteen online lottery game that pays a grand prize, at the election of the player at time of ticket purchase, either on an annuitized pari-mutuel or cash option basis. All other prizes are paid on a fixed basis. Prizes are expensed at the rate of 50.0% of sales intake less lapsed prizes. The Hot Lotto game is sponsored by the Multi-State Lottery Association (MUSL), a conglomerate of twelve states and the District of Columbia, which combines resources and sales to offer

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Hot Lotto (continued)

larger jackpots. The initial jackpot starts at \$1 million and drawings are held every Wednesday and Saturday. Party lotteries pool their sales and other resources, but otherwise account for operations separately.

Ticket sales amounted to \$2,945 in 2008, representing a \$591 or 16.72% decrease from the \$3,536 generated in 2007. The decrease in sales over prior year's total is the result of lower jackpots during 2008.

Prizes and agents/retailer commission expenses totaled \$1,612 and reflected a \$319 or 16.54% decrease in 2008 from the \$1,931 expensed in 2007. Other operating expenses decreased \$28 as a result of lower gaming fees, advertising, administrative and other cost allocations. The \$245 decrease in transfers to the District's General Fund to \$900 in 2008 from the \$1,145 transferred in 2007 is attributed directly to decreased gross margin and other operating expenses.

Hot Lotto sales increased \$1,104 or 45.39% to \$3,536 in 2007 in comparison to the \$2,432 produced in 2006. The increase in sales over prior year's totals was the result of one additional state joining the MUSL sponsored game and the ability to offer higher jackpots during 2007. Prizes and agents/retailer commission expenses of \$1,931 reflected a \$621 or 47.40% increase in 2007 over the \$1,310 expensed in 2006. Total operating expenses less prizes and agents/retailers commissions increased \$153 as a result of higher gaming fees, advertising, administrative and other cost allocations. The \$330 increase in transfers to the District's General Fund to \$1,145 in 2007 over the \$815 transferred in 2006 can be attributed to increased gross margin offset by increase in other operating expenses.

D.C. Daily Six

The D.C. Daily Six game is a six out of thirty-nine numbers online lotto type game that pays fixed prize payouts ranging from one dollar to 250,000 dollars. Players receive two boards (set of six numbers) for one dollar. Drawings are held nightly seven days a week and players can purchase tickets for the next draw only or the next draw and up to 42 consecutive drawings in predetermined increments. The Division 1 prize payout is fixed for the first four winners. If the number of winners exceeds four then all Division 1 winners share the maximum payout of \$1 million. Payouts for Divisions 2 through 6 are fixed. The D.C. Daily Six game launched effective August 28, 2005 and replaced the Quick Cash game in the Lottery Board's portfolio of games.

Ticket sales decreased \$127 or 2.89% to \$4,270 in 2008 from the \$4,397 sales amount in 2007. The game reflected a relatively stable sales trend in comparison to the prior year.

Prizes and agents/retailers commission expense of \$2,034 decreased \$453 in 2008 versus the \$2,487 incurred in 2007 and is primarily the result of one Division 1 winner in comparison to three winners the prior year. Other operating expenses reflected a minor decrease of \$16. The decrease in prizes, agents/retailers commissions and other operating costs offset by lower tickets sales accounts for the \$345 or 26.74% increase in transfer to the District's General Fund to \$1,635 in 2008 over the \$1,290 produced in 2007.

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D.C. Daily Six (continued)

Sales totaled \$4,398 in 2007 for a \$340 or 7.18% decrease from the \$4,738 generated during the first full year of operations in 2006. The game experienced a downward trend in sales from the prior year as players became more familiar with the game and the excitement of multiple Division 1 winners abated. Prizes and agents/retailers commission expense of \$2,487 decreased \$422 in 2007 versus the \$2,909 incurred in 2006 primarily as a result of fewer Division 1 winners. Other operating expenses reflected a minor increase of \$53. Transfers to the District's General Fund were essentially the same for 2007 and 2006.

DC Rolling Cash Five

The DC Rolling Cash Five game is a five out of thirty-five numbers online lotto type game that pays grand fixed prize payouts ranging from one dollar to generated jackpot amount. Player receives one wager (set of five numbers) for the sum of one dollar. Drawings are held nightly seven days a week and players can purchase tickets for the next draw only or the next draw and up to 42 consecutive drawings in predetermined increments. Division 1 grand prize winnings are para-mutual and varied depending on the number of players and winners. Prize payouts for Divisions 2 through Division 4 winners are fixed. The DC Rolling Cash Five game was launched effective November 20, 2005 and replaced the Hot Five game.

Sales totaled \$3,111 in 2008 for a \$539 or 14.76% decrease from the \$3,650 generated in 2007. The game continues to be strategically promoted in an attempt to enhance sales and maintain market share.

Operating expenses decreased \$412 to \$2,343 in 2008 compared to \$2,755 in 2007. The decrease in ticket sales offset by decrease in operating expenses essentially account for the \$130 decrease in transfer to the District's General Fund to \$765 in 2008 from the \$895 transferred in 2007.

Sales amounted to \$3,650 in 2007 for a \$215 or 6.26% increase over the \$3,435 produced in 2006. Operating expenses decreased \$371 to \$2,755 in 2007 compared to \$3,126 in 2006. The increase in ticket sales and decrease in operating expenses account for the \$595 increase in transfer to the District's General Fund of \$895 in 2007 over the \$300 transferred in 2006.

DC Raffle

The DC Raffle game is a promotional game designed to run for a certain interval of time and to generate a maximum number of tickets to be sold. Tickets print a sequential number which serves as the bet. Each player wagers a sum of \$10 for a chance to win fixed prizes ranging from \$1,000 to a grand prize amount of \$1 million. The game is structured for a 50% payout.

There were no sales in 2008 and the negative expense amount of \$19 represents lapsed prizes which essentially accounts for the \$18 transferred to the District's General Fund.

Ticket sales commenced on July 1, 2007 and ended August 27, 2007 for the one promotional game initiated to-date. Sales amounted \$401 in 2007 or 16.04% of the \$2,500 in game designed ticket sales. Total expenses amounted to \$1,559 and resulted in a net loss and negative transfer amount to the District's General Fund of \$1,160.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

Management's Discussion and Analysis

September 30, 2008 and 2007

(Dollar amounts in thousands)

Instant Tickets

Instant or scratch games are designed to allow a player the opportunity to determine if he/she is an instant winner at the time of ticket purchase. The price of tickets and prize structure are determined before the production of tickets. Instant ticket sales amounted to \$45,020 in 2008 representing a \$4,622 or 11.44% increase over 2007 sales of \$40,398.

Prizes in 2008 totaled \$29,153 for a \$2,572 or 9.67% increase over the \$26,581 amount expensed in 2007. Overall operating costs, less prizes and commissions totaling \$6,745 represent a \$915 increase over the prior year's amount of \$5,830, primarily due to higher gaming and tickets distribution fees, allocated administrative and other miscellaneous costs. Transfers to the General Fund of \$5,792 in 2008 represent an increase of \$814 over the transfer amount of \$4,978 reported in 2007. The increase can be directly attributed to increased gross margin as a result of additional sales offset by an increase in other operating expenses.

Instant ticket sales of \$40,398 in 2007 were \$613 or 1.54% greater than 2006 sales of \$39,785. Prizes expense in 2007 totaled \$26,581 and was almost equivalent to the \$26,480 incurred in 2006. Operating costs, less prizes and commissions, totaled \$5,830 and represented an \$88 decrease from the prior year's amount of \$5,918, primarily due to lower tickets distribution costs. Transfers to the District's General Fund of \$4,978 represented an increase of \$558 over the transfer amount of \$4,420 reported in 2006.

The Lottery has been able to stimulate sales over the past few years through a combination of offering higher price point games, designing games with more low-tier and mid-tier prizes to increase winning opportunities for players, and providing a full complement of available tickets at all agent locations. The average prize payout rate as a percentage of tickets sold in 2008 was 64.76% versus 65.80% in 2007.

Interest, Dividends and Other Income

All idle cash of the Lottery is invested through the District's General Fund Pooled Investments Account. Powerball receipts transferred to MUSL to fund major jackpots are invested in securities prior to jackpots being hit and earnings are allocated annually to party lotteries. Interest and dividend income, shown separately in the financial statements, decreased by \$312 and \$435 in 2008 and 2007, respectively, and increased by \$724 in 2006. Interest and dividend income is impacted by various market conditions, the national economy, and other factors beyond the control of individual entities.

Other Income decreased \$489 in 2008 to \$396 and increased \$697 to \$885 in 2007 from \$188 in 2006. Bonding fees receipts were previously deposited to a Miscellaneous Trust Fund in the name of the Lottery Board and recorded on the books of the District of Columbia prior to 2005. Funds were requested and used to write-off delinquent and uncollectible accounts periodically. Bonding fees receipts totaled \$34, \$213 and \$121 in 2008, 2007 and 2006, respectively. Refunds from MUSL as a result of rebalancing reserve funds and distributions of excess contributions by participating members amounted to \$215, \$273, and \$33, in 2008, 2007, and 2006, respectively.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

Management's Discussion and Analysis

September 30, 2008 and 2007

(Dollar amounts in thousands)

Charitable Gaming Activities

The Lottery also oversees charitable gaming activities to include the licensing and regulation of charitable and other not-for-profit organizations conducting bingo, raffles, and other fund-raising activities within the District of Columbia. The mission of the Lottery with respect to charitable gaming is to insure that only qualified organizations are licensed to conduct fund-raising activities and that they are carried out in accordance with existing laws, rules and regulations. Revenues generated through the issuance of licenses, processing fees, etc. are not intended to cover costs associated with overseeing program activities.

Contacting the Lottery

Interested parties can contact the D.C. Lottery at D.C. Lottery and Charitable Games Control Board, 2101 Martin Luther King Jr. Avenue, S.E. Washington, D.C. 20020.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

Statements of Net Assets

September 30, 2008 and 2007

(Dollar amounts in thousands)

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,562	\$ 8,824
Accounts receivables, net	7,098	5,728
Prepaid expenses and other	15	7
Restricted investments	8,631	8,631
Total Current Assets	23,306	23,190
Non-Current assets		
Capital assets	364	311
Restricted investments	32,748	38,094
Total non-current assets	33,112	38,405
TOTAL ASSETS	\$ 56,418	\$ 61,595
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 2,407	\$ 2,625
Compensation liabilities	598	559
Deferred revenues	303	149
Accrued prizes and commissions	7,233	7,795
Other accrued liabilities	677	(11)
Obligations for unpaid prizes - current portion	8,631	8,631
Total Current Liabilities	19,849	19,748
Obligations for unpaid prizes	32,748	38,094
Total Liabilities	52,597	57,842
Net Assets		
Investment in capital assets	364	311
Unrestricted	3,457	3,442
Total Net Assets	3,821	3,753
TOTAL LIABILITIES AND NET ASSETS	\$ 56,418	\$ 61,595

The accompanying notes are an integral part of these financial statements.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
 LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended September 30, 2008 and 2007

(Dollar amounts in thousands)

	<u>2008</u>	<u>2007</u>
OPERATING REVENUE		
Gaming Receipts	<u>\$ 252,721</u>	<u>\$ 256,824</u>
OPERATING EXPENSES		
Prizes	135,060	145,338
Contractor fees	16,390	16,000
Agents commissions	15,782	15,991
Advertising	4,618	5,361
Administration	10,992	9,447
Amortization and depreciation	<u>139</u>	<u>200</u>
Total Operating Expenses	<u>182,981</u>	<u>192,337</u>
Operating Income	<u>69,740</u>	<u>64,487</u>
Non-Operating Revenues - interest and dividends	<u>628</u>	<u>940</u>
Income Before Transfers	<u>70,368</u>	<u>65,427</u>
Transfers to District General Fund	<u>(70,300)</u>	<u>(65,375)</u>
CHANGE IN NET ASSETS	68	52
NET ASSETS, BEGINNING OF YEAR	<u>3,753</u>	<u>3,701</u>
NET ASSETS, END OF YEAR	<u><u>\$ 3,821</u></u>	<u><u>\$ 3,753</u></u>

The accompanying notes are an integral part of these financial statements.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

Statements of Cash Flows

Years Ended September 30, 2008 and 2007

(Dollar amounts in thousands)

	2008	2007
Operating activities:		
Cash receipts from customers	\$ 251,110	\$ 255,271
Cash receipts from others	396	885
Cash payments to vendors	(25,462)	(24,735)
Cash payments to employees	(6,037)	(6,114)
Cash payments for prizes and commissions	(151,405)	(163,329)
Net cash provided by operating activities	68,602	61,978
Investing activities:		
Capital and related financing activities - acquisition of fixed assets	(192)	(129)
Non-capital financing activities - transfers out	(70,300)	(65,375)
Investing activities - interest and dividends	628	940
Net cash used in investing activities	(69,864)	(64,564)
Net increase (decrease) in cash	(1,262)	(2,586)
Cash and cash equivalents - beginning of year	8,824	11,410
Cash and cash equivalents - end of year	\$ 7,562	\$ 8,824
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 69,740	\$ 64,487
Amortization and depreciation	139	200
Decrease (increase) in assets:		
Receivables	(1,370)	(634)
Prepaid expenses	(8)	2
Increase (decrease) in liabilities:		
Accounts payable	(218)	(129)
Compensation liabilities	39	101
Deferred revenue	154	(35)
Accrued prizes	(562)	(2,000)
Other current liabilities	688	(14)
Net cash provided by operating activities	\$ 68,602	\$ 61,978

The accompanying notes are an integral part of these financial statements.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**Notes to Financial Statements
September 30, 2008 and 2007**

(Dollar amounts in thousands)

(1) Organization

The Lottery and Charitable Games Control Board (the Lottery) was established by Public Law 3-172 as an independent agency of the Government of the District of Columbia (District). In accordance with the law, the Lottery must remit its monthly gaming revenues, less prizes, operating expenses and a reserve not to exceed 2% of projected annual prize payments to the General Fund of the District.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The Lottery's financial transactions are accounted for as an enterprise fund in the District's financial statements. The accompanying financial statements are only those of the Lottery and are not intended to present the financial position, changes in financial position, and cash flows of the District taken as a whole. The District provides certain legal, central accounting and other services to the Lottery. The costs and revenue associated with these services are not reflected in these financial statements.

(b) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting. Under this method, revenues are reported when earned and expenses are reported at the time the related liabilities are incurred. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Lottery has elected not to follow the Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and Accounting Research Bulletins issued after November 30, 1989.

(c) Cash and Cash Equivalents

The Lottery participates in the District's pooled cash program whereby cash that is not needed for immediate disbursement is pooled with that of the District and used to purchase current investments. In accordance with the law, the District may invest the pooled cash directly in, or through repurchase agreements, obligations of the United States or its agencies, which are fully guaranteed by the federal government, and in certificates of deposit, which are issued by federally insured banks. In accordance with District policies, substantially all deposits in the pooled cash program were insured or collateralized with securities held by the District or its agent in the District's name. Interest income from the investment of pooled cash is allocated to the Lottery based on the amount the Lottery invests in the pool. The Lottery considers the pooled cash to be cash equivalents for the purpose of cash flows because the pool may not hold the securities for more than 91 days. Cash and cash equivalents at September 30, 2008 and 2007 respectively, were \$7,562 and \$8,824.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**Notes to Financial Statements
September 30, 2008 and 2007**

(Dollar amounts in thousands)

(2) Summary of Significant Accounting Policies (continued)

(d) Capital Assets

Capital assets are recorded at cost. The cost of major remodeling, betterments, and improvements of \$5 and greater are capitalized. Repairs and maintenance costs are expensed as incurred. When capital assets are retired or sold, the cost and related accumulated depreciation are removed from the appropriate property and equipment accounts, and resulting gains or losses are recorded.

Amortization and depreciation expense are calculated using the straight-line method over the following estimated useful lives:

<u>Category</u>	<u>Estimated Useful Life</u>
Machinery and equipment	5-8 years
Office furniture and fixtures	5-8 years
Leasehold improvements	5-15 years

(e) Gaming Revenue

Revenue from online tickets is recorded as gaming revenue when the drawings are held. Online tickets sold in advance are recorded as deferred revenue until the drawings are held. Revenue from instant tickets is recorded as gaming revenue when the tickets are activated.

(f) Prize Expense

Instant tickets prize expense is based on the prize payout percentage for each instant lottery game and is accrued as the related gaming revenue is earned. Prize expenses for online games, excluding the Powerball, Hot Lotto, and DC Rolling Cash 5 games, are accrued based on the draw liability associated with drawings for the specific games. Powerball and Hot Lotto prize expenses are recorded at the rate of 50% of ticket sales. DC Rolling Cash 5 prize expenses are recorded at the rate of 55.71% of sales and any additional costs needed to fund jackpots. The accrued prize liability represents a payable for prize amounts that have not been claimed as of each fiscal year-end. Prize expense for all games is reduced by the sum of lapsed prizes not claimed during the required period of one year from the sales draw date for online games and the respective game closing date for instant games.

(g) Compensated Absences

The Lottery permits employees to accumulate earned but unused vacation and sick pay benefits depending on the employee's length of service. Employees may not accumulate more than 240 hours of vacation benefits. The Lottery accrues for accumulated vacation as the benefits are earned by employees.

There is not a maximum limitation on the amount of unused sick pay benefits that employees may accumulate. The Lottery does not accrue for non-vesting accumulating rights to receive sick pay benefits. At the time of retirement, unused sick pay benefits are credited at the rate of 30 days for each month of service and are added to the retirees' years of service in the retirement programs.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
 LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**Notes to Financial Statements
 September 30, 2008 and 2007**

(Dollar amounts in thousands)

(2) Summary of Significant Accounting Policies (continued)

(h) 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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Accounts Receivable

The components of accounts receivable as of September 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Due from agents:		
Online games	\$ 2,321	\$ 1,570
Instant games	3,954	3,635
Total due from agents	<u>6,275</u>	<u>5,205</u>
Other	<u>823</u>	<u>523</u>
Total accounts receivable	7,098	5,728
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
Total accounts receivable, net	<u><u>\$ 7,098</u></u>	<u><u>\$ 5,728</u></u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
 LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**Notes to Financial Statements
 September 30, 2008 and 2007**

(Dollar amounts in thousands)

(4) Capital Assets

A summary of capital assets as of September 30, 2008 and 2007 is as follows:

	<u>Balance as of October 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance as of September 30, 2008</u>
Cost:				
Machinery and equipment	\$ 2,594	\$ 192	\$ —	\$ 2,786
Office furniture and fixtures	20	—	—	20
Leasehold improvements	<u>758</u>	<u>—</u>	<u>—</u>	<u>758</u>
Total cost	<u>3,372</u>	<u>192</u>	<u>—</u>	<u>3,564</u>
Less – accumulated depreciation				
Machinery and equipment	2,326	117	—	2,443
Office furniture and fixtures	20	—	—	20
Leasehold improvements	<u>715</u>	<u>22</u>	<u>—</u>	<u>737</u>
Total accumulated depreciation	<u>3,061</u>	<u>139</u>	<u>—</u>	<u>3,200</u>
Capital assets – net	<u>\$ 311</u>			<u>\$ 364</u>

	<u>Balance as of October 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance as of September 30, 2007</u>
Cost:				
Machinery and equipment	\$ 2,465	\$ 129	\$ —	\$ 2,594
Office furniture and fixtures	20	—	—	20
Leasehold improvements	<u>758</u>	<u>—</u>	<u>—</u>	<u>758</u>
Total cost	<u>3,243</u>	<u>129</u>	<u>—</u>	<u>3,372</u>
Less – accumulated depreciation				
Machinery and equipment	2,179	147	—	2,326
Office furniture and fixtures	16	3	—	19
Lease hold improvements	<u>666</u>	<u>50</u>	<u>—</u>	<u>716</u>
Total accumulated depreciation	<u>2,861</u>	<u>200</u>	<u>—</u>	<u>3,061</u>
Capital assets – net	<u>\$ 382</u>			<u>\$ 311</u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
 LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**Notes to Financial Statements
 September 30, 2008 and 2007**

(Dollar amounts in thousands)

(5) Multi-State Lottery Association

(a) Background

The Lottery is a member of the Multi-State Lottery Association (MUSL). MUSL has thirty-one (31) members and administers multi-state lottery games. Powerball was initiated on April 20, 1992 and is a semi-weekly pari-mutuel drawing with a minimum grand prize of \$15,000. MUSL previously administered the Lotto-America game, which was terminated on April 18, 1992. Hot Lotto was implemented on April 5, 2004 and is a semi-weekly pari-mutuel drawing with a minimum grand prize of \$1,000. All MUSL members remit a portion of their Powerball and Hot Lotto revenue to MUSL for the prize payments and administrative expenses of the respective game.

(b) Restricted Investments and Obligations for Unpaid Prizes

Lotto-America and Powerball jackpot prizes of \$250 or greater are payable to the winner in annual installments over 25 years. The Lottery is responsible for sending the annual payments to Lotto-America and Powerball winners who purchased their winning tickets from the Lottery. MUSL is responsible for providing the Lottery cash to fund these installment payments.

As of September 30, 2008 and 2007, MUSL had purchased for the Lottery, U.S. government securities aggregating \$45,613 and \$54,244, respectively to fund future installment payments for the Lottery's Lotto-America and Powerball winners.

The fair value of these securities was \$41,379 and \$46,725 as of September 30, 2008 and 2007, respectively. The investments provide the Lottery cash payments corresponding to the Lottery's obligations to send the annual installments to the prize winners. The Lottery has reflected the market value of the securities as restricted investments and as corresponding obligations for unpaid prizes on the statements of net assets. All restricted investments are insured and registered or are held by the Lottery or its agent in the Lottery's name.

During fiscal 2003, the Lottery adopted GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. As of September 30, 2008, the Lottery had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
U.S. Government and Agency Securities	\$41,379	\$8,711	\$25,476	\$6,252	\$ 940

These investments are obligations explicitly guaranteed by the U.S. government and are held for prize annuities based on quoted market prices. The fair value of the liabilities is based on current interest rates of the related U.S. government security held to fund annuity obligations. MUSL's investment policy limits its exposure to credit risk by investing only in securities that are backed by the full faith and credit of the U.S. government or its agencies.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**Notes to Financial Statements
September 30, 2008 and 2007**

(Dollar amounts in thousands)

(5) Multi-State Lottery Association (continued)

(b) *Restricted Investments and Obligations for Unpaid Prizes (continued)*

As of September 30, 2008, the Lottery had an interest in a SEC 2a7 pooled government cash management fund of \$1,058 and the pool was not rated.

(c) *MUSL Prize Reserves*

The prize pool for Powerball consists of 50% of each drawing period's sales. Two percent of the prize pool is placed in a prize reserve fund and a set prize reserve fund. These reserve funds serve as contingency funds to protect MUSL from unforeseen liabilities. As of September 30, 2008 and 2007, the total Powerball prize reserve fund was approximately \$74,675 and \$70,721, respectively, of which the Lottery's share was approximately \$1,211 and \$1,258. In addition, the total Powerball set prize reserve fund as of September 30, 2008 and 2007 was approximately \$25,000 and \$25,000, respectively, of which the Lottery's share was approximately \$359 and \$370.

The balance remaining in the reserve funds are refundable to MUSL members if a member leaves or if MUSL disbands. If a member leaves, the member must wait one year before their portion of the prize reserve funds is returned. The balance in the reserve funds may be used at the discretion of MUSL's Board of Directors. Accordingly, the Lottery's share of the reserve funds is not reflected in the accompanying financial statements.

The prize pool for Hot Lotto consists of 50% of each drawing period's sales. The 50% contribution to the prize pool is distributed to grand prizes and a prize reserve fund based on the following jackpot levels:

- \$1,000,000 to \$2,000,000 52.5763% to grand prize
- \$2,000,000 to \$5,000,000 52.5763% to grand prize plus 1.00% to prize reserve fund
- \$5,000,000 to 10,000,000 52.5763% to grand prize plus 3.00% to prize reserve fund

The prize reserve fund serves as a contingency fund to protect MUSL from unforeseen liabilities. As of September 30, 2008, the total Hot Lotto prize reserve fund was approximately \$4,391 of which the Lottery's share was approximately \$194. The balance in the prize reserve fund may be used at the discretion of the MUSL's Board of Directors. The Lottery's share of the prize reserve fund is not reflected in the accompanying financial statements.

(6) Obligations for Unpaid Prizes

Jackpot prizes are paid in 20 or 25 installments. The first installment is paid approximately two weeks after the prize is claimed. The subsequent annual payments are funded with U.S. Treasury Strips purchased by MUSL for the Lottery. Jackpot prize payables represent the future annual prize payments valued at cost plus accrued interest (present value of securities held to maturity) of the investment securities funding the payments.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
 LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**Notes to Financial Statements
 September 30, 2008 and 2007**

(Dollar amounts in thousands)

(6) Obligations for Unpaid Prizes (continued)

	<u>Year ended September 30, 2008 Jackpot</u>		<u>Year ended September 30, 2007 Jackpot</u>
Jackpot prizes payable:			
Due within one year	\$ 8,631	\$	8,631
Due in subsequent years	32,748		38,094
Total (present value)	41,379		46,725
Add: Interest to maturity	4,234		7,519
Jackpot prizes payable at maturity	\$ 45,613	\$	54,244

The following schedule presents the changes in prizes payable:

Balance as of October 1, 2006	\$	52,584
Increase		2,772
Decrease		<u>(8,631)</u>
Balance as of September 30, 2007		46,725
Increase		3,285
Decrease		<u>(8,631)</u>
Balance as of September 30, 2008	\$	<u>41,379</u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**Notes to Financial Statements
September 30, 2008 and 2007**

(Dollar amounts in thousands)

(7) Gaming Revenues and Expenses

Gaming revenues and expenses for the fiscal years ended September 30, 2008 and 2007 were as follows:

Gaming Revenues, Prizes, and Commissions

2008

	Lucky Numbers	D.C. Four	Powerball	Hot Five	Keno	Hot Lotto	DC Daily 6	Rolling Cash 5	Raffle	Instnt Games	Others	Total
Gaming revenues	\$ 66,409	\$ 84,156	\$ 32,774	\$ —	\$ 13,640	\$ 2,945	\$ 4,270	\$ 3,111	\$ —	\$ 45,020	\$ 396	\$ 252,721
Prizes	(33,387)	(43,486)	(15,698)	—	(8,425)	(1,445)	(1,777)	(1,708)	19	(29,153)	—	(135,060)
Agent's commissions	(4,323)	(4,785)	(1,813)	—	(926)	(166)	(257)	(190)	—	(3,322)	—	(15,782)
Gross margin	\$ 28,699	\$ 35,885	\$ 15,263	\$ —	\$ 4,289	\$ 1,334	\$ 2,236	\$ 1,213	\$ 19	\$ 12,545	\$ 396	\$ 101,879

2007

	Lucky Numbers	D.C. Four	Powerball	Hot Five	Keno	Hot Lotto	DC Daily 6	Rolling Cash 5	Raffle	Instnt Games	Others	Total
Gaming revenues	\$ 69,757	\$ 84,607	\$ 35,748	\$ —	\$ 13,444	\$ 3,536	\$ 4,398	\$ 3,650	\$ 401	\$ 40,398	\$ 885	\$ 256,824
Prizes	(35,002)	(52,824)	(15,429)	13	(8,216)	(1,717)	(2,219)	(2,113)	(1,250)	(26,581)	—	(145,338)
Agent's commissions	(4,542)	(4,893)	(1,918)	—	(895)	(214)	(268)	(225)	(30)	(3,006)	—	(15,991)
Gross margin	\$ 30,213	\$ 26,890	\$ 18,401	\$ 13	\$ 4,333	\$ 1,605	\$ 1,911	\$ 1,312	\$ (879)	\$ 10,811	\$ 885	\$ 95,495

(8) Transfers to the General Fund of the District

The District Budget Act (PL 4-162) (the Act) of 1983 requires the Lottery to transfer its revenues less expenses and less a reserve not to exceed 2% of annual prize payments to the General Fund of the District. The Mayor may approve a change in the reserve limit, as necessary, upon the request of the Lottery. During the fiscal years ended September 30, 2008 and 2007, the Lottery's net transfers to the General Fund of the District were \$70,300 and \$65,375, respectively. The Lottery was in compliance with the Act for the fiscal years ended September 30, 2008 and 2007.

(9) Retirement Programs

(a) Defined Benefit Pension Plan

The majority of the full-time Lottery employees hired before October 1, 1987 are covered by the Federal Civil Service Retirement System (5 U.S.C. 833 1). The Federal Civil Service Retirement System is a cost-sharing multiple employer pension plan.

The U.S. Office of Personnel Management is responsible for administering the Federal Civil Service Retirement System, including collecting the contributions and disbursing the benefits.

In accordance with the Balance Budget Act of 1997 (Public Law 105-33), the Lottery contributes 8.51% and employees contribute 7.25% of employees' covered compensation to the Federal Civil Service Retirement System. The Lottery's contribution decreased to 7.50% in October 2002 and to 7.00% in January 2003. Contributions by the Lottery amounted to \$98 and \$93 for the years ended September 30, 2008 and 2007, respectively. The number of Lottery employees covered under the Federal Civil Service Retirement System is 15.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
 LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**Notes to Financial Statements
 September 30, 2008 and 2007**

(Dollar amounts in thousands)

(9) Retirement Programs (continued)

(b) Defined Contribution Plan

All full-time employees hired after September 30, 1987 are covered by the District-sponsored defined contribution plan. Employees do not contribute to this plan and are eligible to participate after one year of service. The Lottery contributes 5% of an eligible employee's base salary, which amounted to \$219 and \$230 for the fiscal years ended September 30, 2008 and 2007, respectively.

Contributions and earnings vest fully after four years of service following a one-year waiting period. Contributions and earnings are forfeited if separation occurs before five years of credited service. These contributions are not considered assets of the Lottery or the District, which have no further liability to this plan.

(c) Deferred Compensation Plan

Lottery employees are eligible to participate in the District-sponsored deferred compensation plan (D.C. Code 47-3601) created in accordance with Internal Revenue Code Section 457. Employees may defer up to 25% of their compensation, not to exceed \$15.5 in 2008. Maximum annual contribution amounts are determined and set by the Internal Revenue Service (IRS). Compensation deferred and income earned is taxable when paid or made available to the participant or beneficiary upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the Lottery or District, which have no further liability to the plan.

(10) Commitments and Contingencies

(a) Operating Leases

The Lottery leased certain facilities under a ten (10) year long-term, non-cancelable operating lease which began May 1, 2008. The lease provides for lease escalations on a yearly basis. Under accounting principles generally accepted in the United States of America, all fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as other accrued liabilities in the accompanying statement of net assets. Future minimum rental commitments are as follows:

For the Year Ended September 30,		
2009	\$	2,026
2010		2,077
2011		2,128
2012		2,182
2013		2,276
Thereafter		11,443
Minimum Rental Commitment	\$	22,132

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
 LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**Notes to Financial Statements
 September 30, 2008 and 2007**

(Dollar amounts in thousands)

(10) Commitments and Contingencies (continued)

(a) Operating Leases (continued)

Rent expense for the fiscal years ended September 30, 2008 and 2007 was as follows:

	2008	2007
Gross rental expense	\$ 1,833	\$ 1,301
Less income from subleases	(170)	(170)
Net rent expense	\$ 1,663	\$ 1,131

(b) Risk of Loss

The Lottery is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery or District covers all of the Lottery's claim settlements and judgments out of the Lottery revenues or the District's General Fund resources.

(c) Annuity Contracts

Prizes awarded for the Lucky Lotto game, which ended effective May 1, 1989, are payable to the winners in annual installments over 10 or 20 years. The first installment payments were made by the Lottery at the time of the drawing. The Lottery had entered into agreements with insurance companies under which the Lottery purchased annuities contracts that provide the annual installment payments to the Lucky Lotto prize winners. As the insurance companies are responsible for the annual installments payments, neither the present value of the annuities nor the present value of the related future payments is reflected in the accompanying financial statements. The Lottery would be liable for such future installment payments if the insurance companies were to default on their payments. As of September 30, 2008 and 2007, future installment payments due to Lucky Lotto winners were approximately \$0 and \$111, respectively. As of September 30, 2008, final installment payments due to all instant lottery winners had been paid in full.

(d) Litigation

The Lottery is a defendant in a lawsuit brought by a former employee, alleging retaliation on the basis of protected speech, failure to due process before termination, and intentional infliction of emotional distress. The District Court ruled in favor of the Lottery. The Plaintiff appealed the case to the U. S. Court of Appeals. The appellate court affirmed the dismissal of all counts except for the due process claim, which was remanded to the District Court. The Lottery intends to defend this litigation and cannot, at this time, reasonably predict the outcome of the proceedings or sanctions, if any, that will be imposed.

The Lottery is a defendant in a lawsuit alleging violations of the Americans with Disabilities Act, the Rehabilitation Act and the District of Columbia Human Rights Act. The Plaintiffs and the Lottery are currently involved in settlement discussions. If the lawsuit goes to trial, the Lottery plans to vigorously defend this litigation and cannot, at this time, reasonably predict the outcome of the proceedings or sanctions, if any, that will be imposed.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**Notes to Financial Statements
September 30, 2008 and 2007**

(Dollar amounts in thousands)

(10) Commitments and Contingencies (continued)

(e) *Liquidating Damages*

The Lottery has issued a claim against Lottery Technology Enterprises (LTE) and GTECH Corporation for contract failure and security breach. The claim states that LTE and GTECH supplied the Lottery with an online gaming system and communication system that were vulnerable to fraud and theft, hired subcontractors who exploited that vulnerability and failed to heed warnings that the system had been compromised. The total claim against LTE and GTECH is \$1,443. LTE has filed actions with the Contract Appeals Board seeking a reduction in damages assessed. If LTE is not satisfied with the outcome of its administrative appeal it may request review by the D.C. Superior Court.

(11) Related Party Transactions

During 2008, the Lottery had related party transactions with the Office of the Chief Financial Officer (OCFO) to provide financial and managerial oversight. These services included, but were not limited to, internal audit and internal security, legal, human resources, procurement, financial management, and executive management oversight services. The annual contractual cost for these services was \$795 and \$392 in fiscal years 2008 and 2007, respectively.

Other services provided by District Government entities to the Lottery include central processing of payroll, accounting, computer technology services, and the handling of intra-district transactions for rent, telephone, security guard services, etc. Personnel costs for these services are budgeted and accounted for as part of the respective entity's regular operations.

**Independent Auditor's 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 Mayor and Members of
The Council of the Government of District of Columbia, and
The Lottery and Charitable Games Control Board
Washington, D.C.

We have audited the financial statements of the Lottery and Charitable Games Control Board (the Lottery); an enterprise fund of the Government of the District of Columbia (District), as of and for the year ended September 30, 2008, and have issued our report thereon dated January 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free of 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*.

We noted certain matters that we reported to management of the Lottery in a separate letter dated January 30, 2009.

This report is intended solely for the information and use of the Mayor, the Council, and the Inspector General of the Government of the District of Columbia and management of the Lottery and is not intended to be, and should not be used by anyone other than these specified parties.

Raffa, P.C.

Washington, DC
January 30, 2009

