

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**D.C. LOTTERY AND CHARITABLE
GAMES CONTROL BOARD: FINANCIAL
STATEMENTS, MANAGEMENT'S
DISCUSSION, AND INDEPENDENT
AUDITORS' REPORT, YEARS ENDED
SEPTEMBER 30, 2009 AND 2008**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

**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, 2009 AND 2008

**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, DC

CONSULTING
ACCOUNTING
TECHNOLOGY

*Certified Public
Accountants*

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 years ended September 30, 2009 and 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 audits.

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 audits 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 circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District of Columbia Lottery and Charitable Games Control Board's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2009 and 2008, and the changes in its financial position for the years 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, 2009 and 2008, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued a report dated March 18, 2010 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
March 18, 2010

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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 years ended September 30, 2009 and 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 \$7,351 or 2.91% from the prior year amount.
- The Agency generated ticket sales of \$244,982 for an aggregate decrease of \$7,343 or 2.91% less than the prior year total of \$252,325.
- Total operating expenses decreased by \$6,356 or 3.47% primarily as a result of prizes payout reduction to 52.27% of ticket sales versus the prior year rate of 53.53%.
- The D.C. Four game's prize payout percentage rate increased to 52.42% of sales from the prior year's payout rate of 51.67%.
- Overall prize payouts decreased \$7,002 or 5.18% from the prior year total.
- Transfers to the District's General Fund decreased \$1,525 equivalent to 2.17% of the prior year's total.

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 \$49 and \$68 for the years ended September 30, 2009 and 2008, respectively. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2009, 2008, and 2007.

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

	September 30		
	2009	2008	2007
Assets:			
Current assets (excluding restricted investments)	\$ 14,981	\$ 14,675	\$ 14,559
Capital assets (net of accumulated depreciation)	478	364	311
Restricted investments	35,153	41,379	46,725
Total assets	50,612	56,418	61,595
Liabilities:			
Accounts payable and accrued expenses	3,974	3,682	3,173
Deferred revenues	180	303	149
Accrued prizes and commissions	7,435	7,233	7,795
Obligations for unpaid prizes	35,153	41,379	46,725
Total liabilities	46,742	52,597	57,842
Net assets:			
Invested in capital assets	478	364	311
Unrestricted	3,392	3,457	3,442
Total net assets	\$ 3,870	\$ 3,821	\$ 3,753

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

	Years Ended September 30		
	2009	2008	2007
Operating revenues:			
Gaming revenues	\$ 245,370	\$ 252,721	\$ 256,824
Operating expenses:			
Prizes	128,058	135,060	145,338
Other	48,567	47,921	46,999
Total operating expenses	176,625	182,981	192,337
Operating income	68,745	69,740	64,487
Nonoperating revenues – interest and dividends	79	628	940
Income before transfers	68,824	70,368	65,427
Transfers to the District's General Fund	(68,775)	(70,300)	(65,375)
Change in net assets	\$ 49	\$ 68	\$ 52

Unrestricted net assets were \$3,392, \$3,457 and \$3,442 at September 30, 2009, 2008 and 2007, which represent a decrease of \$65 and increases of \$15 and \$123, respectively. Current assets increased by \$306 and \$116 in 2009 and 2008, respectively. Total liabilities decreased \$5,855 or 11.13% for the year ended September 30, 2009 and \$5,245 or 9.07% for the year ended September 30, 2008 primarily the result of decreases 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 \$35,153, \$41,379 and \$46,725 in 2009, 2008 and 2007, respectively, represents the net present value of securities totaling \$37,932, \$45,613, and \$54,244 in 2009, 2008 and 2007, respectively, to fund future annuity installment payments. The restricted investments value decreased by \$6,226 and \$5,346 during 2009 and 2008, respectively, due to payments of \$7,681 and \$8,631 net of unrealized gains of \$249 in 2009 and net unrealized losses of \$356 in 2008. Accretion of investments totaled \$1,206 and \$3,641 in 2009 and 2008, respectively. Corresponding amounts are recorded as obligations for unpaid prizes.

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Table 3: Gaming revenues, Prizes, Commissions and Transfers

2009												
	Lucky Numbers	D.C. Four	Powerball	Keno	Hot Lotto	Daily 6	Rolling Cash 5	DC Five	Raffle	Instant Games	Others	Total
Gaming revenues	\$ 60,831	\$ 79,908	\$ 33,003	\$ 12,578	\$ 3,831	\$ 3,957	\$ 2,713	\$ 2,908	\$ —	\$ 45,253	\$ 388	\$ 245,370
Prizes	(27,504)	(41,890)	(15,557)	(7,762)	(1,872)	(1,596)	(1,351)	(1,212)	—	(29,314)	—	(128,058)
Agent's commissions	(3,869)	(4,558)	(1,899)	(840)	(219)	(238)	(168)	(160)	—	(3,365)	—	(15,316)
Gross margin	\$ 29,458	\$ 33,460	\$ 15,547	\$ 3,976	\$ 1,740	\$ 2,123	\$ 1,194	\$ 1,536	\$ —	\$ 12,574	\$ 388	\$ 101,996
Transfers	\$ 21,770	\$ 23,145	\$ 11,025	\$ 2,625	\$ 1,200	\$ 1,610	\$ 860	\$ 805	\$ —	\$ 5,735	\$ —	\$ 68,775
2008												
	Lucky Numbers	D.C. Four	Powerball	Hot Five	Keno	Hot Lotto	Daily 6	Rolling Cash 5	Raffle	Instant 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 Numbers	D.C. Four	Powerball	Hot Five	Keno	Hot Lotto	Daily 6	Rolling Cash 5	Raffle	Instant 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
Transfers	\$ 23,475	\$ 17,825	\$ 13,890	\$ 13	\$ 3,025	\$ 1,145	\$ 1,290	\$ 894	\$ (1,160)	\$ 4,978	\$ —	\$ 65,375

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 \$245,370, \$252,721 and \$256,824 in fiscal years 2009, 2008 and 2007, respectively. Prize expenses decreased \$7,002 or 5.18% in 2009 and \$10,278 or 7.07% in 2008. Total prize payouts as a percentage of gaming revenue decreased to 52.19% in 2009 in comparison to 53.44% in 2008. Agent commissions decreased \$466 and \$209 in 2009 and 2008, respectively, due to the related decreases in ticket sales and prize payouts.

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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 \$60,831 in 2009 for a \$5,578 or 8.40% decline from the 2008 sales level of \$66,409. The game was impacted by the economic downturn and some cannibalization of sales by the new DC Five game. The Lottery Board continues to strategically implement marketing and promotional campaigns in an attempt to stabilize and enhance sales for the game.

Prizes amounted to \$27,504 in 2009, for a \$5,883 or 17.62% decrease from the \$33,387 expensed in 2008. Agents/retailers commission expense decreased \$454 as a result of corresponding decreases in sales and prizes from prior year amounts. Net proceeds to the District's General Fund totaled \$21,770 for a \$620 increase over the \$21,150 generated in 2008. The increase in transfer amount can be attributed to lower sales and interest and other income and decreases in prizes, agents/retailer commissions, and other operating expenses allocated to the game from prior year totals. The Lucky Numbers game accounted for 24.79% of total gaming revenue and 28.88% of the overall gross margin. The game reflected a 1.49% decline in gaming revenue percentage contribution and slight increase in gross margin contribution over the prior year amounts.

In 2008, sales totaled \$66,409 in 2008 for a \$3,348 or 4.80% decrease from the prior year's sales level of \$69,757.

Prizes decreased \$1,615 or 4.61% to \$33,387 in 2008 from the \$35,002 expensed in 2007. Agents/retailers commission expense decreased \$219 as a result of corresponding decreases in sales and prize amounts 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 the decreases in sales, interest and other income, prize payouts, agents/retailer commissions, and other operating expenses in comparison to prior year totals. The Lucky Numbers game accounted for 26.28% of total gaming revenue and 28.17% of the overall gross margin reflecting slight decreases in percentage contributions over the prior year.

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 \$79,908 in 2009 for a \$4,248 or 5.05% decrease from the \$84,156 generated in 2008. The game was impacted by economic conditions and suffered some sales erosion to the new DC Five game. Prior to 2009, the game consistently mirrored the national trend of steady annual sales without major advertising and promotions.

Prizes in 2009 totaled \$41,890 representing a \$1,596 or 3.67% decrease from the \$43,486 prize payout in 2008. Other operating costs increased \$422 over the prior year's total primarily due to other direct and administrative cost allocations to the game. Transfers to the District's General Fund totaled \$23,145 for a \$3,065 decrease from the \$26,210 transferred in 2008. The decrease in ticket sales offset by lower prize expense and net increase in other costs accounts for the decline in transfer amount. The DC Four game

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provided 32.57% of total gaming revenue and 32.81% of the overall gross margin. The decrease in contribution percentage of gaming revenue and gross margin from prior year amounts can be directly associated to lower ticket sales.

In 2008, sales totaled \$84,156 for a \$451 or .53% decrease from the \$84,607 recorded in 2007. Prizes totaled \$43,486 in 2008 for a \$9,338 or 17.68% decline from the record prize payout of \$52,824 or 62.43% of tickets sold in 2007. Other operating costs increased \$489 over 2007 amounts due to decreases in agents/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 an \$8,385 increase over the \$17,825 transferred in 2007. The marginal decrease in sales offset by significantly lower prizes expense contributed to an \$8,994 or 33.45% increase in gross margin when compared to the prior year. The DC Four game accounted for 33.30% of total gaming revenue and 35.22% of the overall gross margin.

Powerball

The Powerball game is a five out of fifty-nine plus one out of thirty-nine online lottery game that pays a grand prize on an annuitized pari-mutuel basis or as a cash lump sum payment and all other prizes on a fixed basis. All annuitized prizes are paid in thirty annual graduated installments. The Powerball game is sponsored by the Multi-State Lottery Association (MUSL), a conglomerate of thirty 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 January 4, 2009.

Powerball sales totaled \$33,003 in 2009 representing a \$229 increase over the \$32,774 generated in 2008. Powerball 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 \$15,557 for the year representing a \$141 decrease from the \$15,698 expensed in 2008. Powerball prizes are expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Prize expense increased proportionate to sales in 2009, but was offset by more lapsed prizes. Operating expenses excluding prizes increased \$192 as a result of higher agents/retailers commissions and allocated administrative costs. Other income charged to the game decreased \$197 as a result of change in method of computing MUSL dividends income. The increase in ticket sales offset by decreases in other income and prizes, and increased operating expenses accounts for the reduction in transfers to the District's General Fund to \$11,025 from \$11,065 transferred in 2008.

Powerball sales amounted to \$32,774 in 2008 and represented a \$2,974 or 8.32% decrease from the \$35,748 generated in 2007. Prizes expense amounted to \$15,698 for a \$269 or 1.74% increase over the \$15,429 expensed in 2007. Prize expense increased proportionately as a percentage of sales in 2008, but was offset by fewer lapsed prizes. 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.

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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 \$12,578 in 2009 and represented a \$1,062 or 7.79% decrease over 2008 sales of \$13,640. The Keno game's sales decline continues to be impacted by changing demographics in the District of Columbia, the inability to add new social settings, and the economy. Keno sales are offered at all agent/retailers locations. The Lottery continues to market the game through targeted awareness and promotional campaigns.

Prizes expense totaled \$7,762 for a \$663 or 7.87% decrease in comparison to the \$8,425 expensed in 2008. Overall operating expenses less prizes and agents/retailer commission expenses decreased \$175 primarily due to reductions in advertising and other direct costs. Transfers to the District's General Fund decreased by \$140 to \$2,625 in 2009 from the \$2,765 transferred in 2008.

Ticket sales in 2008 totaled \$13,640 for a \$196 or 1.46% increase over the \$13,444 generated in 2007. Prizes expense increased \$209 to \$8,425 over the \$8,216 expensed in 2007. Overall operating expenses less prizes and agents/retailer commission expenses increased \$218 primarily due to increased advertising, other direct and administrative cost allocations. 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 attributed to increased prizes, agents/retailers commissions and other operating expenses offset by the increase in ticket sales.

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 thirteen states and the District of Columbia, which combines resources and sales to offer 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 \$3,831 in 2009, representing an \$886 or 30.08% increase over the \$2,945 generated in 2008. The increase in sales over the prior year's total is the result of higher jackpots during 2009.

Prizes and agents/retailer commission expenses totaled \$2,091 and reflected a \$480 or 29.79% increase in 2009 from the \$1,611 expensed in 2008. Other operating expenses increased \$112 primarily as a result of higher gaming fees, other direct and administrative cost allocations. The \$300 increase in transfers to the District's General Fund to \$1,200 in 2009 from the \$900 transferred in 2008 can be attributed to increase in sales offset by proportionate increases in other operating expenses.

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Hot Lotto sales decreased \$591 or 16.71% to \$2,945 in 2008 in comparison to the \$3,536 sold in 2007. The decrease in sales over prior year's totals was the result of lower jackpots in 2008. Prizes and agents/retailer commission expenses decreased \$319 or 16.57% to \$1,611 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 can be directly attributed to decreased gross margin and other operating expenses.

DC 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 \$313 or 7.33% to \$3,957 in 2009 from the \$4,270 sales amount in 2008.

Prizes and agents/retailers commission expense amounted to \$1,834 and reflected a \$200 decrease from the \$2,034 expensed in 2008. Other operating expenses reflected a decrease of \$87 from 2008 totals. The marginal decrease of \$25 in transfer to the District's General Fund from \$1,635 in 2008 to \$1,610 in 2009 is the result of lower ticket sales offset by the net reduction in prizes, agents/retailers commissions and other operating costs.

Sales totaled \$4,270 in 2008 for a \$128 or 2.91% decrease from the \$4,398 generated in 2007. Prizes and agents/retailer commission expense decreased \$453 to \$2,034 versus the \$2,487 incurred in 2007 and primarily the result of three Division 1 winners during the prior year. Other operating expenses reflected a minor decrease of \$16. The decrease in prize, agents/retailer commissions and other operating costs offset by lower ticket sales accounts for the \$345 or 26.74% increase in transfer to the District's General Fund to \$1,635 in 2008 versus the \$1,290 produced in 2007.

DC Rolling Cash Five

The DC Rolling Cash Five game is a five out of thirty-five numbers online lotto type game that pays fixed prize payouts ranging from one dollar to a generated jackpot amount. Players receive one wager (set of five numbers) for the sum of one dollar. Drawings are held nightly seven days a week and players could 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 pari-mutuel and varied depending on number of players and winners. Prize payouts for Divisions 2 through Division 4 winners are fixed. The DC Rolling Cash Five game was launched November 20, 2005 and replaced the Hot Five game. Lottery management decided to discontinue the game effective July 18, 2009 due to declining ticket sales year over year.

Sales totaled \$2,713 in 2009 for a \$398 or 12.79% decrease from the \$3,111 generated in 2008.

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Operating expenses decreased \$490 to \$1,853 in 2009 compared to \$2,343 in 2008. The decrease in ticket sales offset by greater decline in operating expenses accounts for the \$95 increase in transfer to the District's General Fund to \$860 in 2009 compared to the \$765 transferred in 2008.

Sales amounted to \$3,111 in 2008 for a \$539 or 14.76% decline from the \$3,650 produced in 2007. Operating expenses decreased \$412 to \$2,343 in 2008 compared to \$2,755 incurred in 2007. The decrease in ticket sales offset by the decrease in operating expenses essentially accounts for the \$129 decrease in transfer to the District's General Fund to \$765 in 2008 from the \$894 transferred in 2007.

DC Five

DC Five is a daily five-digit game with a fixed payout. Players may wager 50 cents or one dollar for a chance to win thirteen different ways. Players select a number within the range 00000 to 9999. Tickets may be purchased for the next draw only or for next draw and up to seven consecutive draws for the mid-day and nightly drawings. Players also have the option for advance day play. This feature allows a player to place a bet for a specific day in the future. The DC Five game was launched on July 19, 2009 and generated \$2,908 in ticket sales. Total operating expenses amounted \$2,101 resulting in transfers to the District's General Fund of \$805.

DC Raffle

The DC Raffle game is a promotional game designed to run for certain intervals of time and to generate a maximum number of tickets to be sold. Tickets are printed in sequential numbers order which serves as the bet. Each player wagers a set sum for a ticket and chance to win fixed prizes.

There were no sales or other transactions for the game in 2009. The negative expense amount of \$19 reported in 2008 represented lapsed prizes which essentially accounts for the \$18 transferred to the District's General Fund.

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 \$45,253 in 2009 representing a \$233 or 0.52% increase over 2008 sales of \$45,020.

Prizes in 2009 totaled \$29,314 for a \$161 increase over the \$29,153 expensed in 2008. Overall operating costs, less prizes and agents/retailer commissions totaled \$6,837 and represented a \$106 increase over the prior year's amount of \$6,731. Transfers to the District's General Fund of \$5,735 in 2009 represented a slight decline from the \$5,792 generated in 2008.

Instant ticket sales of \$45,020 in 2008 were \$4,622 or 11.44% greater than 2007 sales of \$40,398. Prizes expense in 2008 totaled \$29,153 and was \$2,572 or 9.67% greater than the \$26,581 amount expensed in 2007. Operating costs, less prizes and commissions, totaled \$6,731 and represented a \$901 increase over the prior year's amount of \$5,830, primarily due to higher gaming and distribution fees, allocated administrative and other miscellaneous costs. Transfers to the District's General Fund of \$5,792 represented an increase of \$814 over the transfer amount of \$4,978 reported in 2007.

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

Management's Discussion and Analysis

September 30, 2009 and 2008

(Dollar amounts in thousands)

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 prize payout rate averaged 64.78% and 64.76% as a percentage of tickets sold in 2009 and 2008, respectively.

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, has decreased by \$549, \$312, and \$435 in 2009, 2008, and 2007, respectively. 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 \$8 in 2009 to \$388 and decreased \$489 to \$396 in 2008 from \$885 in 2007. Bonding fees receipts totaled \$192, \$34 and \$213 in 2009, 2008 and 2007, respectively. Refunds from MUSL as a result of rebalancing reserve funds and distributions of excess contributions by participating members amounted to \$18, \$215, and \$273, in 2009, 2008, and 2007, respectively.

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, 2009 and 2008

(Dollar amounts in thousands)

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 7,680	\$ 7,562
Accounts receivable	7,292	7,098
Prepaid expenses and other	9	15
Restricted investments	7,406	7,681
Total current assets	<u>22,387</u>	<u>22,356</u>
Non-current assets:		
Capital assets, net	478	364
Restricted investments	27,747	33,698
Total non-current assets	<u>28,225</u>	<u>34,062</u>
Total assets	<u>\$ 50,612</u>	<u>\$ 56,418</u>
 Liabilities		
Current liabilities:		
Accounts payable	\$ 2,472	\$ 2,407
Compensation liabilities	764	598
Deferred revenues	180	303
Accrued prizes and commissions	7,435	7,233
Other accrued liabilities	738	677
Obligations for unpaid prizes - current portion	7,406	7,681
Total current liabilities	<u>18,995</u>	<u>18,899</u>
Obligations for unpaid prizes -- noncurrent portion	<u>27,747</u>	<u>33,698</u>
Total liabilities	<u>46,742</u>	<u>52,597</u>
 Net Assets		
Invested in capital assets	478	364
Unrestricted	3,392	3,457
Total net assets	<u>3,870</u>	<u>3,821</u>
Total liabilities and net assets	<u>\$ 50,612</u>	<u>\$ 56,418</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 Revenues, Expenses, and Changes in Net Assets

Years Ended September 30, 2009 and 2008

(Dollar amounts in thousands)

	2009	2008
Operating revenues:		
Gaming revenues	\$ 245,370	\$ 252,721
Operating expenses:		
Prizes	128,058	135,060
Agent's commissions	15,316	15,782
Contractor fees	16,085	16,390
Advertising	4,900	4,618
Administration	12,132	10,992
Amortization and depreciation	134	139
Total operating expenses	176,625	182,981
Operating income	68,745	69,740
Nonoperating revenues - interest and dividends	79	628
Income before transfers	68,824	70,368
Transfers to District General Fund	(68,775)	(70,300)
Change in net assets	49	68
Net assets, beginning of year	3,821	3,753
Net assets, end of year	\$ 3,870	\$ 3,821

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, 2009 and 2008

(Dollar amounts in thousands)

	2009	2008
Operating activities:		
Cash receipts from customers	\$ 244,665	\$ 251,110
Cash receipts from others	388	396
Cash payments to vendors	(26,360)	(25,462)
Cash payments to employees	(6,459)	(6,037)
Cash payments for prizes and commissions	(143,172)	(151,405)
Net cash provided by operating activities	69,062	68,602
Capital and related financing activities - acquisition of fixed assets	(248)	(192)
Non-capital financing activities - transfers out	(68,775)	(70,300)
Investing activities - interest and dividends	79	628
Net increase (decrease) in cash	118	(1,262)
Cash and cash equivalents - beginning of year	7,562	8,824
Cash and cash equivalents - end of year	\$ 7,680	\$ 7,562
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 68,745	\$ 69,740
Amortization and depreciation	134	139
Decrease (increase) in assets:		
Accounts receivable	(194)	(1,370)
Prepaid expenses and other	6	(8)
Increase (decrease) in liabilities:		
Accounts payable	65	(218)
Compensation liabilities	166	39
Deferred revenues	(123)	154
Accrued prizes and commissions	202	(562)
Other accrued liabilities	61	688
Net cash provided by operating activities	\$ 69,062	\$ 68,602

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, 2009 and 2008**

(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, 2009 and 2008 respectively, were \$7,680 and \$7,562.

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

**Notes to Financial Statements
September 30, 2009 and 2008**

(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 50.0% 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. The Lottery employees participating in the Federal Civil Service Retirement System program may convert sick pay benefits to additional service time at the rate of one month for every 176 hours of sick leave not used at point of retirement.

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

**Notes to Financial Statements
September 30, 2009 and 2008**

(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, 2009 and 2008 are as follows:

	<u>2009</u>		<u>2008</u>
Due from agents:			
Online games	\$ 2,721	\$	2,321
Instant games	4,454		3,954
	<u>7,175</u>		<u>6,275</u>
Other	117		823
	<u>117</u>		<u>823</u>
Total accounts receivable	\$ <u>7,292</u>	\$	<u>7,098</u>

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

**Notes to Financial Statements
September 30, 2009 and 2008**

(Dollar amounts in thousands)

(4) Capital Assets

A summary of capital assets as of September 30, 2009 and 2008 is as follows:

	<u>Balance as of October 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance as of September 30, 2009</u>
Cost:				
Machinery and equipment	\$ 2,786	\$ 248	\$ 560	\$ 2,474
Office furniture and fixtures	20	—	—	20
Leasehold improvements	758	—	—	758
Total cost	<u>3,564</u>	<u>248</u>	<u>560</u>	<u>3,252</u>
Less – accumulated depreciation and amortization				
Machinery and equipment	2,443	121	560	2,004
Office furniture and fixtures	20	—	—	20
Leasehold improvements	737	13	—	750
Total accumulated depreciation and amortization	<u>3,200</u>	<u>134</u>	<u>560</u>	<u>2,774</u>
Capital assets – net	<u>\$ 364</u>			<u>\$ 478</u>

	<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	758	—	—	758
Total cost	<u>3,372</u>	<u>192</u>	<u>—</u>	<u>3,564</u>
Less – accumulated depreciation and amortization				
Machinery and equipment	2,326	117	—	2,443
Office furniture and fixtures	20	—	—	20
Leasehold improvements	715	22	—	737
Total accumulated depreciation and amortization	<u>3,061</u>	<u>139</u>	<u>—</u>	<u>3,200</u>
Capital assets – net	<u>\$ 311</u>			<u>\$ 364</u>

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

**Notes to Financial Statements
September 30, 2009 and 2008**

(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 \$20,000. 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 are payable to winners in annual installments over 20 to 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, 2009 and 2008, MUSL had purchased for the Lottery, U.S. government securities aggregating \$37,932 and \$45,613, respectively to fund future installment payments for the Lottery's Lotto-America and Powerball winners.

The market value of these securities was \$35,153 and \$41,379 as of September 30, 2009 and 2008, 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.

As of September 30, 2009, the Lottery had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</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	\$35,153	\$8,445	\$21,686	\$ 4,286	\$ 736

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.

As of September 30, 2009, the Lottery had an interest in a SEC 2a7 pooled government cash management fund of \$1,058 and the pool was not rated.

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

**Notes to Financial Statements
September 30, 2009 and 2008**

(Dollar amounts in thousands)

(5) Multi-State Lottery Association (continued)

(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, 2009 and 2008, the total Powerball prize reserve fund was approximately \$78,668 and \$74,675, respectively, of which the Lottery's share was approximately \$1,211 for both years. In addition, the total Powerball set prize reserve fund as of September 30, 2009 and 2008 was approximately \$28,650 and \$25,000, of which the Lottery's share was approximately \$356 and \$359, respectively.

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, 2009, the total Hot Lotto prize reserve fund was approximately \$6,031 of which the Lottery's share was approximately \$257. 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.

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

**Notes to Financial Statements
 September 30, 2009 and 2008**

(Dollar amounts in thousands)

(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.

	Year ended September 30, 2009 Jackpot	Year ended September 30, 2008 Jackpot
Jackpot prizes payable:		
Due within one year	\$ 7,406	\$ 7,681
Due in subsequent years	27,747	33,698
Total (present value)	35,153	41,379
Add: Unamortized discount	2,779	4,234
Jackpot prizes payable at maturity	\$ 37,932	\$ 45,613

The unamortized discount on the prizes payable is based on interest rates which range from .6917% to 4.8309% and reflect the interest rates earned by the investments held to fund the related liabilities.

The aggregate amount of prizes payable due in each of the five years following September 30, 2009, and the five year incremental totals thereafter, is as follows:

2010	\$ 7,406
2011	6,873
2012	6,878
2013	6,253
2014	4,019
2015 - 2019	5,328
2020 - 2024	1,175
Total	\$ 37,932

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

**Notes to Financial Statements
September 30, 2009 and 2008**

(Dollar amounts in thousands)

(6) Obligations for Unpaid Prizes (continued)

The following schedule presents the changes in prizes payable:

Balance as of October 1, 2007	\$	46,725
Increase		3,285
Decrease		<u>(8,631)</u>
Balance as of September 30, 2008		41,379
Increase		1,455
Decrease		<u>(7,681)</u>
Balance as of September 30, 2009	\$	<u><u>35,153</u></u>

(7) Gaming Revenues and Expenses

Gaming revenues and expenses for the fiscal years ended September 30, 2009 and 2008 were as follows:

Gaming Revenues, Prizes, and Commissions

2009

	Lucky Numbers	D.C. Four	Powerball	Keno	Hot Lotto	DC Daily 6	Rolling Cash 5	DC Five	Raffle	Instant Games	Others	Total
Gaming revenues	\$ 60,831	\$ 79,908	\$ 33,003	\$ 12,578	\$ 3,831	\$ 3,957	\$ 2,713	\$ 2,908	\$ —	\$ 45,253	\$ 388	\$ 245,370
Prizes	(27,504)	(41,890)	(15,557)	(7,762)	(1,872)	(1,596)	(1,351)	(1,212)	—	(29,314)	—	(128,058)
Agent's commissions	<u>(3,869)</u>	<u>(4,558)</u>	<u>(1,899)</u>	<u>(840)</u>	<u>(219)</u>	<u>(238)</u>	<u>(168)</u>	<u>(160)</u>	<u>—</u>	<u>(3,365)</u>	<u>—</u>	<u>(15,316)</u>
Gross margin	<u>\$ 29,458</u>	<u>\$ 33,460</u>	<u>\$ 15,547</u>	<u>\$ 3,976</u>	<u>\$ 1,740</u>	<u>\$ 2,123</u>	<u>\$ 1,194</u>	<u>\$ 1,536</u>	<u>\$ —</u>	<u>\$ 12,574</u>	<u>\$ 388</u>	<u>\$ 101,996</u>

2008

	Lucky Numbers	D.C. Four	Powerball	Hot Five	Keno	Hot Lotto	DC Daily 6	Rolling Cash 5	Raffle	Instant 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	<u>(4,323)</u>	<u>(4,786)</u>	<u>(1,813)</u>	<u>—</u>	<u>(926)</u>	<u>(166)</u>	<u>(257)</u>	<u>(190)</u>	<u>—</u>	<u>(3,321)</u>	<u>—</u>	<u>(15,782)</u>
Gross margin	<u>\$ 28,699</u>	<u>\$ 35,884</u>	<u>\$ 15,263</u>	<u>\$ —</u>	<u>\$ 4,289</u>	<u>\$ 1,334</u>	<u>\$ 2,236</u>	<u>\$ 1,213</u>	<u>\$ 19</u>	<u>\$ 12,546</u>	<u>\$ 396</u>	<u>\$ 101,879</u>

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

**Notes to Financial Statements
September 30, 2009 and 2008**

(Dollar amounts in thousands)

(8) Transfers to the General Fund of the District

The District Budget Act (P.L. 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, 2009 and 2008, the Lottery's net transfers to the General Fund of the District were \$68,775 and \$70,300, respectively. The Lottery was in compliance with the Act for the fiscal years ended September 30, 2009 and 2008.

(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 \$85 and \$98 for the years ended September 30, 2009 and 2008, respectively. The number of Lottery employees covered under the Federal Civil Service Retirement System is 14.

(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 \$243 and \$219 for the fiscal years ended September 30, 2009 and 2008, 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 an amount equal to the lesser of 100% of includible compensation or \$16.5 in 2009. 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.

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

**Notes to Financial Statements
 September 30, 2009 and 2008**

(Dollar amounts in thousands)

(10) Commitments and Contingencies

(a) Operating Leases

The Lottery leases certain facilities under a ten (10) year long-term, non-cancelable, operating lease which began May 1, 2008. Future minimum rental commitments are as follows:

	Amount
September 30, 2010	\$ 2,077
September 30, 2011	2,128
September 30, 2012	2,182
September 30, 2013	2,276
September 30, 2014	2,389
Thereafter	9,054
Minimum Rental Commitment	\$ 20,106

Rent expense for the fiscal years ended September 30, 2009 and 2008 was as follows:

	2009	2008
Gross rental expense	\$ 2,299	\$ 1,833
Less income from subleases	(170)	(170)
Net rent expense	\$ 2,129	\$ 1,663

(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 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

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

**Notes to Financial Statements
September 30, 2009 and 2008**

(Dollar amounts in thousands)

(10) Commitments and Contingencies (continued)

(c) *Annuity Contracts (continued)*

accompanying financial statements. The Lottery was liable for annual installment payments if the insurance companies were to default on their payments. All installment payments due to instant lottery winners had been paid in full as of September 30, 2008.

During 1991, Executive Life Insurance Company (ELIC), with whom the Lottery holds two annuities, was placed into conservancy with the Los Angeles, California Superior Court (Superior Court). In 1993, the Superior Court approved the terms of a rehabilitation plan and the purchase of ELIC by the Aurora National Life Insurance Company. As a result, the Lottery is required to fund a percentage of the annual installment payments for these annuities. The Lottery made final payment for its share of annual installment payments to these Lucky Lotto winners in 2005.

(d) *Liquidation Damages*

The Lottery issued a claim against Lottery Technology Enterprises (LTE) and GTECH Corporation for contract failure and security breach. The claim stated that LTE and GTECH supplied the Lottery with an online gaming system and telecommunication system that were vulnerable to fraud and theft and hired subcontractors who exploited that vulnerability and failed to heed warnings that the systems had been compromised. The claim against LTE and GTECH totaled \$1,443. LTE filed an action with the District's Contracts Appeal Board seeking a reduction in damages assessed. The parties settled of this matter by entering into a settlement agreement on October 14, 2009 to extend the LTE contract through November 22, 2010 at a reduced percentage of net sales rate.

(11) Related Party Transactions

During 2009, 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 \$1,124 and \$795 in fiscal years 2009 and 2008, 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.

(12) 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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
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**Notes to Financial Statements
September 30, 2009 and 2008**

(Dollar amounts in thousands)

(12) Litigation (continued)

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.

While the ultimate outcome of these lawsuits cannot be predicted at the time, it is the opinion of management and in-house counsel that the disposition of any litigation in which the Lottery is involved will not have a material adverse effect on the financial position, results of operations, or cash flows of the Lottery.



**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**

CONSULTING
ACCOUNTING
TECHNOLOGY

*Certified Public
Accountants*

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

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, 2009, and have issued our report thereon dated March 18, 2010. 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 March 18, 2010.

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
March 18, 2010