

# **DISTRICT OF COLUMBIA LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

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

**YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

### **TCBA**

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**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 District of Columbia 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, 2005, 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 and for the year ended September 30, 2004 were audited by other auditors whose report dated January 24, 2005 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, 2005, 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, 2005, 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 18, 2006 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.

Washington, DC  
January 18, 2006

Thompson, Cobb, Bazilio & Associates, P.C.

**DISTRICT OF COLUMBIA  
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**Management's Discussion and Analysis**

**September 30, 2005 and 2004**

**(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, 2005. 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 sales 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 revenue from lottery gaming activities decreased by \$6,202 or 2.58% from prior year amounts;
- Aggregate ticket sales for all games, excluding Powerball, increased \$2,140 or 1.08% for the year;
- Total operating expenses decreased 3,872 or 2.31% as a result of overall decrease in ticket sales;
- Transfers to the District's General Fund decreased \$2,050 equivalent to 2.79% 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 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.

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.

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**(Dollar amounts in thousands)**

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 \$66 and \$14 for the years ended September 30, 2005 and 2004, respectively. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2005, 2004 and 2003.

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

	<b>September 30</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Assets:</b>			
Current unrestricted assets	\$ 13,397	\$ 14,562	\$ 14,497
Capital assets (net of accumulated depreciation)	771	1,030	1,354
Restricted investments	59,449	66,481	73,537
Total assets	73,617	82,073	89,388
<b>Liabilities:</b>			
Accounts payable and accrued expenses	2,663	3,852	3,704
Deferred revenues	450	306	271
Accrued prizes and commissions	7,413	7,858	8,314
Obligations for unpaid prizes	59,449	66,481	73,537
Total liabilities	69,975	78,497	85,826
<b>Net assets:</b>			
Invested in capital assets	771	1,030	1,354
Unrestricted	2,871	2,546	2,208
Total net assets	\$ 3,642	\$ 3,576	\$ 3,562

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**Management's Discussion and Analysis**

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**(Dollar amounts in thousands)**

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

	Years Ended September 30		
	2005	2004	2003
Operating revenues:			
Gaming revenues	\$ 234,931	\$ 241,133	\$ 237,890
Operating expenses:			
Prizes	120,525	122,318	123,564
Other	43,541	45,620	42,621
Total operating expenses	164,066	167,938	166,185
Operating income	70,865	73,195	71,705
Nonoperating revenues – interest and dividends	651	319	422
Income before transfers	71,516	73,514	72,127
Transfers to the District's General Fund	(71,450)	(73,500)	(72,050)
Change in net assets	\$ 66	\$ 14	\$ 77

Unrestricted net assets were \$2,871, \$2,546 and \$2,208 at September 30, 2005, 2004 and 2003, which represents an increase of \$325 in 2005 and an increase of \$338 in 2004. Current assets decreased by \$1,165 in 2005 and increased by \$65 in 2004. Total liabilities decreased by \$8,522 or 10.86% and the year ended September 30, 2005 and \$7,329 or 8.54% for the year ended September 30, 2004 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 \$59,449, \$66,481 and \$73,537 in 2005, 2004 and 2003, respectively, represents the net present value of securities totaling \$71,507, \$80,137 and \$88,794 in 2005, 2004 and 2003, respectively, to fund future annuity installment payments. The account decreased \$7,032 and \$7,056 in value during 2005 and 2004, respectively, as the result of payments of \$8,631 net of unrealized losses of \$2,088 and \$3,975 in 2005 and 2004, respectively, and accretion of investments totaling \$3,687 and \$5,550 in 2005 and 2004, respectively. Corresponding amounts are recorded as obligations for unpaid prizes.

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**(Dollar amounts in thousands)**

**Table 3: Gaming revenues, Prizes, Commissions and Transfers**

2005											
	Lucky			Quick			Hot		Instant		
	Numbers	D.C. Four	Powerball	Cash	Hot Five	Keno	Lotto	Daily 6	Games	Others	Total
Gaming revenues	\$ 68,601	\$ 74,138	\$ 31,537	\$ 3,931	\$ 4,535	\$ 11,865	\$ 2,200	\$ 514	\$ 36,110	\$ 1,500	\$ 234,931
Prizes	(32,525)	(35,025)	(14,682)	(3,945)	(2,297)	(7,236)	(1,091)	(672)	(23,063)	11	(120,525)
Agent's commissions	(4,406)	(4,204)	(1,702)	(234)	(279)	(793)	(124)	(36)	(2,666)	—	(14,444)
Gross margin	\$ <u>31,670</u>	\$ <u>34,909</u>	\$ <u>15,153</u>	\$ <u>(248)</u>	\$ <u>1,959</u>	\$ <u>3,836</u>	\$ <u>985</u>	\$ <u>(194)</u>	\$ <u>10,381</u>	\$ <u>1,511</u>	\$ <u>99,962</u>
Transfers	\$ <u>25,750</u>	\$ <u>26,825</u>	\$ <u>10,695</u>	\$ <u>(640)</u>	\$ <u>1,320</u>	\$ <u>2,660</u>	\$ <u>620</u>	\$ <u>(630)</u>	\$ <u>4,850</u>	\$ <u>—</u>	\$ <u>71,450</u>
2004											
	Lucky			Quick		Extra		Hot	Instant		
	Numbers	D.C. Four	Powerball	Cash	Hot Five	Games	Keno	Lotto	Games	Others	Total
Gaming revenues	\$ 69,512	\$ 71,588	\$ 40,871	\$ 4,161	\$ 4,345	\$ 143	\$ 9,711	\$ 1,356	\$ 38,940	\$ 506	\$ 241,133
Prizes	(32,955)	(33,190)	(19,142)	(2,715)	(2,008)	(77)	(5,892)	(682)	(25,657)	—	(122,318)
Agent's commissions	(4,545)	(4,115)	(2,235)	(232)	(274)	(9)	(656)	(73)	(2,869)	—	(15,008)
Gross margin	\$ <u>32,012</u>	\$ <u>34,283</u>	\$ <u>19,494</u>	\$ <u>1,214</u>	\$ <u>2,063</u>	\$ <u>57</u>	\$ <u>3,163</u>	\$ <u>601</u>	\$ <u>10,414</u>	\$ <u>506</u>	\$ <u>103,807</u>
Transfers	\$ <u>24,175</u>	\$ <u>26,275</u>	\$ <u>14,150</u>	\$ <u>720</u>	\$ <u>1,620</u>	\$ <u>23</u>	\$ <u>1,950</u>	\$ <u>—</u>	\$ <u>4,587</u>	\$ <u>—</u>	\$ <u>73,500</u>
2003											
	Lucky			Quick		Lucky No.	D.C.	Instant		Total	
	Numbers	D.C. Four	Powerball	Cash	Hot Five	Extra	Four-Extra	Games	Others	Total	
Gaming revenues	\$ 70,258	\$ 71,894	\$ 44,360	\$ 4,217	\$ 4,841	\$ 360	\$ 600	\$ 3,791	\$ 36,904	\$ 655	\$ 237,890
Prizes	(35,848)	(35,413)	(21,415)	(755)	(2,473)	(226)	(380)	(2,312)	(24,742)	—	(123,564)
Agent's commissions	(4,597)	(4,082)	(2,400)	(212)	(300)	(25)	(41)	(254)	(2,781)	—	(14,692)
Gross margin	\$ <u>29,827</u>	\$ <u>32,399</u>	\$ <u>20,545</u>	\$ <u>3,250</u>	\$ <u>2,068</u>	\$ <u>109</u>	\$ <u>179</u>	\$ <u>1,225</u>	\$ <u>9,381</u>	\$ <u>655</u>	\$ <u>99,634</u>
Transfers	\$ <u>22,525</u>	\$ <u>24,535</u>	\$ <u>16,238</u>	\$ <u>2,810</u>	\$ <u>1,385</u>	\$ <u>—</u>	\$ <u>125</u>	\$ <u>585</u>	\$ <u>4,047</u>	\$ <u>—</u>	\$ <u>72,050</u>

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 in fiscal years 2005, 2004 and 2003. Overall gaming revenue sales totaled \$234,931, \$241,133 and \$237,890 in fiscal years 2005, 2004 and 2003 respectively. Prize expenses decreased \$1,793 in 2005 and \$1,246 in 2004. Total prize payouts as a percentage of gaming revenue increased to 51.30% in 2005 for the year in comparison to 50.73% in 2004. Agent commissions decreased \$564 in 2005 and increased \$316 in 2004, due to the related increase and decrease in ticket sales and prize payouts.



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**Management's Discussion and Analysis**

**September 30, 2005 and 2004**

**(Dollar amounts in thousands)**

**Lucky Numbers**

Lucky Numbers is a daily three-digit game with a fixed payout. Players may wager 50 cents or one dollar with nine ways to win prizes ranging from 25 to 500 dollars. Sales totaled \$68,601 in 2005 for a \$911 or 1.31% decrease over the prior year's sales level of \$69,512.

Prizes decreased to \$32,525 in 2005, a decrease of \$430 or 1.307% from the \$32,955 expensed in 2004. Agents/retailers commissions decreased \$138 due to reduced ticket sales and prize payouts in 2005. Net proceeds to the District's General Fund totaled \$25,750, a \$1,575 increase from the \$24,175 generated in 2004. The increase in transfer amount can be primarily attributed to the decrease in prize payouts and commissions and the recording of over \$1.0 million in net miscellaneous income to the game in 2005. The Lucky Numbers game accounted for 29.20% of total gaming revenue and 31.68% of the overall gross margin.

In 2004, sales totaled \$69,512 for a \$756 or 1.07% decrease over the 2003 sales level of \$70,268. The decrease represented a continuance of the game's declining sales trend for several years.

Prizes decreased to \$32,955 in 2004, an increase of \$2,895 or 8.07% from the \$35,848 paid out in 2003. Agents/retailers commissions decreased \$52 primarily as the result of the related decreases in ticket sales and prizes. The reduction in sales and increase in related expenses translated into net proceeds to the District's General Fund of \$24,175, a \$1,850 increase from the \$22,325 generated the prior year. The game's activities accounted for 28.83% of total gaming revenue and 30.84% of the overall gross margin in 2004.

**D.C. Four**

D.C. 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 \$74,138 in 2005 for a \$2,550 or 3.56% increase over the \$71,588 generated in 2004.

Prizes totaled \$35,025 in 2005, representing an increase of \$1,835 or 5.53% over the \$33,190 in prizes reported in 2004. Other operating costs increased \$160 over the prior year's amount primarily due to increases in agent commissions, gaming contractual fees, and other miscellaneous expenses. The increase in sales and related prizes contributed to a \$627 increase in the gross margin when compared to the prior year. Net proceeds to the District's General Fund totaled \$26,825, an increase of \$550 or 2.09% from the \$26,275 transferred in 2004. The DC Four game accounted for 31.56% of total gaming revenue and 34.92 of the overall gross margin.

In 2004 sales totaled \$71,588 for a \$306 or .43% decrease over the \$71,894 in the prior year. Prizes totaled \$33,190 in 2004, a decrease of \$2,223 or 6.28% from the \$35,413 in prizes reported in 2003. Other operating costs increased \$167 over the prior year's amount primarily due to contractual and other miscellaneous expenses. The decrease in sales and related prizes reduction contributed to a \$1,884 increase in the gross margin when compared to the prior year. Net proceeds to the District's General Fund totaled \$26,275, an increase of \$1,740 or 7.09% over the \$24,535 transferred in 2003. The game's activities accounted for 29.69% of total gaming revenue and 33.03% of the overall gross margin in 2004.

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**Powerball**

The Powerball game is a five out of fifty-five 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-seven states, the District of Columbia and the U.S. 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 initial jackpots from \$10,000 to \$15,000 and chances for second tier winners to receive greater sums once the jackpot reaches a maximum level. Powerball sales of \$31,537 in 2005 represented a \$9,334 or 22.84% decrease from the \$40,871 generated in 2004. The Powerball game is jackpot driven and the lack of medium to high jackpots impact sales levels. The decrease in sales can be attributed to only two jackpots surpassing the \$200 million mark in 2005 compared to four jackpots in the \$100 to \$222 million range in 2004.

Prizes amounted to \$14,682 for the year representing a decrease of \$4,460 or 23.30% in relation to the \$19,142 expensed in 2004. Powerball prizes are expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Accordingly, the decrease in prizes is the direct result of reduced ticket sales. Other expenses, less prizes and commissions, decreased by \$1,025 primarily the result of lower advertising costs, gaming fees, and administrative cost allocations in 2005. The decrease in ticket sales and overall expenses accounts for the \$3,455 or 24.42% reduction in net proceeds and transfers to the General Fund of \$10,695 from the \$14,150 transferred in 2004.

Powerball sales of \$40,871 in 2004 represented a \$3,489 or 7.86% decrease from the \$44,360 generated in 2003. The decrease in sales can be attributed to four jackpots in 2004 in the \$100 to \$222 million range compared to four jackpots over \$100 million in 2003 with one eclipsing the \$314 million mark.

Prizes amounted to \$19,142 in 2004 for a decrease of \$2,274 or 10.62% in relation to the \$21,415 expensed in 2003. Other expenses, excluding prizes and commissions, increased \$850 and primarily the result of higher advertising costs. The decrease in sales partially offset by the related decrease in overall expenses account for the \$2,088 or 12.86% reduction in transfer to the General Fund from \$16,238 in 2003 to \$14,150 in 2004.

**Quick Cash**

The Quick Cash game is a six out of thirty-nine numbers daily online lotto type game that pays fixed prize payouts ranging from 10 dollars to 250,000 dollars. Players receive three boards (set of six numbers) for one dollar. Quick Cash sales totaled \$3,931 in 2005 and reflected a marginal decline of \$230 from the \$4,161 reported in 2004 before being discontinued effective August 27, 2005.

Prizes in 2005 amounted to \$3,945 representing a \$1,230 or 45.30% increase over prize payments of \$2,175 in 2004. The increase resulted from the payout of twelve top prizes of \$250, with the abnormal phenomenon of one player winning six times on two tickets. Net proceeds and transfers to the District's General Fund decreased from \$720 in 2004 to a negative \$640 million as a result of the higher prize payouts.

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**(Dollar amounts in thousands)**

Quick Cash sales amounted to \$4,161 in fiscal year 2004 and reflected a marginal decrease over the 2003 sales total of \$4,217. Prizes totaled \$2,715 in 2004 and represented a \$1,959 or 259.44% increase over prize payments of \$755 in 2003. The increase was a result of the payout of seven top prizes of \$250 in 2004. Net proceeds and transfers to the District's General Fund decreased from \$2,810 in 2003 to \$720 in 2004 as a result of increased prize payouts.

**Hot Five**

The Hot Five game is 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 sales increased \$190 to \$4,535 or 4.37% over the \$4,345 generated in 2004. Overall operating expenses increased \$488 in 2005 primarily as the result of additional prizes and advertising costs. The increase in sales offset by the increase in operating expenses account for the \$300 or 18.52% reduction in the 2005 transfer to the General Fund amount to \$1,320 from the \$1,620 transferred in 2004.

Hot Five sales decreased \$496 or 10.23% from a total of \$4,841 in 2003 to \$4,345 in 2004. Overall operating expenses decreased by \$730 from prior year levels. The decline in sales offset by the decline in operating expenses primarily account for the increase in 2004 transfer amount to \$1,620 from the \$1,385 transferred in 2003.

**Lucky Numbers and D.C. Four Extra Games**

The Lucky Numbers and D.C. Four Extra games were launched on August 12, 2002. The games, introduced as online instant games, must be played in conjunction with the Lucky Numbers (three-digit) and D.C. Four (four-digit) games. For one dollar, a player can purchase a chance to win 3 to 500 dollars instantly on a three or four digit ticket prior to the midday or nightly drawing. The player requests an extra ticket when purchasing a three or four-digit ticket. The three or four-digit ticket is printed with an extra number for the extra game. If numerical digits of the extra ticket correspond diagonally to the Lucky Numbers or D.C. Four digits, the player is an instant winner for the sum displayed.

There were no tickets sales for the two games in 2005. Prizes and commissions totaling a negative \$11 and representing the reversal of lapsed prizes and related expenses are recorded under the others column of Table 3.

Ticket sales for the two games totaled \$143 in fiscal year 2004 compared to a total of \$960 in 2003. This represented an \$817 or 85.11% decrease from the prior year. Ticket sales totaled \$562 for the approximately two months of operations in 2002. The games were discontinued effective February 2004.

Prizes in 2004 totaled \$77. This amount represents a \$529 or 87.30% decrease from prize payments of \$606 in 2003. Net proceeds and transfers to the District's General Fund of \$23 reflected a \$102 decrease from the \$125 transferred in 2003. Prizes, commissions, start-up costs, and other expenses amounted to \$893 in 2002 resulting in a net operating loss of \$331 for the year.

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**Keno**

Keno was launched in May 2003. 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 transition to a pari-mutuel payout when the number of winners per draw exceeds 10. Keno Spin, which features a multiplier option to the game, was added in 2004.

Ticket sales totaled \$11,865 in 2005 and represented a \$2,155 or 22.19% increase over the 2004 sales level of \$9,710. The increase in sales can be primarily attributed to more Keno locations and implementation of the Keno Spin feature.

Prize expense totaled \$7,237 for a \$1,345 or 22.83% increase in comparison to the 2004 amount of \$5,892. The increase in prizes expense was in correlation the increased sales volume for the year. Overall operating expenses less prizes and commissions expenses were equivalently the same for both years. The increase of \$710 in net proceeds and transfers to the District's General Fund to \$2,660 in 2005 over the \$1,950 transferred in 2004 can be directly attributed to increase in gross margin.

Ticket sales totaled \$9,710 in 2004 compared to the \$3,792 generated over the approximate five (5) months of operations in 2003. The increase of \$5,919 or 156.11% was the result of a full year's operations and more Keno locations. Prizes expense increased \$3,580 to \$5,892 in 2004 from \$2,312 for the partial year's operations in 2003. Increased sales in 2004 offset by additional operating expenses culminated into net proceeds and transfers to the District's General Fund of \$1,950 for an increase of \$1,365 over the transferred amount of \$585 in 2003. Ticket sales in 2003 of \$3,792 less prizes, commissions, start-up costs, and other expenses totaling \$3,162, resulted in net income of \$45.

**Hot Lotto**

The Hot Lotto game was launched in April 2004. 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. The Hot Lotto game is sponsored by the Multi-State Lottery Association (MUSL), a conglomerate of seven states and the District of Columbia, that 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.

Hot Lotto sales increased \$844 to \$2,200 in 2005 in comparison to the \$1,356 produced over approximately six-full months of operations in 2004. Total operating expenses of \$1,577 in 2005 only reflected a marginal increase of \$88 to total expenses of \$1,489 for 2004. Advertising and start-up costs to launch the game contributed to the high operating costs level in 2004 and resulting net loss of \$133. Increased revenue and lower operating expenses in proportion to sales translated into net proceeds and transfers to the General Fund of \$620 in 2005.

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LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

**Management's Discussion and Analysis**

**September 30, 2005 and 2004**

**(Dollar amounts in thousands)**

**D.C. Daily Six**

D.C. Daily Six was implemented effective August 28, 2005 and replaced the Quick Cash game in the Lottery Board's portfolio of games. 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.

Sales totaled \$514 over the approximate five weeks of operations in 2005. Prize expenses amounted to \$672 or 130.74% of sales as a result of two Division 1 winners during the first two weeks of operations. Advertising costs to launch the game and other start-up costs primarily account for other operating expenses totaling \$472. These transactions culminated into a net loss and negative transfer amount to the General Fund of \$630 in 2005.

**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 of \$36,110 in 2005 were \$2,830 or 7.27% less than sales in 2004 of \$38,940.

Prizes in 2005 totaled \$23,063 and resulted in a prize expense decrease of \$2,594 or 10.11% from the \$25,657 prize expense in 2004. Overall operating costs, less prizes and commissions, totaled \$5,515 and represent a decrease of \$296 from the prior year's amount of \$5,812 primarily due to lower contractual and administrative expenses. Transfers to the General Fund of \$4,850 in 2005 represent an increase of \$263 over the transfer amount of \$4,587 reported in 2004.

Instant ticket sales of \$38,940 in 2004 were \$2,036 or 5.52% greater than 2003 sales of \$36,904. Prizes in 2004 totaled \$25,657 and resulted in an increase of \$915 or 3.70% \$24,742 in prizes paid in 2003. Operating costs, less prizes and commissions, increased by \$475 over the prior year's amount of \$5,337 primarily due to contractual and administrative expenses. Transfers to the District's General Fund of \$4,587 represented an increase of \$540 over the transfer amount of \$4,047 reported in 2003.

The Lottery has been able to stimulate sales over the past three years through games designed with higher prize payouts and the introduction of games with various price points up to 20 dollars. The average prize payout rate in 2005 was 63.87% versus 65.89% in 2004.

**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 related jackpots being hit and earnings are allocated quarterly to party lotteries. Interest and dividend income shown separately in the financial statements increased by \$332 in 2005 and decreased by \$103 and \$208 in 2004 and 2003 respectively. Interest and dividend income is impacted by various market conditions, the national economy, and other factors beyond the control of individual entities.

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

**Management's Discussion and Analysis**

**September 30, 2005 and 2004**

**(Dollar amounts in thousands)**

Other Income includes \$1,163 representing bonding fees receipts from agents to cover delinquent receivable balances. Bonding fees receipts were deposited to a Miscellaneous Trust Fund in the name of the Lottery Board and recorded on the books of the District of Columbia in previous years and used to write-off delinquent and uncollectible accounts periodically. As the result of an audit recommendation, such receipts are now recognized as revenue in the period of receipt. The amount recognized as revenue, represents \$941 transferred from the Miscellaneous Trust Fund and \$222 in funds collected from agents in 2005. An additional \$306 was refunded by MUSL as a result of rebalancing reserve funds and distributing excess contributions by participating members.

**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 fess, 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.

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

**Statements of Net Assets**

**September 30, 2005 and 2004**

**(Dollar amounts in thousands)**

<b>Assets</b>	<b>2005</b>	<b>2004</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 8,225	\$ 9,701
Accounts receivable, net	4,783	4,362
Inventory	369	485
Prepaid expenses and other	20	14
Restricted investments	8,631	8,631
Total current assets	<u>22,028</u>	<u>23,193</u>
<b>Non-current assets:</b>		
Capital assets, net	771	1,030
Restricted investments	50,818	57,850
Total non-current assets	<u>51,589</u>	<u>58,880</u>
Total assets	<u>73,617</u>	<u>82,073</u>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	2,218	2,950
Compensation liabilities	466	894
Deferred revenues	450	306
Accrued prizes and commissions	7,413	7,858
Other accrued liabilities	(21)	8
Obligations for unpaid prizes - current portion	8,631	8,631
Total current liabilities	<u>19,157</u>	<u>20,647</u>
Obligations for unpaid prizes – noncurrent portion	50,818	57,850
Total liabilities	<u>69,975</u>	<u>78,497</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	771	1,030
Unrestricted	2,871	2,546
Total net assets	<u>\$ 3,642</u>	<u>\$ 3,576</u>

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

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

**Statements of Revenues, Expenses, and Changes in Net Assets**

**Years Ended September 30, 2005 and 2004**

**(Dollar amounts in thousands)**

	2005	2004
Operating revenues:		
Gaming revenues	\$ 234,931	\$ 241,133
Operating expenses:		
Prizes	120,525	122,318
Agent's commissions	14,444	15,008
Contractor fees	14,078	14,342
Advertising	4,935	5,583
Administration	9,684	10,281
Amortization and depreciation	400	406
Total operating expenses	164,066	167,938
Operating income	70,865	73,195
Nonoperating revenues - interest and dividends	651	319
Income before transfers	71,516	73,514
Transfers to District General Fund	(71,450)	(73,500)
Change in net assets	66	14
Net assets, beginning of year	3,576	3,562
Net assets, end of year	\$ 3,642	\$ 3,576

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



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

**Statements of Cash Flows**

**Years Ended September 30, 2005 and 2004**

**(Dollar amounts in thousands)**

	2005	2004
Operating activities:		
Cash receipts from customers	\$ 233,155	\$ 239,520
Cash receipts from others	1,500	506
Cash payments to vendors	(23,441)	(23,070)
Cash payments to employees	(6,336)	(6,826)
Cash payments for prizes and commissions	(135,414)	(137,783)
Net cash provided by operating activities	69,464	72,347
Capital and related financing activities - acquisition of fixed assets	(141)	(82)
Non-capital financing activities - transfers out	(71,450)	(73,500)
Investing activities - interest and dividends	651	319
Net increase (decrease) in cash	(1,476)	(916)
Cash and cash equivalents - beginning of year	9,701	10,617
Cash and cash equivalents - end of year	\$ 8,225	\$ 9,701
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 70,865	\$ 73,195
Amortization and depreciation	400	406
Decrease (increase) in assets:		
Receivables	(421)	(1,141)
Inventory	116	162
Prepaid expenses	(6)	(2)
Increase (decrease) in liabilities:		
Accounts payable	(732)	198
Compensation liabilities	(428)	377
Deferred revenue	144	35
Accrued prizes	(445)	(456)
Other current liabilities	(29)	(427)
Net cash provided by operating activities	\$ 69,464	\$ 72,347

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

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

**Notes to Financial Statements  
September 30, 2005 and 2004**

**(Dollar amounts in thousands)**

**(1) Organization**

The District of Columbia 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) Adoption of New Accounting Standards**

During fiscal year 2003, the Lottery adopted GASB Statement No. 40, *Deposits and Investment Risk Disclosures*.

**(d) 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, 2005 and 2004 respectively, were \$8,225 and \$9,701.

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

**Notes to Financial Statements  
September 30, 2005 and 2004**

**(Dollar amounts in thousands)**

**(e) Inventory**

Inventory, consisting of instant lottery tickets, is valued at cost using the specific identification basis. The costs of the instant lottery tickets are recorded as an expense when the tickets are sold.

**(f) 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

**(g) 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.

**(h) 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 and Hot Lotto 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. 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.

**(i) 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.

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

**Notes to Financial Statements  
 September 30, 2005 and 2004**

**(Dollar amounts in thousands)**

There is not a maximum limitation on the amount of unused sick pay benefits that employees may accumulate. The Lottery does not accrue for nonvesting 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.

**(j) 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, 2005 and 2004 are as follows:

<b>Description</b>	<u><b>2005</b></u>	<u><b>2004</b></u>
Due from agents:		
Online games	\$ 1,477	1,204
Instant games	<u>3,541</u>	<u>3,405</u>
Total due from agents	5,018	4,609
Other	<u>20</u>	<u>8</u>
Total accounts receivable	5,038	4,617
Less allowance for doubtful accounts	<u>(255)</u>	<u>(255)</u>
Total accounts receivable, net	<u><u>\$ 4,783</u></u>	<u><u>4,362</u></u>

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

**Notes to Financial Statements  
September 30, 2005 and 2004**

(Dollar amounts in thousands)

**(4) Capital Assets**

A summary of capital assets as of September 30, 2005 and 2004 is as follows:

	<u>Balance as of October 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance as of September 30, 2005</u>
Cost:				
Machinery and equipment	\$ 2,959	\$ 141	\$ —	\$ 3,100
Office furniture and fixtures	321	—	—	321
Lease hold improvements	758	—	—	758
Total cost	<u>4,038</u>	<u>141</u>	<u>—</u>	<u>4,179</u>
Less – accumulated depreciation				
Machinery and equipment	2,139	341	—	2,480
Office furniture and fixtures	313	2	—	315
Lease hold improvements	556	57	—	613
Total accumulated depreciation	<u>3,008</u>	<u>400</u>	<u>—</u>	<u>3,408</u>
Capital assets – net	<u>\$ 1,030</u>			<u>\$ 771</u>
	<u>Balance as of October 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance as of September 30, 2004</u>
Cost:				
Machinery and equipment	\$ 2,877	\$ 82	\$ —	\$ 2,959
Office furniture and fixtures	321	—	—	321
Lease hold improvements	758	—	—	758
Total cost	<u>3,956</u>	<u>82</u>	<u>—</u>	<u>4,038</u>
Less – accumulated depreciation				
Machinery and equipment	1,852	347	—	2,199
Office furniture and fixtures	308	5	—	313
Lease hold improvements	442	54	—	496
Total accumulated depreciation	<u>2,602</u>	<u>406</u>	<u>—</u>	<u>3,008</u>
Capital assets – net	<u>\$ 1,354</u>			<u>\$ 1,030</u>

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

**Notes to Financial Statements  
 September 30, 2005 and 2004**

**(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 29 members and administers a multi-state lottery game. Powerball, the current game, was initiated on April 20, 1992 and is a semiweekly pari-mutuel drawing with a minimum grand prize of \$15. MUSL previously administered the Lotto-America game, which was terminated on April 18, 1992. All MUSL members remit a portion of their Powerball revenue to MUSL for the prize payments and administrative expenses of Powerball.

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

Lotto-America and Powerball 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, 2005 and 2004, MUSL had purchased for the Lottery, U.S. government securities aggregating \$71,507 and \$80,163, respectively to fund future installment payments for the Lottery's Lotto-America and Powerball winners.

The market value of these securities was \$59,449 and \$66,481 as of September 30, 2005 and 2004, 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, 2005, the Lottery had the following investments and maturities:

<u>Investment Type</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	59,449	5,862	35,750	16,104	1,733

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 are 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, 2005, the Lottery had an interest in a SEC 2a7 pooled government cash management fund of \$1,059 and the pool was not rated.

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

**Notes to Financial Statements  
September 30, 2005 and 2004**

**(Dollar amounts in thousands)**

**(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, 2005 and 2004, the total Powerball prize reserve fund was approximately \$73,532 and \$70,000, respectively, of which the Lottery's share was approximately \$1,496 and \$1,733. In addition, the total Powerball set prize reserve fund as of September 30, 2005 and 2004, was approximately \$25,000 and \$26,000, respectively, of which the Lottery's share was approximately \$440 and \$510.

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, 2005, the total Hot Lotto prize reserve fund was approximately \$1,058 of which the Lottery's share was approximately \$51. 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 prizes payable 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.

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

**Notes to Financial Statements  
 September 30, 2005 and 2004**

(Dollar amounts in thousands)

	Year ended September 30, 2005 Jackpot	Year ended September 30, 2004 Jackpot
Jackpot prizes payable:		
Due within one year	\$ 8,631	\$ 8,631
Due in subsequent years	50,818	57,850
Total (present value)	59,449	66,481
Add: Interest to maturity	12,058	13,682
Jackpot prizes payable at maturity	\$ 71,507	\$ 80,163

The following schedule presents the changes in prizes payable:

Balance as of October 1, 2003	\$	73,537
Increase		1,575
Decrease		(8,631)
Balance as of September 30, 2004		66,481
Increase		1,599
Decrease		(8,631)
Balance as of September 30, 2005	\$	59,449



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

**Notes to Financial Statements  
September 30, 2005 and 2004**

(Dollar amounts in thousands)

**(7) Gaming Revenues and Expenses**

Gaming revenues and expenses for the fiscal years ended September 30, 2005 and 2004 were as follows:

**Gaming Revenues, Prizes, and Commissions  
2005**

	<u>Lucky Numbers</u>	<u>D.C. Four</u>	<u>Quick Powerball</u>	<u>Hot Cash</u>	<u>Hot Five</u>	<u>Keno</u>	<u>Hot Lotto</u>	<u>DC Daily 6</u>	<u>Instant Games</u>	<u>Others</u>	<u>Total</u>
Gaming revenues	\$ 68,601	\$ 74,138	\$ 31,537	\$ 3,931	\$ 4,535	\$ 11,865	\$ 2,200	\$ 514	\$ 36,110	\$ 1,500	\$ 234,931
Prizes	(32,525)	(35,025)	(14,682)	(3,945)	(2,297)	(7,236)	(1,091)	(672)	(23,063)	11	(120,525)
Agent's commissions	(4,406)	(4,204)	(1,702)	(234)	(279)	(793)	(124)	(36)	(2,666)	—	(14,444)
Gross margin	\$ <u>25,750</u>	\$ <u>34,909</u>	\$ <u>15,153</u>	\$ <u>(248)</u>	\$ <u>1,959</u>	\$ <u>3,836</u>	\$ <u>985</u>	\$ <u>(194)</u>	\$ <u>10,381</u>	\$ <u>1,511</u>	\$ <u>99,962</u>

**2004**

	<u>Lucky Numbers</u>	<u>D.C. Four</u>	<u>Quick Powerball</u>	<u>Hot Cash</u>	<u>Hot Five</u>	<u>Extra Games</u>	<u>Keno</u>	<u>Hot Lotto</u>	<u>Instant Games</u>	<u>Others</u>	<u>Total</u>
Gaming revenues	\$ 69,512	\$ 71,588	\$ 40,871	\$ 4,161	\$ 4,345	\$ 143	\$ 9,711	\$ 1,356	\$ 38,940	\$ 506	\$ 241,133
Prizes	(32,955)	(33,190)	(19,142)	(2,715)	(2,608)	(77)	(5,892)	(682)	(25,657)	—	(122,318)
Agent's commissions	(4,545)	(4,115)	(2,235)	(232)	(274)	(9)	(656)	(73)	(2,869)	—	(15,008)
Gross margin	\$ <u>32,012</u>	\$ <u>34,283</u>	\$ <u>19,494</u>	\$ <u>1,214</u>	\$ <u>2,063</u>	\$ <u>57</u>	\$ <u>3,163</u>	\$ <u>601</u>	\$ <u>10,414</u>	\$ <u>506</u>	\$ <u>103,807</u>

**(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, 2005 and 2004, the Lottery's net transfers to the General Fund of the District were \$71,450 and \$73,500 respectively. The Lottery was in compliance with the Act for the fiscal years ended September 30, 2005 and 2004.

**(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.

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

**Notes to Financial Statements  
September 30, 2005 and 2004**

**(Dollar amounts in thousands)**

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 \$105 and \$205 for the years ended September 30, 2005 and 2004 respectively. The number of Lottery employees covered under the Federal Civil Service Retirement System is 17.

**(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 \$197 and \$166 for the fiscal years ended September 30, 2005 and 2004, 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 \$14. Compensation deferred and income earned are 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 leases certain facilities under long-term, non-cancelable, and operating leases. The total future minimum rental commitments as of September 30, 2005 are as follows:

Year ending September 30,	
2006	\$ 1,241
2007	413
	<hr/>
	\$ 1,654
	<hr/> <hr/>

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

**Notes to Financial Statements  
 September 30, 2005 and 2004**

**(Dollar amounts in thousands)**

The Lottery's future minimum rental commitments for the fiscal year ended September 30, 2005 is effective through February 5, 2007.

Rent expense for the fiscal years ended September 30, 2005 and 2004 was as follows:

	<b>2005</b>	<b>2004</b>
Gross rental expense	\$ 1,266	\$ 1,265
Less income from subleases	(170)	(170)
Net rent expense	\$ 1,096	\$ 1,095

**(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, 2005 and 2004, future installment payments due to Lucky Lotto winners were approximately \$1,950 and \$3,380, respectively. As of September 30, 2005, final installment payments due to all instant lottery winners had been paid.

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 expensed \$68 during the year ending September 30, 2005 representing the final payment for its share of annual installment payments to these Lucky Lotto winners.

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

**Notes to Financial Statements  
September 30, 2005 and 2004**

**(Dollar amounts in thousands)**

**(11) Related Party Transactions**

During fiscal year 2005, 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 \$815 in 2005.

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. The Lottery had related party transactions with the Office of Cable Television (OCT), another District of Columbia Government agency during the fiscal year ended September 30, 2004. OCT was responsible for the production of daily draws for the various lottery games. The annual contractual cost for the related services rendered were negotiated at arms length and amounted to \$510 for the fiscal year ended September 30, 2004.

**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**  
*Certified Public Accountants and Management, Systems, and Financial Consultants*

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**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 District of Columbia Lottery and Charitable Games Control Board  
Washington, D.C.

We have audited the financial statements of the District of Columbia 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, 2005, and have issued our report thereon dated January 18, 2006. 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 caused by error or fraud 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 18, 2006.

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.

Washington, DC  
January 18, 2006

*Thompson, Cobb, Bazilio & Associates, P.C.*

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