

GOVERNMENT OF THE 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, 2007 AND 2006

TCBA

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

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the District of Columbia Lottery and Charitable Games Control Board, an enterprise fund of the Government of the District of Columbia, as of and for the years ended September 30, 2007 and 2006, 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 audits 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 audits provide a reasonable basis for our opinion.

As discussed in note 2, the financial statements present only 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, 2007 and 2006, 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, 2007 and 2006, 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 also issued a report dated February 22, 2008 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
February 22, 2008

Thompson, Cobb, Bazilio & Associates, PC

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(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, 2007. 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 revenues from lottery gaming activities decreased by \$9,567 or 3.59% from prior year amounts.
- The Agency generated ticket sales of \$255,940 for an aggregate decrease of \$10,263 or 3.86% less than prior year totals.
- Total operating expenses decreased by \$1,570 or less than 1.0% as a result of overall decrease in ticket sales and record payout in prizes of 56.59%.
- The D.C. Four game recorded a historical prize payout of 62.43%.
- Transfers to the District's General Fund decreased \$8,425, equivalent to 11.42% of the prior year's total as a result of the net decrease in revenue and increase in overall prize payouts.

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.

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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 \$52 and \$59 for the years ended September 30, 2007 and 2006, respectively. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2007, 2006, and 2005.

Table 1: Summary of Net Assets

	September 30		
	2007	2006	2005
Assets:			
Current and other assets	\$ 14,559	\$ 16,513	\$ 13,397
Capital assets (net of accumulated depreciation)	311	382	771
Restricted investments	46,725	52,584	59,449
Total assets	61,595	69,479	73,617
Liabilities:			
Accounts payable and accrued expenses	3,173	3,215	2,663
Deferred revenues	149	184	450
Accrued prizes and commissions	7,795	9,795	7,413
Obligations for unpaid prizes	46,725	52,584	59,449
Total liabilities	57,842	65,778	69,975
Net assets:			
Invested in capital assets	311	382	771
Unrestricted	3,442	3,319	2,871
Total net assets	\$ 3,753	\$ 3,701	\$ 3,642

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Unrestricted net assets were \$3,442, \$3,319 and \$2,871 at September 30, 2007, 2006 and 2005, which represented increases of \$123, \$448, and \$325, respectively. Current assets decreased by \$1,954 in 2007 and increased \$3,116 in 2006. Total liabilities decreased \$7,936 or 12.06% for the year ended September 30, 2007 and \$4,197 or 6.00% for the year ended September 30, 2006, 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 \$46,725, \$52,584 and \$59,449 in 2007, 2006 and 2005, respectively, represents the net present value of securities totaling \$54,244, \$62,875, and \$71,507 in 2007, 2006 and 2005, respectively, to fund future annuity installment payments. The restricted investments value decreased by \$5,859 and \$6,865 during 2007 and 2006, respectively, due to payments of \$8,631 in each year, net of unrealized losses of \$297 and \$580 in 2007 and 2006, respectively, and accretion of investments totaling \$3,069 and \$2,346 in 2007 and 2006, respectively. Corresponding amounts are recorded as obligations for unpaid prizes.

**Table 2: Summary of Revenues, Expenses,
 and Changes in Net Assets**

	Years Ended September 30		
	2007	2006	2005
Operating revenues:			
Gaming revenues	\$ 256,824	\$ 266,391	\$ 234,931
Operating expenses:			
Prizes	145,338	146,687	120,525
Other	46,999	47,220	43,541
Total operating expenses	192,337	193,907	164,066
Operating income	64,487	72,484	70,865
Nonoperating revenues – interest and dividends	940	1,375	651
Income before transfers	65,427	73,859	71,516
Transfers to the District's General Fund	(65,375)	(73,800)	(71,450)
Change in net assets	\$ 52	\$ 59	\$ 66

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Table 3: Gaming revenues, Prizes, Commissions and Transfers

2007												
	Lucky				Hot			Rolling		Instant		Total
	Numbers	D.C. Four	Powerball	Hot Five	Keno	Lotto	Daily 6	Cash 5	Raffles	Games	Others	
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
2006												
	Lucky			Quick		Hot		Rolling		Instant		Total
	Numbers	D.C. Four	Powerball	Cash	Hot Five	Keno	Lotto	Daily 6	Cash 5	Games	Others	
Gaming revenues	\$ 70,310	\$ 80,014	\$ 51,770	\$ —	\$ 554	\$ 13,165	\$ 2,432	\$ 4,738	\$ 3,435	\$ 39,785	\$ 188	\$ 266,391
Prizes	(34,203)	(47,099)	(24,977)	86	(209)	(7,975)	(1,158)	(2,616)	(2,056)	(26,480)	—	(146,687)
Agent's commissions	(4,541)	(4,643)	(2,828)	3	(33)	(875)	(152)	(293)	(211)	(2,961)	—	(16,534)
Gross margin	\$ 31,566	\$ 28,272	\$ 23,965	\$ 89	\$ 312	\$ 4,315	\$ 1,122	\$ 1,829	\$ 1,168	\$ 10,344	\$ 188	\$ 103,170
Transfers	\$ 25,250	\$ 20,000	\$ 18,310	\$ 85	\$ 235	\$ 3,120	\$ 815	\$ 1,265	\$ 300	\$ 4,420	\$ —	\$ 73,800
2005												
	Lucky			Quick		Extra		Hot		Instant		Total
	Numbers	D.C. Four	Powerball	Cash	Hot Five	Games	Keno	Lotto	Daily 6	Games	Others	
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)	3	(7,228)	(1,091)	(672)	(23,063)	—	(120,525)
Agent's commissions	(4,406)	(4,204)	(1,702)	(234)	(279)	—	(793)	(124)	(36)	(2,666)	—	(14,444)
Gross margin	\$ 31,670	\$ 34,909	\$ 15,153	\$ (248)	\$ 1,959	\$ 3	\$ 3,844	\$ 985	\$ (194)	\$ 10,381	\$ 1,500	\$ 99,962
Transfers	\$ 25,750	\$ 26,825	\$ 10,695	\$ (640)	\$ 1,320	\$ —	\$ 2,660	\$ 620	\$ (630)	\$ 4,850	\$ —	\$ 71,450

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 \$256,824, \$266,391 and \$234,931 in fiscal years 2007, 2006 and 2005, respectively. Prize expenses decreased \$1,349 or .92% in 2007 and increased \$26,162 in 2006. Total prize payouts as a percentage of gaming revenue increased to 56.59% in 2007 in comparison to 55.06% in 2006. Agent commissions decreased \$543 in 2007 and increased \$2,090 in 2006, due to the related increases and 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 \$69,757 in 2007 for a \$553 or .79% decrease from the prior year's sales level of \$70,310. In 2006, sales totaled \$70,310 for a \$1,709 or 2.49% increase over the prior year's sales level of \$68,601. The Lottery Board strategically implemented marketing and promotional campaigns during the fiscal year to help stabilize and to enhance sales for the game.

Prizes increased to \$35,002 in 2007, an increase of \$799 or 2.34% over the \$34,203 expensed in 2006. Agents/retailers commission expense of \$4,542 was consistent with 2006. Net proceeds to the District's General Fund totaled \$23,475, a \$1,775 decrease from the \$25,250 generated in 2006. The decrease in the transfer amount can be attributed to the decrease in sales and increase in prize payouts and other operating expenses over prior year totals. The Lucky Numbers game accounted for 27.16% of total gaming revenue and 31.64% of the overall gross margin in 2007 reflecting slight increases in percentages contributions over the prior year due to net decrease in sales and prizes for other games.

Prizes increased to \$34,203 in 2006, an increase of \$1,678 or 5.16% from the \$32,525 expensed in 2005. Agents/retailers commissions increased \$135 due to the related increase in ticket sales and prize payouts. Net proceeds to the District's General Fund totaled \$25,250, a \$500 decrease from the \$25,750 generated in 2005. The decrease in transfer amount can essentially be attributed to the net decrease in investment and miscellaneous income from the prior year's total. The Lucky Numbers game accounted for 26.39% of total gaming revenue and 30.60% of the overall gross margin in 2006.

DC Four

DC Four is a daily four-digit game with a fixed payout. Players may wager 50 cents or one dollar for a chance to win seven different ways. Ticket sales totaled \$84,607 in 2007 for a \$4,593 or 5.74% increase over the \$80,014 generated in 2006. The game continues to reflect the national trend of a steady increase in annual sales without major advertising and promotions.

Prizes in 2007 totaled \$52,824 representing a \$5,725 or 12.16% increase over the \$47,099 in prizes reported in 2006. The prize payout percentage for the game reached a record high of 62.43% of tickets sold compared to 58.86% in 2006. Other operating costs increased \$1,047 over the prior year's total primarily due to increases in agent/retailer commissions, gaming contractual fees, other direct and administrative cost allocations to the game. The increase in sales offset by higher prize expense contributed to a \$1,382 or 4.89% decline in gross margin when compared to the prior year. Net proceeds to the District's General Fund totaled \$17,825, a \$2,175 or 10.88% decline from the \$20,000 transferred in 2006. The DC Four game accounted for 32.94% of total gaming revenue and 28.16% of the overall gross margin. Increases in the percentages of gaming revenue and contribution to gross margin from prior year amounts can be directly attributed to the game's higher sales and overall net decrease in prize payouts for other lottery games.

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In 2006, sales totaled \$80,014 for a \$5,876 or 7.93% increase over the \$74,138 recorded in 2005. Prizes totaled \$47,099 in 2006, an increase of \$12,074 or 34.47% over the \$35,025 reported the prior year. Other operating costs increased \$631 over 2005 amounts primarily due to increased agents/retailer commissions and gaming contractual fees offset by a net decline in other expenses. The increase in sales offset by the increase in related prizes resulted in a \$6,637 or 19.01% decline in gross margin when compared to the prior year. Net proceeds to the District's General Fund totaled \$20,000, a decrease of \$6,825 or 25.44% decrease from the \$26,825 transferred in 2005. The DC Four game accounted for 30.04% of total gaming revenue and 27.40% of the overall gross margin in 2005.

Powerball

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

Powerball sales totaled \$35,748 in 2007 representing a \$16,022 or 30.95% decrease from the \$51,770 generated in 2006. The Powerball game sales are jackpot driven and high jackpots impact sales levels. The decrease in sales can be attributed to only two jackpots exceeding two hundred million compared to five jackpots surpassing that mark in 2006.

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

Powerball sales amounted to \$51,770 in 2006 and represented a \$20,233 or 64.16% increase over the \$31,537 generated in 2005. The increase in sales can be attributed to five jackpots surpassing the two hundred million range in 2006 compared to only two jackpots eclipsing the two hundred million mark in 2005.

Prizes amounted to \$24,977 for the year representing an increase of \$10,295 or 70.12% in relation to the \$14,682 expensed in 2005. The increase in prize expense is in proportion to increased ticket sales. Other expenses, less prizes and agents/retailer commissions, increased \$1,204 primarily the result of higher advertising costs, gaming fees, and administrative cost allocations in 2006. Increased ticket sales offset by additional expenses over 2005 totals account for the \$7,615 or 71.20% increase in transfers to the District's General Fund to \$18,310 from the \$10,695 transferred in 2005.

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Hot Five

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

Sales in 2006 for approximately five weeks of operations amounted to \$554. Sales offset by operating expenses of \$319 resulted in transfer to the District's General Fund of \$235.

Keno

Keno is a 10/20/80 game with fixed prizes. Players choose to play from 1 to 10 spots, with each spot having a different prize structure. Players select twenty numbers from a field of 80 numbers. Draws are held every four minutes during valid game times. Payouts range from five dollars to 100,000 dollars. Tier 1 prizes start as a fixed payout and transitions to a pari-mutuel payout when the number of winners per draw exceeds 10. The game is supplemented by Keno Spin which features a multiplier option to the game's prizes. Ticket sales totaled \$13,444 in 2007 and represented a \$279 or 2.12% increase over the 2006 sales level of \$13,165. The Keno game's sales increase slowed substantially from the prior year's rate as a result of changing demographics in the District of Columbia and inability to add new social settings and set-up locations. Keno sales are offered at all agent/retailers locations. The Lottery continues to introduce the game to new players through targeted awareness campaigns.

Prize expense totaled \$8,216 in 2007 for a \$241 or 3.02% increase in comparison to the 2006 amount of \$7,975. The increase in prizes expense was in correlation to the increased sales volume for the year. Overall operating expenses less prizes and agents/retailer commission expenses increased \$114 primarily due to increased advertising and gaming fees cost. The decrease of \$95 in net proceeds and transfers to the District's General Fund to \$3,025 in 2007 from the \$3,120 transferred in 2006 can be directly attributed to increased prizes and other operating expenses.

Ticket sales in 2006 totaled \$13,165 for a \$1,300 or 10.96% increase over the \$11,865 generated in 2005. The increase in prizes expense was in direct correlation to increase in sales volume for the year. Overall operating expenses less prizes and agents/retailer commission expenses were consistent during both years. The increase of \$460 in net proceeds and transfers to the District's General Fund to \$3,120 in 2006 over the \$2,660 transferred in 2005 can be directly attributed to increased gross margin.

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 nine 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.

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Ticket sales amounted to \$3,536 in 2007 and represented a \$1,104 or 45.39% increase over the 2006 sales level of \$2,432. The increase in sales over prior year totals is the result of one additional state joining the MUSL sponsored game and higher jackpots during 2007.

Prizes and agents/retailer commission expenses of \$1,931 reflected a \$621 or 47.40% increase in 2007 over the \$1,310 expensed in 2006. Other operating expenses increased \$151 as a result of higher gaming fees, advertising, administrative and other cost allocations. The \$330 increase in transfers to the District's General Fund to \$1,145 in 2007 over the \$815 transferred in 2006 can be attributed to increased gross margin offset by increase in other operating expenses.

Hot Lotto sales increased \$232 to \$2,432 in 2006 in comparison to the \$2,200 produced in 2005. Total operating expenses of \$1,616 represented only a minor increase over the \$1,577 incurred in 2005. Increased revenue and overall lower operating expenses translated into net proceeds and transfers to the General Fund of \$815 or \$195 more than the \$620 generated in 2005.

D.C. Daily Six

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

Ticket sales in 2007 totaled \$4,398 for a \$340 or 7.18% decrease from the \$4,738 during the first full year of operations in 2006. The game experienced a downward trend in sales from the prior year as players became more familiar with the game and the excitement of multiple Division 1 winners abated.

Prizes and agents/retailers commission expense of \$2,487 decreased \$422 in 2007 versus the \$2,909 incurred in 2006 primarily the result of fewer Division 1 winners. Other operating expenses reflected a minor increase of \$52. Transfers to the District's General Fund were essentially the same for 2007 and 2006.

Sales increased to \$4,738 in 2006 from the \$514 generated in 2005 due to the game being launched during the last five weeks of operations in 2005. Overall operating expenses amounted to \$3,472 in 2006 versus the \$1,144 expensed the prior year and culminated into transfers to the District's General Fund of \$1,265, or a \$1,895 increase over the negative transfer amount of \$630 in 2005. The increase in transfer can be attributed to increased gross margin due to sales increase, reduction in launch costs, and four Division 1 winners for the full year compared to two Division 1 winners during the earlier weeks of operations in 2005.

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DC Rolling Cash Five

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

Sales totaled \$3,650 in 2007 for a \$215 or 6.26% increase over the \$3,435 produced in 2006. The game continues to be strategically promoted to enhance sales and maintain market share.

Operating expenses decreased \$371 to \$2,755 in 2007 compared to \$3,126 in 2006. The decrease in ticket sales and operating expenses account for the \$594 increase in transfer to the District's General Fund to \$894 in 2007 from the \$300 transferred in 2006.

Sales amounted to \$3,435 for the approximate ten and one-third months of operations in 2006 offset by operating costs of \$3,126. Overall operating results generated transfers to the District's General Fund totaling \$300.

DC Raffle

The DC Raffle game is a promotional game designed to run for a certain interval of time and to generate a maximum number of tickets to be sold. Tickets print a sequential number which serves as the bet. Each player wagers a sum of ten dollars for a chance to win fixed prizes ranging from one thousand dollars to a grand prize amount of one million dollars. Ticket sales commenced on July 1, 2007 and ended August 27, 2007. The game is structured for a 50% payout.

Ticket sales total \$401 or 16.04% of the \$2,500 in maximum anticipated sales. Total expenses amounted to \$1,559, resulting in a net loss and negative transfer to the District's General Fund of \$1,160.

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 \$40,398 in 2007 representing a \$613 or 1.54% increase over 2006 sales of \$39,785. The increase in sales can be attributed to the Lottery's concentration on offering higher price point tickets and prize payouts to maintain market share and providing a full complement of available tickets to all agent locations.

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

Management's Discussion and Analysis

September 30, 2007 and 2006

(Dollar amounts in thousands)

Prizes in 2007 totaled \$26,581 and are almost equivalent to the \$26,480 amount expensed in 2006. Overall operating costs, less prizes and commissions, totaled \$5,832 and represent an \$86 decrease from the prior year's amount of \$5,918, primarily due to lower tickets and distribution costs. Transfers to the General Fund of \$4,978 in 2007 and represent an increase of \$558 over the transfer amount of \$4,420 reported in 2006. The increase can be directed attributed to increased gross margin as a result additional sales and lower prize percentage payout.

Instant ticket sales of \$39,785 in 2006 were \$3,675 or 10.18% greater than 2005 sales of \$36,110. Prizes in 2006 totaled \$26,480 and resulted in a \$3,417 or 14.82% increase over the \$23,063 in prizes paid in 2005. Operating costs, less prizes and commissions, totaled \$5,918 and represented a \$438 increase over the prior year's amount of \$5,480, primarily due to higher lower contractual and tickets distribution costs. Transfers to the District's General Fund of \$4,420 represented a decrease of \$430 from the transfer amount of \$4,850 reported in 2005.

The Lottery has been able to stimulate sales over the past few 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 2007 was 65.80% versus 66.56% in 2006.

Interest, Dividends and Other Income

All idle cash of the Lottery is invested through the District's General Fund Pooled Investments Account. Powerball receipts transferred to MUSL to fund major jackpots are invested in securities prior to jackpots being hit and earnings are allocated annually to party lotteries. Interest and dividend income, shown separately in the financial statements decreased \$435 in 2007 and increased by \$724 and \$332 in 2006 and 2005, 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 increased \$697 to \$885 in 2007 from \$188 in 2006. Other income in 2005 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 prior years. Funds were requested and used to write-off delinquent and uncollectible accounts periodically. Funds totaling \$213 and \$121 in 2007 and 2006, respectively, and \$1,163 in 2005, consisting of \$941 transferred from the Miscellaneous Trust Fund and \$222 in funds collected from agents in 2005 were recorded as revenue. Refunds from MUSL as a result of rebalancing reserve funds and distributions of excess contributions by participating members amounted to \$273, \$33, and \$306 in 2007, 2006, and 2005, 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 fess, etc. are not intended to cover costs associated with overseeing program activities.

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

Management's Discussion and Analysis

September 30, 2007 and 2006

(Dollar amounts in thousands)

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, 2007 and 2006

(Dollar amounts in thousands)

Assets	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 8,824	\$ 11,410
Accounts receivable, net	5,728	5,094
Prepaid expenses and other	7	9
Restricted investments	8,631	8,631
Total current assets	<u>23,190</u>	<u>25,144</u>
Non-current assets:		
Capital assets, net	311	382
Restricted investments	38,094	43,953
Total non-current assets	<u>38,405</u>	<u>44,335</u>
Total assets	<u>61,595</u>	<u>69,479</u>
Liabilities		
Current liabilities:		
Accounts payable	2,625	2,754
Compensation liabilities	559	458
Deferred revenues	149	184
Accrued prizes and commissions	7,795	9,795
Other accrued liabilities	(11)	3
Obligations for unpaid prizes - current portion	8,631	8,631
Total current liabilities	<u>19,748</u>	<u>21,825</u>
Obligations for unpaid prizes – noncurrent portion	38,094	43,953
Total liabilities	<u>57,842</u>	<u>65,778</u>
Net Assets		
Invested in capital assets, net of related debt	311	382
Unrestricted	3,442	3,319
Total net assets	<u>\$ 3,753</u>	<u>\$ 3,701</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, 2007 and 2006

(Dollar amounts in thousands)

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Gaming revenues	\$ 256,824	\$ 266,391
Operating expenses:		
Prizes	145,338	146,687
Agents' commissions	15,991	16,534
Contractor fees	13,794	14,410
Advertising	5,361	5,249
Administration	11,653	10,638
Amortization and depreciation	200	389
Total operating expenses	<u>192,337</u>	<u>193,907</u>
Operating income	64,487	72,484
Nonoperating revenues - interest and dividends	<u>940</u>	<u>1,375</u>
Income before transfers	65,427	73,859
Transfers to District General Fund	<u>(65,375)</u>	<u>(73,800)</u>
Change in net assets	52	59
Net assets, beginning of year	<u>3,701</u>	<u>3,642</u>
Net assets, end of year	<u>\$ 3,753</u>	<u>\$ 3,701</u>

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

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

Statements of Cash Flows

Years Ended September 30, 2007 and 2006

(Dollar amounts in thousands)

	<u>2007</u>	<u>2006</u>
Operating activities:		
Cash receipts from customers	\$ 255,271	\$ 265,625
Cash receipts from others	885	188
Cash payments to vendors	(24,735)	(23,820)
Cash payments to employees	(6,114)	(5,545)
Cash payments for prizes and commissions	(163,329)	(160,838)
Net cash provided by operating activities	<u>61,978</u>	<u>75,610</u>
Capital and related financing activities - acquisition of fixed assets	(129)	-
Non-capital financing activities - transfers out	(65,375)	(73,800)
Investing activities - interest and dividends	940	1,375
Net increase (decrease) in cash and cash equivalents	(2,586)	3,185
Cash and cash equivalents - beginning of year	11,410	8,225
Cash and cash equivalents - end of year	<u>\$ 8,824</u>	<u>\$ 11,410</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 64,487	\$ 72,484
Amortization and depreciation	200	389
Decrease (increase) in assets:		
Receivables	(634)	(311)
Inventory	-	369
Prepaid expenses	2	12
Increase (decrease) in liabilities:		
Accounts payable	(129)	536
Compensation liabilities	101	(8)
Deferred revenue	(35)	(267)
Accrued prizes	(2,000)	2,382
Other current liabilities	(14)	24
Net cash provided by operating activities	<u>\$ 61,978</u>	<u>\$ 75,610</u>

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, 2007 and 2006**

(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, 2007 and 2006 respectively, were \$8,824 and \$11,410.

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

**Notes to Financial Statements
September 30, 2007 and 2006**

(Dollar amounts in thousands)

(e) 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

(f) 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.

(g) Prize Expense

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

(h) 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.

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

**Notes to Financial Statements
 September 30, 2007 and 2006**

(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 non-vesting accumulating rights to receive sick pay benefits. At the time of retirement, unused sick pay benefits are credited at the rate of 30 days for each month of service and are added to the retirees' years of service in the retirement programs.

(i) 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, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Due from agents:		
Online games	\$ 1,592	1,374
Instant games	3,635	3,544
Total due from agents	<u>5,227</u>	<u>4,918</u>
Other	<u>501</u>	<u>176</u>
Total accounts receivable	5,728	5,094
Less allowance for doubtful accounts	—	—
Total accounts receivable, net	<u>\$ 5,728</u>	<u>5,094</u>

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

**Notes to Financial Statements
September 30, 2007 and 2006**

(Dollar amounts in thousands)

(4) Capital Assets

A summary of capital assets as of September 30, 2007 and 2006 is as follows:

	<u>Balance as of October 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance as of September 30, 2007</u>
Cost:				
Machinery and equipment	\$ 2,465	\$ 129	\$ --	\$ 2,594
Office furniture and fixtures	20	--	--	20
Leasehold improvements	758	--	--	758
Total cost	<u>3,243</u>	<u>129</u>	<u>--</u>	<u>3,372</u>
Less -- accumulated depreciation				
Machinery and equipment	2,179	147	--	2,326
Office furniture and fixtures	16	3	--	19
Leasehold improvements	666	50	--	716
Total accumulated depreciation	<u>2,861</u>	<u>200</u>	<u>--</u>	<u>3,061</u>
Capital assets -- net	<u>\$ 382</u>			<u>\$ 311</u>
	<u>Balance as of October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance as of September 30, 2006</u>
Cost:				
Machinery and equipment	\$ 3,100	\$ --	635	\$ 2,465
Office furniture and fixtures	321	--	301	20
Leasehold improvements	758	--	--	758
Total cost	<u>4,179</u>	<u>--</u>	<u>936</u>	<u>3,243</u>
Less -- accumulated depreciation				
Machinery and equipment	2,480	334	635	2,179
Office furniture and fixtures	315	2	301	16
Leasehold improvements	613	53	--	666
Total accumulated depreciation	<u>3,408</u>	<u>389</u>	<u>936</u>	<u>2,861</u>
Capital assets -- net	<u>\$ 771</u>			<u>\$ 382</u>

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

**Notes to Financial Statements
 September 30, 2007 and 2006**

(Dollar amounts in thousands)

(5) Multi-State Lottery Association

(a) Background

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

(b) Restricted Investments and Obligations for Unpaid Prizes

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

As of September 30, 2007 and 2006, MUSL had purchased for the Lottery, U.S. government securities aggregating \$54,244 and \$62,875, respectively to fund future installment payments for the Lottery's Lotto-America and Powerball winners.

The market value of these securities was \$46,725 and \$52,584 as of September 30, 2007 and 2006, 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, 2007, the Lottery had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
U.S. Government and Agency Securities	\$46,725	\$9,595	\$25,731	\$10,546	\$ 853

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, 2007, the Lottery had an interest in a SEC 2a7 pooled government cash management fund of \$1,059 and the pool was not rated.

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

**Notes to Financial Statements
September 30, 2007 and 2006**

(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, 2007 and 2006, the total Powerball prize reserve fund was approximately \$70,721 and \$75,927, respectively, of which the Lottery's share was approximately \$1,258 and \$1,452. In addition, the total Powerball set prize reserve fund as of September 30, 2007 and 2006 was approximately \$25,000 and \$26,339, respectively, of which the Lottery's share was approximately \$370 and \$438.

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, 2007, the total Hot Lotto prize reserve fund was approximately \$3,602 of which the Lottery's share was approximately \$166. 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, 2007 and 2006**

(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, 2007 Jackpot	Year ended September 30, 2006 Jackpot
Jackpot prizes payable:		
Due within one year	\$ 8,631	\$ 8,631
Due in subsequent years	38,094	43,953
Total (present value)	46,725	52,584
Add: Interest to maturity	7,519	10,291
Jackpot prizes payable at maturity	\$ 54,244	\$ 62,875

The following schedule presents the changes in prizes payable:

Balance as of October 1, 2005	\$	59,449
Increase		1,766
Decrease		(8,631)
Balance as of September 30, 2006		52,584
Increase		2,772
Decrease		(8,631)
Balance as of September 30, 2007	\$	46,725

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

**Notes to Financial Statements
September 30, 2007 and 2006**

(Dollar amounts in thousands)

(7) Gaming Revenues and Expenses

Gaming revenues and expenses for the fiscal years ended September 30, 2007 and 2006 were as follows:

**Gaming Revenues, Prizes, and Commissions
2007**

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

2006

	Lucky Numbers	D.C. Four	Powerball	Quick Cash	Hot Five	Keno	Hot Lotto	Daily 6	Rolling Cash 5	Instant Games	Others	Total
Gaming revenues	\$ 70,310	\$ 80,014	\$ 51,770	\$ —	\$ 554	\$ 13,165	\$ 2,432	\$ 4,738	\$ 3,435	\$ 39,785	\$ 188	\$ 266,391
Prizes	(34,203)	(47,099)	(24,977)	86	(209)	(7,975)	(1,158)	(2,616)	(2,056)	(26,480)	—	(146,687)
Agent's commissions	(4,541)	(4,643)	(2,828)	3	(33)	(875)	(152)	(293)	(211)	(2,961)	—	(16,534)
Gross margin	\$ <u>31,566</u>	\$ <u>28,272</u>	\$ <u>23,965</u>	\$ <u>89</u>	\$ <u>312</u>	\$ <u>4,315</u>	\$ <u>1,122</u>	\$ <u>1,829</u>	\$ <u>1,168</u>	\$ <u>10,344</u>	\$ <u>188</u>	\$ <u>103,170</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, 2007 and 2006, the Lottery's net transfers to the General Fund of the District were \$65,375 and \$73,800, respectively. The Lottery was in compliance with the Act for the fiscal years ended September 30, 2007 and 2006.

(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.

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

**Notes to Financial Statements
 September 30, 2007 and 2006**

(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 \$93 and \$90 for the years ended September 30, 2007 and 2006, 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 \$230 and \$201 for the fiscal years ended September 30, 2007 and 2006, respectively.

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

(c) *Deferred Compensation Plan*

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

(10) Commitments and Contingencies

(a) *Operating Leases*

The Lottery leased certain facilities under long-term, non-cancelable, and operating leases which expired February 5, 2007. The Lottery currently leases related facilities under a month-to-month basis agreement. There were no future minimum rental commitments as of September 30, 2007.

Rent expense for the fiscal years ended September 30, 2007 and 2006 was as follows:

	2007	2006
Gross rental expense	\$ 1,301	\$ 1,301
Less income from subleases	(170)	(170)
Net rent expense	\$ 1,131	\$ 1,131

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

**Notes to Financial Statements
September 30, 2007 and 2006**

(Dollar amounts in thousands)

(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, 2007 and 2006, future installment payments due to Lucky Lotto winners were approximately \$111 and \$762, respectively. As of September 30, 2007, 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 made final payment for its share of annual installment payments to these Lucky Lotto winners in 2005.

(11) Related Party Transactions

During 2007, 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 \$392 and \$926 in fiscal years 2007 and 2006, 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.

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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 Lottery and Charitable Games Control Board
Washington, D.C.

We have audited the financial statements of the Lottery and Charitable Games Control Board (the Lottery); an enterprise fund of the Government of the District of Columbia (District), as of and for the year ended September 30, 2007 and have issued our report thereon dated February 22, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the Lottery's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lottery's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Lottery's financial statements that is more than inconsequential will not be prevented or detected by the Lottery's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lottery's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 February 22, 2008.

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
February 22, 2008

Thompson, Cobb, Bazilio & Associates, PC

