

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

DISTRICT OF COLUMBIA

**LOTTERY AND CHARITABLE
GAMES CONTROL BOARD**

**Financial Statements and
Management's Discussion and Analysis
(With Independent Auditors' Report Thereon)
Fiscal Years Ended September 30, 2013, and 2012**



**BLANCHE L. BRUCE
INTERIM INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



May 30, 2014

The Honorable Vincent C. Gray
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Gray and Chairman Mendelson:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2013, Bert Smith and Company (BS&C) submitted the enclosed final report on the District of Columbia Lottery and Charitable Games Control Board (Board) for the years ended September 30, 2013, and 2012 (OIG No. 14-1-12DC).

BS&C opined that the financial statements present fairly, in all material respects, the financial position of the Board as of September 30, 2013, and 2012, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Accounting Standards*, BS&C also issued its report on consideration of the Board's internal control over financial reporting and on its tests of the Board's compliance with certain provisions of laws, regulations, contracts, and other matters. BS&C did not identify any deficiencies in internal control considered to be material weaknesses. Deficiencies identified last year have been corrected and are noted as such in this report. Finally, the results of tests conducted disclosed no instances of noncompliance or other matters that are required to be reported under *Government Accounting Standards*.

Mayor Gray and Chairman Mendelson
FY 2013 D.C. Lottery and Charitable Games and
Control Board Financial Statements and
Independent Auditors' Report
OIG No. 14-1-12DC- Final Report
May 30, 2014
Page 2 of 4

If you have questions or need additional information, please contact me or Ronald W. King,
Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Blanche L. Bruce
Interim Inspector General

BLB/ws

Enclosure

cc: See Distribution List

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Mayor Gray and Chairman Mendelson
FY 2013 D.C. Lottery and Charitable Games
and Control Board Financial Statements and
Independent Auditors' Report
OIG No. 14-1-12DC– Final Report
May 30, 2014
Page 4 of 4

The Honorable Barbara Mikulski, Chairwoman, Senate Committee on Appropriations,
Attention: Kali Matalon (via email)
The Honorable Richard Shelby, Ranking Member, Senate Committee on Appropriations,
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**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)**

SEPTEMBER 30, 2013 AND 2012

BERTSMITH
& Co.

Certified Public Accountants and Management Consultants

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
SEPTEMBER 30, 2013 and 2012

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-13
<u>Basic Financial Statements</u>	
Statements of Net Position.....	14
Statements of Revenues, Expenses, and Changes in Net Position.....	15
Statements of Cash Flows.....	16
Notes to Financial Statements.....	17-27
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28-29
Schedule of Prior Year Findings.....	30



INDEPENDENT AUDITORS' 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.

Report on the Financial Statements

We have audited the accompanying statements of net position of the District of Columbia Lottery and Charitable Games Control Board (the Lottery), an enterprise fund of the Government of the District of Columbia, as of and for the years ended September 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

Management Responsibility for the Financial Statements

The Lottery's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of September 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

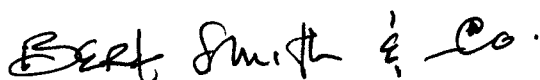
Other Matters

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 13, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Boards, who considers it to be an essential part of the financial reporting for placing the basic financial statement in an appropriate operational, economic or historic context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2014 on our consideration the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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* in considering the Lottery's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Bert Smith & Co." with a stylized flourish at the end.

Washington, D.C.
January 28, 2014

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013 and 2012
(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, 2013 and 2012. This discussion and analysis should be read in conjunction with the attached financial statements.

Background and Other Significant Information

The Lottery was established by Public Law 3-172 as an independent agency of the Government of the District of Columbia (District). In accordance with law, the Lottery is responsible for generating revenues through the sale of lottery products and is 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 \$7,215 or 2.89% from the prior year amount.
- The Agency generated ticket sales of \$242,430 for a decrease of \$7,202 or 2.89% less than the prior year total of \$249,632.
- Total operating expenses decreased by \$9,052 or 4.94% primarily because of lower prize payouts and agent/retailer commissions.
- The prize payouts in 2013 decreased by \$7,888 or 5.74% compared to 2012 and reflected a payout rate of 53.39% of ticket sales versus 55.01% the prior year.
- The contractor's fees were reduced by \$83 or 0.71% from the prior year.
- Transfers to the District's General Fund increased by \$1,910, equivalent to 2.88% over the prior year's total.

To effectively understand the Lottery's operations and to assess its financial activities, the reader must be aware of individual game sales, related prize expenses and payout percentages, the impact on change in net position and resulting transfer to the District's General Fund. Prize payouts and the volume of Powerball and Mega Million sales have the most dramatic impact 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 Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These statements present financial information in a form that is similar to that used by commercial entities.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2013 and 2012
(*Dollar Amounts in Thousands*)

The Lottery's net position (the difference between assets and liabilities) is an indicator of the improvement or erosion of financial health. The Statement of Net Position includes 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 Statement of Revenues, Expenses and Changes in Net Position 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 Statement 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 position increased by \$45, \$108 and \$68 for the years ended September 30, 2013, 2012 and 2011, respectively. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2013, 2012, and 2011.

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

	September 30		
	2013	2012	2011
Assets:			
Current and Other Assets	\$ 15,482	\$ 14,294	\$ 15,434
Capital Assets (net of accumulated depreciation)	427	480	478
Restricted Investments	10,200	16,381	22,912
Total Assets	<u>\$ 26,109</u>	<u>\$ 31,155</u>	<u>\$ 38,824</u>
Liabilities:			
Accounts Payable and Accrued Expenses	\$ 4,762	\$ 4,222	\$ 3,407
Deferred Revenues	136	99	208
Accrued Prizes and Commissions	6,879	6,366	8,318
Obligations for Unpaid Prizes – Short-term	4,010	7,306	6,878
Obligations for Unpaid Prizes – Long-term	6,190	9,075	16,034
Total Liabilities	<u>\$ 21,977</u>	<u>\$ 27,068</u>	<u>\$ 34,845</u>
Net Position:			
Net Investment in Capital Assets	\$ 427	\$ 480	\$ 478
Unrestricted	3,705	3,607	3,501
Total Net Position	<u>\$ 4,132</u>	<u>\$ 4,087</u>	<u>\$ 3,979</u>

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2013 and 2012
(*Dollar Amounts in Thousands*)

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

	Years Ended September 30		
	2013	2012	2011
Operating Revenues:			
Gaming Revenues	\$ 242,460	\$249,675	\$231,749
Operating Expenses:			
Prizes	129,425	137,313	125,860
Other	44,708	45,872	43,666
Total Operating Expenses	174,133	183,185	169,526
Operating Income	68,327	66,490	62,223
Non-operating Revenues – Interest and Dividends Income before Transfers	32	22	20
	68,359	66,512	62,243
Transfers to the District's General Fund	(68,314)	(66,404)	(62,175)
Change in Net Position	\$ 45	\$ 108	\$ 68

Unrestricted net position was \$3,705, \$3,607, and \$3,501 at September 30, 2013, 2012 and 2011, which represent an increase of \$98, \$106 and \$169 respectively. Current and other assets increased by \$1,188 in 2013, decreased by \$1,140 in 2012 and \$400 in 2011, respectively. Total liabilities decreased \$5,091 or 18.81%, \$7,777 or 22.32% and \$6,875 or 16.48% for years ended September 30, 2013, 2012 and 2011, respectively, and primarily the result of decreases in the Lottery's obligations for unpaid prizes. The Multistate 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 \$10,200, \$16,381 and \$22,912 in 2013, 2012 and 2011, respectively, represents the net present value of securities totaling \$10,522, \$16,780 and \$23,653 in 2013, 2012 and 2011, respectively, to fund future annuity installment payments. The restricted investments value decreased by \$6,181, \$6,531 and \$6,306 during 2013, 2012 and 2011 respectively, due to payments of \$6,248, \$6,875 and \$6,873, net of unrealized gains of \$255, \$492 and \$630 in 2013, 2012 and 2011, respectively. Accretion of investments totaled negatives of \$188 in 2013, \$150 in 2012 and \$63 in 2011, respectively. Corresponding amounts are recorded as obligations for unpaid prizes.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2013 and 2012
(*Dollar Amounts in Thousands*)

Table 3: Gaming Revenues, Prizes, Commissions and Transfers
(*In Thousands*)

Index Class	Gaming Revenue	Prizes	Agents' Commissions	Contractor Fee	Advertising	Gross Margin	Transfers
Fiscal Year 2013							
DC 3	49,113	(26,080)	(3,160)	-	-	19,873	19,128
DC DAILY SIX	-	-	-	-	-	-	-
DC FIVE	16,151	(6,917)	(902)	-	-	8,332	6,171
DC FOUR	60,055	(25,599)	(3,609)	-	-	30,847	25,169
FAST PLAY	9,100	(4,546)	(644)	-	-	3,910	583
HOT LOTTO	3,395	(1,653)	(160)	-	-	1,582	1,021
INSTANT	57,157	(40,346)	(4,288)	-	-	12,523	5,047
KENO	11,793	(7,712)	(814)	-	-	3,267	2,937
MEGA MILLION	6,195	(3,091)	(349)	-	-	2,755	1,706
POWERBALL	20,592	(8,311)	(1,104)	-	-	11,177	5,386
RACE 2 RICHES	8,076	(5,081)	(560)	-	-	2,435	1,060
TAP-N-PLAY	803	(89)	(7)	-	-	707	105
OTHER	30	-	-	-	-	-	-
Total	242,460	(129,425)	(15,597)	(11,681)	(6,036)	79,721	68,314
Fiscal Year 2012							
DC 3	53,070	(26,707)	(3,689)	-	-	22,674	17,040
DC DAILY SIX	-	9	-	-	-	9	9
DC FIVE	15,098	(7,331)	(848)	-	-	6,919	5,189
DC FOUR	65,668	(32,433)	(3,975)	-	-	29,260	22,589
FAST PLAY	5,724	(3,993)	(403)	-	-	1,328	892
HOT LOTTO	2,747	(874)	(210)	-	-	1,664	1,432
INSTANT	59,940	(39,668)	(4,423)	-	-	15,848	5,709
KENO	12,478	(8,095)	(856)	-	-	3,527	2,303
MEGA MILLION	10,628	(5,413)	(567)	-	-	4,648	3,595
POWERBALL	17,136	(7,927)	(939)	-	-	8,271	6,576
RACE 2 RICHES	7,143	(4,881)	(495)	-	-	1,767	1,070
OTHER	43	-	-	-	-	-	-
Total	249,675	(137,313)	(16,404)	(11,764)	(5,743)	78,451	66,404
Fiscal Year 2011							
DC 3	53,383	(26,395)	(3,448)	-	-	23,540	17,075
DC DAILY SIX	486	(113)	(27)	-	-	346	305
DC FIVE	12,877	(5,191)	(714)	-	-	6,972	5,590
DC FOUR	65,368	(32,711)	(3,840)	-	-	28,817	21,615
FAST PLAY	2,085	(1,379)	(145)	-	-	561	385
HOT LOTTO	3,324	(1,603)	(188)	-	-	1,533	1,210
INSTANT	56,106	(37,584)	(4,156)	-	-	14,366	5,700
KENO	11,545	(7,362)	(783)	-	-	3,400	2,165
MEGA MILLION	8,685	(4,480)	(466)	-	-	3,739	2,585
POWERBALL	13,923	(6,548)	(750)	-	-	6,625	5,075
RACE 2 RICHES	3,675	(2,494)	(252)	-	-	929	470
OTHER	292	-	-	-	-	-	-
Total	231,749	(125,860)	(14,769)	(11,277)	(5,684)	74,159	62,175

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2013 and 2012
(*Dollar Amounts in Thousands*)

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 \$242,460, \$249,675 and \$231,749 in fiscal years 2013, 2012 and 2011, respectively. Prize expenses decreased \$7,888 or 5.74% in 2013, increased \$11,453 or 9.1% in 2012 and increased \$6,928 or 5.83% in 2011. Total prize payouts as a percentage of gaming revenue was 53.38%, 55% and 54.31% in 2013, 2012 and 2011, respectively. Agents' commissions decreased \$807 in 2013, increased \$1,635 in 2012 and increased by \$291 in 2011, respectively, due to the respective decreases and increases in ticket sales and prize payouts.

DC THREE

DC Three 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. In 2013, sales totaled \$49,113 for a \$3,957 or 7.46% reduction over 2012. Sales in 2012 were \$53,070 for a \$313 or 0.59% reduction over 2011. Sales were \$53,383 in 2011 for a \$2,978 or 5.28% decline from the 2010 sales level of \$56,361. The game continues to be impacted by the economic downturn and demographic changes in the District's population. The Lottery Board continues to strategically implement marketing and promotional campaigns in an attempt to stabilize and enhance sales for the game.

Prizes amounted to \$26,080 in 2013, for a \$627 or 2.35% decrease over the prior year. Prizes amounted to \$26,707 in 2012, for a \$312 or 1.18% increase over 2011. Prizes amounted to \$26,395 in 2011, for a \$2,771 or 9.50% decrease from the \$29,166 expensed in 2010. The agent/retailer commission expense decreased by \$807 primarily due to the noted decrease in sales. Net proceeds to the District's General Fund in 2013 totaled \$19,128 for a \$2,088 or 12.25% increase compared to the prior year. The transfer in 2012 was \$17,040 or a 0.2% reduction compared to 2011. Transfer was \$17,075 in 2011 and represented a \$625 or 3.80% increase over the \$16,450 generated in 2010. The DC Three game accounted for 20.3% of total gaming revenue and 24.89% of the overall gross margin. The game reflected a decrease of 1% in gaming revenue percentage contribution and a decrease of 4.0% in gross margin percentage contribution due to lower sales, prizes and agent/retailer commissions than prior year totals.

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 \$60,055 in 2013 for a \$5,613 or 8.55% decrease of the 2012 tickets sales of \$65,668. Ticket sales were \$65,668 in 2012 for a \$300 or 0.46% increment over 2011 ticket sales of \$65,368. Ticket sales in 2011 were \$3,251 or a 4.74% decrease from the \$68,619 generated in 2010. The game continues to be impacted by economic conditions, demographic changes in the District and sales erosion to the DC Five game.

Prizes in 2013 totaled \$25,599, a reduction of \$6,834 or 21.07% from the prior year. FY 2012 total prize expense was \$32,433 representing a \$278 or 0.85% reduction over the \$32,711 paid out in 2011. In 2011, prizes represented an increase of \$4,148 or 14.52% over 2010. Transfers to the District's General Fund in 2013 totaled \$25,169 for a \$2,580 or 11.42% increase from the \$22,589 transferred in 2012. Transfers to the District's General Fund in 2012 represented a \$974 or 4.5% increase over the \$21,615 transferred in 2011. In 2011, the transfer totaled \$21,615 for a \$6,010 or 21.76% decrease from the \$27,625 transferred in 2010. The decrease in prize payouts and other operating costs account for the increase in the transfer amount. The DC Four game was responsible for 24.77% of total gaming revenue and 38.6% of the overall gross margin. The 1.53% decrease in gaming revenue contribution rate and 1.34% increase in gross margin contribution percentages from over the prior year amounts can be directly associated to lower ticket sales and prizes.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2013 and 2012
(*Dollar Amounts in Thousands*)

DC FIVE

DC Five is a daily five-digit game with a fixed payout. Players may wager 50 cents or one dollar for a chance to win thirteen different ways. Players select a number within the range 00000 to 99999. Tickets may be purchased for the next draw or up to seven consecutive draws for the mid-day and nightly drawings. Players also have the option for advance day play. This feature allows a player to place a bet for a specific day in the future. The DC Five game was launched effective July 19, 2009.

In 2013, ticket sales totaled \$16,151 which represents a \$1,053 or 6.97% increase over the prior year. Prizes and agent/retailer commissions in 2013 amounted to \$6,917 and \$902, respectively. The result was a decrease in prizes of \$414 or 5.65% and an increase to commissions of \$54 or 6.37% over the prior year. The game generated \$6,171 in transfer to the District's General Fund in 2013 or \$902 or 15.91% more than 2012. The decrease in prize payouts essentially accounts for the increase in the transfer.

Sales totaled \$15,098 in 2012 which represented a \$2,221 or 17.25% increase over 2011's total of \$12,877. Ticket sales totaled \$12,877 in 2011 and represented a \$1,485 or 13.04% increase over 2010. Prizes and agent/retailer commissions in 2012 and 2011 amounted to \$7,331 and \$5,191 and \$848 and \$714. The game generated \$5,189 and \$5,590 in transfer to the District's General Fund in 2012 and 2011, respectively.

POWERBALL

The Powerball game is a five out of fifty-nine plus one out of thirty-nine online lottery game that pays a grand prize on an annuitized pari-mutuel basis or as a cash lump sum payment and all other prizes on a fixed basis. All annuitized prizes are paid in thirty annual graduated installments. The Powerball game is sponsored by the Multi-State Lottery Association (MUSL), a conglomerate of thirty states, the District of Columbia and Virgin Islands, that combines resources and sales to offer larger jackpots. Party lotteries pool their sales and other resources, but otherwise account for operations separately. The latest prize structure matrix change to the game was January 4, 2009.

Powerball sales totaled \$20,592 in 2013 representing a 3,456 or 20.17% increase over the \$17,136 generated in 2012. The increase in ticket sales can be attributed to the number of higher jackpots that increased player participation and sales volume. Powerball sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$8,311 in 2013 representing a \$384 or 4.84% increase over the \$7,927 expensed in 2012. Powerball prizes are expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Prize expense increased due to higher sales intake in 2013. The increase in ticket sales, plus the increase in prizes and operating costs accounts for the \$1,190 decrease in transfer to the District's General Fund to \$5,386 from the \$6,576 transferred in 2012.

Powerball sales totaled \$17,136 in 2012 representing a \$3,213 or 23.08% increase from the \$13,923 generated in 2011. The Multi-State Lottery Association and Mega Millions conglomerates agreed to allow respective member states to cross sell tickets in January 2010. The increment in ticket sales can be attributed to the number of higher jackpots that increased player participation and sales volume. Powerball sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$7,927 in 2012 representing a \$1,378 or 21.05% increase over the \$6,548 expensed in 2011. Prize expense increased due to higher sales intake in 2012 and was reduced by lapsed prizes. The increase in ticket sales offset by lower operating costs accounts for the \$1,501 increment in transfer to the District's General Fund to \$6,576 from the \$5,075 transferred in 2011.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2013 and 2012
(*Dollar Amounts in Thousands*)

Prizes amounted to \$6,548 in 2011 representing a \$2,773 or 29.75% decrease from the \$9,321 expensed in 2010. Powerball prizes are expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Prize expense decreased proportionate to sales intake in 2011 and was further reduced by lapsed prizes. The decrease in ticket sales and other income offset by lower operating costs accounted for the \$1,950 reduction in transfer to the District's General Fund to \$5,075 from the \$7,025 transferred in 2010.

MEGA MILLIONS

The Mega Millions game is a five out of fifty-six plus one out of forty-six online lottery game that pays a grand prize or a cash lump sum payment and all other prizes on a fixed basis. All annuity prizes are paid in twenty-six annual installments. Some states offer a megaplier feature to increase non-jackpot prizes by 2, 3, or 4 times. The Mega Millions game is sponsored by the Mega Millions Group, a conglomerate of twelve states, and participating MUSL members that combine resources and sales to offer larger jackpots. All Mega Millions transactions of the Lottery are handled through the Multi-State Lottery Association. Party lotteries pool their sales and other resources, but otherwise account for operations separately. The Lottery began selling Mega Millions tickets effective January 31, 2010.

Mega Million sales totaled \$6,195 in 2013 representing a \$4,433 or 41.71% decrease of the \$10,628 generated in 2012. The decrease in ticket sales can be attributed to the lack of high jackpots that increases player participation and sales volume. Mega Million sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$3,091 in 2013 representing a \$2,322 or 42.90% decrease of the \$5,413 expensed in 2012. Prizes were expensed at the rate of 49.89% of overall ticket sales in 2013. The noted decrease in ticket sales offset by overall operating costs resulted in a transfer to the District's General Fund of \$1,707 in 2013 or \$1,888 less than the \$3,595 produced in 2012.

Mega Millions sales totaled \$10,628 in 2012 representing a \$1,943 or 22.37% increase over the \$8,685 generated in 2011. The increase in ticket sales can be attributed to the number of higher jackpots that increased player participation and sales volume. Mega Million sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$5,413 and \$4,480 respectively, in 2012 and 2011. Mega Millions prizes were expensed at rates ranging from 50.0% to 52.5% of regular and megaplier sales 2012 and 2011. Ticket sales offset by overall operating costs resulted in a transfer to the District's General Fund of \$3,595 in 2012 or \$1,010 more than the \$2,585 produced in 2011.

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. The Keno game continues to be impacted by the changing demographics in the District of Columbia, inability to add new social settings and the economy. The Keno game is offered at all agent/retailers locations and experienced some cannibalization to Lottery's new Race 2 Riches game. The game continues to be marketed through targeted awareness and promotional campaigns.

Ticket sales for Keno totaled \$11,793 in 2013 representing a \$685 or 5.49% decrease of the 2012 sales total of \$12,478. Prizes expense decreased by \$383 to \$7,712 in 2013 when compared to the \$8,095 expensed in 2012. Agent/retailer commissions totaled \$814 or 4.91% less than the \$856 expensed in 2012. Transfers to the District's General Fund increased \$634 to \$2,937 in 2013 from the \$2,303 transferred in 2012. The increase in transfer can be attributed to lower prize, commissions and operating expense.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2013 and 2012
(*Dollar Amounts in Thousands*)

Ticket sales for Keno totaled \$12,478 in 2012 representing a \$933 or 8.08% increase over the 2011 sales total of \$11,525. Prizes expense increased by \$733 to 8,095 in 2012 when compared to the \$7,362 expensed in 2011. Overall operating expenses excluding prizes increased by a net amount of \$82 representing an increase to advertising costs to market and promote the game offset by decreases in other expenses in proportion to sales decline. Transfers to the District's General Fund increased \$138 to \$2,303 in 2012 from the \$2,165 transferred in 2011.

Keno sales totaled \$11,545 in 2011 representing a \$1,037 or 8.24% decline from the 2010 sales total of \$12,582. Prizes expense decreased by \$621 to \$7,362 in 2011 when compared to the \$7,983 expensed in 2010. Overall operating expenses excluding prizes increased, representing an increase in agent's commission, contractor fees and an offset by lower advertising cost. Transfers to the District's General Fund decreased \$335 to \$2,165 in 2011 from the \$2,500 transferred in 2010.

HOT LOTTO

Hot Lotto is a five out of thirty-nine plus one out of nineteen online lottery game that pays a grand prize, at the election of the player at time of ticket purchase, either on an annuitized pari-mutuel or cash option basis. All other prizes are paid on a fixed basis. Prizes are expensed at the rate of 50.0% of sales intake less lapsed prizes. The Hot Lotto game is sponsored by the Multi-State Lottery Association (MUSL), a conglomerate of thirteen states and the District of Columbia, which combines resources and sales to offer larger jackpots. The initial jackpot starts at \$1 million and drawings are held every Wednesday and Saturday. Party lotteries pool their sales and other resources, but otherwise account for operations separately.

Hot Lotto ticket sales increased to \$3,395 in 2013, representing a \$648 or 23.59% increase over the \$2,747 generated in 2012. The increase in sales in 2013 over the prior year's total is primarily the result of higher jackpots. The prize expense increased from 31.81% to 48.68%. The agent/retailer commission expenses totaled \$160 and reflected a \$50 or 23.81% decrease in 2013 of the \$210 expensed in 2012. The advertising cost reduced by over 69% while the professional services fees decreased by almost 27%. Other operating expenses essentially remained the same as prior year amounts. The \$411 decrease in transfers to the District's General Fund in 2013 to \$1,021, less than the 2012 transfer amount of \$1,432 can be primarily attributed to the huge increase in the game prize expense.

Hot Lotto ticket sales dropped to \$2,747 in 2012, representing a \$577 or 17.35% decrease over the \$3,324 generated in 2011. The drop in sales in 2012 over prior year's total is primarily the result of lower jackpots. Prize expense was reduced to half and the agents/retailer commission expenses totaled \$210 and reflected a \$21.75 or 11.57% increase in 2012 over the \$188 expensed in 2011. The advertising cost reduced by over 300% while the professional services fees increased by almost 280%. Other operating expenses essentially remained the same as prior year amounts. The \$222 increase in transfers to the District's General Fund in 2012 to \$1,432 over the 2011 transfer amount of \$1,210 can be primarily attributed to huge drop in advertising costs and the game prize expense.

Ticket sales amounted to \$3,324 in 2011, representing a \$453 or 15.78% increase over the \$2,871 generated in 2010. The increase in sales in 2012 over prior year's total is primarily the result of higher jackpots. Prizes and agent/retailer commissions expenses totaled \$1,791 and reflected a \$249 or 16.15% increase in 2011 over the \$1,542 expensed in 2010. Other operating expenses essentially remained the same as prior year amounts. The \$210 increase in transfers to the District's General Fund in 2011 to \$1,210 over the 2010 transfer amount of \$1,000 can be primarily attributed to increase in sales offset by proportionate increase in prizes and agent/retailer commissions.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2013 and 2012
(*Dollar Amounts in Thousands*)

DC DAILY SIX

The DC 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.

Ticket sales for the DC Daily Six game were discontinued effective November 22, 2010 and associated gaming revenue amounted to \$486 in 2011. Prizes and other operating expenses totaled \$181 resulting in transfers to the District's General Fund of \$305. The game was replaced by the Race 2 Riches game in the lottery's portfolio of games. In 2013, there was no revenue for this game. The only transaction for this game in FY 2012 was a reduction in prize expenses and that resulted in a transfer of \$9 in 2012.

RACE 2 RICHES

Race 2 Riches is an interactive horseracing game with the opportunity to win up to \$1,000. Drawings or races are held every four minutes seven days a week during regular operating hours. The Race 2 Riches game was launched effective November 23, 2010.

Race 2 Riches ticket sales amounted to \$8,076 in 2013, representing a \$933 or 13.06% increase over the \$7,143 generated in 2012. The increase in sales in 2013 over the prior year's total is primarily because of increased visibility in retailer/ agent locations as well as equipment expansion. Prize expense increased to \$5,081 in 2013 from \$4,881 in 2012 which represented a \$200 or 4.10% increase over 2012. The \$10 decrease in transfers to the District's General Fund in 2013 to \$1,060, is less than the 2012 transfer amount of \$1,070. The decrease in the transfer can be primarily attributed to the increased game prize expense.

Race2Riches ticket sales amounted to \$7,143 in 2012, representing a \$3,467 or 94.34% increase over the \$3,675 generated in 2011. The increase in sales in 2012 over prior year's total is primarily because Race2Riches was run for a full year in 2012 as against the 10 months in 2011. Prize expense increased from \$4,881 in 2012 from \$2,494 in 2011 which represented \$2,387 or 95.73% increase over 2011. Other operating expenses also went up by 66.37% when compared to 2011. The \$601 increase in transfers to the District's General Fund in 2012 to \$1,071 over the 2011 transfer amount of \$470 can be primarily attributed to huge jump in sales activity levels.

FAST PLAY

Fast Play games are a series of instant-style games printed and played through agents/retailers online terminals. Fast Play tickets have a variety of games and each ticket is randomly drawn from a separate pool of tickets. Tickets cost and prizes vary depending on the version of game played. The Fast Play games' prizes are set at a fixed payout level. The player asks the agent/retailer for a specific type of Fast Play game and the ticket is generated at the terminal. The player knows immediately if he/she is a winner or not. Fast Play games were launched effective April 3, 2011.

Ticket sales amounted to \$9,100 in 2013, an increase of \$3,376 or 58.98% over the \$5,724 in 2012. The \$5,724 in 2012 represents an increase of \$3,639 over the \$2,085 for the approximate six months of operations in 2011. Prize and agent/retailer commissions totaled \$5,190, \$4,396 and \$1,524 for 2013, 2012 and 2011, respectively. Transfer to the District's General Fund amounted to \$583, \$892 and \$385 for 2013, 2012 and 2011, respectively.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2013 and 2012
(*Dollar Amounts in Thousands*)

TAP-N-PLAY

Tap-N-Play games are touch activated, interactive, instant win style online games played through self-service terminal (MP). Players use the touch screen of the terminal to choose the games and game parameters (price points, numbers, play board etc.). The games are presented in high-quality graphic animations and sounds.

Tap-N-Play games launched on April 5, 2013, with 2 games, and are being expanded to accommodate various play styles and themes. Currently, D.C. Lottery offers eight (8) different types of games with \$1, \$2, \$3, \$5, \$10 and \$20 price points. Play style includes number/symbol match, bingo, reveal symbol, double or nothing and high/low. Overall odds of winning are 1 in 3.66.

Ticket sales amounted to \$803 for the five (5) months in 2013. The prize expense was \$89 and amounted to an 11.08% payout rate. Agent/retailer commissions were \$7. Transfers to the District's General Fund were \$105 and represented 13.08% of sales for 2013.

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 \$57,157 in 2013 representing a \$2,783 or 4.64% decrease of the 2012 sales of \$59,940.

Prizes in 2013 totaled \$40,346 for a \$678 or 1.71% increase over the \$39,668 expensed in 2012. Agent/retailer commissions totaled \$4,288 in 2013 for a \$135 or 3.05% decrease from the \$4,423 expensed in 2012. Transfers to the District's General Fund decreased to \$5,047 in 2013, less than the \$5,709 generated in 2012. This was primarily the result of a decrease in game revenue and an increase in game prize expense.

Prizes in 2012 totaled \$39,668 for a \$2,803 or 5.54% increase over the \$37,584 expensed in 2011. Overall operating costs, less prizes and agents/retailer commissions totaled \$7,357 and represented a \$1,597 increase over the \$5,760 expensed in 2011. The \$1,597 increase in other operating costs can be attributed to a significant higher advertising, gaming contractor fees and administrative cost allocations to the game. Transfers to the District's General Fund increased \$9 to \$5,709 in 2012 over the \$5,700 generated in 2011 as a result of ticket sales increase.

Instant ticket sales amounted to \$56,106 in 2011 representing a \$6,134 or 12.27% increase over 2010 sales of \$49,972. Prizes in 2011 totaled \$37,584 for a \$3,702 or 10.93% increase over the \$33,882 expensed in 2010. Overall operating costs, less prizes and agent/retailer commissions totaled \$8,654 and represented a \$1,233 increase over the \$7,421 expensed in 2010. The \$1,233 increase in other operating costs can be attributed to higher gaming contractor fees, advertising and administrative cost allocations to the game. Transfers to the District's General Fund increased \$855 to \$5,700 in 2011 over the \$4,845 generated in 2010 as a result of ticket sales increase.

The Lottery has been able to stimulate sales through a combination of offering higher price point games, designing games with higher prize payouts to increase winning opportunities for players, and providing a full complement of available tickets at all agent locations. The prize payout rate averaged 70.58% and 66.18% as a percentage of tickets sold in 2013 and 2012, respectively. The D.C. Lottery lost its instant tickets vendor contract in July, 2013.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2013 and 2012
(*Dollar Amounts in Thousands*)

INTEREST, DIVIDENDS AND OTHER INCOME

All idle cash of the Lottery is invested through the District's General Fund Pooled Investments Account. Powerball receipts transferred to MUSL to fund major jackpots are invested in securities prior to jackpots being hit and earnings are allocated annually to party lotteries. Interest and dividend income, shown separately in the financial statements, has increased by \$10 and \$2, and decreased by \$5 in 2013, 2012 and 2011, respectively. Interest income has been severely impacted by market conditions, the national economy, and other factors beyond the control of individual entities.

Other income decreased \$13 to \$30 in 2013. It also decreased \$248 to \$43 and \$161 to \$291 in 2012 and 2011. Collection of bonding fees receipts from agents was discontinued during the fiscal year 2011 and totaled \$28 in 2010. Refunds from MUSL as a result of rebalancing reserve funds and distributions of excess contributions by participating members amounted to \$0, \$0, and \$236 in 2013, 2012, and 2011 respectively.

Charitable Gaming Activities

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

Contacting the Lottery

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2013 and 2012
(Dollar Amounts in Thousands)

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 8,856	\$ 8,007
Accounts Receivable, net	6,619	6,282
Prepaid Expenses and Other	7	5
Restricted Investments	4,012	7,306
Total Current Assets	<u>19,494</u>	<u>21,600</u>
Non-current Assets:		
Capital Assets, net	427	480
Restricted Investments	6,188	9,075
Total Non-current Assets	<u>6,615</u>	<u>9,555</u>
Total Assets	<u>26,109</u>	<u>31,155</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	3,205	2,451
Compensation Liabilities	423	399
Unearned Revenue	136	99
Accrued Prizes and Commissions	6,879	6,366
Other Accrued Liabilities	719	956
Obligations for Unpaid Prizes - Current Portion	4,010	7,306
Total Current Liabilities	<u>15,372</u>	<u>17,577</u>
Non-current Liabilities:		
Obligations for Unpaid Prizes - Noncurrent Portion	6,190	9,075
Compensated Absences	415	416
Total Non-current Liabilities	<u>6,605</u>	<u>9,491</u>
Total Liabilities	<u>21,977</u>	<u>27,068</u>
Net Position		
Net Investment in Capital Assets	427	480
Unrestricted	<u>3,705</u>	<u>3,607</u>
Total Net Position	<u>\$ 4,132</u>	<u>\$ 4,087</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 POSITION
YEARS ENDED SEPTEMBER 30, 2013 and 2012
(Dollar Amounts in Thousands)

	2013	2012
Operating Revenues		
Instant Games	\$ 57,157	\$ 59,940
On-Line Games	185,273	189,692
License and Permit Fees	30	43
	<hr/>	<hr/>
Total Operating Revenues	242,460	249,675
	<hr/>	<hr/>
Operating Expenses		
Prizes	129,425	137,313
Agent Commissions	15,597	16,404
Contractor Fees	11,681	11,764
Advertising	6,036	5,743
Total Direct Costs	162,739	171,224
	<hr/>	<hr/>
Salaries	6,657	6,939
Professional	1,369	1,148
Administration	3,162	3,678
Depreciation	206	196
	<hr/>	<hr/>
Total Operating Expenses	174,133	183,185
	<hr/>	<hr/>
Operating Income	68,327	66,490
Interest Income	32	22
	<hr/>	<hr/>
Net Income Before Transfers	68,359	66,512
Transfer to General Fund	(68,314)	(66,404)
	<hr/>	<hr/>
Change In Net Position	45	108
	<hr/>	<hr/>
Net Position, Beginning of Year	4,087	3,979
	<hr/>	<hr/>
Net (Deficit) Position, End of Year	<u>\$ 4,132</u>	<u>\$ 4,087</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, 2013 and 2012
(Dollar Amounts in Thousands)

	<u>2013</u>	<u>2012</u>
Operating Activities:		
Cash Receipts from Customers	\$ 242,129	\$ 248,684
Cash Receipts from Others	30	43
Cash Payments to Vendors	(21,731)	(21,406)
Cash Payments to Employees	(6,634)	(7,047)
Cash Payments for Prizes and Commissions	(144,510)	(155,669)
Net Cash Provided by Operating Activities	<u>69,284</u>	<u>64,605</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of Fixed Assets	(153)	(198)
Net Cash Used in Capital and Related Financing Activities	<u>(153)</u>	<u>(198)</u>
Cash Flows From Non-Capital Financing Activities		
Transfers Out to the General Fund	(68,314)	(66,404)
Net Cash Used in Non-Capital Financing Activities	<u>(68,314)</u>	<u>(66,404)</u>
Cash Flows From Investing Activities		
Interest and Dividends	32	22
Net Cash Provided By Investing Activities	<u>32</u>	<u>22</u>
Net Increase (Decrease) in Cash	849	(1,975)
Cash and Cash Equivalents - Beginning of Year	8,007	9,982
Cash and Cash Equivalents - End of Year	<u>\$ 8,856</u>	<u>\$ 8,007</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 68,327	\$ 66,490
Amortization and Depreciation	206	196
<i>Decrease (Increase) in Assets:</i>		
Receivables	(337)	(840)
Prepaid Expenses	(2)	5
<i>Increase (Decrease) in Liabilities:</i>		
Accounts Payable	754	956
Compensation Liabilities	23	(25)
Deferred Revenue	37	(109)
Accrued Prizes	513	(1,952)
Other Current Liabilities	(237)	(116)
Net Cash Provided by Operating Activities	<u>\$ 69,284</u>	<u>\$ 64,605</u>
Non-cash Investing and Financing Activities:		
Obligations for Unpaid Prizes by Restricted Investments	<u>\$ 10,200</u>	<u>\$ 16,381</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, 2013 and 2012
(Dollar Amounts in Thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *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.

(b) *Measurement Focus and Basis of Accounting*

The Lottery's basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The economic measurement focus reports all assets and liabilities associated with the operations and are included on the Statements of Net Position.

(c) *New Accounting Standards Adopted*

In fiscal year 2013, the Lottery implemented the following new accounting standards:

- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

This statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements, issued on or before November 30, 1989 which do not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB)
- Accounting Principle Board Opinions; and
- Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee or Accounting Procedures

This statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 in that statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

The implementation of GASB Statement Number 62 had no reporting impact on the Lottery's net position or changes in net position for the year ended September 30, 2013 and 2012.

The requirements of this statement are effective for periods beginning after December 15, 2011, the Lottery's fiscal year 2013.

- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

Concept Statement No. 4, Elements of Financial Statements, introduced and deferred those elements as a consumption of net position that is applicable to a future period, and an acquisition of net position that is applicable to a future reporting period, respectively.

Concept Statement No. 4 also identifies net position as the residual of all elements presented in a statement of financial position. This statement amends the net asset reporting requirements in Statement No. 34 and other pronouncements by incorporating deferred outflows and deferred inflows of resources into the components of the residual measure and remaining measure net position rather than net assets.

The financial reporting impact resulting from the implementation of GASB 63 in the Lottery's financials statements was the renaming of the financial statements from "Net Assets" to "Net Position."

The requirements of this statement are effective for the periods beginning after December 15, 2011, the Lottery's fiscal year 2013.

(d) *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.

(e) *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, 2013 and 2012 respectively, were \$8,856 and \$8,007.

(f) *Investments*

Investments in U.S. government and agency securities are recorded at market value which approximates fair value.

(g) Revenue and Accounts Receivable Recognition

Revenue for the traditional lottery is recognized when tickets are sold to the public. Revenue and accounts receivable from the Lottery's contractors are recognized when sales reports are received.

(h) Allowance for Uncollectible Accounts

The Lottery establishes an allowance for uncollectible accounts for all accounts receivable over 180 days old.

(i) Unclaimed Prizes

Prizes must be claimed within 180 days following the drawing date for each game. Prizes unclaimed beyond this period are forfeited by the ticket holder. Total prizes lapsed amounted to \$3,007 for the fiscal year 2013. These forfeited prizes are netted against prize expense in the Statement of Revenues, Expenses and Changes in Net Position.

(j) 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:

Category	Estimated Useful Life
Machinery and Equipment	5-8 years
Office Furniture and Fixtures	5-8 years
Leasehold Improvements	5-15 years

(k) Gaming Revenue

Gaming revenue consists of ticket sales and other related revenue including dividends and interest income, penalties assessed on delinquent agents' accounts, and charitable gaming fees. 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 is recorded when an online ticket is sold if the sale is not associated with a subsequent drawing. Revenue from instant tickets is recorded as gaming revenue when related packs are activated.

(l) Games and Prizes

The Lottery's main sources of income are from on-line and instant games. On-line games comprise of DC Three, DC Four, DC Five, Powerball, Mega Millions, Keno, Hot Lotto, DC Daily Six, Race2Riches and Fast Play. The games are managed by Intralot and Scientific Games International through contracted agreements with D.C. Lottery.

(m) 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, Mega Millions, Fast Play, and DC Rolling Cash 5 games, are accrued based on the draw liability associated with drawings for the specific games. Powerball and Hot Lotto prize expenses are recorded at the rate of 50.0% of ticket sales. Mega Millions prize expenses recorded at rates ranging from 50.0% to 52.50% of regular and MegaPlier sales. Fast Play prize expenses are recorded when applicable winning tickets are sold. 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.

(n) Compensated Absences

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

There is not a maximum limitation on the amount of unused sick pay benefits that employees may accumulate. The Lottery does not accrue for non-vesting accumulating rights to receive sick pay benefits. Lottery employees participating in the Federal Civil Service Retirement System program may convert sick pay benefits to additional service time at the rate of one month for every 176 hours of sick leave not used at point of retirement.

(o) 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.

NOTE 2 ACCOUNTS RECEIVABLE

The components of accounts receivable as of September 30, 2013 and 2012 are as follows:

	2013	2012
Due from Agents:		
Online Games	\$ 1,261	\$ 1,191
Instant Games	5,360	5,031
Total Due from Agents	6,621	6,222
Other	78	78
Total Accounts Receivable	6,699	6,300
Allowance for Doubtful Accounts	(80)	(18)
	<u>\$ 6,619</u>	<u>\$ 6,282</u>

NOTE 3 CAPITAL ASSETS

A summary of capital assets as of September 30, 2013 and 2012 is as follows:

	Balance as of October 1, 2012	Additions	Reductions	Balance as of September 30, 2013
Cost:				
Machinery and Equipment	\$ 2,882	\$ 153	\$ -	\$ 3,035
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Cost	<u>3,660</u>	<u>153</u>	<u>-</u>	<u>3,813</u>
Less: Accumulated Depreciation				
Machinery and Equipment	2,402	206	-	2,608
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Accumulated Depreciation	<u>3,180</u>	<u>206</u>	<u>-</u>	<u>3,386</u>
Capital Assets – Net	<u>\$ 480</u>			<u>\$ 427</u>
	Balance as of October 1, 2011	Additions	Reductions	Balance as of September 30, 2012
Cost:				
Machinery and Equipment	\$ 2,684	\$ 198	\$ -	\$ 2,882
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Cost	<u>3,462</u>	<u>198</u>	<u>-</u>	<u>3,660</u>
Less: Accumulated Depreciation				
Machinery and Equipment	2,206	196	-	2,402
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Accumulated Depreciation	<u>2,984</u>	<u>196</u>	<u>-</u>	<u>3,180</u>
Capital Assets – Net	<u>\$ 478</u>			<u>\$ 480</u>

NOTE 4 MULTI-STATE LOTTERY ASSOCIATION

(a) Background

The Lottery is a member of the Multi-State Lottery Association (MUSL). MUSL has thirty-three (33) members and administers multi-state lottery games. Powerball was initiated on April 20, 1992 and is a semi-weekly pari-mutuel drawing with a minimum grand prize of \$20,000. MUSL previously administered the Lotto-America game, which was terminated on April 18, 1992. Hot Lotto was implemented on April 5, 2004 and is a semi-weekly pari-mutuel drawing with a minimum grand prize of \$1,000. All MUSL members remit a portion of their Powerball and Hot Lotto revenue to MUSL for the prize payments and administrative expenses of the respective game.

(b) Restricted Investments and Obligations for Unpaid Prizes

Lotto-America and Powerball jackpot prizes are payable to winners in annual installments over 20 to 25 years. The Lottery is responsible for sending the annual payments to Lotto-America and Powerball winners who purchased their winning tickets from the Lottery. MUSL is responsible for providing the Lottery cash to fund these installment payments.

As of September 30, 2013 and 2012, MUSL had purchased for the Lottery, U.S. government securities aggregating \$10,522 and \$16,764, respectively to fund future installment payments for the Lottery's Lotto-America and Powerball winners.

The market value of these securities was \$10,200 and \$16,381 as of September 30, 2013 and 2012, 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 position. All restricted investments are insured and registered or are held by the Lottery or its agent in the Lottery's name.

As of September 30, 2013, the Lottery had the following investments and maturities:

Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Government and Agency Securities	\$10,200	\$4,010	\$5,191	\$ 999	\$ -

As of September 30, 2012, the Lottery had the following investments and maturities:

Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Government and Agency Securities	\$16,381	\$7,306	\$7,687	\$1,388	\$ -

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, 2013 and 2012, the Lottery had an interest in a SEC 2a7 pooled government cash management fund of \$1,058 and the pool was not rated.

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, 2013 and 2012, the total Powerball prize reserve fund was approximately \$75,316 and \$95,747, respectively, of which the Lottery's share was approximately \$605 and \$693, respectively. In addition, the total Powerball set aside prize reserve fund as of September 30, 2013 and 2012 was approximately \$34,957 and \$30,734, respectively, of which the Lottery's share was approximately \$244 and \$266, respectively.

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

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

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

The prize reserve fund serves as a contingency fund to protect MUSL from unforeseen liabilities. As of September 30, 2013 and 2012, the total Hot Lotto prize reserve fund was approximately \$7,200 and \$7,383, respectively, of which the Lottery's share was approximately \$323 and \$314, respectively. 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.

NOTE 5 OBLIGATIONS FOR UNPAID PRIZES

Powerball jackpot prizes are paid in 20 or 25 year 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.

	Jackpot	
	Year Ended September 30, 2013	2012
Jackpot Prizes Payable:		
Due Within One Year	\$ 4,010	\$ 7,306
Due in Subsequent Years	6,190	9,075
Total (Present Value)	10,200	16,381
Add: Interest to Maturity	322	383
Jackpot Prizes Payable at Maturity	<u>\$ 10,522</u>	<u>\$ 16,764</u>

The unamortized discount on the prizes payable is based on interest rates which range from 0.456% to 2.357% and reflect the interest rates earned by the investments held to fund the related liabilities.

The aggregate amount of prizes payable due in each of the five years following September 30, 2013, and the five year incremental totals thereafter, is as follows:

2014	\$ 4,010
2015	2,962
2016	1,150
2017	400
2018	400
2019 - 2022	1,600
Total	<u>\$ 10,522</u>

The following schedule presents the changes in prizes payable:

Balance as of October 1, 2011	\$ 22,912
Increase	344
Decrease	<u>(6,875)</u>
Balance as of September 30, 2012	16,381
Increase	506
Decrease	<u>(6,687)</u>
Balance as of September 30, 2013	<u><u>\$ 10,200</u></u>

NOTE 6 GAMING REVENUES AND EXPENSES

Gaming revenues and expenses for the fiscal years ended September 30, 2013 and 2012 were as follows:

Index Class	Gaming Revenue	Prizes	Agents Commissions	Contractor Fees	Advertising	Gross Margin
Fiscal Year 2013						
DC 3	49,113	(26,080)	(3,160)	-	-	19,873
DC DAILY SIX	-	-	-	-	-	-
DC FIVE	16,151	(6,917)	(902)	-	-	8,332
DC FOUR	60,055	(25,599)	(3,609)	-	-	30,847
FAST PLAY	9,100	(4,546)	(644)	-	-	3,910
HOT LOTTO	3,395	(1,653)	(160)	-	-	1,582
INSTANT	57,157	(40,346)	(4,288)	-	-	12,522
KENO	11,793	(7,712)	(814)	-	-	3,267
MEGA MILLION	6,195	(3,091)	(349)	-	-	2,755
POWERBALL	20,592	(8,311)	(1,104)	-	-	11,177
RACE 2 RICHES	8,076	(5,081)	(560)	-	-	2,435
TAP-N-PLAY	803	(89)	(7)	-	-	707
OTHER	30	-	-	-	-	-
Total	242,460	(129,425)	(15,597)	(11,681)	(6,036)	79,721
Fiscal Year 2012						
DC 3	53,070	(26,707)	(3,689)	-	-	22,674
DC DAILY SIX	-	9	-	-	-	9
DC FIVE	15,098	(7,331)	(848)	-	-	6,919
DC FOUR	65,668	(32,433)	(3,975)	-	-	29,260
FAST PLAY	5,724	(3,993)	(403)	-	-	1,328
HOT LOTTO	2,747	(874)	(210)	-	-	1,664
INSTANT	59,940	(39,668)	(4,423)	-	-	15,848
KENO	12,478	(8,095)	(856)	-	-	3,527
MEGA MILLION	10,628	(5,413)	(567)	-	-	4,648
POWERBALL	17,136	(7,927)	(939)	-	-	8,271
RACE 2 RICHES	7,143	(4,881)	(495)	-	-	1,767
OTHER	43	-	-	-	-	-
Total	249,675	(137,313)	(16,404)	(11,764)	(5,743)	78,451

NOTE 7 TRANSFERS TO THE DISTRICT'S GENERAL FUND

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, 2013 and 2012, the Lottery's net transfers to the General Fund of the District were \$68,314 and \$66,404, respectively. The Lottery was in compliance with the Act for the fiscal years ended September 30, 2013 and 2012.

NOTE 8 LONG-TERM LIABILITIES

The following summarizes long-term liabilities at September 30, 2013 and 2012:

	Balance @ 9/30/2012	Additions	Reductions	Balance @ 9/30/2013	Amount Due Within One Year
Obligations for Unpaid Prizes	\$ 16,381	\$ -	\$ (6,181)	\$ 10,200	\$ 4,010
Compensated Absences	416	-	(1)	415	-
Total Long-term Liabilities	\$ 16,797	\$ -	\$ (6,182)	\$ 10,615	\$ 4,010

	Balance @ 9/30/2011	Additions	Reductions	Balance @ 9/30/2012	Amount Due Within One Year
Obligations for Unpaid Prizes	\$ 22,912	\$ -	\$ (6,531)	\$ 16,381	\$ 7,306
Compensated Absences	449	359	(392)	416	-
Total Long-term Liabilities	\$ 23,361	\$ 359	\$ (6,923)	\$ 16,797	\$ 7,306

NOTE 9 RETIREMENT PROGRAMS

(a) *Defined Benefit Pension Plan*

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

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

In accordance with the Balance Budget Act of 1997 (Public Law 105-33), the Lottery contributes 7.00% and employees contribute 7.25% of employees' covered compensation to the Federal Civil Service Retirement System. Contributions by the Lottery amounted to \$61 and \$84 for the years ended September 30, 2013 and 2012, respectively. The number of Lottery employees covered under the Federal Civil Service Retirement System is 9.

(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 \$265 and \$266 for the fiscal years ended September 30, 2013 and 2012, respectively.

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

(c) *Deferred Compensation Plan*

Lottery employees are eligible to participate in the District-sponsored deferred compensation plan (D.C. Code 47-3601) created in accordance with Internal Revenue Code Section 457. Employees may defer an amount equal to or less than 100% of includible compensation or \$17.5 and \$16.5 in 2013 and 2012, respectively. Maximum annual contribution amounts are determined and set by the Internal Revenue Service (IRS). Compensation deferred and income earned is taxable when paid or made available to the participant or beneficiary upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the Lottery or District, which have no further liability to the plan.

NOTE 10 COMMITMENTS AND CONTINGENCIES

(a) *Operating Leases*

The Lottery leased certain facilities under a ten (10) year long-term, non-cancelable, and operating lease which began May 8, 2008. Future minimum rental commitments are as follows:

	<u>Amount</u>
September 30, 2014	\$ 2,379
September 30, 2015	2,438
September 30, 2016	2,499
September 30, 2017	2,562
Thereafter	-
Total	<u>\$ 9,878</u>

Rent expense for the fiscal years ended September 30, 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
Gross Rental Expense	\$ 2,457	\$ 2,262
Less Income from Subleases	(-)	(44)
Net Rent Expense	<u>\$ 2,457</u>	<u>\$ 2,218</u>

(b) *Annuity Contracts*

The winner of a \$1 million DC Black instant ticket in 2012 was awarded an annuity prize payable in annual installments over 20 years, with the first payment being made by the Lottery. The Lottery has entered into an agreement with an insurance company under which the Lottery purchased an annuity under contract that provides payments corresponding to its obligations to the prize winner. It is the intent of the Lottery that future installment payments will be made directly to the winner by the insurance company, thus neither the present value of the annuity nor the present value of related future payments are reflected in the accompanying financial statements. The Lottery will be liable for such future payments if the insurance company should default on payments.

(c) *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.

NOTE 11 RELATED PARTY TRANSACTIONS

During 2013, The Lottery had related party transactions with the Office of the Chief Financial Officer (OCFO) to provide financial and managerial oversight. These services included, but were not limited to, internal audit and internal security, legal, human resources, procurement, financial management, and executive management oversight services. The annual contractual cost for these services was \$1,142 and \$1,147 in fiscal years 2013 and 2012, 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.

NOTE 12 LITIGATION

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

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

NOTE 13 SUBSEQUENT EVENTS

Lottery did not have any subsequent events that based on the facts and circumstances, required recording or disclosure in the financial statements for the year ended September 30, 2013. Events and transactions were evaluated through January 28, 2014, the date the financial statements were available to be issued.



**INDEPENDENT AUDITORS' 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 the District of Columbia, and
The Lottery and Charitable Games Control Board
Washington, D.C.

We have audited, in accordance with the 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, 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, as of and for the year ended September 30, 2013, have issued our report thereon dated January 28, 2014.

Internal Control over Financial Reporting

Management of the Lottery is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those in governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of the Report

The purpose of the report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lottery's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

Bert Smith & Co.

Washington, D.C.

January 28, 2014

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
SCHEDULE OF PRIOR YEAR FINDINGS AND CORRECTIVE ACTIONS

Audit Ref #	Finding	Corrected	Not Corrected	Partially Corrected
2012.1	Agency Personnel's Inability to Prepare Financial Statements	X		
2012.2	Lack of Supporting Documentation in the Files and Insufficient Evidence of Supervisory Review and Approval of Licenses	X		