

**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, 2012, and 2011**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

Inspector General



February 28, 2013

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) 2012, 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, 2012, and 2011 (OIG No. 13-1-11DC).

BS&C opined that the financial statements present fairly, in all material respects, the financial position of the Board, and changes in financial position and cash flows thereof for the years ended September 30, 2012, and 2011, 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, grant agreements, and other matters. BS&C identified no deficiencies in internal control considered to be material weaknesses. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis. However, BS&C identified certain deficiencies considered to be significant deficiencies, as described in the accompanying schedule of findings and responses: 2012-1 and 2012-2. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Mayor Gray and Chairman Mendelson  
FY 2012 D.C. Lottery and Charitable Games and  
Control Board Financial Statements and  
Independent Auditors' Report  
OIG No. 13-1-11DC– Final Report  
February 28, 2013  
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,



Charles J. Willoughby  
Inspector General

CJW/ws

Enclosure

cc: See Distribution List

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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)**

**YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**BERTSMITH  
& Co.**

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*Certified Public Accountants and Management Consultants*

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
LOTTERY AND CHARITABLE GAMES CONTROL BOARD  
SEPTEMBER 30, 2012 and 2011**

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**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.

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, 2012 and 2011, as listed in the Table of Contents. These financial statements are the responsibility of the District of Columbia Lottery and Charitable Games Control Board's 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District of Columbia Lottery and Charitable Games Control Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, 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, 2012 and 2011, and the changes in its financial position, or where applicable, its cash flows 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, 2012 and 2011, 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 Auditing Standards*, we have also issued a report dated January 28, 2013 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 audits.

*Member of the AICPA Alliance for CPA Firms*



Management's Discussion and Analysis, on pages 3 through 14, is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Bert Smith & Co.*

Washington, D.C.  
January 28, 2013

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**LOTTERY AND CHARITABLE GAMES CONTROL BOARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2012 and 2011  
*(Dollar Amounts in Thousands)*

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The discussion and analysis of the D.C. Lottery and Charitable Games Control Board's (the Lottery) financial performance provides an overview of its financial activities for the fiscal years ended September 30, 2012, 2011 and 2010. 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 increased by \$17,926 or 7.74% over the prior year amount.
- The Agency generated ticket sales of \$249,632 for an aggregate increase of \$18,174 or 7.85% more than the prior year total of \$231,458.
- Total operating expenses increased by \$13,659 or 8.06% primarily the result of higher prize payouts, higher agents' commission and advertising costs offset by reduction in contractor fees.
- The prize payouts in 2012 increased by \$11,453 or 9.1% compared to 2011 and reflected a payout rate of 55.0% of ticket sales versus 51.34% the prior year.
- The contractor's fee reduced by \$487 or 4.32% over prior year
- Transfers to the District's General Fund increased by \$4,229 equivalent to 6.80% 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 assets and resulting transfer to the District's General Fund. Prize payouts and the volume of Powerball and Mega Millions 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 Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; 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, 2012 and 2011  
*(Dollar Amounts in Thousands)*

The Lottery's net assets (the difference between assets and liabilities) are an indicator of the improvement or erosion of financial health. The Statement 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 Statement 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 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 assets increased by \$108, \$68, and \$41 for the years ended September 30, 2012, 2011 and 2010, respectively. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2012, 2011, and 2010.

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

	<b>September 30</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Assets:</b>			
Current and Other Assets	\$ 14,294	\$ 15,434	\$ 15,834
Capital Assets (net of accumulated depreciation)	480	478	579
Restricted Investments	16,381	22,912	29,218
Total Assets	\$ 31,155	\$ 38,824	\$ 45,631
<b>Liabilities:</b>			
Accounts Payable and Accrued Expenses	\$ 4,222	\$ 3,407	\$ 4,298
Deferred Revenues	99	208	152
Accrued Prizes and Commissions	6,366	8,318	8,052
Obligations for Unpaid Prizes – Short-term	7,306	6,878	6,873
Obligations for Unpaid Prizes – Long-term	9,075	16,034	22,345
Total Liabilities	\$ 27,068	\$ 34,845	\$ 41,720
<b>Net Assets:</b>			
Invested in Capital Assets	\$ 480	\$ 478	\$ 579
Unrestricted	3,607	3,501	3,332
Total Net Assets	\$ 4,087	\$ 3,979	\$ 3,911

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**LOTTERY AND CHARITABLE GAMES CONTROL BOARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*  
SEPTEMBER 30, 2012 and 2011  
*(Dollar Amounts in Thousands)*

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

	<b>Years Ended September 30</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Operating Revenues:			
Gaming Revenues	\$ 249,675	\$231,749	\$230,159
Operating Expenses:			
Prizes	137,313	125,860	118,932
Other	45,872	43,666	44,461
Total Operating Expenses	183,185	169,526	163,394
Operating Income	66,490	62,223	66,766
Non-operating Revenues – Interest and Dividends Income before Transfers	22	20	25
	66,512	62,243	66,791
Transfers to the District's General Fund	(66,404)	(62,175)	(66,750)
Change in Net Assets	\$ 108	\$ 68	\$ 41

Unrestricted net assets were \$3,607, \$3,501, and \$3,332 at September 30, 2012, 2011 and 2010, which represent an increase of \$106, \$169 and a decrease of \$60 respectively. Current and other assets decreased by \$1,140 in 2012, \$400 in 2011 and increased \$853 in 2010 respectively. Total liabilities decreased \$7,777 or 22.32%, \$6,875 or 16.48%, and \$5,022 or 10.74% for the years ended September 30, 2012, 2011 and 2010, 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 \$16,381, \$22,912, and \$29,218 in 2012, 2011 and 2010 respectively, represents the net present value of securities totaling \$16,780, \$23,653 and \$30,526 in 2012, 2011 and 2010, respectively, to fund future annuity installment payments. The restricted investments value decreased by \$6,531, \$6,306, and \$5,935 during 2012, 2011 and 2010 respectively, due to payments of \$6,873, \$6,873, and \$7,406 net of unrealized gains of \$492, \$630, and \$908 in 2012, 2011 and 2010, respectively. Accretion of investments totaled a negative of \$150 in 2012, a negative \$63 in 2011 and positive amounts of \$563 in 2010 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, 2012 and 2011  
*(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
<b>Fiscal Year 2012</b>							
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	-	-	-	-	-	-
<b>Total</b>	<b>249,675</b>	<b>(137,313)</b>	<b>(16,404)</b>	<b>(11,764)</b>	<b>(5,743)</b>	<b>78,451</b>	<b>66,404</b>
<b>Fiscal Year 2011</b>							
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	-	-	-	-	-	-
<b>Total</b>	<b>231,749</b>	<b>(125,860)</b>	<b>(14,769)</b>	<b>(11,277)</b>	<b>(5,684)</b>	<b>74,159</b>	<b>62,175</b>
<b>Fiscal Year 2010</b>							
DC 3	56,361	(29,167)	(3,696)	-	-	23,499	16,450
DC DAILY SIX	3,382	(1,325)	(202)	-	-	1,855	1,525
DC FIVE	11,392	(5,270)	(624)	-	-	5,498	4,325
DC FOUR	68,619	(28,563)	(3,844)	-	-	36,212	27,625
DC ROLLING CASH 5	-	246	12	-	-	258	255
HOT LOTTO	2,871	(1,378)	(164)	-	-	1,329	1,000
INSTANT	49,972	(33,882)	(3,807)	-	-	12,283	4,845
KENO	12,582	(7,983)	(848)	-	-	3,751	2,500
MEGA MILLION	4,313	(2,230)	(231)	-	-	1,852	1,200
POWERBALL	20,175	(9,321)	(1,072)	-	-	9,782	7,025
RAFFLE	39	(60)	(2)	-	-	(23)	-
OTHER	453	-	-	-	-	-	-
<b>Total</b>	<b>230,159</b>	<b>(118,932)</b>	<b>(14,478)</b>	<b>(12,767)</b>	<b>(5,148)</b>	<b>78,834</b>	<b>66,750</b>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**LOTTERY AND CHARITABLE GAMES CONTROL BOARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)  
SEPTEMBER 30, 2012 and 2011  
(*Dollar Amounts in Thousands*)

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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 \$249,675, \$231,749, and \$230,159 in fiscal years 2012, 2011 and 2010, respectively. Prize expenses increased \$11,453 or 9.1% in 2012, \$6,928 or 5.83% in 2011 and decreased \$9,126 or 7.13% in 2010. Total prize payouts as a percentage of gaming revenue were 55%, 54.31%, and 51.67%, in 2012, 2011 and 2010, respectively. Agents' commissions increased \$1,635 in 2012, increased by \$291 in 2011 and decreased \$838 in 2010 respectively, due to the respective increases and decreases 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 2012, Sales totaled \$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 \$26,707 in 2012, for a \$312 or 1.18% increment over prior year. Prizes amounted to \$26,395 in 2011, for a \$2,771 or 9.50% decrease from the \$29,166 expensed in 2010. Agents/retailers commission expense increased by \$241 primarily due to the noted increase in sales and increased prize validation commissions over prior year amount. Nets proceeds to the District's General Fund totaled \$17,040 or 0.2% reduction compared to prior year. 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 21.3% of total gaming revenue and 28.9% of the overall gross margin. The game reflected a decrease of 1.77% in gaming revenue percentage contribution and a decrease of 2.84% in gross margin percentage contribution due to lower sales, prizes and agents/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 \$65,668 in 2012 for a \$300 or 0.46% increment over 2011 ticket sales of \$65,368. Ticket sales in 2011 was a \$3,251 or 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 2012 totaled \$32,433 and a reduction of \$278 or 0.85% from prior year. FY 2011 total prize expense was \$32,711 representing a \$4,148 or 14.52% increase over the \$28,563 paid out in 2010. Other operating costs decreased \$55.97 from the prior year's total primarily due to decreased gaming contractor fees advertising expense, and other direct and administrative cost allocations to the game. Transfers to the District's General Fund totaled \$22,589 for a \$974 or 4.51% increase from the \$21,615 transferred in 2011. The increase in ticket sales and decrease in prizes and other operating costs account for the increment in transfer amount. The DC Four game was responsible for 26.32% of total gaming revenue and 37.3% of the overall gross margin. The 1.9% decrease in gaming revenue contribution rate and 1.56% increase in gross margin contribution percentages from over the prior year amounts can be directly associated to higher ticket sales and lower prizes and fairly higher agents/retailer commissions.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**LOTTERY AND CHARITABLE GAMES CONTROL BOARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*  
SEPTEMBER 30, 2012 and 2011  
*(Dollar Amounts in Thousands)*

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In 2011, prizes in totaled \$32,711 representing a \$4,148 or 14.52% increase over the \$28,563 paid out in 2010. Other operating costs decreased \$1,382 from the prior year's total primarily due to decreased gaming contractor fees, advertising expense, and other direct and administrative cost allocations to the game. Transfers to the District's General Fund totaled \$21,615 for a \$6,010 or 21.76% decrease from the \$27,625 transferred in 2010. The decrease in ticket sales and increase in prizes and other operating costs account for the decline in transfer amount. The DC Four game was responsible for 28.21% of total gaming revenue and 38.86% of the overall gross margin. The 1.6% decrease in gaming revenue contribution rate and 7.07% decline in gross margin contribution percentages from prior year amounts can be directly associated to lower ticket sales and higher prizes and agents/retailer commissions.

#### **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 2012, Ticket sales totaled \$15,098 which represents a \$2,221 or 17.25% increase over the prior year total of \$12,877. Prizes and agents/retailer commissions in 2012 amounted to \$8,179. The game generated \$5,189 in transfer to the District's General Fund in 2012 or \$401 lesser than the \$5,590 produced in 2011. The increase in ticket sales offset by a net increase in operating expenses over prior year totals essentially accounts for the decrease in transfer.

Ticket sales totaled \$12,877 in 2011 and represented a \$1,485 or 13.04% increase over the prior year total of \$11,392. Prizes and agents/retailer commissions amounted to \$5,905. The game generated \$5,590 in transfer to the District's General Fund in 2011 or \$1,265 more than the \$4,325 produced in 2010. The increase in ticket sales offset by a net increase in operating expenses over prior year totals essentially accounts for the increase in transfer.

#### **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 \$17,136 in 2012 representing a \$3,213 or 23.08% increase over 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. Powerball prizes are

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**LOTTERY AND CHARITABLE GAMES CONTROL BOARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*  
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expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Prize expense increased due to higher sales intake in 2012 and was reduced by lapsed prizes totaling \$432. Operating expenses excluding prizes increased by \$19.62. This is primarily due to higher contractor gaming fees, advertising expense, other direct and administrative cost allocations. 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.

Powerball sales totaled \$13,923 in 2011 representing a \$6,252 or 30.99% decrease from the \$20,175 generated in 2010. The Multi-State Lottery Association and Mega Millions conglomerates agreed to allow respective member states to cross sell tickets in January 2010. The decrease in ticket sales can be attributed to the offset of ticket sales to the Mega Millions game for one full year, lost sales to surrounding jurisdictions, and the game's continual inability to generate jackpots to levels necessary to increase player participation and sales volume. Powerball sales are jackpot driven and high jackpots impact sales levels.

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 totaling \$456. Operating expenses excluding prizes decreased \$1,661 primarily due to lower contractor gaming fees, advertising expense, other direct and administrative cost allocations. Other income charged to the game decreased \$139. The decrease in ticket sales and other income offset by lower operating costs accounts 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 \$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 in 2012 representing a \$933 or 20.82% increase over the \$4,480 expensed in 2011. Prizes were expensed at the rate of 50.93% of overall ticket sales in 2012. 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.



**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**LOTTERY AND CHARITABLE GAMES CONTROL BOARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*  
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Mega Millions sales more than doubled to \$8,685 during its first full year of operation in 2011 compared to the \$4,313 generated over eight months in 2010. Prizes expense amounted to \$4,480 and \$2,230 respectively, in 2011 and 2010. Mega Millions prizes were expensed at rates ranging from 50.0% to 52.5% of regular and megaplier sales through June 28, 2011. Prizes were expensed at the rate of 51.5% of overall ticket sales for the remainder of the fiscal year. Ticket sales offset by overall operating costs resulted in a transfer to the District's General Fund of \$2,585 in 2011 or \$1,385 more than the \$1,200 produced in 2010.

## **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 \$12,478 in 2012 representing a \$933 or 8.08% increase over the 2011 sales total of \$11,545. 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 by a net amount of \$64 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*  
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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 \$22 or 11.7% increase in 2012 over the \$188 expensed in 2011. 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 \$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 2011 over prior year's total is primarily the result of higher jackpots. Prizes and agents/retailer commission 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 agents/retailer commissions.

#### **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 2012, 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.

Ticket sales decreased \$575 or 14.53% to \$3,382 in 2010 from the \$3,957 sales amount in 2009. Prizes and agents/retailers commission expense amounted to \$1,527 and reflected a \$307 decrease from the \$1,834 expensed in 2009. Other operating expenses reflected a decrease of \$191 from 2009 totals. The decrease in transfer to the District's General Fund in 2010 to \$1,525 from the \$1,610 transferred in 2009 is the result of lower ticket sales offset by the net reduction in prizes, agents/retailers commissions and other operating costs.

#### **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.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**LOTTERY AND CHARITABLE GAMES CONTROL BOARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)  
SEPTEMBER 30, 2012 and 2011  
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Race 2 Riches ticket sales amounted to \$7,143 in 2012, representing a \$3,468 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 to \$4,881 in 2012 from \$2,494 in 2011 which represented \$2,387 or 95.71% 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 \$1,070 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 \$5,724 in 2012 compared to \$2,085 for the approximate six months of operations in 2011. Operating expenses totaled \$4,396 in 2012 and \$1,524 in 2011 resulting in transfer to the District's General Fund of \$892 and \$385 respectively.

### **DC ROLLING CASH FIVE**

The DC Rolling Cash Five game is a five out of thirty-five numbers online lotto type game that pays fixed prize payouts ranging from one dollar to generated jackpot amount. Player received 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. Lottery management decided to discontinue the game effective July 18, 2009 due to declining ticket sales year over year.

There were no ticket sales in 2012, 2011 and 2010. The transfer to the District's General Fund totaling \$255 in 2010 was the result of lapsed prizes and associated reduction in agents/retailer commissions.

### **DC RAFFLE**

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

There were no raffle sales in 2012 and 2011. A small promotional campaign was launched in 2010 resulting in minimal ticket sales of \$39. Operating costs totaling \$121 consisting primarily of prizes and agents/retailer commissions, gaming fees, and advertising costs resulted in a net operating loss of \$82.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**LOTTERY AND CHARITABLE GAMES CONTROL BOARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*  
SEPTEMBER 30, 2012 and 2011  
*(Dollar Amounts in Thousands)*

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**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 \$59,940 in 2012 representing a \$3,834 or 6.83% increase over 2011 sales of \$56,106.

Prizes in 2012 totaled \$39,668 for a \$2,084 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 agents/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 66.18% and 66.99% as a percentage of tickets sold in 2012 and 2011, respectively.

**INTEREST, DIVIDENDS AND OTHER INCOME**

All idle cash of the Lottery is invested through the District's General Fund Pooled Investments Account. Powerball receipts transferred to MUSL to fund major jackpots are invested in securities prior to jackpots being hit and earnings are allocated annually to party lotteries. Interest and dividend income, shown separately in the financial statements, has increased by \$2, and decreased by \$5 and \$54 in 2012, 2011 and 2010, respectively. Interest and dividend income have been severely impacted by market conditions, the national economy, and other factors beyond the control of individual entities.

Other income decreased \$291 to \$43 in 2012. It also decreased \$161 in 2011 to \$291 and increased \$65 in 2010 to \$453 from the \$388 generated in 2009. Collection of bonding fees receipts from agents was discontinued during the prior fiscal year and totaled \$28 and \$192 in 2010 and 2009, respectively. Refunds from MUSL as a result of rebalancing reserve funds and distributions of excess contributions by participating members amounted to \$0, \$236, and \$375 in 2012, 2011, and 2010 respectively.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**LOTTERY AND CHARITABLE GAMES CONTROL BOARD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*  
SEPTEMBER 30, 2012 and 2011  
*(Dollar Amounts in Thousands)*

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**Charitable Gaming Activities**

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

**Contacting the Lottery**

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

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

STATEMENTS OF NET ASSETS  
 SEPTEMBER 30, 2012 and 2011  
 (Dollar Amounts in Thousands)

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 8,007	\$ 9,982
Accounts Receivable, net	6,282	5,442
Prepaid Expenses and Other	5	10
Restricted Investments	7,306	6,878
Total Current Assets	21,600	22,312
<b>Non-current Assets:</b>		
Capital Assets, net	480	478
Restricted Investments	9,075	16,034
Total Non-current Assets	9,555	16,512
Total Assets	31,155	38,824
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	2,451	1,495
Compensation Liabilities	399	391
Deferred Revenues	99	208
Accrued Prizes and Commissions	6,366	8,318
Other Accrued Liabilities	956	1,072
Obligations for Unpaid Prizes - Current Portion	7,306	6,878
Total Current Liabilities	17,577	18,362
<b>Non-current Liabilities:</b>		
Obligations for Unpaid Prizes - Noncurrent Portion	9,075	16,034
Compensated Absences	416	449
Total Non-current Liabilities	9,491	16,483
Total Liabilities	27,068	34,845
<b>Net Assets</b>		
Invested in Capital Assets, net of related debt	480	478
Unrestricted	3,607	3,501
Total Net Assets	\$ 4,087	\$ 3,979

*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, 2012 and 2011  
 (Dollar Amounts in Thousands)

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Instant Games	\$ 59,940	\$ 56,106
On-Line Games	189,692	175,352
License and Permit Fees	43	291
	<hr/>	<hr/>
Total Operating Revenues	249,675	231,749
	<hr/>	<hr/>
<b>Operating Expenses</b>		
Prizes	137,313	125,860
Agent Commissions	16,404	14,769
Contractor Fees	11,764	11,277
Advertising	5,743	5,684
Total Direct Costs	171,224	157,590
	<hr/>	<hr/>
Salaries	6,939	7,021
Professional	1,148	1,123
Administration	3,678	3,623
Depreciation	196	169
	<hr/>	<hr/>
Total Operating Expenses	183,185	169,526
	<hr/>	<hr/>
<b>Operating Income</b>	66,490	62,223
Interest Income	22	20
	<hr/>	<hr/>
<b>Net Income Before Transfers</b>	66,512	62,243
Transfer to General Fund	(66,404)	(62,175)
	<hr/>	<hr/>
<b>Change In Net Assets</b>	108	68
	<hr/>	<hr/>
<b>Net Assets, Beginning of Year</b>	3,979	3,911
	<hr/>	<hr/>
<b>Net (Deficit) Assets, End of Year</b>	\$ 4,087	\$ 3,979
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*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, 2012 and 2011  
 (Dollar Amounts in Thousands)

	<b>2012</b>	<b>2011</b>
<b>Operating Activities:</b>		
Cash Receipts from Customers	\$ 248,684	\$ 231,041
Cash Receipts from Others	43	292
Cash Payments to Vendors	21,406	(22,602)
Cash Payments to Employees	7,047	(7,020)
Cash Payments for Prizes and Commissions	(155,669)	(140,363)
<b>Net Cash Provided by Operating Activities</b>	<b>64,605</b>	<b>61,348</b>
Capital and Related Financing Activities - Acquisition of Fixed Assets	(198)	(69)
Non-capital Financing Activities - Transfers Out	(66,404)	(62,175)
Investing Activities - Interest and Dividends	22	20
<b>Net Increase (Decrease) in Cash</b>	<b>(1,975)</b>	<b>(876)</b>
Cash and Cash Equivalents - Beginning of Year	9,982	10,858
Cash and Cash Equivalents - End of Year	<b>\$ 8,007</b>	<b>\$ 9,982</b>
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ 66,490	\$ 62,223
Amortization and Depreciation	196	169
<i>Decrease (Increase) in Assets:</i>		
Receivables	(840)	(473)
Prepaid Expenses	5	(3)
<i>Increase (Decrease) in Liabilities:</i>		
Accounts Payable	956	(726)
Compensation Liabilities	(25)	2
Deferred Revenue	(109)	56
Accrued Prizes	(1,952)	266
Other Current Liabilities	(116)	(166)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 64,605</b>	<b>\$ 61,348</b>
 <b>Non-cash Investing and Financing Activities:</b>		
Obligations for Unpaid Prizes by Restricted Investments	<b>\$ 16,381</b>	<b>\$ 22,912</b>

*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, 2012 and 2011

**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***

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 Assets.

**(c) *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.

**(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, 2012 and 2011 respectively, were \$8,007 and \$9,982.

**(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 year following the drawing date for each game. Prizes unclaimed beyond this period are forfeited by the ticket holder. Total prizes lapsed amounted to \$3,800 for the fiscal year 2012. These forfeited prizes are netted against prize expense in the Statement of Revenues, Expenses and Changes in Net Assets.

**(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:

<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

**(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 SCG 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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Due from Agents:		
Online Games	\$ 1,191	\$ 687
Instant Games	5,031	4,677
Total Due from Agents	<u>6,222</u>	<u>5,364</u>
Other	78	78
Total Accounts Receivable	<u>6,300</u>	<u>5,442</u>
Allowance for Doubtful Accounts	(18)	-
	<u>\$ 6,282</u>	<u>\$ 5,442</u>

### NOTE 3 CAPITAL ASSETS

A summary of capital assets as of September 30, 2012 and 2011 is as follows:

	<b>Balance of October 1, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance of September 30, 2012</b>
<b>Cost:</b>				
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>
<b>Less: Accumulated Depreciation</b>				
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>
	<b>Balance of October 1, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance of September 30, 2011</b>
<b>Cost:</b>				
Machinery and Equipment	\$ 2,615	\$ 69	\$ -	\$ 2,684
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Cost	<u>3,393</u>	<u>69</u>	<u>-</u>	<u>3,462</u>
<b>Less: Accumulated Depreciation</b>				
Machinery and Equipment	2,036	170	-	2,206
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Accumulated Depreciation	<u>2,814</u>	<u>170</u>	<u>-</u>	<u>2,984</u>
Capital Assets – Net	<u>\$ 579</u>			<u>\$ 478</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, 2012 and 2011, MUSL had purchased for the Lottery, U.S. government securities aggregating \$16,764 and \$23,653 respectively to fund future installment payments for the Lottery's Lotto-America and Powerball winners.

The market value of these securities was \$16,381 and \$22,912 as of September 30, 2012 and 2011, respectively. The investments provide the Lottery cash payments corresponding to the Lottery's obligations to send the annual installments to the prize winners. The Lottery has reflected the market value of the securities as restricted investments and as corresponding obligations for unpaid prizes on the statements of net assets. All restricted investments are insured and registered or are held by the Lottery or its agent in the Lottery's name.

As of September 30, 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, 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, 2012 and 2011, the total Powerball prize reserve fund was approximately \$95,747 and \$99,216, respectively, of which the Lottery's share was approximately \$693 and \$785, respectively. In addition, the total Powerball set prize reserve fund as of September 30, 2012 and 2011 was approximately \$30,734 and \$25,000, respectively, of which the Lottery's share was approximately \$266 and \$174, 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, 2012, the total Hot Lotto prize reserve fund was approximately \$7,383 of which the Lottery's share was approximately \$314. 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.

	<b>Jackpot</b>	
	<b>Year Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Jackpot Prizes Payable:		
Due Within One Year	\$ 7,306	\$ 6,878
Due in Subsequent Years	9,075	16,034
Total (Present Value)	16,381	22,912
Add: Interest to Maturity	383	741
Jackpot Prizes Payable at Maturity	<u>\$ 16,764</u>	<u>\$ 23,653</u>

The unamortized discount on the prizes payable is based on interest rates which range from 0.317% 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, 2012, and the five year incremental totals thereafter, is as follows:

2013	\$ 7,306
2014	2,962
2015	2,970
2016	1,150
2017	799
2018 - 2021	1,587
Total	<u>\$ 16,764</u>

The following schedule presents the changes in prizes payable:

<b>Balance as of October 1, 2010</b>	\$ 29,218
Increase	567
Decrease	<u>(6,873)</u>
<b>Balance as of September 30, 2011</b>	22,912
Increase	344
Decrease	<u>(6,875)</u>
<b>Balance as of September 30, 2012</b>	<u>\$ 16,381</u>

**NOTE 6 GAMING REVENUES AND EXPENSES**

Gaming revenues and expenses for the fiscal years ended September 30, 2012 and 2011 were as follows:

Index Class	Gaming Revenue	Prizes	Agents Commissions	Contractor Fees	Advertising	Gross Margin
<b>Fiscal Year 2012</b>						
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	-	-	-	-	-
<b>Total</b>	<b>249,675</b>	<b>(137,313)</b>	<b>(16,404)</b>	<b>(11,764)</b>	<b>(5,743)</b>	<b>78,451</b>
<b>Fiscal Year 2011</b>						
DC 3	53,383	(26,395)	(3,448)	-	-	23,540
DC DAILY SIX	486	(113)	(27)	-	-	346
DC FIVE	12,877	(5,191)	(714)	-	-	6,972
DC FOUR	65,368	(32,711)	(3,840)	-	-	28,817
FAST PLAY	2,085	(1,379)	(145)	-	-	561
HOT LOTTO	3,324	(1,603)	(188)	-	-	1,533
INSTANT	56,106	(37,584)	(4,156)	-	-	14,366
KENO	11,545	(7,362)	(783)	-	-	3,400
MEGA MILLION	8,685	(4,480)	(466)	-	-	3,739
POWERBALL	13,923	(6,548)	(750)	-	-	6,625
RACE 2 RICHES	3,675	(2,494)	(252)	-	-	929
OTHER	292	-	-	-	-	-
<b>Total</b>	<b>231,749</b>	<b>(125,860)</b>	<b>(14,769)</b>	<b>(11,277)</b>	<b>(5,684)</b>	<b>74,159</b>

**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, 2012 and 2011, the Lottery’s net transfers to the General Fund of the District were \$66,404 and \$62,175 respectively. The Lottery was in compliance with the Act for the fiscal years ended September 30, 2012 and 2011.

**NOTE 8            LONG-TERM LIABILITIES**

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

	Balance Beginning	Additions	Reductions	Ending Balance	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	<u>\$ 23,361</u>	<u>\$ 359</u>	<u>\$ (6,923)</u>	<u>\$ 16,797</u>	<u>\$ 7,306</u>

**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 \$84 and \$88 for the years ended September 30, 2012 and 2011, respectively. The number of Lottery employees covered under the Federal Civil Service Retirement System is 15.

**(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 \$266 and \$270 for the fiscal years ended September 30, 2012 and 2011, respectively.

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



**(c) *Deferred Compensation Plan***

Lottery employees are eligible to participate in the District-sponsored deferred compensation plan (D.C. Code 47-3601) created in accordance with Internal Revenue Code Section 457. Employees may defer an amount equal to the lesser of 100% of includible compensation or \$16.5 in 2011. 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, 2013	\$ 2,321
September 30, 2014	2,379
September 30, 2015	2,438
September 30, 2016	2,499
September 30, 2017	2,562
Thereafter	-
Total	<u>\$ 12,199</u>

Rent expense for the fiscal years ended September 30, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Gross Rental Expense	\$ 2,262	\$ 2,262
Less Income from Subleases	(44)	(28)
Net Rent Expense	<u>\$ 2,218</u>	<u>\$ 2,234</u>

**(b) *Annuity Contracts***

The winner of a \$1.0 million DC Black instant ticket 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 2011, 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 \$1,147 and \$1,123 in fiscal years 2012 and 2011, 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, 2012. Events and transactions were evaluated through January 28, 2013, 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 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, 2012, and have issued our report thereon dated January 28, 2013. 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

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of 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 *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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we considered to be significant deficiencies in internal control over financial reporting (2012-1 and 2012-2). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that reported is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### 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 another matter that we reported to management of the Lottery in a separate letter dated January 28, 2013.

The Lottery's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Lottery's response and, accordingly, we express no opinion on it.

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.

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

Washington, D.C.  
January 28, 2013

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

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES**

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**2012-1**

***Agency Personnel's Inability to Prepare Financial Statements***

**Condition:**

The DC Lottery accounting personnel did not have the requisite expertise necessary to prepare the fiscal year 2012 financial statements of the organization. As a result, the Agency had to rely on the assistance of the Office of Financial Operations and Systems and an external contractor, who has institutional knowledge and experience in preparing the agency's financial statements along with the note disclosures.

**Criteria:**

Effective internal controls require competent accounting professionals who are knowledgeable and conversant with analyzing, processing, recording and reporting financial data and information.

**Cause:**

The departure of both the Agency Fiscal Officer and the Accounting Officer during the fiscal year resulted in the loss of senior level personnel with the financial reporting experience and knowledge that was necessary to prepare the financial statements.

**Effect:**

Management was unable to meet its responsibility to prepare the financial statements. There is an increased risk that the financial statements will not be accurate, complete or free of material misstatements.

**Recommendation:**

The agency should continue in its efforts to fill the vacancies with professionals who have the competency, experience and capability to properly manage its financial accounting and reporting processes. In addition, cross-training of the Agency's personnel in the financial and accounting processes could mitigate some of the financial reporting risks associated with unanticipated separations of personnel.

**Management's  
Response:**

The DC Lottery accounting personnel did not possess the necessary documentation and back-up data to effectively perform the required tasks in a timely manner. Management is now ensuring that cross training is occurring when necessary and data is appropriately reviewed and distributed. The above situation combined with being short-staffed and the competing essential priorities of conducting our necessary business and analysis functions proved a difficult burden. DCLB will ensure that the finance division's staff will be appropriately trained and capable of fulfilling financial and accounting requirements in the future.

The Lottery agrees that vacancies should be filled and, in fact, has filled the position of Accounting Officer. The Lottery's new Agency Fiscal Officer is scheduled to begin his employment with DCLB shortly.

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

SCHEDULE OF AUDIT FINDINGS AND RESPONSES *(Continued)*

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2012-2

*Lack of Supporting Documentation in the Files and Insufficient Evidence of Supervisory Review and Approval of Licenses*

**Condition:**

Our test-work of the licensing of new agents, bingo locations, charitable games, and suppliers revealed the following:

Lack of supporting documentation:

- *New Agents* – Documentation such as the Retailer Bulletin No. 97.001, Taxpayer Identification letter from the IRS, Taxpayer Identification certificate for DC, and copy of the original lease were not available for review.
- *Charitable Games* – Instances where files were missing copies of the following: (a) notarized application, (b) license, (c) proof of payment of license fee, (d) list of prizes, (e) proof of ownership of the prizes, surety bonds or confirmation letters from donors (f) list of members, (g) completed printer statement, (h) first and/or last tickets (for raffles) or sample ticket (for Monte Carlo nights), (i) valid Certificate of Good Standing from D.C. Consumer and Regulatory Affairs, (j) Constitution, Articles, Charter or Bylaws, (k) Certificate of Insurance/Rider, (l) Certificate of Occupancy, executed rental agreement, or letter of approval from Building Administrator (if event is on school ground), (m) IRS Tax Exempt notice or the DC Finance and Revenue Tax Exempt notice, (n) applying for multiple licenses for the same date for different events with only one application in the file, and (o) multiple organization names on documentation in one file without support for the different names.
- *Suppliers* – Documentation such as Certificate of Good Standing from DCRA, DC Police Clearance Form for each owner and/or officer, Sales Tax License, evidence of Background processing by the Security Department, list of owners, Certified Price list of all products offered, and Bond document.
- Insufficient Evidence of Supervisory Review and Approval of Licenses -
  - *New Agents' Licenses* - Evidence of review and approval by the Supervisor prior to issuance of the license;
  - *Charitable Games Licenses* - Evidence of review and approval by the Supervisor prior to issuance of the license;
  - *Bingo Locations Licenses* - Evidence of review and approval by the Supervisor prior to issuance of the license;
  - *Suppliers' Licenses* - Evidence of review and approval by the Supervisor prior to issuance of the license.

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

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES** *(Continued)*

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**Criteria:** Per DC Lottery’s Procedures and Application Checklists in order for a new or renewal license to be issued to an agent, bingo location, organization for a charitable game, or a supplier, the agency is required to obtain the approval of the Supervisor, as well as obtaining/maintaining the following documents:

*Agent License* – Retailer Bulletin No. 97.001, Taxpayer Identification letter from IRS, Taxpayer Identification certificate for DC; and Copy of Original lease.

*Charitable Games License* – Notarized application; copy of the license; proof of payment of license fee; list of prizes; proof of ownership of the prizes, surety bonds or confirmation letters from donors; list of members; completed printer statement; copy of both first and last tickets (for raffles) or sample ticket (for Monte Carlo nights; valid Certificate of Good Standing from D.C. Consumer and Regulatory Affairs; copy of Constitution, Articles, Charter or Bylaws; Certificate of Insurance/Rider; copy of Certificate of Occupancy, executed rental agreement, or letter of approval from Building Administrator (if event is on school ground); and copy of IRS Tax Exempt notice (or DC Finance and Revenue Tax Exempt notice).

*Supplier License* – Valid Certificate of Good Standing from DCRA; Copy of Sales Tax License; DC Police Clearance Form for each owner and/or officer; Evidence of Background processing by the Security Department; List of Owners; Current Certified Price list of all products offered; Financial (Disclosure) Statement; and Bond.

**Cause:** The exceptions resulted because of the agency’s focus on the Sales side of the business which led to some shortcomings in the other areas.

**Effect:** There is an increased risk that agents, bingo locations, organizations hosting charitable games or suppliers who do not meet the minimum DC Lottery licensing requirements are licensed to operate within the District.

**Recommendation:** The agency should ensure that the required documentation is obtained and maintained within files of the agent, bingo location, organizations hosting a charitable game, or supplier. The agency should also ensure that all documents are properly reviewed and approved prior to issuing a license.

**Management’s  
Response:**

The Lottery acknowledges the exceptions identified during the testing of the new agents’ licenses, bingo location licenses, charitable games licenses and supplier licenses and understands the importance of maintaining these records with the highest level of accuracy. To correct and eliminate these problems, the agency will modify its operating methodology within the Licensing and Charitable Games Division. Further, the division will modify its control documents specifying the information required for license approval which must be present in the license file folder.

The Lottery is in the process of obtaining all missing documentation. We do not believe any entities or charitable organizations were improperly approved.

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

**SCHEDULE OF PRIOR YEAR FINDING AND CORRECTIVE ACTION**

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<b>Audit Ref #</b>	<b>Finding</b>	<b>Corrected</b>	<b>Not Corrected</b>	<b>Partially Corrected</b>
<b>2011.1</b>	Lack of Supporting Documentation in the Files and Insufficient Evidence of Supervisory Review and Approval of Licenses		X	