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 Year Ended September 30, 2011

CHARLES J. WILLOUGHBY
INSPECTOR GENERAL

OIG No. 12-1-04DC **February 16, 2012**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

February 16, 2012

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 Kwame R. Brown
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 Brown:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2011, Bert Smith and Company (BS&C) submitted the enclosed final report on the District of Columbia Lottery and Charitable Games Control Board (Board).

BS&C opined that the financial statements present fairly, in all material respects, the financial position of the Board for the year ended September 30, 2011, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In accordance with *Government Accounting Standards*, BS&C also has 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.

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

Enclosure

CJW/ws

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)

YEAR ENDED SEPTEMBER 30, 2011

BERT SMITH & Co.

Certified Public Accountants and Management Consultants

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

TABLE OF CONTENTS

Independent Auditor's Report 1

Management's Discussion and Analysis 3

Basic Financial Statements:

Statements of Net Assets 14

Statements of Revenues, Expenses, and Changes in Net Assets 15

Statements of Cash Flows 16

Notes to Financial Statements 17

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 27

Schedule of Audit Findings and Responses 29

BERTSMITH & Co.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the District of Columbia Lottery and Charitable Games Control Board, an enterprise fund of the Government of the District of Columbia, as of and for the years ended September 30, 2011 and 2010, as listed in the Table of Contents. These financial statements are the responsibility of the District of Columbia Lottery and Charitable Games Control Board management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District of Columbia Lottery and Charitable Games Control Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 2, the financial statements only present the District of Columbia Lottery and Charitable Games Control Board and do not purport to, and do not, present fairly the financial position of the Government of the District of Columbia as of September 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District of Columbia Lottery and Charitable Games Control Board, as of September 30, 2011 and 2010, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 29, 2011 on our consideration of District of Columbia Lottery and Charitable Games Control Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Bert Smith & Co.

Washington, D.C.
December 29, 2011

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, 2011. 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 $1,590 or .69% over the prior year amount.
- The Agency generated ticket sales of $231,457 for an aggregate increase of $1,751 or .76% more than the prior year total of $229,706.
- Total operating expenses increased by $6,133 or 3.75% primarily the result of higher prize payouts and advertising costs offset by lower contractor fees.
- Overall prize payouts increased by $6,928 and reflected a payout rate of 54.38% of ticket sales versus 51.78% the prior year.
- The D.C. 4 game's prizes payout percentage increased to 50.04% of sales from the prior year's rate of 41.63%.
- Transfers to the District's General Fund decreased $4,575 equivalent to 6.85% of 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 Statements of Net Assets; the Statements of Revenues, Expenses, and Changes in Net Assets; and the Statements of Cash Flows. These statements present financial information in a form that is similar to that used by commercial entities.

The Lottery's net assets (the difference between assets and liabilities) are an indicator of the improvement or erosion of financial health. The Statements of Net Assets include all assets and liabilities. It is prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when the related liability is incurred.

The Statements of Revenues, Expenses and Changes in Net Assets present the revenues earned and the expenses incurred during each year. Activities are reported as either operating or non-operating. Another important factor to consider when evaluating financial viability is the Lottery's ability to meet financial obligations as they come due. The Statements of Cash Flows present information related to cash inflows and outflows summarized by operating, capital and non-capital financing and investing activities.

Financial Analysis

The Lottery's net assets increased by $68, $41, and $49 for the years ended September 30, 2011, 2010 and 2009, respectively. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2011, 2010, and 2009.

Table 1:

	Years Ended September 30		
	2011	**2010**	**2009**
Assets:			
Current and Other Assets	$ 15,434	$ 15,834	$ 14,981
Capital Assets (net of accumulated depreciation)	478	579	478
Restricted Investments	22,912	29,218	35,153
Total Assets	$ 38,824	$ 45,631	$ 50,612
Liabilities:			
Accounts Payable and Accrued Expenses	$ 3,407	$ 4,298	$ 3,974
Deferred Revenues	208	152	180
Accrued Prizes and Commissions	8,318	8,052	7,435
Obligations for Unpaid Prizes - Short-term	6,878	6,873	7,406
Obligations for Unpaid Prizes - Long-term	16,034	22,345	27,747
Total Liabilities	$ 34,845	$ 41,720	$ 46,742
Net Assets:			
Invested in Capital Assets	$ 478	$ 579	$ 478
Unrestricted	3,501	3,332	3,392
Total Net Assets	$ 3,979	$ 3,911	$ 3,870

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

	Years Ended September 30		
	2011	**2010**	**2009**
Operating Revenues:			
Gaming Revenues	$ 231,749	$ 230,159	$ 245,370
Operating Expenses:			
Prizes	125,860	118,932	128,058
Other	43,666	44,461	48,567
Total Operating Expenses	169,526	163,393	176,625
Operating Income	62,223	66,766	68,745
Nonoperating Revenues – Interest and Dividends	20	25	79
Income Before Transfers	62,243	66,791	68,824
Transfers to the District's General Fund	(62,175)	(66,750)	(68,775)
Change in Net Assets	$ 68	$ 41	$ 49

Unrestricted net assets were $3,501, $3,332 and $3,392 at September 30, 2011, 2010 and 2009, which represent an increase of $169 and decreases of $60 and $65, respectively. Current and other assets decreased by $400 in 2011 and increased $853 and $306 in 2010 and 2009, respectively. Total liabilities decreased $6,875 or 16.48%, $5,022 or 10.74%, and $5,855 or 11.13%, for the years ended September 30, 2011, 2010 and 2009, respectively, and primarily the result of decreases in the Lottery's obligations for unpaid prizes. The Multi-State Lottery Association (MUSL) purchases U.S. government securities in the name of the Lottery for Lotto America and Powerball jackpot winners from the District of Columbia. Jackpot winners have the option of accepting the cash value of the jackpot amount or annuity payments for 25 years. The restricted investments balance of $22,912, $29,218 and $35,153 in 2011, 2010 and 2009, respectively, represents the net present value of securities totaling $23,653, $30,526, and $37,932 in 2011, 2010 and 2009, respectively, to fund future annuity installment payments. The restricted investments value decreased by $6,306, $5,935 and $6,226 during 2011, 2010 and 2009, respectively, due to payments of $6,873, $7,406 and $7,681 net of unrealized gains of $630, $908 and $249 in 2011, 2010 and 2009, respectively. Accretion of investments totaled a negative $63 in 2011 and positive amounts of $563 and $1,206 in 2010 and 2009, respectively. Corresponding amounts are recorded as obligations for unpaid prizes.

Table 3: Gaming Revenues, Prizes, Commissions and Transfers

2011

	D.C. Three	D.C. Four	Powerball	Keno	Hot Lotto	Daily 6	DC Five	Mega Millions	Race 2 Riches	Fast Play	Instant Games	Others	Total
Gaming revenues	$ 53,383	$ 65,368	$ 13,923	$ 11,545	$ 3,324	$ 486	$ 12,877	$ 8,685	$ 3,675	$ 2,085	$ 56,106	$ 292	$ 231,749
Prizes	(26,395)	(32,711)	(6,548)	(7,362)	(1,603)	(113)	(5,191)	(4,480)	(2,494)	(1,379)	(37,584)	-	(125,860)
Agent's commissions	(3,448)	(3,840)	(750)	(783)	(188)	(27)	(714)	(466)	(252)	(145)	(4,156)	-	(14,769)
Gross margin	$ 23,540	$ 28,817	$ 6,625	$ 3,400	$ 1,533	$ 346	$ 6,972	$ 3,739	$ 929	$ 561	$ 14,366	$ 292	$ 91,120
Transfers	$ 17,075	$ 21,615	$ 5,075	$ 2,165	$ 1,210	$ 305	$ 5,590	$ 2,585	$ 470	$ 385	$ 5,700	$ -	$ 62,175

2010

	D.C. Three	D.C. Four	Powerball	Keno	Hot Lotto	Daily 6	Rolling Cash 5	DC Five	Mega Millions	Raffle	Instant Games	Others	Total
Gaming revenues	$ 56,361	$ 68,619	$ 20,175	$ 12,582	$ 2,871	$ 3,382	$ -	$ 11,392	$ 4,313	$ 39	$ 49,972	$ 453	$ 230,159
Prizes	(29,166)	(28,563)	(9,321)	(7,983)	(1,378)	(1,325)	246	(5,270)	(2,230)	(60)	(33,882)	-	(118,932)
Agent's commissions	(3,696)	(3,844)	(1,072)	(848)	(164)	(202)	12	(624)	(231)	(2)	(3,807)	-	(14,478)
Gross margin	$ 23,499	$ 36,212	$ 9,782	$ 3,751	$ 1,329	$ 1,855	$ 258	$ 5,498	$ 1,852	$ (23)	$ 12,283	$ 453	$ 96,749
Transfers	$ 16,450	$ 27,625	$ 7,025	$ 2,500	$ 1,000	$ 1,525	$ 255	$ 4,325	$ 1,200	$ -	$ 4,845	$ -	$ 66,750

2009

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

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 $231,749, $230,159, and $245,370 in fiscal years 2011, 2010 and 2009, respectively. Prize expenses increased $6,928 or 5.83% in 2011 and decreased $9,126 or 7.13% in 2010 and $7,002 or 5.18% in 2009. Total prize payouts as a percentage of gaming revenue were 54.31%, 51.67%, and 52.19% in 2011, 2010 and 2009, respectively. Agents' commissions increased $291 in 2011 and decreased $838 and $466 in 2010 and 2009, 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. Sales totaled $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 $26,395 in 2011, for a $2,771 or 9.50% decrease from the $29,166 expensed in 2010. Agents/retailers commission expense decreased $248 primarily due to the noted decrease in sales and reduced prize validation commissions over prior year amount. Nets proceeds to the District's General Fund totaled $17,075 and represented a $625 or 3.80% increase over the $16,450 generated in 2010. The increase in transfer amount can be attributed to lower sales offset by a greater decline in prize payouts and other operating expenses allocated to the game from prior year totals. The DC Three game accounted for 23.03% of total gaming revenue and 25.83% of the overall gross margin. The game reflected a decrease of 1.46% in gaming revenue percentage contribution and increase of 1.54% in gross margin percentage contribution due to lower sales, prizes and agents/retailer commissions than prior year totals.

In 2010, sales totaled $56,361 for a $4,470 or 7.35% decrease from the prior year's sales level of $60,831. Prizes increased $1,662 or 6.04% to $29,166 in 2010 from the $27,504 expensed in 2009. Agents/retailers commission expense decreased $173 as a result of corresponding decrease in sales and increase in prize validation commissions over the prior year. Net proceeds to the District's General Fund totaled $16,450 for a $5,320 decrease from the $21,770 generated in 2009. The decrease in transfer amount can be attributed to the decreases in sales, interest and other income, agents/retailer commissions, and other operating expenses offset by an increase in prize payouts in comparison to prior year totals. The DC Three game accounted for 24.49% of total gaming revenue and 24.29% of the overall gross margin reflecting only a marginal decline in percentage of gaming revenue contribution and a 4.59% decline in the gross margin percentage contribution over the prior year.

DC Four

DC Four is a daily four-digit game with a fixed payout. Players may wager 50 cents or one dollar for a chance to win seven different ways. Ticket sales totaled $65,368 in 2011 for 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 2011 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, 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 31.63% of the overall gross margin. The 1.6% decrease in gaming revenue contribution rate and 5.8% 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.

In 2010, ticket sales totaled $68,619 for an $11,289 or 14.13% decrease from the $79,908 recorded in 2009. Prizes totaled $28,563 in 2010 for a $13,327 or 31.81% decline from the $41,890 amount expensed in 2009. Other operating costs decreased $2,447 from 2009 totals as a result of lower agents/retailer commissions, direct costs, and administrative cost allocations to the game. Net proceeds to the District's General Fund totaled $27,625 for a $4,480 increase over the $23,145 transferred in 2009. The decrease in sales offset by lower prize expense and net decrease in other operating costs account for the increase in transfer amount. The DC Four game accounted for 29.81% of total gaming revenue and 37.43% of the overall gross margin. The decrease in gaming revenue and increase in gross margin contribution percentages from prior year amounts can be directly associated to lower ticket sales, 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.

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 totaling $222 over prior year totals essentially accounts for the increase in transfer.

In 2010, ticket sales amounted to $11,392 during the first full year of operations. Prizes and agents/retailer commissions totaled $5,894. Other operating expenses inclusive of gaming fees, advertising, other direct and administrative cost allocations accounted for an additional $1,166 in expenses. The game generated $4,325 in transfer to the District's General Fund.

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 $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.

Powerball sales amounted to $20,175 in 2010 and represented a $12,828 or 38.87% decline from the $33,003 sold in 2009. The Multi-State Lottery Association and Mega Millions conglomerates agreed to allow respective member states to cross sale tickets in January 2010. The decrease in ticket sales can be attributed to offsetting sales to the Mega Millions game and lost sales to surrounding lottery jurisdictions. Prizes totaled $9,321 for a $6,236 decrease from the $15,557 expensed in 2009. Prize expense decreased proportionate to sales intake and was offset by lapsed prizes totaling $805. Operating expenses excluding prizes decreased $2,224 primarily due to lower sales volume. Other income charged to the game increased by $357 to $375. The decrease in ticket sales offset by lower operating costs accounts for the $4,000 reduction in transfer to the District's General Fund to $7,025 from the $11,025 transferred in 2009.

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 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 and other operating costs amounted to $4,480 and $1,613, respectively, in 2011. 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.

Mega Millions sales totaled $4,313 for the approximate eight months of operations in 2010. Prizes expense and other operating costs amounted to $3,090 in 2010. Tickets sales offset by overall operating costs resulted in a transfer to the District's General Fund of $1,200.

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.

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 decreased by a net amount of $64 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 decreased $335 to $2,165 in 2011 from the $2,500 transferred in 2010.

Ticket sales in 2010 totaled $12,582 and were essentially equivalent to the $12,578 generated in 2009. Prizes expense increased $221 to $7,983 over the $7,762 expensed in 2009. Overall operating expenses less prizes and agents/retailer commission expenses decreased $111 primarily due to reductions in contractor gaming fees and other direct costs offset by increases in advertising and administrative cost allocations. The decrease of $125 in net proceeds and transfers to the District's General Fund to $2,500 in 2010 from the $2,625 transferred in 2009 can be attributed to the net increase in overall operating costs.

Hot Lotto

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

Ticket sales amounted to $3,324 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.

Hot Lotto ticket sales decreased $960 or 25.06% to $2,871 in 2010 in comparison to the $3,831 sold in 2009. The decrease in sales from the prior year was the direct result of lower jackpots in 2010. Prizes and agents/retailer commission expenses decreased $549 or 26.26% to $1,542 from the $2,091 expensed in 2009. Other operating expenses decreased $223 as a result of lower contractor gaming fees, advertising, other direct costs, and administrative cost allocations. The $200 decrease in transfers to the District's General Fund to $1,000 in 2010 from the $1,200 transferred in 2009 can be attributed to decrease in sales offset by decrease in operating expenses.

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 amounted to $486 in 2011. Prizes and other operating expenses totaled $180 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.

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.

Ticket sales amounted to $3,675 for the approximate ten months of operations in 2011. Operating expenses totaled $3,202 resulting in transfer to the District's General Fund of $470.

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 $2,085 for the approximate six months of operations in 2011. Operating expenses totaled $1,691 resulting in transfer to the District's General Fund of $385.

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 2011 and 2010. The transfer to the District's General Fund totaling $255 in 2010 is 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 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.

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 $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.

Instant ticket sales totaled $49,972 in 2010 representing a $4,719 or 10.43% increase over sales of $ 45,253 generated in 2009. Prizes expense in 2010 increased to $33,882 and was $4,568 over the $29,314 amount expensed in 2009. Other operating costs, excluding prizes, increased to $11,228 in 2010 or $1,026 more than the $10,202 incurred in 2009. The increase in ticket sales offset by higher prize payouts and other operating expenses accounts for the $890 decrease in transfers to the District's General Fund in 2010 to $4,845 from the $5,735 transferred in 2009.

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 66.99% and 67.80% as a percentage of tickets sold in 2011 and 2010, respectively.

Interest, Dividends and Other Income

All idle cash of the Lottery is invested through the District's General Fund Pooled Investments Account. Powerball receipts transferred to MUSL to fund major jackpots are invested in securities prior to jackpots being hit and earnings are allocated annually to party lotteries. Interest and dividend income, shown separately in the financial statements, has decreased by $5, $54, and $549 in 2011, 2010 and 2009, 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 $161 in 2011 to $292 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 $236, $375, and $18 in 2011, 2010, and 2009, respectively.

Charitable Gaming Activities

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

Contacting the Lottery

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
LOTTERY AND CHARITABLE GAMES CONTROL BOARD
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2011 AND 2010
(Dollar Amounts in Thousands)

Assets	**2011**	**2010**
Current Assets:		
Cash and Cash Equivalents	$ 9,982	$ 10,858
Accounts Receivable	5,442	4,969
Prepaid Expenses and Other	10	7
Restricted Investments	6,878	6,873
Total Current Assets	22,312	22,707
Non-current Assets:		
Capital Assets, net	478	579
Restricted Investments	16,034	22,345
Total Non-current Assets	16,512	22,924
Total Assets	$ 38,824	$ 45,631
Liabilities		
Current Liabilities:		
Accounts Payable	$ 1,495	$ 2,221
Compensation Liabilities	840	838
Deferred Revenues	208	152
Accrued Prizes and Commissions	8,318	8,052
Other Accrued Liabilities	1,072	1,239
Obligations for Unpaid Prizes – Current Portion	6,878	6,873
Total Current Liabilities	18,811	19,375
Obligations for Unpaid Prizes – Non-current Portion	16,034	22,345
Total Liabilities	34,845	41,720
Net Assets		
Invested in Capital Assets, Net of Related Debt	478	579
Unrestricted	3,501	3,332
Total Net Assets	$ 3,979	$ 3,911

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, 2011 AND 2010
(Dollar Amounts in Thousands)

	2011	2010
Operating Revenues:		
Gaming Revenues	$ 231,749	$ 230,159
Operating Expenses:		
Prizes	125,860	118,932
Agent's Commissions	14,769	14,478
Contractor Fees	11,277	12,767
Advertising	5,684	5,148
Administration	11,767	11,918
Amortization and Depreciation	169	150
Total Operating Expenses	169,526	163,393
Operating Income	62,223	66,766
Nonoperating Revenues - Interest and Dividends	20	25
Income Before Transfers	62,243	66,791
Transfers to District General Fund	(62,175)	(66,750)
Change in Net Assets	68	41
Net Assets, Beginning of Year	3,911	3,870
Net Assets, End of Year	$ 3,979	$ 3,911

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, 2011 AND 2010
(Dollar Amounts in Thousands)

	2011	2010
Operating Activities:		
Cash Receipts from Customers	$ 231,041	$ 232,001
Cash Receipts from Others	292	453
Cash Payments to Vendors	(22,602)	(22,494)
Cash Payments to Employees	(7,020)	(7,014)
Cash Payments for Prizes and Commissions	(140,363)	(132,793)
Net Cash Provided By Operating Activities	61,348	70,153
Capital and Related Financing Activities - Acquisition of Fixed Assets	(69)	(250)
Non-capital Financing Activities - Transfers Out	(62,175)	(66,750)
Investing Activities - Interest and Dividends	20	25
Net Increase in Cash	(876)	3,178
Cash and Cash Equivalents - Beginning of Year	10,858	7,680
Cash and Cash Equivalents - End of Year	$ 9,982	$ 10,858
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Operating Income	$ 62,223	$ 66,766
Amortization and Depreciation	169	150
Decrease (Increase) in Assets:		
Receivables	(473)	2,323
Prepaid Expenses	(3)	1
Increase (Decrease) in Liabilities:		
Accounts Payable	(726)	(251)
Compensation Liabilities	2	74
Deferred Revenue	56	(28)
Accrued Prizes	266	617
Other Current Liabilities	(166)	501
Net Cash Provided By Operating Activities	$ 61,348	$ 70,153

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

NOTE 1 ORGANIZATION

The Lottery and Charitable Games Control Board (the Lottery) was established by Public Law 3-172 as an independent agency of the Government of the District of Columbia (District). In accordance with the law, the Lottery must remit its monthly gaming revenues, less prizes, operating expenses and a reserve not to exceed 2% of projected annual prize payments to the General Fund of the District.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Lottery's financial transactions are accounted for as an enterprise fund in the District's financial statements. The accompanying financial statements are only those of the Lottery and are not intended to present the financial position, changes in financial position, and cash flows of the District taken as a whole. The District provides certain legal, central accounting and other services to the Lottery. The costs and revenue associated with these services are not reflected in these financial statements.

(b) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting. Under this method, revenues are reported when earned and expenses are reported at the time the related liabilities are incurred. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Lottery has elected not to follow the Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and Accounting Research Bulletins issued after November 30, 1989.

(c) Cash and Cash Equivalents

The Lottery participates in the District's pooled cash program whereby cash that is not needed for immediate disbursement is pooled with that of the District and used to purchase current investments. In accordance with the law, the District may invest the pooled cash directly in, or through repurchase agreements, obligations of the United States or its agencies, which are fully guaranteed by the federal government, and in certificates of deposit, which are issued by federally insured banks. In accordance with District policies, substantially all deposits in the pooled cash program were insured or collateralized with securities held by the District or its agent in the District's name. Interest income from the investment of pooled cash is allocated to the Lottery based on the amount the Lottery invests in the pool. The Lottery considers the pooled cash to be cash equivalents for the purpose of cash flows because the pool may not hold the securities for more than 91 days. Cash and cash equivalents at September 30, 2011 and 2010 respectively, were $9,982 and $10,858.

(d) Capital Assets

Capital assets are recorded at cost. The cost of major remodeling, betterments, and improvements of $5 and greater are capitalized. Repairs and maintenance costs are expensed as incurred. When capital assets are retired or sold, the cost and related accumulated depreciation are removed from the appropriate property and equipment accounts, and resulting gains or losses are recorded.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(e) 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.

(f) Prize Expense

Instant tickets prize expense is based on the prize payout percentage for each instant lottery game and is accrued as the related gaming revenue is earned. Prize expenses for online games, excluding the Powerball, Hot Lotto, 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.

(g) Compensated Absences

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

There is not a maximum limitation on the amount of unused sick pay benefits that employees may accumulate. The Lottery does not accrue for non-vesting accumulating rights to receive sick pay benefits. 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 ACCOUNTS RECEIVABLE

The components of accounts receivable as of September 30, 2011 and 2010 are as follows:

	2011	2010
Due from Agents:		
Online Games	$ 687	$ 381
Instant Games	4,677	4,152
Total Due from Agents	5,364	4,533
Other	78	436
Total Accounts Receivable	$ 5,442	$ 4,969

NOTE 4 CAPITAL ASSETS

A summary of capital assets as of September 30, 2011 and 2010 is as follows:

	Balance as of October 1, 2010	Additions	Reductions	Balance as of September 30, 2011
Cost:				
Machinery and Equipment	$ 2,615	$ 69	$ -	$ 2,684
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Cost	3,393	69	-	3,462
Less: Accumulated Depreciation				
Machinery and Equipment	2,036	170	-	2,206
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Accumulated Depreciation	2,814	170	-	2,984
Capital Assets, net	$ 579			$ 478

NOTE 4 CAPITAL ASSETS *(Continued)*

	Balance as of October 1, 2009	Additions	Reductions	Balance as of September 30, 2010
Cost:				
Machinery and Equipment	$ 2,474	$ 250	$ 109	$ 2,615
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Cost	3,252	250	109	3,393
Less: Accumulated Depreciation				
Machinery and Equipment	2,004	141	109	2,036
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	750	8	-	758
Total Accumulated Depreciation	2,774	149	109	2,814
Capital Assets, net	$ 478			$ 579

NOTE 5 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, 2011 and 2010, MUSL had purchased for the Lottery, U.S. government securities aggregating $23,653 and $30,526, respectively to fund future installment payments for the Lottery's Lotto-America and Powerball winners.

The market value of these securities was $22,912 and $29,218 as of September 30, 2011 and 2010, 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.

NOTE 5 MULTI-STATE LOTTERY ASSOCIATION *(Continued)*

During Fiscal 2003, the Lottery adopted GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. As of September 30, 2011, 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	$22,912	$7,914	$12,954	$2,044	$ -

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, 2011, the Lottery had an interest in a SEC 2a7 pooled government cash management fund of $1,059 and the pool was not rated.

(c) MUSL Prize Reserves

The prize pool for Powerball consists of 50% of each drawing period's sales. Two percent of the prize pool is placed in a prize reserve fund and a set prize reserve fund. These reserve funds serve as contingency funds to protect MUSL from unforeseen liabilities. As of September 30, 2011 and 2010, the total Powerball prize reserve fund was approximately $99,216 and $85,812, respectively, of which the Lottery's share was approximately $785 and $1,211, respectively. In addition, the total Powerball set prize reserve fund as of September 30, 2011 and 2010 was approximately $25,000 and $27,955, respectively, of which the Lottery's share was approximately $174 and $339, 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

NOTE 5 MULTI-STATE LOTTERY ASSOCIATION *(Continued)*

The prize reserve fund serves as a contingency fund to protect MUSL from unforeseen liabilities. As of September 30, 2011, the total Hot Lotto prize reserve fund was approximately $7,387 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 6 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.

	Year Ended September 30,	
	2011 Jackpot	**2010 Jackpot**
Jackpot Prizes Payable:		
Due Within One Year	$ 6,878	$ 6,873
Due in Subsequent Years	16,034	22,345
Total (present value)	22,912	29,218
Add: Interest to Maturity	741	1,308
Jackpot Prizes Payable at Maturity	$ 23,653	$ 30,526

The unamortized discount on the prizes payable is based on interest rates which range from .890% to 2.938% 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, 2011, and the five year incremental totals thereafter, is as follows:

2012	$ 6,878
2013	6,253
2014	4,019
2015	2,978
2016	1,150
2017 - 2021	2,000
2022 - After	375
Total	$ 23,653

NOTE 6 OBLIGATIONS FOR UNPAID PRIZES *(Continued)*

The following schedule presents the changes in prizes payable:

Balance as of October 1, 2009	$ 35,153
Increase	1,471
Decrease	(7,406)
Balance as of September 30, 2010	29,218
Increase	567
Decrease	(6,873)
Balance as of September 30, 2011	$ 22,912

NOTE 7 GAMING REVENUES AND EXPENSES

Gaming revenues and expenses for the fiscal years ended September 30, 2011 and 2010 were as follows:

Gaming Revenues, Prizes, and Commissions

2011

	D.C. Three	D.C. Four	Powerball	Keno	Hot Lotto	DC Daily 6	DC Five	Mega Millions	Race 2 Riches	Fast Play	Instant Games	Others	Total
Gaming revenues	$ 53,383	$ 65,368	$ 13,923	$ 11,545	$ 3,324	$ 486	$ 12,877	$ 8,685	$ 3,675	$ 2,085	$ 56,106	$ 292	$ 231,749
Prizes	(26,395)	(32,711)	(6,548)	(7,362)	(1,603)	(113)	(5,191)	(4,480)	(2,494)	(1,379)	(37,584)	-	(125,860)
Agent's commissions	(3,448)	(3,840)	(750)	(783)	(188)	(27)	(714)	(466)	(252)	(145)	(4,156)	-	(14,769)
Gross margin	$ 23,540	$ 28,817	$ 6,625	$ 3,400	$ 1,533	$ 346	$ 6,972	$ 3,739	$ 929	$ 561	$ 14,366	$ 292	$ 91,120

2010

	D.C. Three	D.C. Four	Powerball	Keno	Hot Lotto	DC Daily 6	Rolling Cash 5	DC Five	Mega Millions	Raffle	Instant Games	Others	Total
Gaming revenues	$ 56,361	$ 68,619	$ 20,175	$ 12,582	$ 2,871	$ 3,382	$ -	$ 11,392	$ 4,313	$ 39	$ 49,972	$ 453	$ 230,159
Prizes	(29,166)	(28,563)	(9,321)	(7,983)	(1,378)	(1,325)	246	(5,270)	(2,230)	(60)	(33,882)	-	(118,932)
Agent's commissions	(3,696)	(3,844)	(1,072)	(848)	(164)	(202)	12	(624)	(231)	(2)	(3,807)	-	(14,478)
Gross margin	$ 23,499	$ 36,212	$ 9,782	$ 3,751	$ 1,329	$ 1,855	$ 258	$ 5,498	$ 1,852	$ (23)	$ 12,283	$ 453	$ 96,749

NOTE 8 TRANSFERS TO THE 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, 2011 and 2010, the Lottery's net transfers to the General Fund of the District were $62,175 and $66,750, respectively. The Lottery was in compliance with the Act for the fiscal years ended September 30, 2011 and 2010.

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 $88 and $90 for the years ended September 30, 2011 and 2010, 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 $270 and $273 for the fiscal years ended September 30, 2011 and 2010, 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:

NOTE 10 COMMITMENTS AND CONTINGENCIES *(Continued)*

September 30, 2012	$ 2,141
September 30, 2013	2,234
September 30, 2014	2,345
September 30, 2015	2,403
September 30, 2016	2,464
Thereafter	4,019
	$ 15,606

Rent expense for the fiscal years ended September 30, 2011 and 2010 was as follows:

	2011	2010
Gross Rental Expense	$ 2,141	$ 2,269
Less Income from Subleases	(28)	(170)
Net Rent Expense	$ 2,234	$ 2,099

(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. As of September 30, 2011, the sum of $950,000 in future installment payments was due to the winner.

(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.

(d) Liquidation Damages

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

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 $1,123 and $1,124 in fiscal years 2011 and 2010, 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.

The Lottery was a defendant in a lawsuit alleging violations of the Americans with Disabilities Act, the Rehabilitation Act and the District of Columbia Human Rights Act. The lawsuit was successfully settled for the sum of $125,000.

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.

BERTSMITH & Co.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the Lottery and Charitable Games Control Board (the Lottery); an enterprise fund of the Government of the District of Columbia (District), as of and for the year ended September 30, 2011, and have issued our report thereon dated December 29, 2011. 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 above. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control over financial reporting (2011-1). 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 charged with governance.

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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 instance of noncompliance that is required to be reported under *Government Auditing Standards*.

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.

Bert Smith & Co.

Washington, D.C.
December 29, 2011

2011-1 ***Lack of Supporting Documentation of New Agents***

Condition: Our testwork of the licensing of new agents revealed instances of lack of supporting documentation. The following documents were missing in one instance: (a) Insufficient Funds Policy Notification, (b) Lease Agreement and (c) Certificate of Good Standing; while in one instances the inspection reports were missing.

Additionally, in two instances, a notification was made on the checklist of the Executive Office providing a waiver that the agent provide a current lease agreement. There was however, no documentation of the waiver authorization.

Criteria: In order for a new license to be issued to an agent, the agency is required to obtain signed copies of the Insufficient Funds Policy Notification, and Certificate of Good Standing, amongst other pertinent documents. In addition, an ADA Compliance Inspection should be conducted.

Cause: In Fiscal Year 2011, there were departmental organization and reporting changes which essentially combined the Licensing and Sales Department operations. Processes and procedures, in some cases, were modified and/or eliminated without officially changing standard operating procedures already established.

Effect: There is an increased risk that agents who do not meet the minimum requirements are licensed to operate within the District.

Recommendation: Care must be taken to ensure that the required documentation is obtained and maintained within the agent's file. In the event a requirement is waived, the approval of the waiver must be adequately documented.

Management's Response: The Lottery is aware that various documents were missing from new agents' files based on test work conducted. The agency will ensure that all required documents when licensing new agents or renewing old agents are properly prepared, obtained and maintained within agents' files. In cases where waivers granting authorization by the Executive Office to omit documents and bypass specified procedures were not available, changes will be incorporated into relevant policies and procedures or official documents authorizing waivers will be maintained in the respective files.