

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 20-1-08DC

January 2020



GOVERNMENT OF THE DISTRICT OF COLUMBIA OFFICE OF LOTTERY AND GAMING Financial Statements and Management's Discussion and Analysis (With Reports of Independent Public Accountants) For Fiscal Years Ended September 30, 2019 and 2018

Guiding Principles

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation
* Accountability * Professionalism * Objectivity and Independence * Communication * Collaboration
* Diversity * Measurement * Continuous Improvement*

Mission

Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

Vision

Our vision is to be a world-class Office of the Inspector General that is customer-focused, and sets the standard for oversight excellence!

Core Values

Excellence * Integrity * Respect * Creativity * Ownership
* Transparency * Empowerment * Courage * Passion
* Leadership



GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



January 31, 2020

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

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

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Government of the District of Columbia Office of Lottery and Gaming Financial Statements and Management's Discussion and Analysis for the Fiscal Years Ended September 30, 2019 and 2018* (OIG No. 20-1-08DC). SB & Company, LLC (SBC) conducted the audit and submitted this component report as part of our overall contract for the audit of the District of Columbia's general-purpose financial statements for fiscal year 2019.

On January 3, 2020, SBC issued its opinion and concluded that the financial statements are presented fairly in all material respects, in accordance with accounting principles generally accepted in the United States of America. SBC identified no material weaknesses in internal control over financial reporting.

If you have questions about this report, please contact me or Benjamin Huddle, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,


Daniel W. Lucas
Inspector General

DWL/ws

Enclosure

DISTRIBUTION:

Mr. Rashad M. Young, City Administrator, District of Columbia (via email)
Mr. Barry Kreiswirth, General Counsel, City Administrator, District of Columbia (via email)
The Honorable Kenyan R. McDuffie, Chairperson, Committee on Business and Economic
Development, Council of the District of Columbia (via email)
The Honorable Brandon T. Todd, Chairperson, Committee on Government Operations (via email)
Mr. John Falcicchio, Chief of Staff, Office of the Mayor (via email)
Ms. LaToya Foster, Director of Communications, Office of Communications, Executive Office of
the Mayor (via email)
Ms. Jennifer Reed, Director, Office of Budget and Performance Management, Office of the City
Administrator (via email)
Ms. Beth Bresnahan, Director, Office of Lottery and Gaming (via email)
Ms. Nyasha Smith, Secretary to the Council (via email)
The Honorable Karl Racine, Attorney General for the District of Columbia (via email)
Mr. Jeffrey DeWitt, Chief Financial Officer, Office of the Chief Financial Officer (via email)
Mr. Timothy Barry, Executive Director, Office of Integrity and Oversight, Office of the Chief
Financial Officer (via email)
The Honorable Kathy Patterson, D.C. Auditor, Office of the D.C. Auditor,
Attention: Cathy Patten (via email)
Mr. Jed Ross, Director and Chief Risk Officer, Office of Risk Management (via email)
Ms. Berri Davis, Director, FMA, GAO, (via email)
Mr. Graylin (Gray) Smith, Partner, SB and Company, LLC (via email)

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING**

**FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION
AND ANALYSIS (WITH REPORTS OF INDEPENDENT PUBLIC
ACCOUNTANTS)**

SEPTEMBER 30, 2019 AND 2018

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
SEPTEMBER 30, 2019 and 2018

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S B & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Mayor, Members of the Council of the Government of the District of Columbia,
Inspector General of the Government of the District of Columbia and
The Office of Lottery and Gaming
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying statements of net position of the Office of Lottery and Gaming (the Lottery), an enterprise fund of the Government of the District of Columbia, as of and for the years ended September 30, 2019 and 2018, the related statements of revenues, expenses, and change in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of September 30, 2019 and 2018, and the change in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1 to the financial statements, the financial statements present only the Lottery enterprise fund and do not purport to, and do not present fairly the financial position of the District of Columbia as of September 30, 2019 and 2018, the changes in its financial position or, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to the matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statement in an appropriate operational, economic or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2020, on our consideration of the Lottery's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal controls over financial reporting and compliance.

Washington, D.C.
January 3, 2020

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019 and 2018
(Dollar Amounts in Thousands)

The discussion and analysis of the Office of Lottery and Gaming (the Lottery) financial performance provides an overview of its financial activities for the fiscal years ended September 30, 2019 and 2018. 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 (the 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 \$2,808 or 1.34% from the prior year amount.
- The Lottery generated ticket sales of \$213,062 for an increase of \$2,803 or 1.33% more than the prior year total of \$210,259.
- Total operating expenses increased by \$7,057 or 4.37% primarily because of higher prize payouts.
- Prize payouts in 2019 increased by \$6,010 or 5.12% compared to 2018 and reflected a payout rate of 57.91% of ticket sales versus 55.82% the prior year.
- Contractor's fees increased by \$41 or .60% from the prior year due to increased sales.
- Transfers to the District's General Fund decreased by \$4,450, equivalent to 8.99% below the prior year's total; primarily due to increased prize payouts.

To effectively understand the Lottery's operations and to assess its financial activities, the reader must be aware of individual game sales, related prize expenses and payout percentages, the impact on change in net position and resulting transfer to the District's General Fund. Prize payouts and the volume of Powerball, Mega Million and Lucky For Life 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 Position; the Statements of Revenues, Expenses, and Change in Net Position; and the Statements 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
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2019 and 2018
(Dollar Amounts in Thousands)

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

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

Financial Analysis

The Lottery's net position increased by \$35, \$63 and \$83 for the years ended September 30, 2019, 2018 and 2017, respectively. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2019, 2018, and 2017.

Table 1: Summary of Net Position
(In Thousands)

	September 30		
	2019	2018	2017
Assets:			
Current and Other Assets	\$ 17,075	\$ 16,686	\$ 16,011
Capital Assets (net of accumulated depreciation)	595	646	350
Restricted Investments	1,190	1,547	1,939
Total Assets	<u>18,860</u>	<u>18,879</u>	<u>18,300</u>
Liabilities:			
Accounts Payable and Accrued Expenses	3,381	3,304	4,207
Unearned Revenue	55	44	39
Accrued Prizes and Commissions	9,539	9,324	7,518
Obligations for Unpaid Prizes – Short-term	410	410	410
Obligations for Unpaid Prizes – Long-term	780	1,137	1,529
Total Liabilities	<u>14,165</u>	<u>14,219</u>	<u>13,703</u>
Net Position:			
Net Investment in Capital Assets	595	646	350
Unrestricted	4,100	4,014	4,247
Total Net Position	<u>\$ 4,695</u>	<u>\$ 4,660</u>	<u>\$ 4,597</u>

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2019 and 2018
(Dollar Amounts in Thousands)

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

	Years Ended September 30		
	2019	2018	2017
Operating Revenues:			
Gaming Revenues	\$ 213,072	\$210,264	\$218,732
Operating Expenses:			
Prizes	123,375	117,365	130,035
Other	45,079	44,032	43,206
Total Operating Expenses	<u>168,454</u>	<u>161,397</u>	<u>173,241</u>
Operating Income	44,618	48,867	45,491
Non-operating Revenues – Interest, Dividends and Other			
Income before Transfers	467	696	192
	<u>45,085</u>	<u>49,563</u>	<u>45,683</u>
Transfers to the District's General Fund	<u>(45,050)</u>	<u>(49,500)</u>	<u>(45,600)</u>
Change in Net Position	<u>\$ 35</u>	<u>\$ 63</u>	<u>\$ 83</u>

Unrestricted net position was \$4,100, \$4,014 and \$4,247 as of September 30, 2019, 2018 and 2017, respectively, which represents an increase of \$86, a decrease of \$233, and an increase of \$63, respectively. Current and other assets decreased by \$19 in FY 2019, increased by \$579 in 2018, and decreased by \$138 in 2017, respectively. Total liabilities decreased by \$54 or .38%, increased by \$516 or 3.77%, and decreased by \$598 or 4.18% for the years ended September 30, 2019, 2018 and 2017, respectively; primarily due to the result of decreases in the Lottery's accrued prizes and commissions. 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 \$1,190, \$1,547 and \$1,939 as of September 30, 2019, 2018 and 2017, respectively, represents the net present value of securities totaling \$1,210, \$1,610 and \$2,010 as of September 30, 2019, 2018 and 2017, respectively, to fund future annuity installment payments. The restricted investments value decreased by \$357, \$392 and \$397 during fiscal years 2019, 2018 and 2017, respectively, due to payments of \$400, \$400 and \$400, net of unrealized gains of \$14, \$8 and \$51 in fiscal years 2019, 2018 and 2017, respectively. Accretion of investments totaled negatives of \$156 in 2019, \$49 in 2018 and \$39 in 2017, respectively. Corresponding amounts are recorded as obligations for unpaid prizes.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
SEPTEMBER 30, 2019 and 2018
(Dollar Amounts in Thousands)

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

Index Class	Gaming Revenue	Prizes	Retailer Commissions	Contractor Fee	Advertising	Gross Margin	Transfers
Fiscal Year 2019							
DC 3	\$ 38,555	\$ (18,610)	\$ (2,485)	\$ (1,238)	\$ (1,221)	\$ 15,001	\$ 10,587
DC TWO	540	(254)	(35)	(17)	(17)	217	157
DC FIVE	22,475	(13,114)	(1,278)	(721)	(712)	6,650	4,813
DC FOUR	51,757	(24,124)	(3,217)	(1,661)	(1,639)	21,116	15,284
FAST PLAY	8,110	(6,002)	(586)	(260)	(257)	1,005	727
HOT LOTTO	0	(0)	(0)	(0)	(0)	0	0
INSTANT	52,335	(38,453)	(3,930)	(1,680)	(1,658)	6,614	4,788
THE LUCKY ONE	179	(119)	(12)	(6)	(6)	36	26
KENO	6,605	(4,091)	(449)	(212)	(209)	1,644	1,190
LUCKY FOR LIFE	2,118	(1,460)	(107)	(68)	(67)	416	302
MEGA MILLIONS	9,563	(4,677)	(466)	(307)	(303)	3,810	2,758
POWERBALL	9,784	(4,696)	(517)	(314)	(310)	3,947	2,856
RACE2RICHES	8,710	(5,958)	(607)	(280)	(276)	1,589	1,151
TAP-N-PLAY	2,331	(1,817)	(171)	(75)	(74)	194	141
OTHER	10	0	0	0	0	10	0
Total	\$ 213,072	\$(123,375)	\$ (13,860)	\$ (6,839)	\$ (6,749)	\$ 62,249	\$ 45,050
Fiscal Year 2018							
DC 3	\$ 39,529	\$ (18,941)	\$ (2,545)	\$ (1,278)	\$ (1,202)	\$ 15,563	\$ 11,684
DC TWO	573	(480)	(43)	(18)	(17)	15	10
DC FIVE	21,940	(9,651)	(1,240)	(709)	(667)	9,673	7,261
DC FOUR	52,461	(22,462)	(3,219)	(1,696)	(1,595)	23,489	17,634
FAST PLAY	9,248	(7,104)	(667)	(299)	(281)	897	673
HOT LOTTO	0	(0)	(0)	(0)	(0)	0	0
INSTANT	49,493	(37,210)	(3,783)	(1,600)	(1,505)	5,395	4,050
THE LUCKY ONE	112	(75)	(8)	(4)	(3)	22	16
KENO	7,445	(4,665)	(507)	(241)	(226)	1,806	1,356
LUCKY FOR LIFE	2,164	(1,331)	(133)	(70)	(66)	564	423
MEGA MILLIONS	7,136	(3,532)	(370)	(231)	(217)	2,786	2,092
POWERBALL	9,034	(4,220)	(468)	(292)	(275)	3,779	2,837
RACE2RICHES	8,506	(5,670)	(591)	(275)	(259)	1,711	1,285
TAP-N-PLAY	2,618	(2,024)	(192)	(85)	(80)	237	179
OTHER	5	0	0	0	0	5	0
Total	\$ 210,264	\$(117,365)	\$ (13,766)	\$ (6,798)	\$ (6,393)	\$ 65,942	\$ 49,500
Fiscal Year 2017							
DC 3	\$ 42,030	\$ (19,646)	\$ (2,691)	\$ (1,327)	\$ (1,250)	\$ 17,116	\$ 12,826
DC FIVE	21,934	(11,946)	(1,241)	(693)	(652)	7,402	5,546
DC FOUR	56,322	(30,974)	(3,621)	(1,779)	(1,675)	18,273	13,692
FAST PLAY	8,575	(6,531)	(611)	(271)	(255)	907	680
HOT LOTTO	470	(202)	(26)	(15)	(14)	213	160
INSTANT	50,318	(37,798)	(3,789)	(1,589)	(1,496)	5,646	4,230
KENO	7,854	(4,818)	(533)	(248)	(234)	2,021	1,515
LUCKY FOR LIFE	2,306	(1,413)	(153)	(73)	(69)	599	448
MEGA MILLIONS	5,193	(2,553)	(278)	(164)	(154)	2,044	1,532
POWERBALL	11,544	(5,585)	(608)	(365)	(343)	4,643	3,480
RACE2RICHES	9,188	(6,253)	(641)	(290)	(273)	1,731	1,296
TAP-N-PLAY	2,975	(2,316)	(217)	(94)	(88)	260	195
OTHER	23	0	0	0	0	23	0
Total	\$ 218,732	\$(130,035)	\$ (14,409)	\$ (6,907)	\$ (6,504)	\$ 60,877	\$ 45,600

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2019 and 2018
(*Dollar Amounts in Thousands*)

Table 3 provides a comparison of sales, prizes, retailer commissions, gross margin, and transfers to the District's General Fund generated by each lottery product offered. Overall gaming revenues totaled \$213,072, \$210,264 and \$218,732 in fiscal years 2019, 2018 and 2017, respectively. Prize expenses increased \$6,010 or 5.12% in 2019, decreased \$12,670 or 9.74% in 2018 and decreased \$2,010 or 1.52% in 2017. Total prize payouts as a percentage of gaming revenue was 57.91%, 55.82% and 59.45% in fiscal years 2019, 2018 and 2017, respectively. Retailer commissions increased \$94 in 2019 and decreased \$643 and \$549 in 2018 and 2017, respectively, due to the respective increases in ticket sales and prize payouts.

DC2 — DC2 is a daily two-digit game launched on March 11, 2018 in which players may wager 50 cents or one dollar with five ways to win prizes ranging from 25 to 50 dollars. The five ways to play DC2 are – (1) Straight Match, (2) Box, (3) Straight/Box, (4) 2-way Combo and (5) Front / Back Number. The game is designed to payout 50% in prizes. Prizes vary based on play type, and the top prize with a \$1 bet is \$50. The draw takes place twice a day everyday (day & evening).

Sales in 2019 totaled \$540 for a \$33 or 5.76% reduction from 2018. Sales in its inaugural six months in 2018 totaled \$573. Prizes amounted to \$254 in 2019, for a \$226 or 47.08% reduction from 2018. The retailer commissions amounted to \$35 in 2019, an \$8 or 18.60% decrease from 2018. In 2019, DC2 contributed \$157 in transfer to the District's General Fund. This is a \$147 increase from 2018.

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 2019, sales totaled \$38,555 for a \$974 or 2.46% reduction from 2018. Sales in 2018 totaled \$39,529 for a \$2,501 or 5.95% reduction from 2017. Sales in 2017 totaled \$42,030 for a \$1,457 or 3.35% reduction below 2016. The game continues to be impacted by the demographic changes in the District's population. The Lottery continues to strategically implement marketing and promotional campaigns to stabilize and enhance sales for the game.

Prizes amounted to \$18,610 in 2019, for a \$331 or 1.75% decrease below the prior year. Prizes amounted to \$18,941 in 2018, for a \$705 or 3.59% decrease below 2017. Prizes amounted to \$19,646 in 2017, for a \$1,326 or 6.32% decrease below 2016. Retailer commissions expense decreased by \$60 primarily due to the noted decrease in sales. Net proceeds to the District's General Fund in 2019 totaled \$10,857 for a \$827 or 7.08% decrease compared to 2018. The transfer in 2018 totaled \$11,684 for a \$1,142 or 8.90% decrease compared to 2017. The transfer in 2017 totaled \$12,826 for a \$667 or 4.94% decrease compared to 2016. The DC Three game accounted for 18.09% of total gaming revenue and 24.10% of the overall gross margin. The game reflected a decrease of 0.71% in gaming revenue percentage contribution, and an increase of 0.5% in gross margin percentage contribution due to lower prizes and sales.

DC FOUR — DC Four is a daily four-digit game with a fixed prize payout. Players may wager 50 cents or one dollar for a chance to win seven different ways. Ticket sales totaled \$51,757 in 2019, for a \$704 or 1.34% decrease from the 2018 ticket sales of \$52,461. Ticket sales were \$52,461 in 2018 for a \$3,861 or 6.86% decrease from the 2017 tickets sales of \$56,322. Ticket sales were \$56,322 in 2017, for a \$836 or 1.51% increase from the 2016 tickets sales of \$55,486. The decrease in sales continues to be impacted by economic conditions and demographic changes in the District.

Prizes in 2019 totaled \$24,124, an increase of \$1,662 or 7.4% above the prior year. FY 2018 totaled \$22,462, a decrease of \$8,512 or 27.48% from 2017. FY 2017 prize expense totaled \$30,974, an increase of \$4,912 or 18.85% from 2016. Transfers to the District's General Fund in 2019 totaled \$15,284 for a \$2,350 or 13.33% decrease from the \$17,634 transferred in 2018. Transfers to the District's General Fund in 2018 totaled \$17,634 for a \$3,942 or 28.79% increase from the \$13,692 transferred in 2017. Transfers to the District's General Fund in 2017 totaled \$13,692 for a \$4,189 or 23.43% decrease from the \$17,881 transferred in 2016. The increase in

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2019 and 2018
(*Dollar Amounts in Thousands*)

prize payouts accounts for the decrease in the transfer amount. The DC Four game was responsible for 24.29% of total gaming revenue and 33.93% of the overall gross margin. The 0.66% decrease in gaming revenue contribution rate and 1.69% decrease in gross margin contribution percentages from over the prior year amounts is directly associated with changing demographics and an increase in prizes.

DC FIVE — DC Five is a daily five-digit game with a fixed prize 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.

In 2019, ticket sales totaled \$22,475 which represents a \$535 or 2.44% increase over the prior year. Prizes and retailer commissions in 2019 amounted to \$13,114 and \$1,278, respectively. The result was an increase in prizes of \$3,463 or 35.88% and an increase to commissions of \$38 or 3.06% over the prior year. The game generated \$4,813 in transfer to the District's General Fund in 2019 or \$2,488 or 33.71% less than 2018. The increase in prize payout percentage essentially accounts for the decrease in the transfer.

Sales totaled \$21,940 in 2018, which represented a \$6 or 0.03% increase over 2017's total of \$21,934. Ticket sales totaled \$21,934 in 2017 and represented a \$2,779 or 14.51% increase over 2016. Prizes and retailer commissions in 2018 and 2017 amounted to \$9,651 and \$11,946 and \$1,240 and \$1,241, respectively. The game generated \$7,261 and \$5,546 in transfers to the District's General Fund in 2018 and 2017, respectively.

POWERBALL --- The Powerball game is a five out of sixty-nine plus one out of twenty-six terminal 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-five (35) states, a Non-MUSL Group which consists of ten (10) states, the District of Columbia and the Virgin Islands. The jurisdictions combine 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 October 4, 2015.

Powerball sales totaled \$9,784 in 2019, representing a \$750 or 8.30% increase from the \$9,034 generated in 2018. The increase in sales can be attributed to higher jackpots experienced during the year. Powerball sales are jackpot-driven, and high jackpots impact sales levels. Prizes amounted to \$4,696 in 2019 representing a \$476 or 11.28% increase from the \$4,220 expensed in 2018. Powerball prizes are expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Prize expense increased due to increased sales. The \$19 increase in transfer to the District's General Fund to \$2,856 from the \$2,837 transferred in 2018 is due to the allocation of the transfer being based on the gaming revenues that increased in 2019.

Powerball sales totaled \$9,034 in 2018, representing a \$2,510 or 21.74% decrease from the \$11,544 generated in 2017. The decrease in ticket sales can be attributed to the lack of a billion-dollar jackpot which was last experienced in February 2016. Powerball sales are jackpot-driven and high jackpots impact sales levels. Prizes amounted to \$4,220 in 2018, representing a \$1,365 or 24.44% decrease from the \$5,585 expensed in 2017. Powerball prizes are expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Prize expense decreased due to less sales intake as a result of lower jackpots than in 2017. The \$643 decrease in transfer to the District's General Fund to \$2,837 from the \$3,480 transferred in 2017 is due to the allocation of the transfer being based on the gaming revenues that decreased in 2017.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2019 and 2018
(*Dollar Amounts in Thousands*)

MEGA MILLIONS --- The Mega Millions game is a five out of seventy-five plus one out of fifteen terminal 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 Mega Millions Group introduced changes to Mega Millions on October 28, 2017. The changes included an increase in the ticket cost from \$1 to \$2, an increase in the beginning jackpot from \$20 million to \$40 million, a change in the matrix from 5/75 + 1/15 to 5/70+1/25, a new “Just the Jackpot” option and a prize structure change. With “Just the Jackpot,” players will have two-game plays for just \$3, instead of \$4. A player choosing this option is not eligible for any of the eight lower-tier prizes. DC is one of the jurisdictions providing this option to accommodate players that are interested in the jackpot only.

Mega Millions sales totaled \$9,563 in 2019, representing a \$2,427 or 34.01% increase over the \$7,136 generated in 2018. The increase in ticket sales can be attributed to higher jackpots that increases player participation and sales volume. Mega Million sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$4,677 in 2019, representing a \$1,145 or 32.42% increase from the \$3,532 expensed in 2018. Prizes were expensed at the rate of 48.91% of overall ticket sales in 2018. The noted increase in ticket sales offset by overall operating costs resulted in a transfer to the District’s General Fund of \$2,758 in 2019 or \$666 more than the \$2,092 produced in 2018.

Mega Millions sales totaled \$7,136 in 2018, representing a \$1,943 or 37.42% increase of the \$5,193 generated in 2017. The increase in ticket sales can be attributed to high jackpots that increases player participation and sales volume. Mega Million sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$3,532 and \$2,553, respectively, in 2018 and 2017. Mega Millions prizes were expensed at the rate of 49.50% of overall ticket sales in 2018. Ticket sales offset by overall operating costs resulted in a transfer to the District’s General Fund of \$2,092 in 2018 or \$560 more than the \$1,532 produced in 2017.

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

Hot Lotto ticket sales decreased to \$470 in 2017, representing a \$1,688 or 78.22% decrease below the \$2,158 generated in 2016. The decrease in sales in 2017 below the prior year’s total is primarily the result of the game ending on December 24, 2016. The prize expense decreased \$826 from \$1,028 to \$202 or 80.35%. The agent/retailer commission expenses totaled \$26 and reflected a \$96 or 78.69% decrease in 2017 below the \$122 expensed in 2016. The \$534 decrease in transfers to the District’s General Fund in 2017 below the 2016 transfer amount of \$694 is attributed to the game ending on December 24, 2016.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2019 and 2018
(*Dollar Amounts in Thousands*)

LUCKY FOR LIFE --- The Lucky for Life game is a multi-state, five out of forty-eight, plus one out of eighteen terminal lottery game that pays a top prize of \$1,000 per week for actual life and a second- tier prize of \$25,000 a year for life. There are eight other ways to win prizes up to \$5,000 for two dollars per play. Lucky for Life transactions are handled through the Multi-State Lottery Association (MUSL). Party lotteries pool their sales and other resources, but otherwise account for operations separately. The Lottery began selling Lucky for Life tickets effective February 15, 2015.

Lucky for Life ticket sales amounted to \$2,118 in 2019, \$46 or 2.13% less than the \$2,164 in 2018. The prizes in 2019 totaled \$1,460, \$129 more than the \$1,331 in 2018. Retailer commissions in 2019 and 2018 totaled \$107 and \$133, respectively. Lucky for Life produced a transfer to the District's General Fund in 2019 and 2018 of \$302 and \$423, respectively. The decrease in transfer can be attributed to the increase in prizes.

Lucky for Life ticket sales amounted to \$2,164 in 2018, \$142 or 6.16% less than \$2,306 in 2017. The prizes in 2018 totaled \$1,331, \$82 less than the \$1,413 in 2017. Retailer commissions in 2018 and 2017 totaled \$133 and \$153, respectively. Lucky for Life produced a transfer to the District's General Fund in 2018 and 2017 of \$423 and \$48, respectively.

THE LUCKY ONE --- The Lucky One is a monitor- based game with draws taking place every four minutes. Players select a "lucky number" between one and thirty- six (36). There are three ways to play "The Lucky One" game – The Lucky Number (picking the exact number drawn), odd/ even and high/ low. The odds of winning the top prize of \$24 with a wager of \$1 is 1 in 36, while the odds of winning with the odd/ even or high/ low bet types are 1 in 2. Players have the options of a \$1 or 50 cent play. The Lucky One game was launched on May 20, 2018.

The Lucky One ticket sales amounted to \$179 in 2019. In its inaugural fiscal year of 2018, which consisted of four months, sales for The Lucky One totaled \$112. Prizes and commissions combined amounted to \$131 and \$83 in 2019 and 2018, respectively. The Lucky One contributed \$26 and \$16 in transfer to the District's General Fund in 2019 and 2018, respectively.

RACE2RICHES --- Race2Riches 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. Race2Riches ticket sales amounted to \$8,710 in 2019, representing a \$204 or 2.40% increase over the \$8,506 generated in 2018. The increase in sales in 2019 from the prior year's total is primarily because of the prize payout on a game that plays every four minutes. Prize expense increased to \$5,958 in 2019 from \$5,670 in 2018, which represented a \$288 or 5.08% increase over 2018. The \$134 decrease in transfers to the District's General Fund in 2019 to \$1,151, is less than the 2018 transfer amount of \$1,285. The decrease in the transfer is attributed to the decrease in sales and the decrease in gross margin.

Race2Riches ticket sales amounted to \$8,506 in 2018, representing a \$682 or 7.42% decrease from the \$9,188 generated in 2017. The decrease in sales in 2018 from the prior year's total is primarily because of slightly lower sales and the demographic changes in the District's population. Prize expense decreased to \$5,670 in 2018 from \$6,253 in 2017, which represented a \$583 or 9.32% decrease under 2017. The \$11 decrease in transfers to the District's General Fund in 2018 to \$1,285, is less than the 2017 transfer amount of \$1,296. The decrease in the transfer is attributed to the decrease in sales and the decrease in gross margin.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2019 and 2018
(*Dollar Amounts in Thousands*)

Race2Riches ticket sales amounted to \$9,188 in 2017, representing a \$1,005 or 9.86% decrease from the \$10,193 generated in 2016. The decrease in sales in 2017 from the prior year's total is primarily because of slightly lower sales and demographic changes in the District's population. Prize expense decreased to \$6,253 in 2017 from \$7,143 in 2016, which represented a \$890 or 12.46% decrease under over 2016. The \$66 decrease in transfers to the District's General Fund in 2017 to \$1,296, is less than the 2016 transfer amount of \$1,362. The decrease in the transfer is attributed to the decrease in sales and the decrease in gross margin.

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 not offered at all retailer locations but continues to be marketed through targeted awareness and promotional campaigns.

Ticket sales for Keno totaled \$6,605 in 2019, representing a \$840 or 11.28% decrease of the 2018 sales total of \$7,445. Prize expenses decreased by \$574 to \$4,091 in 2019 when compared to the \$4,665 expensed in 2018. Retailer commissions totaled \$449 or 11.44% less than the \$507 expensed in 2018. Transfers to the District's General Fund decreased \$166 to \$1,190 in 2019 from the \$1,356 transferred in 2018. The decrease in transfer is attributed to the decrease in sales.

Ticket sales for Keno totaled \$7,445 in 2018, representing a \$409 or 5.21% decrease of the 2017 sales total of \$7,854. Prizes expense decreased by \$153 to \$4,665 in 2018 when compared to the \$4,818 expensed in 2017. Transfers to the District's General Fund decreased \$159 to \$1,356 in 2018 from the \$1,515 transferred in 2017.

Keno sales totaled \$7,854 in 2017, representing a \$788 or 9.12% decrease from the 2016 sales total of \$8,642. Prizes expense decreased by \$433 to \$4,818 in 2017 when compared to the \$5,251 expensed in 2016. Transfers to the District's General Fund decreased by \$291 to \$1,515 in 2017 from the \$1,806 transferred in 2016

FAST PLAY--- Fast Play games are a series of instant-style games printed and played through retailers' terminals. Fast Play tickets have a variety of games and each ticket is randomly drawn from a separate pool of tickets. Ticket 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.

Ticket sales amounted to \$8,110 in 2019, a decrease of \$1,138 or 12.31% below the \$9,248 in 2018. Prize and retailer commissions totaled \$6,558, \$7,771 and \$7,142 for fiscal years 2019, 2018 and 2017, respectively. Transfers to the District's General Fund amounted to \$727, \$673 and \$680 for fiscal years 2019, 2018 and 2017, respectively.

TAP-N-PLAY --- Tap-N-Play games are touch activated, interactive, instant win style terminal games played through self-service terminal (MP). Players use the touch screen of the terminal to choose the games and game parameters (price points, numbers, play board etc.). The games are presented in high-quality graphic animations and sounds. Tap-N-Play games launched on April 5, 2013, with 2 games, and are being expanded to accommodate various play styles and themes. Currently, D.C. Lottery offers eight (8) different types of games with \$1, \$2, \$3, \$5, \$10 and \$20 price points. Play style includes number/symbol match, bingo, reveal symbol, double or nothing and high/low. Overall odds of winning are 1 in 3.66.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2019 and 2018
(Dollar Amounts in Thousands)

Ticket sales amounted to \$2,331 and \$2,618 in fiscal years 2019 and 2018, respectively. The prize expense was \$1,817 and \$2,024 and amounted to a 77.95% and 77.31% prize payout rate in 2019 and 2018, respectively. Retailer commissions were \$171 in 2019 and \$192 in 2018. Transfers to the District's General Fund were \$141 and \$179 and represented 0.31% and 1.25% of sales for 2019 and 2018, respectively. The decrease in the transfer to the General Fund is primarily because of decreased sales.

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 the tickets. Instant ticket sales amounted to \$52,335 in 2019, representing a \$2,842 or 5.74% increase above the 2018 sales of \$49,493.

Prizes in 2019 totaled \$38,453 for a \$1,243 or 3.34% increase above the \$37,210 expensed in 2018. Retailer commissions totaled \$3,930 in 2019 for a \$147 or 3.89% increase above the \$3,783 expensed in 2018. Transfers to the District's General Fund increased to \$4,788 in 2019, \$738 or 18.22% more than the \$4,050 generated in 2018. This was primarily the result of an increase in game revenues.

Instant ticket sales in 2018 totaled \$49,493, a decrease of \$825 or 1.64% below the \$50,318 in 2017. This was primarily the result of the return of a full portfolio of instant tickets. Prizes in 2018 totaled \$37,210 for a \$588 or 1.56% decrease below the \$37,798 expensed in 2017. Retailer commissions totaled \$3,783 in 2018 for a \$6 or 0.16% decrease below the \$3,789 expensed in 2017. Transfers to the District's General Fund decreased to \$4,050 in 2018, \$180 less than the \$4,230 generated in 2017. This was primarily the result of a decrease in game revenues.

Instant ticket sales in 2017 totaled \$50,318 a decrease of \$1,520 or 2.93% below the \$51,838 in 2016. Prizes in 2017 totaled \$37,798 for a \$1,363 or 3.48% decrease below the \$39,161 expensed in 2016. Retailer commissions totaled \$3,789 in 2017 for a \$155 or 3.93% decrease below the \$3,944 expensed in 2016. Transfers to the District's General Fund decreased by \$244 to \$4,474 in 2016. This was primarily the result of an increase in game revenues.

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 75.12% and 75.54% as a percentage of tickets sold in 2017 and 2016, respectively. The D.C. Lottery lost its instant tickets vendor contract in July 2013 and currently uses three vendors to provide instant ticket inventory. All three contracts were awarded after January 2015. The D.C. Lottery has returned to a full portfolio of instant ticket products.

INTEREST, DIVIDENDS, LICENSE & PERMIT FEES AND OTHER INCOME

All idle cash of the Lottery is invested through the District's General Fund Pooled Investments Account. Powerball, Mega Millions and Hot Lotto 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, increased by \$214, \$61 and \$132 in fiscal years 2019, 2018, and 2017, respectively. Interest income has been severely impacted by market conditions, the national economy, and other factors beyond the control of individual entities.

License and Permit Fees increased by \$5 to \$10 in 2019. It also decreased by \$18 to \$5 and increased by \$2 to \$23 in 2018 and 2017. Other income decreased by \$443 to \$0 in 2019 and increased by \$443 to \$443 in 2018.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2019 and 2018
(Dollar Amounts in Thousands)

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 ensure 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 Office of Lottery and Gaming, 2235 Shannon Place, SE, Fifth Floor, Washington, D.C. 20020.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
STATEMENTS OF NET POSITION
AS OF SEPTEMBER 30, 2019 and 2018
(Dollar Amounts in Thousands)

	2019	2018
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 13,214	\$ 12,804
Accounts Receivable, net	3,858	3,880
Prepaid Expenses and Other	3	2
Restricted Investments	410	410
Total Current Assets	17,485	17,096
Non-current Assets:		
Capital Assets, net	595	646
Restricted Investments	780	1,137
Total Non-current Assets	1,375	1,783
Total Assets	18,860	18,879
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,123	2,168
Compensation Liabilities	350	328
Unearned Revenue	55	44
Accrued Prizes and Commissions	9,539	9,324
Other Accrued Liabilities	342	317
Compensated Absences	46	33
Obligations for Unpaid Prizes - Current Portion	410	410
Total Current Liabilities	12,865	12,624
Non-current Liabilities:		
Obligations for Unpaid Prizes - Noncurrent Portion	780	1,137
Compensated Absences	520	458
Total Non-current Liabilities	1,300	1,595
Total Liabilities	14,165	14,219
Net Position		
Net Investment in Capital Assets	595	646
Unrestricted	4,100	4,014
Total Net Position	\$ 4,695	\$ 4,660

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2019 and 2018
(Dollar Amounts in Thousands)

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Instant Games	\$ 52,335	\$ 49,493
Terminal Games	160,727	160,766
License and Permit Fees	<u>10</u>	<u>5</u>
Total Operating Revenues	<u>213,072</u>	<u>210,264</u>
Operating Expenses		
Prizes	123,375	117,365
Agent Commissions	13,860	13,766
Contractor Fees	6,839	6,798
Advertising	<u>6,749</u>	<u>6,393</u>
Total Direct Costs	150,823	144,322
Salaries	8,200	7,887
Professional	1,170	954
Contractual Services	4,451	4,313
Administration	3,641	3,813
Depreciation	<u>169</u>	<u>108</u>
Total Operating Expenses	<u>168,454</u>	<u>161,397</u>
Operating Income	44,618	48,867
Interest and Dividend Income	467	253
Other Income	<u>-</u>	<u>443</u>
Net Income Before Transfers	45,085	49,563
Transfer to General Fund	<u>(45,050)</u>	<u>(49,500)</u>
Change in Net Position	35	63
Net Position, Beginning of Year	<u>4,660</u>	<u>4,597</u>
Net Position, End of Year	<u>\$ 4,695</u>	<u>\$ 4,660</u>

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2019 and 2018
(Dollar Amounts in Thousands)

	2019	2018
Operating Activities:		
Cash Receipts from Customers	\$ 213,096	\$ 210,241
Cash Receipts from Others	10	6
Cash Payments to Vendors	(22,871)	(22,812)
Cash Payments to Employees	(8,103)	(7,805)
Cash Payments for Prizes and Commissions	(137,021)	(129,325)
Net Cash and Equivalents Provided by Operating Activities	45,111	50,305
Cash Flows From Non-Capital Financing Activities		
Transfers Out to the General Fund	(45,050)	(49,500)
Cash Flows From Capital Financing Activities		
Acquisition of Capital Assets	(118)	(404)
Cash Flows From Investing Activities		
Interest and Dividends	467	253
Net Increase in Cash and Equivalents	410	654
Cash and Cash Equivalents - Beginning of Year	12,804	12,150
Cash and Cash Equivalents - End of Year	\$ 13,214	\$ 12,804
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 44,618	\$ 48,867
Depreciation	169	108
<i>Effect of Changes in non-cash operating Assets and Liabilities</i>		
Other Financial Sources	-	442
Receivables	22	(21)
Prepaid Expenses	(1)	-
Accounts Payable	(45)	(578)
Compensation Liabilities	97	82
Unearned Revenue	11	5
Accrued Prizes	215	1,806
Other Current Liabilities	25	(406)
Net Cash Provided by Operating Activities	\$ 45,111	\$ 50,305
Non-cash Investing and Financing Activities:		
Obligations for Unpaid Prizes by Restricted Investments	\$ 1,190	\$ 1,547

The accompanying notes are an integral part of these financial statements

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2019 and 2018
(Dollar Amounts in Thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) **Organization** --- The Lottery and Charitable Games Control Board (the Lottery) was established by Public Law 3-172 as an independent agency of the Government of the District of Columbia (the District). The name was changed to the Office of Lottery and Gaming effective May 3, 2019. In accordance with the law, the Lottery must remit its monthly gaming revenues, less prizes, operating expenses and a reserve not to exceed 2% of projected annual prize payments to the General Fund of the District.
- (b) **Measurement Focus and Basis of Accounting** --- The Lottery's basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The economic measurement focus reports all assets and liabilities associated with the operations and are included on the Statements of Net Position.
- (c) **Implementation of New Accounting Standards** --- In fiscal year 2019, the Lottery did not implement any pronouncements issued by the Government Accounting Standards Board (GASB): The Lottery will be analyzing the effects GASB Statement No. 87, entitled *Leases* and plans to adopt them as applicable by their effective date. This statement may have a material effect on the Lottery's financial statements once implemented.
- (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's 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 as of September 30, 2019 and 2018, respectively, were \$13,214 and \$12,804.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2019 and 2018
(Dollar Amounts in Thousands)

(f) Investments -- Investments in U.S. government and agency securities are recorded at market value which approximates fair value. The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Lottery has the following recurring fair value measurements as of September 30, 2019 and 2018:

- U.S. Government and Agency Securities of \$1,190 and \$1,547 as of September 30, 2019 and 2018, respectively are valued using quoted market prices, (Level 1 inputs)

(g) Revenues and Accounts Receivable (A/R) Recognition --- Revenues and A/R from terminal tickets are recorded when the drawings are held. Terminal tickets sold in advance of draws are recorded as unearned revenues. Revenues and A/R from instant tickets are recorded when related packs are activated.

(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 (D.C. Code § 3-1318) following the drawing date for each game. Prizes unclaimed beyond this period are forfeited by the ticket holder. Total prizes lapsed amounted to \$2,635 and \$2,308 for the fiscal years 2019 and 2018, respectively. These forfeited prizes are netted against prize expense in the Statements of Revenues, Expenses and Change in Net Position.

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

Amortization and depreciation expense are calculated using the straight-line method over the following estimated useful lives:

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2019 and 2018
(Dollar Amounts in Thousands)

- (k) *Gaming Revenues*** --- Gaming revenues consist of ticket sales and other related revenues including dividends and interest income, penalties assessed on delinquent agents' accounts, and charitable gaming fees. Revenues from terminal tickets are recorded as gaming revenues when the drawings are held. Terminal tickets sold in advance are recorded as unearned revenues until the drawings are held. Revenues are recorded when a terminal ticket is sold if the sale is not associated with a subsequent drawing. Revenues from instant tickets are recorded as gaming revenues when related packs are activated.
- (l) *Games and Prizes*** --- The Lottery's main sources of income are from terminal and instant games. Terminal games are comprised of DC2, DC Three, DC Four, DC Five, Powerball, Mega Millions, Lucky for Life, Keno, Race2Riches, The Lucky One, Fast Play and Tap-N-Play. The games are managed by Intralot through a contracted agreement with the 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 terminal games, excluding the Powerball, Mega Millions, and Fast Play, are accrued based on the draw liability associated with drawings for the specific games. Powerball's prize expenses are recorded at the rate of 50% of ticket sales. Mega Millions' prize expenses are recorded at rates ranging from 50% to 52.5% of regular and Mega-Plier sales. Fast Play's 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 the fiscal year-end. Prize expenses for all games are reduced by the sum of lapsed prizes not claimed during the required period of 180 days from the sales draw date for terminal 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 be required to use any excess of 240 hours of vacation benefits by a specified date. The Lottery accrues for accumulated vacation as the benefits are earned by employees.

There is no maximum limit on the amount of unused sick pay benefits 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 the 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.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
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NOTE 2 ACCOUNTS RECEIVABLE

The components of accounts receivable as of September 30, 2019 and 2018 were as follows:

	2019	2018
Due from Agents:		
Terminal Games	\$ 664	\$ 955
Instant Games	3,194	2,947
Total Due from Agents	3,858	3,902
Other	-	3
Total Accounts Receivable	3,858	3,905
Allowance for Doubtful Accounts	-	(25)
	\$ 3,858	\$ 3,880

NOTE 3 CAPITAL ASSETS

A summary of capital assets as of September 30, 2019 and 2018 were as follows:

	Balance as of October 1, 2018	Additions	Reductions	Balance as of September 30, 2019
Cost:				
Machinery and Equipment	\$ 3,861	\$ 118	\$ -	\$ 3,979
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Cost	4,639	118	-	4,757
Less: Accumulated Depreciation				
Machinery and Equipment	3,215	169	-	3,384
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Accumulated Depreciation	3,993	169	-	4,162
Capital Assets – Net	\$ 646	\$ (51)	\$ -	\$ 595
	Balance as of October 1, 2017	Additions	Reductions	Balance as of September 30, 2018
Cost:				
Machinery and Equipment	\$ 3,457	\$ 404	\$ -	\$ 3,861
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Cost	4,235	404	-	4,639
Less: Accumulated Depreciation				
Machinery and Equipment	3,107	108	-	3,215
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Accumulated Depreciation	3,885	108	-	3,993
Capital Assets – Net	\$ 350	\$ 296	\$ -	\$ 646

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NOTE 4 MULTI-STATE LOTTERY ASSOCIATION (MUSL)

(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 \$40,000. All MUSL members remit a portion of their Powerball revenues to MUSL for the prize payments and administrative expenses of the game.

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

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 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, 2019, and 2018, MUSL had purchased for the Lottery, U.S. government securities aggregating \$1,210 and \$1,610, respectively to fund future installment payments for the Lottery's Powerball winner.

The market value of these securities was \$1,190 and \$1,547 as of September 30, 2019 and 2018, respectively. The investments provide the Lottery cash payments corresponding to the Lottery's obligations to the prize winners. The Lottery has reflected the market value of the securities as restricted investments and as corresponding obligations for unpaid prizes on the statements of net position. All restricted investments are insured and registered or are held by the Lottery or its agent in the Lottery's name.

As of September 30, 2019, the Lottery had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. Government and Agency Securities	\$1,190	\$410	\$780	\$ -	\$ -

As of September 30, 2018, the Lottery had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. Government and Agency Securities	\$1,547	\$410	\$1,137	\$ -	\$ -

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.

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As of September 30, 2019, and 2018, the Lottery had an interest in a SEC 2a-7 pooled government cash management fund of \$10; 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, 2019, and 2018, the total Powerball prize reserve fund was approximately \$81,737 and \$81,747 respectively, of which the Lottery's share was approximately \$337 and \$353, respectively. In addition, the total Powerball set aside prize reserve fund as of September 30, 2019 and 2018 was approximately \$40,152 and \$35,505 respectively, of which the Lottery's share was approximately \$149 and \$134, 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 a 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 Mega Millions 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, 2019, and 2018, the total Mega Millions prize reserve fund was approximately \$95,496 and \$67,239, respectively, of which the Lottery's share was approximately \$456 and \$387, 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 a 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.

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(c) Credit Risk

In order to control credit risk, the Lottery invests only in obligations of the United States Government or Agency securities. As of September 30, 2019, and 2018, the Lottery's investments in U.S. Government and agency securities were rated Aaa by Moody's Investor Service.

(d) Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Lottery will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, or not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the government's name. Lottery policy requires that a third-party custodian hold investment securities and the collateral underlying all investments, in the government's name. As of September 30, 2019, and 2018, the Lottery's investments were not exposed to custodial credit risk.

NOTE 5 OBLIGATIONS FOR UNPAID PRIZES

Powerball jackpot prizes are paid in 20 or 25-year installments. The first installment is paid approximately two weeks after the prize is claimed. The subsequent annual payments are funded with U.S. Treasury Strips purchased by MUSL for the Lottery. Jackpot prize payables represent the future annual prize payments valued at cost plus accrued interest (present value of securities held to maturity) of the investment securities funding the payments.

	Jackpot	
	As of September 30,	
	2019	2018
Jackpot Prizes Payable:		
Due Within One Year	\$ 410	\$ 410
Due in Subsequent Years	780	1,137
Total (Present Value)	1,190	1,547
Add: Interest to Maturity	20	63
Jackpot Prizes Payable at Maturity	\$ 1,210	\$ 1,610

The unamortized discount on the prizes payable is based on interest rates which range from 1.425% 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 three years following September 30, 2019, was as follows:

2020	\$ 410
2021	400
2022	400
Total	\$ 1,210

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The following schedule presents the changes in prizes payable:

Balance as of October 1, 2017	\$ 1,939
Increase	63
Decrease	(455)
Balance as of October 1, 2018	1,547
Increase	20
Decrease	(377)
Balance as of September 30, 2019	\$ 1,190

NOTE 6 GAMING REVENUES AND EXPENSES

Gaming revenues and expenses for the fiscal years ended September 30, 2019 and 2018 were as follows:

Index Class	Gaming Revenue	Prizes	Agent Commissions	Contractor Fees	Advertising	Gross Margin
Fiscal Year 2019						
DC 3	\$ 38,555	\$ (18,610)	\$ (2,485)	\$ (1,238)	\$ (1,221)	\$ 15,001
DC TWO	540	(254)	(35)	(17)	(17)	217
DC FIVE	22,475	(13,114)	(1,278)	(721)	(712)	6,650
DC FOUR	51,757	(24,124)	(3,217)	(1,661)	(1,639)	21,116
FAST PLAY	8,110	(6,002)	(586)	(260)	(257)	1,005
HOT LOTTO	0	(0)	(0)	(0)	(0)	0
INSTANT	52,335	(38,453)	(3,930)	(1,680)	(1,658)	6,614
THE LUCKY ONE	179	(119)	(12)	(6)	(6)	36
KENO	6,605	(4,091)	(449)	(212)	(209)	1,644
LUCKY FOR LIFE	2,118	(1,460)	(107)	(68)	(67)	416
MEGA MILLIONS	9,563	(4,677)	(466)	(307)	(303)	3,810
POWERBALL	9,784	(4,696)	(517)	(314)	(310)	3,947
RACE2RICHES	8,710	(5,958)	(607)	(280)	(276)	1,589
TAP-N-PLAY	2,331	(1,817)	(171)	(75)	(74)	194
OTHER	10	0	0	0	0	10
Total	\$ 213,072	\$ (123,375)	\$ (13,860)	\$ (6,839)	\$ (6,749)	\$ 62,249
Fiscal Year 2018						
DC 3	\$ 39,529	\$ (18,941)	\$ (2,545)	\$ (1,278)	\$ (1,202)	\$ 15,563
DC TWO	573	(480)	(43)	(18)	(17)	15
DC FIVE	21,940	(9,651)	(1,240)	(709)	(667)	9,673
DC FOUR	52,461	(22,462)	(3,219)	(1,696)	(1,595)	23,489
FAST PLAY	9,248	(7,104)	(667)	(299)	(281)	897
HOT LOTTO	0	(0)	(0)	(0)	(0)	0
INSTANT	49,493	(37,210)	(3,783)	(1,600)	(1,505)	5,395
THE LUCKY ONE	112	(75)	(8)	(4)	(3)	22
KENO	7,445	(4,665)	(507)	(241)	(226)	1,806
LUCKY FOR LIFE	2,164	(1,331)	(133)	(70)	(66)	564
MEGA MILLIONS	7,136	(3,532)	(370)	(231)	(217)	2,786
POWERBALL	9,034	(4,220)	(468)	(292)	(275)	3,779
RACE2RICHES	8,506	(5,670)	(591)	(275)	(259)	1,711
TAP-N-PLAY	2,618	(2,024)	(192)	(85)	(80)	237
OTHER	5	0	0	0	0	5
Total	\$ 210,264	\$ (117,365)	\$ (13,766)	\$ (6,798)	\$ (6,393)	\$ 65,942

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NOTE 7 TRANSFERS TO THE DISTRICT'S GENERAL FUND

In accordance with D.C. Code § 3-1312, the Chief Financial Officer shall first pay for the operation, administration, and capital expenses of the specific forms of gambling, including the payment of prizes to winners of the games. The remainder shall be paid over by the CFO, on a monthly basis promptly after the 1st of the month for the preceding month, into the General Fund of the District of Columbia as general-purpose revenue funds of the District of Columbia. 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, 2019 and 2018, the Lottery's net transfers to the General Fund of the District were \$45,050 and \$49,500, respectively.

NOTE 8 LONG-TERM LIABILITIES

The following summarizes long-term liabilities as of September 30, 2019 and 2018:

	Balance as of 9/30/2018	Additions	Reductions	Balance as of 9/30/2019	Amount Due Within One Year
Obligations for Unpaid Prizes	\$ 1,547	\$ -	\$ (357)	\$ 1,190	\$ 410
Compensated Absences	491	511	(436)	566	46
Total Long-term Liabilities	<u>\$ 2,038</u>	<u>\$ 511</u>	<u>\$ (793)</u>	<u>\$ 1,756</u>	<u>\$ 456</u>
	Balance as of 9/30/2017	Additions	Reductions	Balance as of 9/30/2018	Amount Due Within One Year
Obligations for Unpaid Prizes	\$ 1,939	\$ -	\$ (392)	\$ 1,547	\$ 410
Compensated Absences	446	481	(436)	491	33
Total Long-term Liabilities	<u>\$ 2,385</u>	<u>\$ 481</u>	<u>\$ (828)</u>	<u>\$ 2,038</u>	<u>\$ 443</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. 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.

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 \$34 and \$28 for the years ended September 30, 2019 and 2018, respectively. The number of Lottery employees covered under the Federal Civil Service Retirement System is 5. The Lottery contributes for an IT employee of the Office of the Chief Technology Officer (OCTO) who works at the Lottery.

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(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 \$336 and \$276 for the fiscal years ended September 30, 2019 and 2018, respectively.

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

(c) Deferred Compensation Plan

Lottery employees are eligible to participate in the District-sponsored deferred compensation plan (D.C. Code § 47-3601) created in accordance with Internal Revenue Code Section 457. Employees may defer an amount equal to or less than 100% of includible compensation or \$19 in 2019 and \$19 in 2018. 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 fifteen (15) year long-term, non-cancelable, and operating lease, effective December 12, 2014. Future minimum rental commitments are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2020	\$ 2,026
2021	2,074
2022	2,124
2023	2,176
2024	2,228
2025-2029	<u>12,049</u>
Total	<u>\$ 22,677</u>

Rent expense for the fiscal years ended September 30, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Rent Expense	<u>\$ 2,456</u>	<u>\$ 2,330</u>

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(b) Annuity Contracts

The winner of a \$1 million DC Black instant ticket in 2012 was awarded an annuity prize payable in annual installments over 20 years, with the first payment made by the Lottery. The Lottery 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. 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 defaults on its 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

The Lottery usually has related party transactions with the Office of the Chief Financial Officer (OCFO) of the District of Columbia Government 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 was \$887 and \$818 in fiscal years 2019 and 2018, 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 legal claims arising from its normal operations. 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

The 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, 2019. Events and transactions were evaluated through January 3, 2020, the date the financial statements were available to be issued.



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**INDEPENDENT PUBLIC ACCOUNTANTS REPORT ON INTERNAL CONTROLS 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, Members of the Council of the Government of the District of Columbia,
Inspector General of the Government of the District of Columbia and
The Office of Lottery and Gaming
Washington, D.C.

We have audited, 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, the financial statements of the District of Columbia Office of Lottery and Gaming (the Lottery), an enterprise fund of the Government of the District of Columbia, as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statement as listed in the table of contents, and have issued our report thereon dated January 3, 2020.

Internal Controls over Financial Reporting

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

A *deficiency in internal controls* 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 controls, 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Washington, DC
January 3, 2020

A handwritten signature in black ink that reads "SB & Company, LLC". The signature is written in a cursive, flowing style.