

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 22-1-11DC

January 2022



DISTRICT OF COLUMBIA OFFICE OF LOTTERY AND GAMING

**Financial Statements and Management's Discussion and Analysis
(With Independent Auditor's Report)
For Fiscal Years Ended September 30, 2021 and 2020**



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, 2022

The Honorable Muriel Bowser
Mayor of the District of Columbia Mayor's
Correspondence Unit
John A. Wilson Building
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 *District of Columbia Office of Lottery and Gaming Financial Statements and Management's Discussion and Analysis (With Independent Auditor's Report) for the Fiscal Years Ended September 30, 2021, and 2020* (OIG No. 22-1-11DC). McConnell Jones, LLP (MJ) 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 2021.

On January 3, 2022, MJ 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. MJ identified no material weaknesses in internal control over financial reporting.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "DW Lucas".

Daniel W. Lucas
Inspector General

DWL/wms

Enclosure

cc: See Distribution List

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

**FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION
AND ANALYSIS (WITH INDEPENDENT AUDITOR'S REPORT)**

SEPTEMBER 30, 2021 AND 2020

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
SEPTEMBER 30, 2021 and 2020

TABLE OF CONTENTS

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



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INDEPENDENT AUDITOR'S REPORT

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 Management of the Office of Lottery and Gaming
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements 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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Lottery'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 Lottery's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of September 30, 2021 and 2020, and the changes 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.

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Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Lottery's enterprise fund 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, 2021 and 2020, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical 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, 2022, on our consideration of the Lottery'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 solely 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 effectiveness of the Lottery's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.

Washington, D.C.
January 3, 2022

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2021 and 2020
(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, 2021 and 2020. This discussion and analysis should be read in conjunction with the attached financial statements.

Background and Other Significant Information

The Lottery was established by D.C. 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 and sports wagering 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 and sports wagering gaming activities increased by \$51,375 or 23.90% from the prior year amount.
- The Lottery generated ticket sales of \$224,032 for an increase of \$15,900 or 7.10% more than the prior year total of \$208,132.
- Total operating expenses increased by \$41,099 or 23.22% primarily because of a full year of costs associated with sports wagering, introductory eInstant prizes and contractual services.
- Prize payouts for lottery gaming activities in 2021 increased by \$1,305 or 1.06% compared to 2020 and reflected a payout rate of 55.48% of ticket sales versus 59.09% the prior year.
- Contractor's fees for lottery gaming and sports wagering activities increased by a combined \$3,270 or 900% from the prior year primarily due to a full year of sports wagering activity.
- Transfers to the District's General Fund increased by \$10,090, equivalent to 20.96% above the prior year's total; primarily due to the increase in lottery game sales and decrease in prize payout percentage.

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, 2021 and 2020
(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 \$89 and \$73 for the years ended September 30, 2021 and 2020, respectively. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2021 and 2020, and 2019.

Table 1: Summary of Net Position
(In Thousands)

	September 30		
	2021	2020	2019
Assets:			
Current and Other Assets	\$ 21,876	\$ 21,151	\$ 17,075
Capital Assets (net of accumulated depreciation)	314	414	595
Restricted Investments	410	809	1,190
Total Assets	<u>22,600</u>	<u>22,374</u>	<u>18,860</u>
Liabilities:			
Accounts Payable and Accrued Expenses	7,395	6,288	3,381
Unearned Revenue	97	61	55
Accrued Prizes and Commissions	9,841	10,448	9,539
Obligations for Unpaid Prizes – Short-term	410	410	410
Obligations for Unpaid Prizes – Long-term	-	399	780
Total Liabilities	<u>17,743</u>	<u>17,606</u>	<u>14,165</u>
Net Position:			
Net Investment in Capital Assets	314	414	595
Unrestricted	4,543	4,354	4,100
Total Net Position	<u>\$ 4,857</u>	<u>\$ 4,768</u>	<u>\$ 4,695</u>

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

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

	Years Ended September 30		
	2021	2020	2019
Operating Revenues:			
Gaming Revenues	<u>\$ 266,308</u>	<u>\$ 214,933</u>	<u>\$213,072</u>
Operating Expenses:			
Prizes	158,854	128,395	123,375
Other	<u>59,232</u>	<u>48,592</u>	<u>45,079</u>
Total Operating Expenses	<u>218,086</u>	<u>176,987</u>	<u>168,454</u>
Operating Income	48,222	37,946	44,618
Non-operating Revenues – Interest, Dividends and Other	<u>17</u>	<u>187</u>	<u>696</u>
Income before Transfers	48,239	38,133	49,563
Transfers to the District's General Fund	<u>(48,150)</u>	<u>(38,060)</u>	<u>(45,050)</u>
Change in Net Position	<u>\$ 89</u>	<u>\$ 73</u>	<u>\$ 35</u>

Unrestricted net position was \$4,543, \$4,354 and \$4,100 as of September 30, 2021, 2020 and 2019, respectively, which represents an increase of \$189 and \$254, respectively. Total assets increased by \$226 in 2021 and increased by \$3,514 in 2020, respectively. Total liabilities increased by \$137 or 0.78% and increased by \$3,441 or 24.29% for the years ended September 30, 2021 and 2020, respectively; primarily due to costs associated with sports wagering. The Multistate Lottery Association (MUSL) purchases U.S. government securities in the name of the Lottery for 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 \$410, \$809 and \$1,190 as of September 30, 2021, 2020 and 2019, respectively, represents the net present value of securities totaling \$410, \$810 and \$1,210 as of September 30, 2021, 2020 and 2019, respectively, to fund future annuity installment payments. The restricted investments value decreased by \$399 and \$381 during fiscal years 2021 and 2020, respectively, due to payments of \$400 in 2021, 2020 and 2019, net of unrealized gains of \$0, \$6 and \$14 in fiscal years 2021, 2020 and 2019, respectively. Accretion of investments totaled \$0 in 2021, \$175 in 2020 and \$156 in 2019, 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, 2021 and 2020
(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 2021							
DC 3	\$ 42,836	\$ (19,118)	\$ (2,714)	\$ (1,418)	\$ (1,414)	\$ 18,172	\$ 12,335
DC TWO	529	(234)	(33)	(17)	(17)	228	153
DC FIVE	26,132	(10,301)	(1,464)	(865)	(863)	12,639	8,557
DC FOUR	58,667	(28,372)	(3,762)	(1,942)	(1,937)	22,654	15,384
FAST PLAY	8,359	(6,381)	(609)	(277)	(276)	816	553
INSTANT	46,672	(33,937)	(3,496)	(1,545)	(1,541)	6,153	4,174
THE LUCKY ONE	70	(45)	(5)	(2)	(2)	16	11
KENO	6,348	(3,820)	(430)	(210)	(210)	1,678	1,138
LUCKY FOR LIFE	2,243	(1,270)	(134)	(74)	(74)	691	476
MEGA MILLIONS	6,661	(3,248)	(339)	(220)	(220)	2,634	1,812
POWERBALL	7,787	(3,729)	(402)	(258)	(257)	3,141	2,158
RACE2RICHES	7,466	(4,967)	(520)	(247)	(246)	1,486	1,008
TAP-N-PLAY	2,242	(1,747)	(164)	(74)	(74)	183	124
eINSTANTS	8,020	(7,125)	-	(265)	(265)	365	247
OTHER	1,550	-	-	-	-	1,550	-
Total	\$ 225,582	\$(124,294)	\$ (14,072)	\$ (7,414)	\$ (7,396)	\$ 72,406	\$ 48,150
Fiscal Year 2020							
DC 3	\$ 41,843	\$ (21,316)	\$ (2,735)	\$ (1,473)	\$ (1,248)	\$ 15,071	\$ 9,843
DC TWO	632	(316)	(41)	(22)	(19)	234	153
DC FIVE	24,416	(11,569)	(1,399)	(859)	(728)	9,861	6,440
DC FOUR	55,931	(30,605)	(3,643)	(1,968)	(1,668)	18,047	11,786
FAST PLAY	7,838	(5,712)	(563)	(276)	(234)	1,053	688
INSTANT	47,188	(34,815)	(3,565)	(1,661)	(1,407)	5,740	3,718
THE LUCKY ONE	68	(45)	(5)	(2)	(2)	14	9
KENO	6,654	(4,580)	(467)	(234)	(198)	1,175	767
LUCKY FOR LIFE	1,903	(1,079)	(107)	(67)	(57)	593	388
MEGA MILLIONS	4,741	(2,311)	(214)	(167)	(141)	1,908	1,246
POWERBALL	5,810	(2,726)	(303)	(205)	(173)	2,403	1,569
RACE2RICHES	8,937	(6,239)	(626)	(315)	(266)	1,491	974
TAP-N-PLAY	2,171	(1,676)	(159)	(76)	(65)	195	127
OTHER	5	-	-	-	-	5	-
Total	\$ 208,137	\$(122,989)	\$ (13,827)	\$ (7,325)	\$ (6,206)	\$ 57,790	\$ 37,708
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
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	-	-	-	-	10	-
Total	\$ 213,072	\$(123,375)	\$ (13,860)	\$ (6,839)	\$ (6,749)	\$ 62,249	\$ 45,050

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(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 lottery gaming revenues totaled \$225,582, \$208,137 and \$213,072 in fiscal years 2021, 2020 and 2019, respectively. Prize expenses increased \$1,305 or 1.06% in 2021 and decreased \$386 or 0.31% in 2020. Total prize payouts as a percentage of gaming revenue were 55.48%, 59.09% and 57.91% in fiscal years 2021, 2020 and 2019, respectively. Retailer commissions increased \$245 in 2021 and increased \$32 in 2020, respectively, due to the respective increases in ticket sales.

DC 3 --- DC 3 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 2021, sales totaled \$42,836 for a \$993 or 2.37% increase from 2020. Sales in 2020 totaled \$41,843 for a \$3,288 or an 8.53% reduction from 2019 sales of \$38,55. 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 \$19,118 in 2021, for a \$2,198 or 10.31% decrease below the prior year. Prizes amounted to \$21,316 in 2020, for a \$2,706 or 14.54% increase above 2019 prizes that amounted to \$18,610. Retailer commissions expense decreased by \$21 primarily due to the noted decrease in prizes. Net proceeds to the District's General Fund in 2021 totaled \$12,335 for a \$2,492 or 25.32% increase compared to 2020. The transfer in 2020 totaled \$9,843 for a \$1,014 or 9.34% decrease compared to the 2019 transfer of \$10,857. The DC Three game accounted for 19.12% of total gaming revenue and 25.65% of the overall gross margin. The game reflected a decrease of 0.98% in gaming revenue percentage contribution, and a decrease of 0.43% in gross margin percentage contribution due to the addition of the eInstants product and slightly higher allocated advertising costs.

DC TWO --- DC Two 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 2021 totaled \$529 for a \$103 or 16.30% decrease from 2020. Sales in 2020 totaled \$632 for a 92 or 17.04% increase from its 2019 sales of \$540. Prizes amounted to \$234 in 2021, for an \$82 or 25.95% decrease from 2020. Prizes amounted to \$316 in 2020, for a \$62 or 24.41% increase from 2019 prizes of \$254. The retailer commissions amounted to \$33 in 2021, an \$8 or 19.51% decrease from 2020. The retailer commissions amounted to \$41 in 2020, a \$6 or 17.14% increase from 2019 retailer commissions of \$35. Transfers to the District's General Fund totaled \$153, \$153 and \$157 in 2021, 2020 and 2019, respectively.

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 13 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 2021, ticket sales totaled \$26,132 which represents a \$1,716 or 7.03% increase compared to 2020. Prizes and retailer commissions in 2021 amounted to \$10,301 and \$1,464, respectively. The result was a decrease in prizes of \$1,268 or 10.96% and an increase to commissions of \$65 or 4.65% over the prior year. The game generated \$8,577 in transfer to the District's General Fund in 2021 or \$2,137 or 33.18% more than 2020.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

The increase in sales and the decrease in prize payout percentage essentially accounts for the increase in the transfer.

Sales totaled \$24,416 in 2020, which represented a \$1,941 or 8.64% increase over 2019 sales of \$22,475. Prizes and retailer commissions in 2020 and 2019 amounted to \$11,569 and \$13,114 and \$1,399 and \$1,278, respectively. The game generated \$6,440 and \$4,813 in transfers to the District's General Fund in 2020 and 2019, respectively.

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 \$58,667 in 2021 for a \$2,736 or 4.89% increase from the 2020 ticket sales of \$55,931. Ticket sales were \$55,931 in 2020, for a \$4,174 or 8.06% increase from the 2019 ticket sales of \$51,757.

Prizes in 2021 totaled \$28,372, a decrease of \$2,233 or 7.30% below the prior year. FY 2020 totaled \$30,605, an increase of \$6,481 or 26.87% from 2019 prizes of \$24,124. Transfers to the District's General Fund in 2021 totaled \$15,384 for a \$3,598 or 30.53% increase from the \$11,786 transferred in 2019. Transfers to the District's General Fund in 2020 totaled \$11,786 for a \$3,498 or 22.89% decrease from the \$15,284 transferred in 2019. The decrease in prize payouts accounts for the increase in the transfer amount. The DC Four game was responsible for 26.19% of total gaming revenue and 31.97% of the overall gross margin. The 0.68% decrease in gaming revenue contribution rate and 0.74% increase in gross margin contribution percentages from over the prior year amounts is directly associated with the introduction of the eInstants product and the decrease in prize payout. Changing demographics continue to be an impactful theme as well.

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 \$8,359 in 2021, an increase of \$521 or 6.65% above the \$7,838 in 2020. Prizes and retailer commissions combined totaled \$6,990, \$6,275 and \$6,558 for fiscal years 2021, 2020 and 2019, respectively. Transfers to the District's General Fund amounted to \$553, \$688 and \$727 for fiscal years 2021, 2020 and 2019, respectively.

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 \$46,672 in 2021, representing a \$516 or 1.09% decrease below the 2020 sales of \$47,188.

Prizes in 2021 amounted to \$33,937, representing an \$878 or 2.52% decrease below the \$34,815 in 2020. Retailer commissions totaled \$3,496 in 2021 for a \$69 or 1.94% decrease below the \$3,565 expensed in 2020. Transfers to the District's General Fund totaled \$4,174 in 2021, for a \$456 or 12.26% increase above the \$3,718 in 2020.

Instant ticket sales in 2020 totaled \$47,188, a decrease of \$5,147 or 5.83% below the \$52,335 in 2019. This was primarily the result of a significant reduction in commuter traffic into the District due to the Covid-19 global pandemic that prompted jurisdictional protocols that included non-essential business temporary closures. Prizes in 2020 totaled \$34,815 for a \$3,638 or 9.46% decrease below the \$38,453

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

expensed in 2019. Retailer commissions totaled \$3,565 in 2020 for a \$365 or 9.29% decrease below the \$3,930 expensed in 2019. Transfers to the District's General Fund decreased to \$3,718 in 2020, \$1,070 less than the \$4,778 generated in 2019. This was primarily the result of decreased sales.

THE LUCKY ONE --- The Lucky One is a monitor- based game with draws taking place every 4 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 bettypes are 1 in 2. Players have the options of a \$1 or 50 cent play. The Lucky One game was launched on May20, 2018.

The Lucky One ticket sales in 2021 amounted to \$70 in 2021, an increase of \$2 or 2.94% from the \$68 sales total in 2020. Sales in 2020 amounted to \$68, a decrease of \$111 or 62.01% from the 2019 sales of \$179. Prizes and commissions in 2021, 2020 and 2019 combined amounted to \$50, \$50 and \$131, respectively. The Lucky One contributed \$11, \$9 and \$26 in transfer to the District's General Fund in 2021, 2020 and 2019, respectively.

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 20 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 \$6,348 in 2021, representing a \$306 or 4.60% decrease of the 2020 sales total of \$6,654. Prize expenses decreased by \$760 to \$3,820 in 2021 when compared to the \$4,580 expensed in 2020. Retailer commissions totaled \$430 or 7.92% less than the \$467 expensed in 2020. Transfers to the District's General Fund increased \$371 to \$1,138 in 2021 from the \$767 transferred in 2020. The increase in transfer is attributed to the decrease in prize payout.

Ticket sales for Keno totaled \$6,654 in 2020, representing a \$49 or 0.74% increase of the 2019 sales total of \$6,605. Prizes expense increased by \$489 to \$4,580 in 2020 when compared to the \$4,091 expensed in 2019. Transfers to the District's General Fund decreased \$423 to \$767 in 2020 from the \$1,190 transferred in 2019.

LUCKY FOR LIFE---The Lucky for Life game is a multi-state, 5 out of 48, plus 1 out of 18 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 \$2 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.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

Lucky for Life ticket sales amounted to \$2,243 in 2021, \$340 or 17.87% more than the \$1,903 in 2020. The prizes in 2021 totaled \$1,270, \$191 more than the \$1,079 in 2020. Retailer commissions in 2021 and 2020 totaled \$134 and \$107, respectively. Lucky for Life produced a transfer to the District's General Fund in 2021 and 2020 of \$476 and \$388, respectively. The increase in transfer can be attributed to the decrease in prizes.

Lucky for Life ticket sales amounted to \$1,903 in 2020, \$215 or 10.15% less than \$2,118 in 2019. The prizes in 2020 totaled \$1,079, \$381 less than the \$1,460 in 2019. Retailer commissions in 2020 and 2019 totaled \$107 and \$107, respectively. Lucky for Life produced a transfer to the District's General Fund in 2020 and 2019 of \$388 and \$302, respectively.

MEGA MILLIONS --- The Mega Millions game is a 5 out of 75 plus one out of 15 terminal lottery game that pays a grand prize or a cash lump sum payment and all other prizes on a fixed basis. It also includes a "Just the Jackpot" play option. The ticket cost is \$2, or \$3 with the "Just the Jackpot" option which includes two game plays. All annuity prizes are paid in 26 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 12 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 April 3, 2020. The changes include elimination of an automatic \$40 million beginning jackpot and the guaranteed increase of \$5 million between drawings. The beginning jackpot and increase between drawings will be based on game sales and interest rates. The changes to the game are the result of declining sales due to the Covid-19 pandemic.

Mega Millions sales totaled \$6,661 in 2021, representing a \$1,920 or 40.50% increase from the \$4,741 generated in 2020. The increase in sales can be attributed to the high jackpots. Mega Million sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$3,248 in 2021, representing a \$937 or 40.55% increase from the \$2,311 expensed in 2020. Prizes were expensed at the rate of 48.76% of overall ticket sales in 2021. The noted increase in ticket sales offset by overall operating costs resulted in a transfer to the District's General Fund of \$1,812 in 2020 or \$566 more than the \$1,246 produced in 2020.

Mega Millions sales totaled \$4,741 in 2020, representing a \$4,822 or 50.42% decrease from the \$9,563 generated in 2019. The decrease in ticket sales can be attributed to the significant decline in workforce traveling into the District due to Covid-19 and tele-working options. Mega Million sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$2,311 in 2020, representing a \$2,366 or 50.59% decrease from the \$4,677 expensed in 2019. Prizes were expensed at the rate of 48.74% of overall ticket sales in 2020. The noted decrease in ticket sales offset by overall operating costs resulted in a transfer to the District's General Fund of \$1,246 in 2020 or \$1,512 less than the \$2,758 produced in 2019.

POWERBALL --- The Powerball game is a 5 out of 69 plus one out of 26 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 30 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 Powerball Group introduced changes to Powerball on April 2, 2020. The changes include elimination of an automatic \$40 million beginning jackpot and

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

the guaranteed increase of \$10 million between drawings. The beginning jackpot is back to \$20,000 and the increase between drawings will be based on game sales and interest rates. The changes to the game were the result of declining sales due to the Covid-19 pandemic.

Powerball sales totaled \$7,787 in 2021, representing a \$1,977 or 34.03% increase from the \$5,810 generated in 2020. 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 \$3,729 in 2021 representing a \$1,003 or 36.79% increase from the \$2,726 expensed in 2020. 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 \$589 increase in transfer to the District's General Fund to \$2,158 from the \$1,569 transferred in 2020 is due to the allocation of the transfer being based on the gaming revenues that increased in 2020.

Powerball sales totaled \$5,810 in 2020, representing a \$3,974 or 40.62% decrease from the \$9,784 generated in 2019. The decrease in sales can be attributed to the significant decline of workforce traveling into the District due to Covid-19 and tele-working options. Powerball sales are jackpot-driven and high jackpots impact sales levels. Prizes amounted to \$2,726 in 2020, representing a \$1,970 or 41.95% decrease from the \$4,696 expensed in 2019. Powerball prizes are expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Prize expense decreased due to decreased sales in 2020. The \$1,287 decrease in transfer to the District's General Fund to \$1,569 from the \$2,856 transferred in 2019 is due to the allocation of the transfer being based on the gaming revenues that decreased in 2020.

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 \$7,466 in 2021, representing a \$1,471 or 16.46% decrease below the \$8,937 generated in 2020. The decrease in sales in 2021 from the prior year's total is primarily because of the effect of the pandemic on a game that plays every four minutes and usually offers a social experience. Prize expense decreased to \$4,239 in 2021 from \$6,239 in 2020, which represented a \$1,272 or 20.39% decrease below 2020. The \$34 increase in transfers to the District's General Fund in 2021 to \$1,008, is more than the 2020 transfer amount of \$974. The increase in the transfer is attributed to the decrease in prize expense.

Race2Riches ticket sales amounted to \$8,937 in 2020, representing a \$227 or 2.61% increase over the \$8,710 generated in 2019. The increase in sales in 2020 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 \$6,239 in 2020 from \$5,958 in 2019, which represented a \$281 or 5.24% increase over 2019. The \$177 decrease in transfers to the District's General Fund in 2020 to \$974, is less than the 2019 transfer amount of \$1,151. The decrease in the transfer was attributed to the increase in prize expense and the decrease in gross margin.

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, 2021 and 2020
(*Dollar Amounts in Thousands*)

Ticket sales amounted to \$2,242 and \$2,171 in fiscal years 2021 and 2020, respectively. The prize expense was \$1,747 and \$1,676 and amounted to a 77.92% and 77.20% prize payout rate in 2021 and 2020, respectively. Retailer commissions were \$164 in 2021 and \$159 in 2020. Transfers to the District's General Fund were \$124 and \$127 and represented 1.00% and 0.34% of sales for 2021 and 2020, respectively. The decrease in the transfer to the General Fund is primarily because of increased prize payouts.

eINSTANTS --- eInstants were launched on December 18, 2020 as part of the iLottery platform that provides lottery players with registered accounts the convenience to purchase lottery games electronically, via a mobile device or a desktop computer. The winnings are applied directly to the player's account if it does not exceed the amount required for in person validation and payment at Lottery headquarters. The platform is managed by the Lottery's gaming system vendor.

In its inaugural year, the sales totaled \$8,020 and the prizes totaled \$7,125. Transfers to the District's General Fund was \$247. eInstants broke into the products portfolio with a 3.58% share of total sales.

Table 4: Sports Wagering Bets, Total Stakes, Total Settlements, Payouts, GGR and Transfers
(*In Thousands*)

Index Class	Number of Bets	Total Stakes	Total Revenue	Total Payouts	GGR	Contractor Fees	Transfers
Fiscal Year 2021							
SPORTS WAGERING	1,225	\$ 42,224	\$ 40,743	\$ (34,560)	\$ 7,664	\$ 3,535	\$ -
Fiscal Year 2020							
SPORTS WAGERING	193	\$ 6,240	\$ 6,113	\$ (5,406)	\$ 834	\$ 355	\$ 352

SPORTS WAGERING --- The Sports Wagering Lottery Amendment Act of 2018, which authorizes the District of Columbia to engage in sports wagering, was approved on December 18, 2018. The Office of Lottery and Gaming (OLG) launched sports wagering on May 28, 2020 via mobile and internet channels. Players can place wagers on offered sporting events after establishing an e-wallet account and having their identity verified. The OLG vendor is responsible for the sportsbook and has a contracted payout percentage with the OLG of 80%. The vendor is responsible for the costs of percentage points in excess of 80%. The vendor is paid 42.5% of the Gross Gaming Revenue (GGR) as a contractor's fee. Electronic transaction fees are also included. Sports wagering's inaugural year of activity in 2020 consisted of four months.

Total stakes were \$42,224 and the revenue totaled \$40,743 in 2021, compared to \$6,240 and \$6,113 in 2020; respectively. Bonuses equaled \$1,481 and \$127 in 2021 and 2020; respectively. The payouts totaled \$34,560, with a payout percentage of 81.85% in 2021, compared to \$5,406 and 86.63% in 2020. GGR (stakes - payouts) totaled \$7,664 and \$834 in 2021 and 2020. The Net Gaming Revenue (NGR = stakes - bonuses - payouts) totaled \$6,183 and \$707 in 2021 and 2020; respectively. The percentage of GGR expense (contractor's fee) was 3.257 in 2021 and 3.55 in 2020. Electronic transaction fees are included in the contractor's fee as well per *Table 4*. Other direct costs are factored in the transfer amount.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

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 and Mega Millions receipts transferred to MUSL to fund major jackpots are invested in securities prior to jackpots being hit and earnings are allocated annually to party lotteries. Interest and dividend income, shown separately in the financial statements, decreased by \$170, decreased by \$280, and increased by \$214 in fiscal years 2021, 2020, and 2019, respectively. Interest income has been severely impacted by market conditions, the national economy, and other factors beyond the control of individual entities.

Lottery License and Permit Fees increased by \$5 to \$10 in 2021, decreased by \$5 to \$5 in 2020 and increased by \$5 to \$10 in 2019. Games of Skill License Fees increased by \$45 to \$45 in 2021. Sports Wagering License and Infraction Fees increased by \$795 to \$1,478 in 2021 and increased by \$683 to \$683 in 2020.

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.

Known Facts Likely to Impact Future Financial Conditions

The Lottery anticipates a continued negative impact on overall sales and revenue in fiscal year 2022 due to the continued alternate schedule options of commuters limiting their travel into the city. Lottery sales are directly impacted by the population swell of federal and city employees traveling into the jurisdiction daily for work. As a result of permanent closings of lottery retail locations and tele-working options for area employees, overall lottery sales are foreseeable to continue to be negatively impacted. However, the continued roll-out of new equipment, continued expansion of sports wagering at retail locations, new instant ticket product, innovative promotions, and expense reduction are all hopeful measures in mitigating any negative impact.

The Lottery entered into a new contract in FY 2020 with its gaming system vendor to provide the traditional lottery and new sports wagering gaming services and platform. The new contract includes the modernization of all lottery self-service machines and equipment at retailer locations which is expected to ultimately increase the productivity of the machines. The modernization replaces self-service machines and equipment provided under the previous contract originating in 2010.

Contacting the Lottery

Interested parties can contact the 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, 2021 and 2020
(Dollar Amounts in Thousands)

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 18,531	\$ 16,071
Accounts Receivable, net	3,340	5,077
Prepaid Expenses and Other	5	3
Restricted Investments	<u>410</u>	<u>410</u>
Total Current Assets	<u>22,286</u>	<u>21,561</u>
Non-current Assets:		
Capital Assets, net	314	414
Restricted Investments	<u>-</u>	<u>399</u>
Total Non-current Assets	<u>314</u>	<u>813</u>
Total Assets	<u>22,600</u>	<u>22,374</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	5,475	4,171
Compensation Liabilities	518	453
Unearned Revenues	97	61
Accrued Prizes and Commissions	9,841	10,448
Other Accrued Liabilities	298	863
Compensated Absences	193	140
Obligations for Unpaid Prizes - Current Portion	<u>410</u>	<u>410</u>
Total Current Liabilities	<u>16,832</u>	<u>16,546</u>
Non-current Liabilities:		
Obligations for Unpaid Prizes - Noncurrent Portion	-	399
Compensated Absences	<u>911</u>	<u>661</u>
Total Non-current Liabilities	<u>911</u>	<u>1,060</u>
Total Liabilities	<u>17,743</u>	<u>17,606</u>
Net Position		
Net Investment in Capital Assets	314	414
Unrestricted	<u>4,543</u>	<u>4,354</u>
Total Net Position	<u>\$ 4,857</u>	<u>\$ 4,768</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 REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Instant Games	\$ 46,672	\$ 47,188
Terminal Games	169,340	160,944
eInstants	8,020	-
License and Permit Fees	10	5
Games of Skill	45	-
Sports Wagering (SW)	40,743	6,113
License and Infraction Fees (SW)	<u>1,478</u>	<u>683</u>
Total Operating Revenues	<u>266,308</u>	<u>214,933</u>
Operating Expenses		
Prizes	117,169	122,989
Prizes - eInstants	7,125	-
Retailer Commissions	14,072	13,827
Contractor Fees	7,414	7,325
Advertising	7,396	6,206
Prizes – SW	34,560	5,406
Contractor Fees - SW	<u>3,535</u>	<u>354</u>
Total Direct Costs	191,271	156,107
Salaries	9,940	9,178
Professional	1,901	1,209
Contractual Services	11,516	6,945
Administration	3,358	3,351
Depreciation	<u>100</u>	<u>197</u>
Total Operating Expenses	<u>218,086</u>	<u>176,987</u>
Operating Income	48,222	37,946
Non-operating Revenue		
Interest and Dividend Income	<u>17</u>	<u>187</u>
Net Income Before Transfers	48,239	38,133
Transfer to General Fund	<u>(48,150)</u>	<u>(38,060)</u>
Change in Net Position	89	73
Net Position, Beginning of Year	<u>4,768</u>	<u>4,695</u>
Net Position, End of Year	<u><u>\$ 4,857</u></u>	<u><u>\$ 4,768</u></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, 2021 and 2020
(Dollar Amounts in Thousands)

	<u>2021</u>	<u>2020</u>
Operating Activities:		
Cash Receipts from Customers	\$ 267,393	\$ 213,032
Cash Receipts from Others	688	688
Cash Payments to Vendors	(34,382)	(22,820)
Cash Payments to Employees	(9,572)	(8,841)
Cash Payments for Prizes and Commissions	<u>(173,534)</u>	<u>(141,313)</u>
Net Cash and Equivalents Provided by Operating Activities	50,593	40,746
Cash Flows From Non-Capital Financing Activities		
Transfers Out to the General Fund	(48,150)	(38,060)
Cash Flows From Capital Financing Activities		
Acquisition of Capital Assets	-	(16)
Cash Flows From Investing Activities		
Interest and Dividends	<u>17</u>	<u>187</u>
Net Increase in Cash and Equivalents	2,460	2,857
Cash and Cash Equivalents - Beginning of Year	<u>16,071</u>	<u>13,214</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 18,531</u></u>	<u><u>\$ 16,071</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 48,222	\$ 37,946
Depreciation	100	197
<i>Effect of Changes in non-cash operating Assets and Liabilities</i>		
Receivables	1,737	(1,219)
Prepaid Expenses	(2)	-
Accounts Payable	1,304	2,048
Compensation Liabilities	368	338
Unearned Revenue	36	6
Accrued Prizes	(607)	909
Other Current Liabilities	<u>(565)</u>	<u>521</u>
Net Cash Provided by Operating Activities	<u><u>\$ 50,593</u></u>	<u><u>\$ 40,746</u></u>
Non-cash Investing and Financing Activities:		
Obligations for Unpaid Prizes by Restricted Investments	<u><u>\$ 410</u></u>	<u><u>\$ 809</u></u>

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, 2021 and 2020
(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 2021, the primary government implemented GASB Statement No. 84 *Fiduciary Activities*. The implementation of this standard had no effect on the financial position of the Lottery and its operations. The Lottery will be analyzing the effects of GASB Statement Nos. 87 *Leases*, 91 *Conduit Debt Obligations*, 92 *Omnibus 2020*, 93 *Replacement of Interbank Offered Rates*, 94 *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, 96 *Subscription-based Information Technology Arrangements* and 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* and plans to adopt each one, as applicable, by their effective dates.
- (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, 2021 and 2020, respectively, were \$18,531 and \$16,071.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(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, 2021 and 2020:

- U.S. Government and Agency Securities of \$410 and \$809 as of September 30, 2021 and 2020, 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 \$2,844 and \$835 for the fiscal years 2021 and 2020, 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:

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

- (k) Gaming Revenues ---** Gaming revenues consist of ticket sales, sports wagering settled stakes (dispositioned wagers as the result of an event taking place) 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 online (mobile & desktop) games, instant games and sports wagering. Terminal and online games (iLottery) 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. However, all games are currently not on the iLottery platform. 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
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

NOTE 2 ACCOUNTS RECEIVABLE

The components of accounts receivable as of September 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Due from Agents:		
Terminal Games	\$ 592	\$ 1,959
Instant Games	<u>2,253</u>	<u>2,412</u>
Total Due from Agents	2,845	4,371
Other	<u>495</u>	<u>-</u>
Total Accounts Receivable	3,340	5,078
Allowance for Doubtful Accounts	<u>-</u>	<u>(1)</u>
	<u><u>\$ 3,340</u></u>	<u><u>\$ 5,077</u></u>

NOTE 3 CAPITAL ASSETS

A summary of capital assets as of September 30, 2021 and 2020 were as follows:

	<u>Balance as of October 1, 2020</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance as of September 30, 2021</u>
Cost:				
Machinery and Equipment	\$ 3,995	\$ -	\$ -	\$ 3,995
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	<u>758</u>	<u>-</u>	<u>-</u>	<u>758</u>
Total Cost	<u>4,773</u>	<u>-</u>	<u>-</u>	<u>4,773</u>
Less: Accumulated Depreciation				
Machinery and Equipment	(3,581)	(100)	-	(3,681)
Office Furniture and Fixtures	(20)	-	-	(20)
Leasehold Improvements	<u>(758)</u>	<u>-</u>	<u>-</u>	<u>(758)</u>
Total Accumulated Depreciation	<u>(4,359)</u>	<u>(100)</u>	<u>\$ -</u>	<u>(4,459)</u>
Capital Assets – Net	<u><u>\$ 414</u></u>	<u><u>\$ (100)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 314</u></u>
	<u>Balance as of October 1, 2019</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance as of September 30, 2020</u>
Cost:				
Machinery and Equipment	\$ 3,979	\$ 115	\$ (99)	\$ 3,995
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	<u>758</u>	<u>-</u>	<u>-</u>	<u>758</u>
Total Cost	<u>4,757</u>	<u>115</u>	<u>(99)</u>	<u>4,773</u>
Less: Accumulated Depreciation				
Machinery and Equipment	(3,384)	(296)	99	(3,581)
Office Furniture and Fixtures	(20)	-	-	(20)
Leasehold Improvements	<u>(758)</u>	<u>-</u>	<u>-</u>	<u>(758)</u>
Total Accumulated Depreciation	<u>(4,162)</u>	<u>(296)</u>	<u>99</u>	<u>(4,359)</u>
Capital Assets – Net	<u><u>\$ 595</u></u>	<u><u>\$ (181)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 414</u></u>

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

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 \$20,000. 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, 2021, and 2020, MUSL had purchased for the Lottery, U.S. government securities aggregating \$410 and \$810, respectively to fund future installment payments for the Lottery's Powerball winner.

The market value of these securities was \$410 and \$809 as of September 30, 2021 and 2020, 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, 2021, 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	\$410	\$410	\$ -	\$ -	\$ -

As of September 30, 2020, 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	\$809	\$410	\$399	\$ -	\$ -

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.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

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, 2021, and 2020, the total Powerball prize reserve fund was approximately \$76,778 and \$87,128 respectively, of which the Lottery's share was approximately \$242 and \$363, respectively. In addition, the total Powerball set aside prize reserve fund as of September 30, 2021 and 2020 was approximately \$39,267 and \$34,761 respectively, of which the Lottery's share was approximately \$109 and \$124, 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, 2021, and 2020, the total Mega Millions prize reserve fund was approximately \$94,100 and \$90,567, respectively, of which the Lottery's share was approximately \$286 and \$433, 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.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

(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, 2021, and 2020, 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, 2021, and 2020, 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,	
	2021	2020
Jackpot Prizes Payable:		
Due Within One Year	\$ 410	\$ 410
Due in Subsequent Years	-	399
Total (Present Value)	410	809
Add: Interest to Maturity	-	1
Jackpot Prizes Payable at Maturity	\$ 410	\$ 810

The unamortized discount on the prizes payable is based on interest rates which range from 2.357% 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 two years following September 30, 2021, is as follows:

2022	\$ 410
2023	-
Total	<u>\$ 410</u>

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

The following schedule presents the changes in prizes payable:

Balance as of October 1, 2019	\$ 1,190
Increase	1
Decrease	(382)
Balance as of October 1, 2020	809
Increase	-
Decrease	(399)
Balance as of September 30, 2021	<u>\$ 410</u>

NOTE 6 GAMING REVENUES AND EXPENSES

Gaming revenues and expenses for the fiscal years ended September 30, 2021 and 2020 were as follows:

Index Class	Gaming Revenue	Prizes	Agent Commissions	Contractor Fees	Advertising	Gross Margin
Fiscal Year 2021						
DC 3	\$ 42,836	\$ (19,118)	\$ (2,714)	\$ (1,418)	\$ (1,414)	\$ 18,172
DC TWO	529	(234)	(33)	(17)	(17)	228
DC FIVE	26,132	(10,301)	(1,464)	(865)	(863)	12,639
DC FOUR	58,667	(28,372)	(3,762)	(1,942)	(1,937)	22,654
FAST PLAY	8,359	(6,381)	(609)	(277)	(276)	816
INSTANT	46,672	(33,937)	(3,496)	(1,545)	(1,541)	6,153
THE LUCKY ONE	70	(45)	(5)	(2)	(2)	16
KENO	6,348	(3,820)	(430)	(210)	(210)	1,678
LUCKY FOR LIFE	2,243	(1,270)	(134)	(74)	(74)	691
MEGA MILLIONS	6,661	(3,248)	(339)	(220)	(220)	2,634
POWERBALL	7,787	(3,729)	(402)	(258)	(257)	3,141
RACE2RICHES	7,466	(4,967)	(520)	(247)	(246)	1,486
TAP-N-PLAY	2,242	(1,747)	(164)	(74)	(74)	183
eINSTANTS	8,020	(7,125)	-	(265)	(265)	365
OTHER	1,550	-	-	-	-	1,550
Total	\$ 225,582	\$ (124,294)	\$ (14,072)	\$ (7,414)	\$ (7,396)	\$ 72,406
Fiscal Year 2020						
DC 3	\$ 41,843	\$ (21,316)	\$ (2,735)	\$ (1,473)	\$ (1,248)	\$ 15,071
DC TWO	632	(316)	(41)	(22)	(19)	234
DC FIVE	24,416	(11,569)	(1,399)	(859)	(728)	9,861
DC FOUR	55,931	(30,605)	(3,643)	(1,968)	(1,668)	18,047
FAST PLAY	7,838	(5,712)	(563)	(276)	(234)	1,053
INSTANT	47,188	(34,815)	(3,565)	(1,661)	(1,407)	5,740
THE LUCKY ONE	68	(45)	(5)	(2)	(2)	14
KENO	6,654	(4,580)	(467)	(234)	(198)	1,175
LUCKY FOR LIFE	1,903	(1,079)	(107)	(67)	(57)	593
MEGA MILLIONS	4,741	(2,311)	(214)	(167)	(141)	1,908
POWERBALL	5,810	(2,726)	(303)	(205)	(173)	2,403
RACE2RICHES	8,937	(6,239)	(626)	(315)	(266)	1,491
TAP-N-PLAY	2,171	(1,676)	(159)	(76)	(65)	195
OTHER	5	-	-	-	-	5
Total	\$ 208,137	\$ (122,989)	\$ (13,827)	\$ (7,325)	\$ (6,206)	\$ 57,790

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

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, 2021 and 2020, the Lottery's net transfers to the General Fund of the District were \$48,150 and \$38,060, respectively.

NOTE 8 LONG-TERM LIABILITIES

The following summarizes long-term liabilities as of September 30, 2021 and 2020:

	Balance as of 9/30/2020	Additions	Reductions	Balance as of 9/30/2021	Amount Due Within One Year
Obligations for Unpaid Prizes	\$ 809	\$ -	\$ (399)	\$ 410	\$ 410
Compensated Absences	801	809	(506)	1,104	193
Total Long-term Liabilities	\$ 1,610	\$ 809	\$ (905)	\$ 1,514	\$ 603

	Balance as of 9/30/2019	Additions	Reductions	Balance as of 9/30/2020	Amount Due Within One Year
Obligations for Unpaid Prizes	\$ 1,190	\$ -	\$ (381)	\$ 809	\$ 410
Compensated Absences	566	593	(358)	801	140
Total Long-term Liabilities	\$ 1,756	\$ 593	\$ (739)	\$ 1,610	\$ 550

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 7.0% and employees contribute 7.25% of employees' covered compensation to the Federal Civil Service Retirement System. Contributions by the Lottery amounted to \$15 and \$14 for the years ended September 30, 2021 and 2020, respectively. The number of Lottery employees covered under the Federal Civil Service Retirement System is 2.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

(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 1 year of service. The Lottery contributes 5% of an eligible employee's base salary, which amounted to \$371 and \$271 for the fiscal years ended September 30, 2021 and 2020, respectively.

Contributions and earnings vest fully after 4 years of service following a 1-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 2021 and \$19 in 2020. 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>
2022	\$ 2,124
2023	2,176
2024	2,228
2025	2,282
2026	2,337
2027-2029	<u>7,430</u>
Total	<u>\$ 18,557</u>

Rent expense for the fiscal years ended September 30, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Rent Expense	<u>\$ 2,579</u>	<u>\$ 2,568</u>

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2021 and 2020
(Dollar Amounts in Thousands)

(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 \$1,427 and \$1,059 in fiscal years 2021 and 2020, 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, 2021. Events and transactions were evaluated through January 3, 2022, the date the financial statements were available to be issued.



McConnell Jones

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*

Independent Auditor's Report

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 Management of 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 Government 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 year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated January 3, 2022.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Lottery'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 control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 financial statements. 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 control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington D.C.
January 3, 2022



To report fraud, waste, abuse, or mismanagement:

(202) 724-TIPS (8477) and (800) 521-1639



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