

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

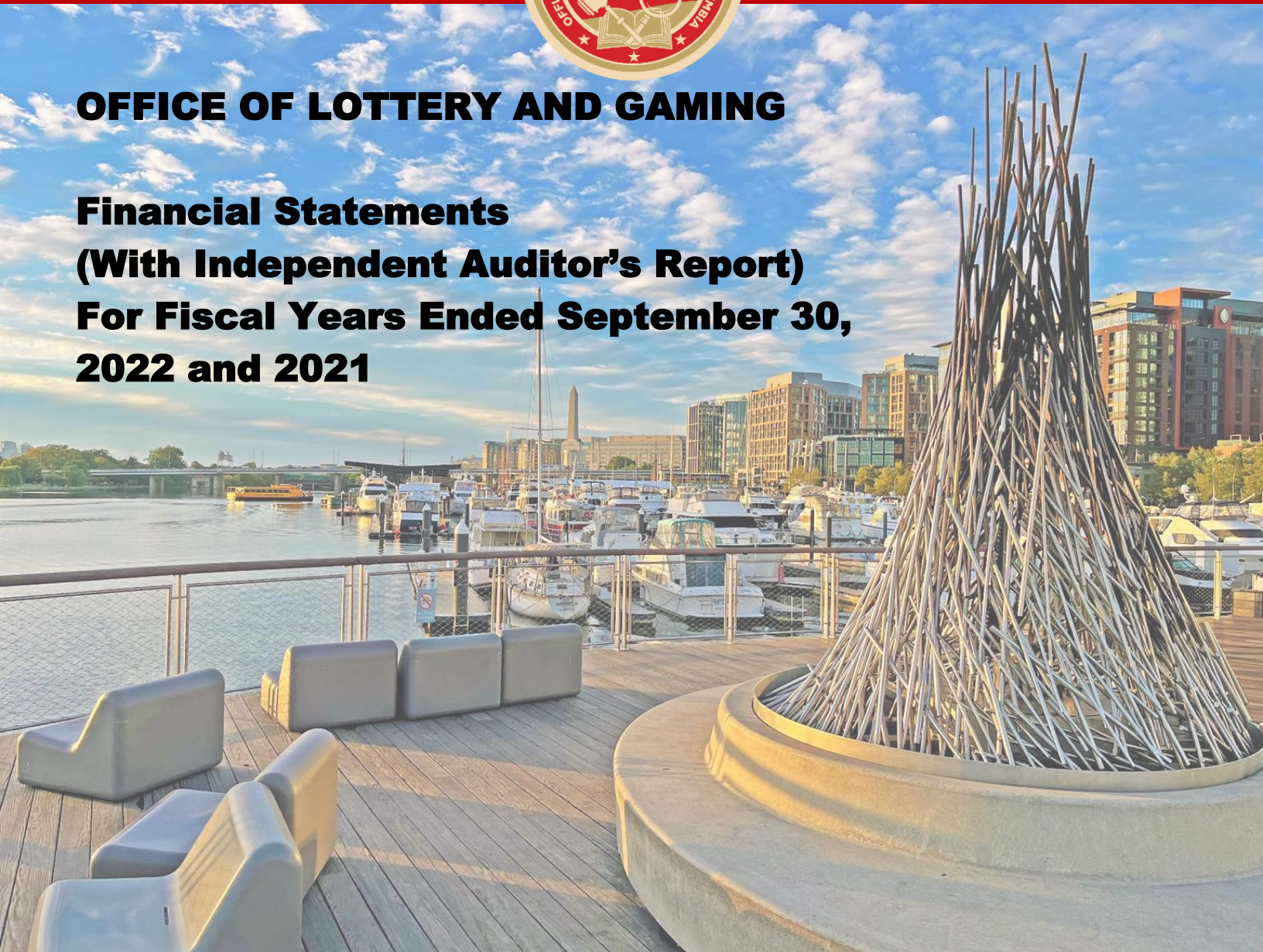
OIG Project No. 22-1-32DC

January 2023



OFFICE OF LOTTERY AND GAMING

Financial Statements (With Independent Auditor's Report) For Fiscal Years Ended September 30, 2022 and 2021



GUIDING PRINCIPLES

*ACCOUNTABILITY * INTEGRITY * PROFESSIONALISM
TRANSPARENCY * CONTINUOUS IMPROVEMENT * EXCELLENCE*

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

Accountability * Integrity * Professionalism
Transparency * Continuous Improvement * Excellence



GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



January 31, 2023

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 *Office of Lottery and Gaming Financial Statements (With Independent Auditor's Report) for Fiscal Years Ended September 30, 2022 and 2021* (OIG No. 22-1-32DC). 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 2022.

On January 3, 2023, 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,


Daniel W. Lucas
Inspector General

DWL/ws

Enclosure

cc: See Distribution List

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The Honorable Brian L. Schwalb, Attorney General for the District of Columbia
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Mr. Jed Ross, Director and Chief Risk Officer, Office of Risk Management
Mr. Wayne McConnell, Managing Partner, McConnell & Jones LLP

**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, 2022 AND 2021

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
SEPTEMBER 30, 2022 and 2021

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor’s Report	1-3
Management’s Discussion and Analysis	4-14
<u>Basic Financial Statements</u>	
Statements of Net Position	15
Statements of Revenues, Expenses, and Change in Net Position.....	16
Statements of Cash Flows	17
Notes to the Financial Statements	18-28
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.....	29-30



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 Audit of the Financial Statements

Opinion

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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Lottery as of September 30, 2022, and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Lottery and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Lottery's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as



fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lottery's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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, 2022 and 2021, 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.

As discussed in Note 9 to the financial statements, in fiscal year 2022 the Lottery adopted GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



McConnell
Jones

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2023, 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 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, 2023

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2022 and 2021
(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, 2022 and 2021. 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 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 \$9,731 or 3.68% from the prior year amount.
- The Lottery generated ticket sales of \$216,994 for a decrease of \$7,038 or 3.14% less than the prior year total of \$224,032.
- The Lottery generated sports wager stakes in the amount of \$58,289, an increase of \$16,065 or 38.04% over the prior year total of \$42,224.
- Total operating expenses increased by \$15,130 or 7.55% primarily because of increased eInstant and sports wagering prize payouts.
- Prize payouts for lottery gaming activities in 2022 increased by \$6,684 or 5.38% compared to 2021 and reflected a payout rate of 60.36% of ticket sales versus 55.48% the prior year.
- Contractor's fees for lottery gaming and sports wagering activities increased by a combined \$243 or 2.22% from the prior year primarily due to increased eInstant sales.
- Transfers to the District's General Fund decreased by \$7,480, equivalent to 18.39% below the prior year's total, primarily due to the decrease in lottery game sales and an increase 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 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, 2022 and 2021
(*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 \$59 and \$89 for the years ended September 30, 2022 and 2021, respectively. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2022, 2021, and 2020.

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

	September 30		
	2022	2021	2020
Assets:			
Current and Other Assets	\$ 21,910	\$ 21,876	\$ 21,151
Capital Assets (net of accumulated depreciation)	170	314	414
RTU Asset (net of accumulated amortization)	2655	3,983	-
Restricted Investments	-	410	809
Total Assets	<u>\$ 24,735</u>	<u>\$ 26,583</u>	<u>\$ 22,374</u>
Liabilities:			
Accounts Payable and Accrued Expenses	5,051	7,395	6,288
Unearned Revenue	89	97	61
Accrued Prizes and Commissions	12,014	9,841	10,448
Lease Liability – Short-term	1,329	2,647	-
Lease Liability Principal – Long-term	1,336	1,336	-
Obligations for Unpaid Prizes – Short-term	-	410	410
Obligations for Unpaid Prizes – Long-term	-	-	399
Total Liabilities	<u>19,819</u>	<u>21,726</u>	<u>17,606</u>
Net Position:			
Net Investment in Capital Assets	170	314	414
Unrestricted	4,746	4,543	4,354
Total Net Position	<u>\$ 4,916</u>	<u>\$ 4,857</u>	<u>\$ 4,768</u>

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2022 and 2021
(Dollar Amounts in Thousands)

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

	Years Ended September 30		
	2022	2021	2020
Operating Revenues:			
Gaming Revenues	\$ 274,794	\$ 266,308	\$ 214,933
Operating Expenses:			
Prizes	181,317	158,854	128,395
Other	53,227	59,232	48,592
Total Operating Expenses	234,544	218,086	176,987
Operating Income	40,250	48,222	37,946
Non-operating Revenues – Interest, Dividends and Other	830	17	696
Non-operating Expenses			
Lease Expense - Interest	351	-	-
Income before Transfers	40,729	48,239	49,563
Transfers to the District's General Fund	(40,670)	(48,150)	(38,060)
Change in Net Position	\$ 59	\$ 89	\$ 73

Unrestricted net position was \$4,746, \$4,543 and \$4,354 as of September 30, 2022, 2021 and 2020, respectively, which represents an increase of \$203 and \$189, respectively. Total assets decreased by \$1,848 in 2022 and increased by \$4,209 in 2021, respectively. Total liabilities decreased by \$1,907 or 8.78% and increased by \$4,120 or 23.40% for the years ended September 30, 2022 and 2021, respectively; primarily due to equipment lease payments associated with the implementation of GASB 87. 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 \$0, \$410 and \$809 as of September 30, 2022, 2021 and 2020, respectively, represents the net present value of securities totaling \$0, \$410 and \$809 as of September 30, 2022, 2021 and 2020, respectively, to fund future annuity installment payments. The restricted investments value decreased by \$410 and \$399 during fiscal years 2022 and 2021, respectively, due to payments of \$410 in 2022, and \$400 in 2021, and 2020, net of unrealized gains of \$0, \$0 and \$6 in fiscal years 2022, 2021 and 2020, respectively. Accretion of investments totaled \$0 in 2022, \$0 in 2021 and \$175 in 2020, 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, 2022 and 2021
(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 2022							
DC 3	\$ 38,332	\$ (19,951)	\$ (2,511)	\$ (1,413)	\$ (1,272)	\$ 13,185	\$ 8,623
DC TWO	427	(197)	(27)	(16)	(14)	173	113
DC FIVE	22,948	(13,780)	(1,313)	(846)	(762)	6,247	4,099
DC FOUR	52,544	(22,570)	(3,258)	(1,937)	(1,744)	23,035	15,022
FAST PLAY	7,533	(5,573)	(544)	(278)	(250)	888	595
INSTANT	43,880	(33,108)	(3,400)	(1,617)	(1,457)	4,298	2,902
THE LUCKY ONE	50	(33)	(3)	(2)	(2)	10	7
KENO	6,162	(4,178)	(429)	(227)	(205)	1,123	743
LUCKY FOR LIFE	3,009	(1,713)	(155)	(223)	(201)	2,305	609
MEGA MILLIONS	6,060	(3,015)	(316)	(277)	(249)	3,017	1,505
POWERBALL	7,512	(3,576)	(393)	(271)	(244)	1,544	1,969
RACE2RICHES	7,350	(4,792)	(499)	(111)	(100)	930	1,018
TAP-N-PLAY	2,073	(1,609)	(152)	(76)	(69)	167	114
eINSTANTS	19,114	(16,883)	-	(705)	(635)	891	632
OTHER	1,118	-	-	-	-	1,118	-
Total	\$ 218,112	\$(130,978)	\$ (13,000)	\$ (7,999)	\$ (7,204)	\$ 58,931	\$ 37,951
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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2022 and 2021
(*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 \$218,112, \$225,582 and \$208,137 in fiscal years 2022, 2021 and 2020, respectively. Prize expenses increased \$6,684 or 5.38% in 2022 and increased \$1,305 or 1.06% in 2021. Total prize payouts as a percentage of gaming revenue were 60.36%, 55.48% and 59.09% in fiscal years 2022, 2021 and 2020, respectively. Retailer commissions decreased \$504 in 2022 and increased \$245 in 2021, respectively, due to the respective decrease and increase in ticket sales for those years.

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 2022, sales totaled \$38,332 for a \$4,504 or 10.51% decrease from 2021. Sales in 2021 totaled \$42,836 for a \$993 or a 2.37% increase from 2020 sales of \$41,843. 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 \$19,951 in 2022, for a \$833 or 4.36% increase above the prior year. Prizes amounted to \$19,118 in 2021, for a \$2,198 or 10.31% decrease below 2020 prizes that amounted to \$21,316. Retailer commissions expense decreased by \$203 primarily due to the noted decrease in prizes. Net proceeds to the District's General Fund in 2022 totaled \$8,623 for a \$3,712 or 30.09% decrease compared to 2021. The transfer in 2021 totaled \$12,335, a \$2,492 or 25.32% increase compared to the 2020 transfer of \$9,843. The DC Three game accounted for 17.67% of total gaming revenue and 22.81% of the overall gross margin. The game reflected a decrease of 1.45% in gaming revenue percentage contribution, and a decrease of 2.84% 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 at least 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 2022 totaled \$427 for a \$102 or 19.28% decrease from 2021. Sales in 2021 totaled \$529 for a 103 or 16.30% decrease from its 2020 sales of \$632. Prizes amounted to \$197 in 2022, for a \$37 or 15.81% decrease from 2021. Prizes amounted to \$234 in 2021, for a \$82 or 25.95% decrease from 2020 prizes of \$316. The retailer commissions amounted to \$27 in 2022, a \$6 or 18.18% decrease from 2021. The retailer commissions amounted to \$33 in 2021, an \$8 or 19.51% decrease from 2020 retailer commissions of \$41. Transfers to the District's General Fund totaled \$113, \$153 and \$153 in 2022, 2021 and 2020, 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 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 2022, ticket sales totaled \$22,948 which represents a \$3,184 or 12.18% decrease compared to 2021. Prizes and retailer commissions in 2022 amounted to \$13,780 and \$1,313, respectively. The result was an increase in prizes of \$3,479 or 33.77% and a decrease to commissions of \$151 or 10.31% over the prior year. The game generated \$4,099 in transfer to the District's General Fund in 2022 or \$4,478 or 52.21% less than 2021.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2022 and 2021
(*Dollar Amounts in Thousands*)

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

Sales totaled \$22,948 in 2021, which represented a \$3,184 or 12.18% decrease over 2021 sales of \$26,132. Prizes and retailer commissions in 2022 and 2021 amounted to \$13,780 and \$10,301 and \$1,313 and \$1,464, respectively. The game generated \$4,099 and \$8,557 in transfers to the District's General Fund in 2022 and 2021, 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 \$52,544 in 2022 for a \$6,123 or 10.44% decrease from the 2021 ticket sales of \$58,667. Ticket sales were \$58,667 in 2021, for a \$2,736 or 4.89% increase from the 2020 ticket sales of \$55,931.

Prizes in 2022 totaled \$22,570, a decrease of \$5,802 or 20.45% below the prior year. FY 2021 totaled \$28,372, a decrease of \$2,233 or 7.30% from 2020 prizes of \$30,605. Transfers to the District's General Fund in 2022 totaled \$15,022 for a \$362 or 2.35% decrease from the \$15,384 transferred in 2021. 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 2020. The increase in contractor and advertising fees accounts for the decrease in the transfer amount. The DC Four game was responsible for 24.21% of total gaming revenue and 39.84% of the overall gross margin. The 1.97% decrease in gaming revenue contribution rate and 7.87% increase in gross margin contribution percentages below and 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 a reset 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 \$7,533 in 2022, a decrease of \$826 or 9.88% below the \$8,359 in 2021. Prizes and retailer commissions combined totaled \$6,117, \$6,990, and \$6,275 for fiscal years 2022, 2021 and 2020, respectively. Transfers to the District's General Fund amounted to \$595, \$553, and \$688 for fiscal years 2022, 2021 and 2020, 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 \$43,880 in 2022, representing a \$2,792 or 5.98% decrease below the 2021 sales of \$46,672.

Prizes in 2022 amounted to \$33,108, representing an \$829 or 2.44% decrease below the \$33,937 in 2021. Retailer commissions totaled \$3,400 in 2022 for a \$96 or 2.75% decrease below the \$3,496 expensed in 2021. Transfers to the District's General Fund totaled \$2,902 in 2022, for a \$1,272 or 30.47% decrease below the \$4,174 in 2021.

Instant ticket sales in 2021 totaled \$46,672, a decrease of \$516 or 1.09% below the \$47,188 in 2020. This was primarily the result of a significant reduction in commuter traffic into the District due to jurisdictional

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2022 and 2021
(*Dollar Amounts in Thousands*)

protocols that includes alternative work options and lottery retailer closures. Prizes in 2021 totaled \$33,937 for a \$878 or 2.52% decrease below the \$34,815 expensed 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 increased to \$4,174 in 2021, \$456 more than the \$3,718 generated in 2020. This was primarily the result of increased sales.

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 in 2022 amounted to \$50, a decrease of \$20 or 28.57% from the \$70 sales total in 2021. Sales in 2021 amounted to \$70, an increase of \$2 or 2.94% from the 2020 sales of \$68. Prizes and commissions in 2022, 2021 and 2020 combined amounted to \$36, \$50 and \$50, respectively. The Lucky One contributed \$7, \$11 and \$9 in transfer to the District's General Fund in 2022, 2021 and 2020, 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 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 transition 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 \$6,162 in 2022, representing a \$186 or 2.93% decrease of the 2021 sales total of \$6,348. Prize expenses increased by \$358 to \$4,178 in 2022 when compared to the \$3,820 expensed in 2021. Retailer commissions totaled \$429 or 0.23% less than the \$430 expensed in 2021. Transfers to the District's General Fund decreased \$395 to \$743 in 2022 from the \$1,138 transferred in 2021. The decrease in transfer is attributed to the increase in prize payout.

Ticket sales for Keno totaled \$6,348 in 2021, representing a \$306 or 4.60% decrease of the 2020 sales total of \$6,654. Prizes expense decreased by \$760 to \$3,820 in 2021 when compared to the \$4,580 expensed in 2020. Transfers to the District's General Fund increased \$371 to \$1,138 in 2021 from the \$767 transferred in 2020.

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.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2022 and 2021
(*Dollar Amounts in Thousands*)

Lucky for Life ticket sales amounted to \$3,009 in 2022, \$766 or 34.15% more than the \$2,243 in 2021. The prizes in 2022 totaled \$1,713, \$443 more than the \$1,270 in 2021. Retailer commissions in 2022 and 2021 totaled \$155 and \$134, respectively. Lucky for Life produced a transfer to the District's General Fund in 2022 and 2021 of \$609 and \$476, respectively. The increase in transfer can be attributed to the increase in sales.

Lucky for Life ticket sales amounted to \$2,243 in 2021, \$340 or 17.87% more than \$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.

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. 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 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 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 \$6,060 in 2022, representing a \$601 or 9.02% decrease from the \$6,661 generated in 2021. The decrease in sales can be attributed to the less jackpots. Mega Million sales are jackpot driven and less jackpots impact sales levels. Prizes amounted to \$3,015 in 2022, representing a \$233 or 7.17% decrease from the \$3,248 expensed in 2021. Prizes were expensed at the rate of 49.75% of overall ticket sales in 2022. The noted decrease in ticket sales offset by overall operating costs resulted in a transfer to the District's General Fund of \$1,505 in 2022 or \$307 less than the \$1,812 produced in 2021.

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 ticket 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 2021 or \$566 more than the \$1,246 produced in 2020.

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 Powerball Group introduced changes to Powerball on April 2, 2020. The changes include elimination of an automatic \$40

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2022 and 2021
(*Dollar Amounts in Thousands*)

million beginning jackpot and the guaranteed increase of \$10 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.

Powerball sales totaled \$7,512 in 2022, representing a \$275 or 3.53% decrease from the \$7,787 generated in 2021. The decrease in sales can be attributed to lesser jackpots experienced during the year. Powerball sales are jackpot-driven, and high jackpots impact sales levels. Prizes amounted to \$3,576 in 2022 representing a \$153 or 4.10% decrease from the \$3,729 expensed in 2021. Powerball prizes are expensed at the rate of 47.60% of sales intake offset by lapsed prizes. Prize expense decreased due to decreased sales. The \$189 decrease in transfer to the District's General Fund to \$1,969 from the \$2,158 transferred in 2021 is due to the allocation of the transfer being based on the gaming revenues that decreased in 2022.

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.

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 \$7,350 in 2022, representing a \$116 or 1.55% decrease below the \$7,466 generated in 2021. The decrease in sales in 2022 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 \$4,792 in 2022 from \$4,967 in 2021, which represented a \$175 or 3.52% decrease below 2021. The \$10 increase in transfers to the District's General Fund in 2022 to \$1,018, is more than the 2021 transfer amount of \$1,008. The slight increase in the transfer is attributed to the decrease in prize expense.

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 was 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 \$4,967 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 was attributed to the decrease in prize expense.

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, 2022 and 2021
(*Dollar Amounts in Thousands*)

Ticket sales amounted to \$2,073 and \$2,242 in fiscal years 2022 and 2021, respectively. The prize expense was \$1,609 and \$1,747 and amounted to a 77.62% and 77.92% prize payout rate in 2022 and 2021, respectively. Retailer commissions were \$152 in 2022 and \$164 in 2021. Transfers to the District's General Fund were \$114 and \$124 and represented 5.50% and 5.53% of sales for 2022 and 2021, respectively. The decrease in the transfer to the General Fund is primarily because of the decrease in sales.

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 2022, the sales totaled \$19,144, an \$11,094 or 138.33% increase from its inaugural year amount of \$8,020. The prizes totaled \$16,883, a \$9,758 136.95% increase from \$7,125 in 2021. Transfers to the District's General Fund was \$632 and \$247 in 2022 and 2021, respectively. eInstants 2022 sales share of 8.81% increased 5.23% from its inaugural share of 3.58% in 2021.

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

Index Class	Number of Bets	Total Stakes	Total Revenue	Total Payouts	GGR	Contractor Fees	Transfers
Fiscal Year 2022							
SPORTS WAGERING	1,948	\$ 58,289	\$ 57,512	\$ (50,339)	\$ 8,109	\$ 3,193	\$ 2,719
Fiscal Year 2021							
SPORTS WAGERING	1,225	\$ 42,224	\$ 40,743	\$ (34,560)	\$ 7,664	\$ 3,257	\$ -
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 90%. The vendor is responsible for the costs of percentage points more than 90%. The vendor is paid 42.5% of the Net Gaming Revenue (NGR equals stakes minus payouts minus bonuses) as a contractor's fee. Sports wagering's inaugural year of activity in 2020 consisted of four months.

Total stakes in 2022 were \$58,289, a \$16,065 or 38.05% increase over the \$42,224 in 2021. The payouts in 2022 totaled \$50,339, a \$15,779 or 45.66% increase from the \$34,560 in 2021. The payout percentage was 86.36 and 81.85% in 2022 and 2021, respectively. Gross Gaming Revenue (GGR equals stakes minus payouts) totaled \$8,109 and \$7,664 in 2022 and 2021, respectively. The contractor's fee was \$3,193 in 2022 and \$3,257 in 2021.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2022 and 2021
(*Dollar Amounts in Thousands*)

Total stakes were \$42,224 in 2021, compared to \$6,240 in 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 totaled \$7,664 and \$834 in 2021 and 2020. The contractor's fee was \$3,257 in 2021 and \$355 in 2020.

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, increased by \$262, decreased by \$170, and decreased by \$280 in fiscal years 2022, 2021, and 2020, 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 \$4 to \$14 in 2022, increased by \$5 to \$10 in 2021 and decreased by \$5 to \$5 in 2020. Games of Skill License Fees decreased by \$45 to \$0 and increased by \$45 to \$45 in 2022 and 2021. Sports Wagering License and Infraction Fees decreased by \$1,154 to \$324 in 2022 and increased by \$795 to \$1,478 in 2021.

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 2023 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 modernized equipment, enhanced gaming system infrastructure, continued expansion of sports wagering at retail locations, new instant ticket products, innovative promotions, and expense reductions are all hopeful measures in mitigating any negative impact.

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, 2022 and 2021
(Dollar Amounts in Thousands)

	2022	2021
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 18,210	\$ 18,531
Accounts Receivable	3,696	3,340
Prepaid Expenses and Other	4	5
Restricted Investments	-	410
Total Current Assets	21,910	22,286
Non-current Assets:		
Capital Assets, net	170	314
Right-to-Use Asset – Equipment, net	2,655	3,983
Total Non-current Assets	2,825	4,297
Total Assets	24,735	26,583
LIABILITIES		
Current Liabilities:		
Accounts Payable	3,228	5,475
Compensation Liabilities	568	518
Unearned Revenues	89	97
Accrued Prizes and Commissions	12,014	9,841
Other Accrued Liabilities	240	298
Compensated Absences	320	193
Lease Liability – Current Portion	1,329	2,647
Obligations for Unpaid Prizes - Current Portion	-	410
Total Current Liabilities	17,788	19,479
Non-current Liabilities:		
Compensated Absences	695	911
Lease Liability – Long-term	1,336	1,336
Total Non-current Liabilities	2,031	2,247
Total Liabilities	19,819	21,726
Net Position		
Net Investment in Capital Assets	170	314
Unrestricted	4,746	4,543
Total Net Position	\$ 4,916	\$ 4,857

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 CHANGE IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2022 and 2021
(Dollar Amounts in Thousands)

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Instant Games	\$ 43,880	\$ 46,672
Terminal Games	154,000	169,340
eInstants	19,114	8,020
License and Permit Fees	14	10
Games of Skill	-	45
Sports Wagering (SW)	57,512	40,743
License and Infraction Fees (SW)	<u>274</u>	<u>1,478</u>
 Total Operating Revenues	 <u>274,794</u>	 <u>266,308</u>
Operating Expenses		
Prizes	114,068	117,169
Prizes - eInstants	16,910	7,125
Retailer Commissions	13,568	14,072
Contractor Fees	7,999	7,414
Advertising	7,203	7,396
Prizes – SW	50,339	34,560
Contractor Fees - SW	<u>3,193</u>	<u>3,535</u>
Total Direct Costs	213,280	191,271
 Salaries	 10,362	 9,940
Professional	939	1,901
Contractual Services	4,610	11,516
Administration	3,882	3,358
Depreciation	143	100
Amortization RTU - Equipment	<u>1,328</u>	<u>-</u>
Total Operating Expenses	<u>234,544</u>	<u>218,086</u>
 Operating Income	 40,250	 48,222
Non-operating Revenue		
Penalties, Infraction Fees & Other	551	-
Interest and Dividend Income	279	17
Non-Operating Expense		
Lease Expense - Interest	<u>351</u>	<u>-</u>
 Net Income Before Transfers	 40,729	 48,239
Transfers to General Fund	<u>(40,670)</u>	<u>(48,150)</u>
 Change in Net Position	 59	 89
 Net Position, Beginning of Year	 <u>4,857</u>	 <u>4,768</u>
 Net Position, End of Year	 <u>\$ 4,916</u>	 <u>\$ 4,857</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, 2022 and 2021
(Dollar Amounts in Thousands)

	2022	2021
Operating Activities:		
Cash Receipts from Customers	\$ 274,431	\$ 267,393
Cash Receipts from Others	550	688
Cash Payments to Vendors	(30,464)	(34,382)
Cash Payments to Employees	(10,401)	(9,572)
Cash Payments for Prizes and Commissions	(192,712)	(173,534)
Net Cash Flows Provided by Operating Activities	41,404	50,593
Cash Flows From Non-Capital Financing Activities		
Transfers Out to the General Fund	(40,670)	(48,150)
Payment for Lease Liability and Interest	(1,334)	-
Net Cash Flows Provided(Used) by Non-Capital Financing Activities	(42,004)	(48,150)
Cash Flows From Investing Activities		
Interest and Dividends	279	17
Net Cash Flows Provided by Investing Activities	279	17
Net Increase (Decrease) in Cash and Equivalents	(321)	2,460
Cash and Cash Equivalents - Beginning of Year	18,531	16,071
Cash and Cash Equivalents - End of Year	\$ 18,210	\$ 18,531
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 40,250	\$ 48,222
Depreciation	143	100
Bad Debt Expense	2	-
Amortization Expense Right-to-use Asset	1,328	-
<i>Effect of Changes in non-cash operating Assets and Liabilities</i>		
Receivables	(356)	1,737
Prepaid Expenses	-	(2)
Accounts Payable	(2,247)	1,304
Compensation Liabilities	177	368
Unearned Revenue	(8)	36
Accrued Prizes	2,173	(607)
Other Current Liabilities	(58)	(565)
Net Cash Provided by Operating Activities	\$ 41,404	\$ 50,593
Non-Cash Investing and Financing Activities:		
Obligations for Unpaid Prizes by Restricted Investments	\$ -	\$ 410

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
SEPTEMBER 30, 2022 and 2021
(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 operations in the Statements of Net Position.
- (c) **Implementation of New Accounting Standards** --- In fiscal year 2022, the District implemented GASB Statement Nos. 87 *Leases*, 92 *Omnibus 2020*, and parts of 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* and 99 *Omnibus 2022*. The implementation of these statements had no effect on the financial position of the Lottery. The District will be analyzing the effects of GASB Statement Nos. 91 *Conduit Debt Obligations*, 93 *Replacement of Interbank Offered Rates*, 94 *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, 96 *Subscription-based Information Technology Arrangements* in FY 2023 and 100 *Accounting Changes and Error Corrections – an amendment of No. 62* in FY 2024 and 101 *Compensated Absences* in FY 2025, and plans to adopt each one, if 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 securities for more than 91 days. Cash and cash equivalents as of September 30, 2022 and 2021, respectively, were \$18,210 and \$18,531.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2022 and 2021
(Dollar Amounts in Thousands)

(f) **Investments** --- Investments in U.S. government and agency securities are recorded at 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, 2022 and 2021:

- U.S. Government and Agency Securities of \$0 and \$410 as of September 30, 2022 and 2021, 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 \$2,501 and \$2,844 for the fiscal years 2022 and 2021, respectively. These forfeited prizes are netted against prize expense in the Statements of Revenues, Expenses and Change in Net Position.

(j) **Capital Assets with Lease Assets Reported Separately** --- 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.

(k) **Lease Right-to-use Assets** --- The lease asset is measured at the amount of the initial measurement of the lease liability which is the present value of future payments during the lease term. By the end of the lease term, the lease asset balance and the related accumulated amortization balance are removed from the appropriate accounts.

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
Right-to-Use Asset – Equipment	3 years

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2022 and 2021
(Dollar Amounts in Thousands)

- (l) **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.
- (m) **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.
- (n) **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.
- (o) **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.

- (p) **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, 2022 and 2021
(Dollar Amounts in Thousands)

NOTE 2 ACCOUNTS RECEIVABLE

The components of accounts receivable as of September 30, 2022 and 2021 were as follows:

	2022	2021
Due from Agents:		
Terminal Games	\$ 734	\$ 592
Instant Games	1,949	2,253
Total Due from Agents	2,683	2,845
Other	1,013	495
Total Accounts Receivable	\$ 3,696	\$ 3,340

NOTE 3 CAPITAL ASSETS

A summary of capital assets as of September 30, 2022 and 2021 is as follows:

	Balance as of October 1, 2021	Additions	Dispositions	Balance as of September 30, 2022
Cost:				
Machinery and Equipment	\$ 3,995	\$ -	\$ (2,104)	\$ 1,891
Office Furniture and Fixtures	20	-	(20)	-
Leasehold Improvements	758	-	(758)	-
Right-to-Use Asset - Equipment	3,983	-	-	3,983
Total Cost	8,756	-	(2,882)	5,874
Less: Accumulated Depreciation & Amortization				
Machinery and Equipment	(3,681)	(143)	2,104	(1,720)
Office Furniture and Fixtures	(20)	-	20	-
Leasehold Improvements	(758)	-	758	-
Accumulated Amortization - RTUA	-	(1,328)	-	(1,328)
Total Accumulated Depr. & Amort.	(4,459)	(1,471)	2,882	(3,048)
Capital Assets – Net, including RTUA	\$ 4,297	\$ (1,471)	\$ -	\$ 2,825
	Balance as of October 1, 2020	Additions	Dispositions	Balance as of September 30, 2021
Cost:				
Machinery and Equipment	\$ 3,995	\$ -	\$ -	\$ 3,995
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Right-to-Use Asset - Equipment	-	-	-	-
Total Cost	4,773	-	-	4,773
Less: Accumulated Depreciation & Amortization				
Machinery and Equipment	(3,581)	(100)	-	(3,681)
Office Furniture and Fixtures	(20)	-	-	(20)
Leasehold Improvements	(758)	-	-	(758)
Accumulated Amortization – RTUA	-	-	-	-
Total Accumulated Depr. & Amort.	(4,359)	(100)	-	(4,459)
Capital Assets – Net	\$ 414	\$ (100)	\$ -	\$ 314

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2022 and 2021
(Dollar Amounts in Thousands)

RESTATEMENT

The District implemented GASB Statement No. 87, *Leases*, in fiscal year 2022. As a result of this implementation, the beginning balances of the right-to-use assets and long-term lease liabilities increased by \$3,983 and \$1,336; respectively, compared to the amounts reported on September 30, 2021.

These changes are the result of the cumulative effect of the recognition of the right-to-use assets and, lease liabilities related to lease contracts the Lottery entered into as a lessee. The Lottery did not restate the fiscal year 2021 amounts, as shown in the summarized comparative totals column within the financial statements, as it was not practical.

	Business-Type Activities		
	September 30, 2021, as reported	Restatement	October 1, 2021, as restated
Capital Assets, net	\$ 314	\$ 3,983	\$ 4,297
Long-term Liabilities	\$ -	\$ 1,336	\$ 1,336

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, 2022, and 2021, MUSL had purchased for the Lottery, U.S. government securities aggregating \$0 and \$410, respectively to fund future installment payments for the Lottery's Powerball winner.

The fair value of these securities was \$0 and \$410 as of September 30, 2022 and 2021, respectively. The investments provide the Lottery cash payments corresponding to the Lottery's obligations to the prize winners. The Lottery has reflected the fair 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.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2022 and 2021
(Dollar Amounts in Thousands)

As of September 30, 2022, the Lottery had no investments.

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	\$ -	\$ -	\$ -

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.

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, 2022, and 2021, the total Powerball prize reserve fund was approximately \$82,375 and \$76,778 respectively, of which the Lottery's share was approximately \$235 and \$242, respectively. In addition, the total Powerball set side prize reserve fund as of September 30, 2022 and 2021 was approximately \$40,020 and \$39,267 respectively, of which the Lottery's share was approximately \$102 and \$109, respectively.

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, 2022, and 2021, the total Mega Millions prize reserve fund was approximately \$91,520 and \$94,100, respectively, of which the Lottery's share was approximately \$275 and \$286, respectively.

The balance remaining in the reserve funds is 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, 2022 and 2021
(Dollar Amounts in Thousands)

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, 2022, and 2021, the Lottery's investments in U.S. Government and agency securities were rated Aaa by Moody's Investor Service.

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, 2022, and 2021, 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,	
	2022	2021
Jackpot Prizes Payable:		
Due Within One Year	\$ -	\$ 410
Due in Subsequent Years	-	-
Total (Present Value)	-	410
Add: Interest to Maturity	-	-
Jackpot Prizes Payable at Maturity	\$ -	\$ 410

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 following schedule presents the changes in prizes payable:

Balance as of October 1, 2020	\$ 809
Increase	-
Decrease	(399)
Balance as of October 1, 2021	410
Increase	-
Decrease	(410)
Balance as of September 30, 2022	\$ -

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2022 and 2021
(Dollar Amounts in Thousands)

NOTE 6 GAMING REVENUES AND EXPENSES

Gaming revenues and expenses for the fiscal years ended September 30, 2022 and 2021 were as follows:

Index Class	Gaming Revenue	Prizes	Agent Commissions	Contractor Fees	Advertising	Gross Margin
Fiscal Year 2022						
DC 3	\$ 38,332	\$ (19,951)	\$ (2,511)	\$ (1,413)	\$ (1,272)	\$ 13,185
DC TWO	427	(197)	(27)	(16)	(14)	173
DC FIVE	22,948	(13,780)	(1,313)	(846)	(762)	6,247
DC FOUR	52,544	(22,570)	(3,258)	(1,937)	(1,744)	23,035
FAST PLAY	7,533	(5,573)	(544)	(278)	(250)	888
INSTANT	43,880	(33,108)	(3,400)	(1,617)	(1,457)	4,298
THE LUCKY ONE	50	(33)	(3)	(2)	(2)	10
KENO	6,162	(4,178)	(429)	(227)	(205)	1,123
LUCKY FOR LIFE	3,009	(1,713)	(155)	(223)	(201)	2,305
MEGA MILLIONS	6,060	(3,015)	(316)	(277)	(249)	3,017
POWERBALL	7,512	(3,576)	(393)	(271)	(244)	1,544
RACE2RICHES	7,350	(4,792)	(499)	(111)	(100)	930
TAP-N-PLAY	2,073	(1,609)	(152)	(76)	(69)	167
eINSTANTS	19,114	(16,883)	-	(705)	(635)	891
OTHER	1,118	-	-	-	-	1,118
Total	\$ 218,112	\$(130,978)	\$ (13,000)	\$ (7,999)	\$ (7,204)	\$ 58,931
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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2022 and 2021
(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, 2022 and 2021, the Lottery’s net transfers to the General Fund of the District were \$40,670 and \$48,150, respectively.

NOTE 8 LONG-TERM LIABILITIES

The following summarizes long-term liabilities as of September 30, 2022 and 2021:

	Balance as of 9/30/2021	Additions	Reductions	Balance as of 9/30/2022	Amount Due Within One Year
Obligations for Unpaid Prizes	\$ 410	\$ -	\$ (410)	\$ -	\$ -
Compensated Absences	1,104	750	(839)	1,015	320
Lease Payable Principal – Long-term	-	3,983	(1,328)	2,655	1,329
Total Long-term Liabilities	<u>\$ 1,514</u>	<u>\$ 4,733</u>	<u>\$ (2,577)</u>	<u>\$ 3,670</u>	<u>\$ 1,649</u>

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

NOTE 9 LESSEE – LEASE LIABILITY

The Lottery has an agreement for the use of retail lottery equipment. As required by *GASB Statement 87, Leases*, the Lottery recorded a right-to-use asset and corresponding liability for this lease of \$3,983. As of September 30, 2022, the value of the lease liability was \$2,665. The Lottery is required to make monthly principal and interest payments of \$112. The lease has an interest rate of 0.4647%. The equipment has a three-year estimated useful life. The value of the right-to-use asset as of September 30, 2022 is \$3,983 and has accumulated amortization of \$1,328.

The following summarizes long-term Lease Asset liabilities as of September 30, 2022 and 2021:

Year Ending 9/30	Principal Payment	Interest Payment	Total Payment
2023	1,329	10	1,339
2024	1,336	3	1,339
Total	\$ 2,665	\$ 13	\$ 2,678

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2022 and 2021
(Dollar Amounts in Thousands)

NOTE 10 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 \$15 for the years ended September 30, 2022 and 2021, respectively. The number of Lottery employees covered under the Federal Civil Service Retirement System is 2.

(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 \$325 and \$371 for the fiscal years ended September 30, 2022 and 2021, 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 \$20 in 2022 and \$19 in 2021. 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.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2022 and 2021
(Dollar Amounts in Thousands)

NOTE 11 COMMITMENTS AND CONTINGENCIES

(a) *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 the Lottery's claim settlements and judgments out of the Lottery revenues or the District's General Fund resources.

NOTE 12 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 \$850 and \$1,427 in fiscal years 2022 and 2021, respectively. Other services provided by District Government entities at no cost 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 13 LITIGATION

The Lottery is a defendant in legal claims arising from its normal operations. While the ultimate outcome of lawsuits cannot be predicted, 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, changes in financial position or cash flows of the Lottery.

NOTE 14 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, 2022. Events and transactions were evaluated through January 3, 2023 the date the financial statements were available to be issued.



**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, 2022, 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, 2023.

Report on 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 or significant deficiencies may exist that were not identified.



McConnell Jones

Report on 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, 2023

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