

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 23-1-11DC

January 31, 2024



Government of the District of Columbia Office of Lottery and Gaming

Financial Statements (with
Independent Auditor's Report)
September 30, 2023, and 2022

GUIDING PRINCIPLES

ACCOUNTABILITY * INTEGRITY * PROFESSIONALISM

TRANSPARENCY * CONTINUOUS IMPROVEMENT * EXCELLENCE



OUR MISSION

We independently audit, inspect, and investigate matters pertaining to the District of Columbia government 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.

OUR 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!

OUR GUIDING PRINCIPLES

- Accountability
- Continuous Improvement
- Excellence
- Integrity
- Professionalism
- Transparency





DISTRICT OF COLUMBIA | OFFICE OF THE INSPECTOR GENERAL

January 31, 2024

The Honorable Muriel Bowser
Mayor of the District of Columbia
Mayor's Correspondence Unit
John A. Wilson Building
1350 Pennsylvania Avenue NW, Suite 316
Washington, DC 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue NW, Suite 504
Washington, DC 20004

Subject: **Government of the District of Columbia Office of Lottery and Gaming |
23-1-11DC**

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report, *Government of the District of Columbia Office of Lottery and Gaming Financial Statements (with Independent Auditor's Report) September 30, 2023, and 2022* (OIG No. 23-1-11DC). McConnell Jones, LLP (MJ) conducted the audit and submitted this enterprise fund report as part of our overall contract for the audit of the District of Columbia's general-purpose financial statements for fiscal year 2023.

On January 3, 2024, 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 Eileen Shanklin-Andrus, Acting Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Daniel W. Lucas
Inspector General

DWL/ws

Enclosure

DISTRIBUTION LIST

Ms. Betsy Cavendish, General Counsel, Executive Office of the Mayor

Mr. Kevin Donahue, City Administrator for the District of Columbia

Mr. Barry Kreiswirth, General Counsel, Office of the City Administrator

Mr. Eugene Adams, Director, Mayor's Office of Legal Counsel

Ms. Lindsey V. Parker, Chief of Staff, Executive Office of the Mayor

Ms. Nina Albert, Acting Deputy Mayor for Planning and Economic Development

The Honorable Kenyan R. McDuffie, Chairperson
Committee on Business and Economic Development
Council of the District of Columbia

The Honorable Anita Bonds, Chairperson, Committee on Executive Administration and Labor
Council of the District of Columbia

Ms. Susana Castillo, Director of Communications, Office of Communications
Executive Office of the Mayor

Ms. Jennifer Reed, Director, Office of Budget and Performance Management
Office of the City Administrator

Ms. Nyasha Smith, Secretary to the Council, Council of the District of Columbia

The Honorable Brian L. Schwalb, Attorney General for the District of Columbia

Mr. Glen Lee, Chief Financial Officer, Office of the Chief Financial Officer

Mr. Timothy Barry, Executive Director, Office of Integrity and Oversight
Office of the Chief Financial Officer

The Honorable Kathy Patterson, D.C. Auditor, Office of the D.C. Auditor

Mr. Jed Ross, Director and Chief Risk Officer, Office of Risk Management

Mr. Frank Suarez, Executive Director, Office of Lottery and Gaming

Mr. Craig D. Lindsey, Agency Fiscal Officer, Office of Lottery and Gaming

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, 2023 AND 2022

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
SEPTEMBER 30, 2023 and 2022**

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INDEPENDENT AUDITOR'S REPORT

To the Mayor, Members of the Council of the Government of the District of Columbia,
the Management of the Office of Lottery and Gaming and
Inspector General of the Government of the District of Columbia
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, 2023 and 2022, 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, 2023, and 2022, 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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, 2023 and 2022, the changes in its financial position or, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to the matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, located as listed in the table of contents, 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, 2024, 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.

McConnell Jones LLP

Washington, D.C.
January 3, 2024

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2023 and 2022
(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, 2023 and 2022. 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, including licenses and permit fees, from lottery and sports wagering gaming activities increased by \$15,133 or 5.51% from the prior year amount.
- The Lottery generated ticket sales of \$221,235 for an increase of \$4,241 or 1.95% more than the prior year total of \$216,994.
- The Lottery generated sports wagering sales in the amount of \$68,418, an increase of \$10,906 or 18.96% over the prior year total of \$57,512.
- Total operating expenses increased by \$23,170 or 9.88% primarily because of increased eInstant and sports wagering prize payouts.
- Prize payouts for lottery gaming activities in 2023 increased by \$9,305 or 7.10% compared to 2022 and reflected a payout rate of 63.41% of ticket sales versus 60.36% the prior year.
- Contractor's fees for lottery gaming and sports wagering activities decreased by a combined \$51 or 0.46% from the prior year.
- Transfers to the District's General Fund decreased by \$7,220, equivalent to 17.75% below the prior year's total, primarily due to an increase in the 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 Millions 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 Changes 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, 2023, and 2022
(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 include all assets and liabilities. It is prepared under the economic resources' measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when the related liability is incurred.

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

Financial Analysis

The Lottery's net position increased by \$35 and \$59 for the years ended September 30, 2023 and 2022, respectively. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2023, 2022, and 2021.

Table 1: Summary of Net Position
(In Thousands)

	September 30		
	2023	2022	2021
Assets:			
Current and Other Assets	\$ 24,772	\$ 21,910	\$ 21,876
Capital Assets (net of accumulated depreciation and amortization)	1,382	2,825	4,297
Restricted Investments	-	-	410
Total Assets	<u>\$ 26,154</u>	<u>\$ 24,735</u>	<u>\$ 26,583</u>
Liabilities:			
Accounts Payable and Accrued Expenses	5,272	5,051	7,395
Unearned Revenue	163	89	97
Accrued Prizes and Commissions	14,432	12,014	9,841
Lease Liability – Short-term	1,336	1,329	2,647
Lease Liability Principal – Long-term	-	1,336	1,336
Obligations for Unpaid Prizes – Short-term	-	-	410
Total Liabilities	<u>21,203</u>	<u>19,819</u>	<u>21,726</u>
Net Position:			
Net Investment in Capital Assets	54	170	314
Unrestricted	4,897	4,746	4,543
Total Net Position	<u>\$ 4,951</u>	<u>\$ 4,916</u>	<u>\$ 4,857</u>

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2023, and 2022
(Dollar Amounts in Thousands)

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

	Years Ended September 30		
	2023	2022	2021
Operating Revenues:			
Gaming Revenues	\$ 289,927	\$ 274,794	\$ 266,308
Operating Expenses:			
Prizes	202,115	181,317	158,854
Other	55,599	53,227	59,232
Total Operating Expenses	257,714	234,544	218,086
Operating Income	32,213	40,250	48,222
Non-operating Revenues – Interest, Dividends and Other	1,572	830	17
Non-operating Expenses			
Lease Expense - Interest	300	351	-
Income before Transfers	33,485	40,729	48,239
Transfers to the District's General Fund	(33,450)	(40,670)	(48,150)
Change in Net Position	\$ 35	\$ 59	\$ 89

Unrestricted net position was \$4,897, \$4,746, and \$4,543 as of September 30, 2023, 2022 and 2021, respectively, which represents an increase of \$151 and \$203, respectively. Total assets increased by \$1,419 in 2023 and decreased by \$1,848 in 2022, respectively. Total liabilities increased by \$1,384 or 6.98% and decreased by \$1,907 or 8.78% for the years ended September 30, 2023 and 2022, respectively; primarily due to accrued prizes. 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, \$0, and \$410 as of September 30, 2023, 2022, and 2021, respectively, represents the net present value of securities totaling \$0, \$0, and \$410 as of September 30, 2023, 2022, and 2021, respectively, to fund future annuity installment payments. The restricted investments value decreased by \$0 and \$410 during fiscal years 2023 and 2022, respectively, due to payments of \$0 in 2023, and \$410 in 2022 and \$400 in 2021, net of unrealized gains of \$0, \$0 and \$0 in fiscal years 2023, 2022 and 2021, respectively. Accretion of investments totaled \$0 in 2023, \$0 in 2022 and \$0 2021, 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, 2023, and 2022
(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 2023							
DC 3	\$ 36,168	\$ (17,524)	\$ (2,328)	\$ (1,364)	\$ (1,445)	\$ 13,507	\$ 8,546
DC TWO	400	(251)	(28)	(15)	(16)	90	58
DC FIVE	20,770	(9,137)	(1,190)	(783)	(830)	8,830	5,586
DC FOUR	49,658	(30,763)	(3,338)	(1,872)	(1,984)	11,701	7,404
FAST PLAY	8,083	(6,629)	(603)	(305)	(323)	223	141
INSTANT	43,136	(31,618)	(3,278)	(1,627)	(1,723)	4,890	3,094
THE LUCKY ONE	82	(60)	(6)	(3)	(3)	10	6
KENO	4,669	(2,786)	(316)	(176)	(186)	1,205	761
LUCKY 4 LIFE	3,083	(1,765)	(180)	(116)	(123)	899	569
MEGA MILLIONS	7,707	(3,776)	(398)	(291)	(308)	2,934	1,856
POWERBALL	11,326	(5,452)	(596)	(427)	(452)	4,399	2,783
RACE 2 RICHES	6,811	(4,562)	(468)	(257)	(272)	1,252	792
TAP-N-PLAY	2,127	(1,680)	(157)	(80)	(85)	125	79
e-INSTANTS	27,215	(24,280)	-	(1,026)	(1,087)	822	520
OTHER	1,577	-	-	180	-	1,577	-
Total	\$ 222,812	\$ (140,283)	\$ (12,886)	\$ (8,342)	\$ (8,837)	\$ 52,464	\$ 32,195
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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2023 and 2022
(*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 \$222,812, \$218,112, and \$225,582 in fiscal years 2023, 2022 and 2021, respectively. Prize expenses increased \$9,305 or 7.10% in 2023 and increased \$6,684 or 5.38% in 2022. Total prize payouts as a percentage of gaming revenue were 63.41%, 60.36%, and 55.48% in fiscal years 2023, 2022 and 2021, respectively. Retailer commissions decreased \$114 in 2023 and \$1,072 in 2022, respectively, due to the decrease of retailer cashing in 2023, and the decrease in ticket sales for 2022, respectively.

DC 3 --- DC Three is a daily three-digit game in which players may wager 50 cents or one dollar with nine ways to win prizes ranging from 25 to 500 dollars. In 2023, sales totaled \$36,168 for a \$2,164 or 5.65% decrease from 2022. Sales in 2022 totaled \$38,332 for a \$4,504 or 10.51% decrease from 2021 sales of \$42,836. 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. A night draw was introduced in August 2023.

Prizes amounted to \$17,524 in 2023, for a \$2,427 or 12.16% decrease from the prior year. Prizes amounted to \$19,951 in 2022, for a \$833 or 4.36% increase above 2021 prizes that amounted to \$19,118. Retailer commissions expense decreased by \$183 primarily due to the noted decrease in prizes. Net proceeds to the District's General Fund in 2023 totaled \$8,546 for a \$77 or .89% decrease compared to 2022. The transfer in 2022 totaled \$8,623, a \$3,712 or 30.09% decrease compared to the 2021 transfer of \$12,335. The DC 3 game accounted for 16.35% of total gaming revenue and 26.54% of the overall gross margin. The game reflected a decrease of 1.32% in gaming revenue percentage contribution, and an increase of 3.73% in gross margin percentage contribution due to a decrease in sales and decrease in prizes.

DC 2 --- 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 2023 totaled \$400 for a \$27 or 6.32% decrease from 2022. Sales in 2022 totaled \$427 for a \$102 or 19.28% decrease from its 2021 sales of \$529. Prizes amounted to \$251 in 2023, for a \$54 or 27.41% increase from 2022. Prizes amounted to \$197 in 2022, for a \$37 or 15.81% decrease from 2021 prizes of \$234. The retailer commissions amounted to \$28 in 2023, a \$1 or 3.70% increase from 2022. The retailer commissions amounted to \$27 in 2022, a \$6 or 18.18% decrease from 2021 retailer commissions of \$33. Transfers to the District's General Fund totaled \$58, \$113, and \$153 in 2023, 2022 and 2021, respectively.

DC 5 --- 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 2023, ticket sales totaled \$20,770 which represents a \$2,178 or 9.49% decrease compared to 2022. Prizes and retailer commissions in 2023 amounted to \$9,137 and \$1,190, respectively. The result was a decrease in prizes of \$4,643 or 33.69% and a decrease to commissions of \$123 or 9.37% below the prior year. The game generated \$5,586 in transfer to the District's General Fund in 2023 or \$1,487 or 36.28% more than 2022.

Sales totaled \$22,948 in 2022, which represented a \$3,184 or 12.18% decrease from 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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2023 and 2022
(*Dollar Amounts in Thousands*)

in 2022 and 2021, respectively.

DC 4 --- 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 \$49,658 in 2023 for a \$2,886 or 5.49% decrease from the 2022 ticket sales of \$52,544. Ticket sales were \$52,544 in 2022, for a \$6,123 or 10.44% decrease from the 2021 ticket sales of \$58,667.

Prizes in 2023 totaled \$30,763, an increase of \$8,193 or 36.30% over the prior year. FY 2022 totaled \$22,570, a decrease of \$5,802 or 20.45% from 2021 prizes of \$28,372. Transfers to the District's General Fund in 2023 totaled \$7,404 for a \$7,618 or 50.71% decrease from the \$15,022 transferred in 2022. 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. The increase in contractor and advertising fees accounts for the decrease in the transfer amount. The DC Four game was responsible for 22.45% of total gaming revenue and 22.99% of the overall gross margin. The 1.76% decrease in gaming revenue contribution rate and 16.85% decrease in gross margin contribution percentages below the prior year amounts is directly associated with the introduction of eInstants and the decrease in sales. Changing demographics continue to be an impactful theme as well. A night draw was introduced in August 2023.

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 \$8,083 in 2023, an increase of \$550 or 7.30% above the \$7,533 in 2022. Prizes and retailer commissions combined totaled \$7,232, \$6,117, and \$6,990 for fiscal years 2023, 2022 and 2021, respectively. Transfers to the District's General Fund amounted to \$141, \$595, and \$553 for fiscal years 2023, 2022 and 2021, 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 \$43,136 in 2023, representing a \$744 or 1.70% decrease below the 2022 sales of \$43,880.

Prizes in 2023 amounted to \$31,618, representing a \$1,490 or 4.50% decrease below the \$33,108 in 2022. Retailer commissions totaled \$3,278 in 2023 for a \$122 or 3.59% decrease below the \$3,400 expensed in 2022. Transfers to the District's General Fund totaled \$3,094 in 2023, for a \$192 or 6.62% increase above the \$2,902 in 2022.

Instant ticket sales in 2022 totaled \$43,880 a decrease of \$2,792 or 5.98% below the \$46,672 in 2021. This was primarily the result of a significant reduction in commuter traffic into the District due to jurisdictional protocols that include alternative work options and lottery retailer closures. Prizes in 2022 totaled \$33,108 for a \$829 or 2.44% decrease below the \$33,937 expensed 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 decreased to \$2,902 in 2022, \$1,272 less than the \$4,174 generated in 2021. This was primarily the result of decreased 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

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odd/ even or high/ low bet types are 1 in 2. Players have the option of a \$1 or 50 cent play. The Lucky One game was launched on May 20, 2018.

The Lucky One ticket sales in 2023 amounted to \$82, an increase of \$32 or 64.00% from the \$50 sales total in 2022. Sales in 2022 amounted to \$50, a decrease of \$20 or 28.57% from the 2021 sales of \$70. Prizes and commissions in 2023, 2022 and 2021 combined amounted to \$66, \$36 and \$50, respectively. The Lucky One contributed \$6, \$7 and \$11 in transfer to the District's General Fund in 2023, 2022 and 2021, 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 \$4,669 in 2023, representing a \$1,493 or 24.23% decrease from the 2022 sales total of \$6,162. Prize expenses decreased by \$1,392 to \$2,786 in 2023 when compared to the \$4,178 expensed in 2022. Retailer commissions totaled \$316 or 26.34% less than the \$429 expensed in 2022. Transfers to the District's General Fund increased by \$18 to \$761 in 2023 from the \$743 transferred in 2022. The increase in transfers is attributed to the decrease in prize payout.

Ticket sales for Keno totaled \$6,162 in 2022, representing a \$186 or 2.93% decrease of the 2021 sales total of \$6,348. Prizes expense increased by \$358 to \$4,178 in 2022 when compared to the \$3,820 expensed in 2021. Transfers to the District's General Fund decreased \$395 to \$743 in 2022 from the \$1,138 transferred in 2021.

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

Lucky for Life ticket sales amounted to \$3,083 in 2023, \$74 or 2.46% more than the \$3,009 in 2022. The prizes in 2023 totaled \$1,765, \$52 more than the \$1,713 in 2022. Retailer commissions in 2023 and 2022 totaled \$180 and \$155, respectively. Lucky for Life produced a transfer to the District's General Fund in 2023 and 2022 of \$569 and \$609, respectively. The decrease in transfer can be attributed to the increase in prizes.

Lucky for Life ticket sales amounted to \$3009 in 2022, \$766 or 34.15% more than \$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.

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

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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 nationwide.

Mega Millions sales totaled \$7,707 in 2023, representing a \$1,647 or 27.18% increase from the \$6,060 generated in 2022. The increase in sales can be attributed to high jackpots in 2023. Mega Millions sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$3,776 in 2023, representing a \$761 or 25.24% increase from the \$3,015 expensed in 2022. Prizes were expensed at the rate of 48.99% of overall ticket sales in 2023. The noted increase in ticket sales offset by overall operating costs resulted in a transfer to the District's General Fund of \$1,856 in 2023 or \$351 more than the \$1,505 produced in 2022.

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 ticket sales can be attributed to the lack of high jackpots. Mega Millions 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.

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 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 nationwide.

Powerball sales totaled \$11,326 in 2023, representing a \$3,814 or 50.77% increase from the \$7,512 generated in 2022. The increase in sales can be attributed to the higher jackpots experienced during the year. Powerball sales are jackpot-driven, and high jackpots impact sales levels. Prizes amounted to \$5,452 in 2023 representing a \$1,876 or 52.46% increase from the \$3,576 expensed in 2022. Powerball prizes are expensed at the rate of 48.14% of sales intake offset by lapsed prizes. Prize expenses increased due to increased sales. The \$814 increase in transfer to the District's General Fund to \$2,783 from the \$1,969 transferred in 2022 is due to the allocation of the transfer being based on the gaming revenues that increased in 2023.

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 less 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.

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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 \$6,811 in 2023, representing a \$539 or 7.33% decrease below the \$7,350 generated in 2022. The decrease in sales in 2023 from the prior year's total is primarily because of the effect of the closure of retailers on a game that plays every four minutes and usually offers a social experience. Prize expense decreased to \$4,562 in 2023 from \$4,792 in 2022, which represented a \$230 or 4.80% decrease below 2022. The \$226 decrease in transfers to the District's General Fund in 2023 to \$792, is less than the 2022 transfer amount of \$1,018. The decrease in the transfer is attributed to the decrease in sales.

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 was primarily because of the effect of the pandemic on a game that plays every four minutes and usually offers a social experience. Prize expenses 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 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. Ticket sales amounted to \$2,127 and \$2,073 in fiscal years 2023 and 2022, respectively. The prize expense was \$1,680 and \$1,609 and amounted to a 78.98% and 77.62% prize payout rate in 2023 and 2022, respectively. Retailer commissions were \$157 in 2023 and \$152 in 2022. Transfers to the District's General Fund were \$79 and \$114 and represented 3.71% and 5.50% of sales for 2023 and 2022, respectively. The decrease in the transfer to the General Fund is primarily because of the increase in prizes.

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 2023, the sales totaled \$27,215, an \$8,101 or 42.38% increase from \$19,114 sales generated in 2022. The prizes totaled \$24,280, a \$7,397 or 43.81% increase from \$16,883 in 2022. Transfers to the District's General Fund were \$520 and \$632 in 2023 and 2022, respectively. eInstants 2023 sales share of 12.30% increased \$3.49% from its share of 8.81% in 2022.

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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 2023							
SPORTS WAGERING	2,176	\$ 69,564	\$ 68,418	\$ (61,832)	\$ 7,875	\$ 2,799	\$ 1,255
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	\$ -

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 was available for purchase at retail locations in FY 2022.

Total Gaming Revenue in 2023 was \$68,418, a \$10,906 or 18.96% increase over the \$57,512 in 2022. The payouts in 2023 totaled \$61,832, a \$11,493 or 22.83% increase from the \$50,339 in 2022. The payout percentage was 90.37% and 87.53% in 2023 and 2022, respectively. Gross Gaming Revenue (GGR equals stakes minus payouts, excluding all bonuses) totaled \$7,875 and \$8,109 in 2023 and 2022, respectively. The contractor's fee was \$2,799 in 2023 and \$3,193 in 2022.

Total Gaming Revenue was \$57,512 in 2022, compared to \$40,743 in 2021; respectively. The payouts were \$50,339, with a payout percentage of 87.53% in 2022, compared to \$34,560 and 84.82% in 2021. GGR totaled \$8,109 and \$7,664 in 2022 and 2021. The contractor's fee was \$3,193 in 2022 and \$3,257 in 2021.

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 \$1,288, increased by \$262, and decreased by \$170 in fiscal years 2023, 2022, and 2021, respectively. Interest income rates are impacted by the market conditions, the national economy, and other factors beyond the control of individual entities.

Lottery License and Permit Fees decreased by \$4 to \$10 in 2023, increased by \$4 to \$14 in 2022, and increased by \$5 to \$10 in 2021. Games of Skill remained flat in 2023, decreased by \$45 to \$0 in 2022 and increased by \$45 to \$45 in 2021. Sports Wagering License and Infraction Fees decreased by \$55 to \$269 in 2023 and decreased by \$1,154 to \$324 in 2022.

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Charitable Gaming Activities

The Lottery also oversees charitable gaming activities to include the licensing and regulation of charitable and other not-for-profit organizations conducting bingo, raffles, and other fund-raising activities within the District of Columbia. The mission of the Lottery with respect to charitable gaming is to 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 2024 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, changing residential demographics, 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, 2023 and 2022
(Dollar Amounts in Thousands)

	2023	2022
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 20,552	\$ 18,210
Accounts Receivable	4,212	3,696
Prepaid Expenses and Other	8	4
Total Current Assets	24,772	21,910
Non-current Assets:		
Capital Assets, net	1,382	2,825
Total Non-current Assets	1,382	2,825
Total Assets	26,154	24,735
LIABILITIES		
Current Liabilities:		
Accounts Payable	3,485	3,228
Compensation Liabilities	585	568
Unearned Revenues	163	89
Accrued Prizes and Commissions	14,432	12,014
Other Accrued Liabilities	308	240
Compensated Absences	390	320
Lease Liability – Current Portion	1,336	1,329
Total Current Liabilities	20,699	17,788
Non-current Liabilities:		
Compensated Absences	504	695
Lease Liability – Long-term	-	1,336
Total Non-current Liabilities	504	2,031
Total Liabilities	21,203	19,819
Net Position		
Net Investment in Capital Assets	54	170
Unrestricted	4,897	4,746
Total Net Position	\$ 4,951	\$ 4,916

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, 2023 and 2022
(Dollar Amounts in Thousands)

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Instant Games	\$ 43,136	\$ 43,880
Terminal Games	150,884	154,000
eInstants	27,215	19,114
License and Permit Fees	10	14
Sports Wagering (SW)	68,418	57,512
License and Infraction Fees (SW)	<u>264</u>	<u>274</u>
Total Operating Revenues	<u>289,927</u>	<u>274,794</u>
Operating Expenses		
Prizes	116,043	114,068
Prizes - eInstants	24,240	16,910
Retailer Commissions	12,886	13,000
Contractor Fees	8,342	7,999
Advertising	9,711	7,203
Prizes – SW	61,832	50,339
Commissions - SW	969	568
Contractor Fees - SW	<u>2,799</u>	<u>3,193</u>
Total Direct Costs	236,822	213,280
Salaries	9,790	10,362
Professional	1,586	939
Contractual Services	4,723	4,610
Administration	3,349	3,882
Depreciation	116	143
Amortization RTU - Equipment	<u>1,328</u>	<u>1,328</u>
Total Operating Expenses	<u>257,714</u>	<u>234,544</u>
Operating Income	32,213	40,250
Non-operating Revenue		
Penalties, Infraction Fees & Other	5	551
Interest and Dividend Income	1,567	279
Non-Operating Expense		
Lease Expense - Interest	<u>300</u>	<u>351</u>
Net Income Before Transfers	33,485	40,729
Transfers to General Fund	<u>(33,450)</u>	<u>(40,670)</u>
Change in Net Position	35	59
Net Position, Beginning of Year	<u>4,916</u>	<u>4,857</u>
Net Position, End of Year	<u>\$ 4,951</u>	<u>\$ 4,916</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, 2023 and 2022
(Dollar Amounts in Thousands)

	2023	2022
Operating Activities:		
Cash Receipts from Customers	\$ 289,484	\$ 274,431
Cash Receipts from Others	5	550
Cash Payments to Vendors	(30,191)	(30,464)
Cash Payments to Employees	(9,893)	(10,401)
Cash Payments for Prizes and Commissions	(213,551)	(192,712)
Net Cash Flows Provided by Operating Activities	35,854	41,404
Cash Flows From Non-Capital Financing Activities:		
Transfers Out to the General Fund	(33,450)	(40,670)
Net Cash Flows Provided (Used) by Non-Capital Financing Activities	(33,450)	(40,670)
Cash Flows From Capital and related Financing Activities:		
Payment for Lease Liability and Interest	(1,629)	(1,334)
Net Cash Flows Provided (Used) by Capital and related Financing Activities	(1,629)	(1,334)
Cash Flows From Investing Activities:		
Interest and Dividends	1,567	279
Net Cash Flows Provided by Investing Activities	1,567	279
Net Increase (Decrease) in Cash and Equivalents	2,342	(321)
Cash and Cash Equivalents - Beginning of Year	18,210	18,531
Cash and Cash Equivalents - End of Year	\$ 20,552	\$ 18,210
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 32,213	\$ 40,250
Depreciation	116	143
Bad Debt Expense	1	2
Amortization Expense Right-to-use Asset	1,328	1,328
<i>Effect of Changes in non-cash operating Assets and Liabilities</i>		
Increase in Account Receivables	(515)	(356)
Increase in Prepaid Expenses	(3)	-
Increase in Accounts Payable	257	(2,247)
Decrease in Compensation Liabilities	(104)	177
Increase in Unearned Revenues	74	(8)
Increase in Accrued Prizes	2,418	2,173
Increase in Other Current Liabilities	69	(58)
Net Cash Provided by Operating Activities	\$ 35,854	\$ 41,404

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, 2023, and 2022
(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 2023, the Office of Lottery and Gaming (OLG) performed an assessment of GASB 96 *Subscription-based Information Technology Arrangements* and determined it was not applicable and subsequently had no effect on the financial position of the Lottery. The OLG will be analyzing the effects of GASB 100 *Accounting Changes and Error Corrections – an amendment of No. 62* in FY 2024 and GASB 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, 2023 and 2022, respectively, were \$20,552 and \$18,210.

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- (f) **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.
- (g) **Allowance for Uncollectible Accounts** --- The Lottery establishes an allowance for uncollectible accounts for all accounts receivable over 180 days old.
- (h) **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 \$2,312 and \$2,501 for the fiscal years 2023 and 2022, respectively. These forfeited prizes are netted against prize expense in the Statements of Revenues, Expenses and Change in Net Position.
- (i) **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. Repair 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.
- (j) **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

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- (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
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NOTE 2 ACCOUNTS RECEIVABLE

The components of accounts receivable as of September 30, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Due from Agents:		
Terminal Games	\$ 878	\$ 734
Instant Games	<u>2,224</u>	<u>1,949</u>
Total Due from Agents	3,102	2,683
Other	<u>1,110</u>	<u>1,013</u>
Total Accounts Receivable	<u>\$ 4,212</u>	<u>\$ 3,696</u>

NOTE 3 CAPITAL ASSETS

A summary of capital assets as of September 30, 2023 and 2022 is as follows:

	<u>Balance as of October 1, 2022</u>	<u>Additions</u>	<u>Adjustments/ Dispositions</u>	<u>Balance as of September 30, 2023</u>
Cost:				
Machinery and Equipment	\$ 1,891	\$ -	\$ (248)	\$ 1,643
Right-to-Use Asset - Equipment	<u>3,983</u>	<u>-</u>	<u>-</u>	<u>3,983</u>
Total Cost	<u>5,874</u>	<u>-</u>	<u>(248)</u>	<u>5,626</u>
Less: Accumulated Depreciation & Amortization				
Machinery and Equipment	(1,720)	(116)	247	(1,589)
Accumulated Amortization - RTUA	<u>(1,328)</u>	<u>(1,328)</u>	<u>1</u>	<u>(2,655)</u>
Total Accumulated Depr. & Amort.	<u>(3,048)</u>	<u>(1,444)</u>	<u>248</u>	<u>(4,244)</u>
Capital Assets – Net, including RTUA	<u>\$ 2,825</u>	<u>\$(1,444)</u>	<u>\$ -</u>	<u>\$ 1,382</u>
	<u>Balance as of October 1, 2021</u>	<u>Additions</u>	<u>Adjustments/ Dispositions</u>	<u>Balance as of September 30, 2022</u>
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	<u>3,983</u>	<u>-</u>	<u>-</u>	<u>3,983</u>
Total Cost	<u>8,756</u>	<u>-</u>	<u>(2,882)</u>	<u>5,874</u>
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	<u>-</u>	<u>(1,328)</u>	<u>-</u>	<u>(1,328)</u>
Total Accumulated Depr. & Amort.	<u>(4,459)</u>	<u>(1,471)</u>	<u>2,882</u>	<u>(3,048)</u>
Capital Assets – Net, including RTUA	<u>\$ 4,297</u>	<u>\$(1,471)</u>	<u>\$ -</u>	<u>\$ 2,825</u>

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NOTE 4 MULTI-STATE LOTTERY ASSOCIATION (MUSL)

(a) *Background*

The Lottery is a member of the Multi-State Lottery Association (MUSL). MUSL has thirty-three (33) members and administers multi-state lottery games. Powerball was initiated on April 20, 1992 and is a semi-weekly pari-mutuel drawing with a minimum grand prize of \$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.

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, 2023, and 2022, the total Powerball prize reserve fund was approximately \$85,362 and \$82,375 respectively, of which the Lottery's share was approximately \$220 and \$235, respectively. In addition, the total Powerball set side prize reserve fund as of September 30, 2023 and 2022 was approximately \$41,532 and \$40,020 respectively, of which the Lottery's share was approximately \$96 and \$102, 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, 2023, and 2022, the total Mega Millions prize reserve fund was approximately \$99,527 and \$91,520, respectively, of which the Lottery's share was approximately \$256 and \$275, 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.

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(c) *Credit Risk*

In order to control credit risk, the Lottery invests only in obligations of the United States Government or Agency securities. As of September 30, 2023, and 2022, 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, 2023, and 2022, the Lottery's investments were not exposed to custodial credit risk.

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NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
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NOTE 5 GAMING REVENUES AND EXPENSES

Gaming revenues and expenses for the fiscal years ended September 30, 2023 and 2022 were as follows:

Index Class	Gaming Revenue	Prizes	Agent Commissions	Contractor Fees	Advertising	Gross Margin
Fiscal Year 2023						
DC 3	\$ 36,168	\$ (17,524)	\$ (2,328)	\$ (1,364)	\$ (1,445)	\$ 13,507
DC TWO	400	(251)	(28)	(15)	(16)	90
DC FIVE	20,770	(9,137)	(1,190)	(783)	(830)	8,830
DC FOUR	49,658	(30,763)	(3,338)	(1,872)	(1,984)	11,701
FAST PLAY	8,083	(6,629)	(603)	(305)	(323)	223
INSTANT	43,136	(31,618)	(3,278)	(1,627)	(1,723)	4,890
THE LUCKY ONE	82	(60)	(6)	(3)	(3)	10
KENO	4,669	(2,786)	(316)	(176)	(186)	1,205
MEGA MILLIONS	7,707	(3,776)	(398)	(291)	(308)	2,934
POWERBALL	11,326	(5,452)	(596)	(427)	(452)	4,399
RACE 2 RICHES	6,811	(4,562)	(468)	(257)	(272)	1,252
LUCKY 4 LIFE	3,083	(1,765)	(180)	(116)	(123)	899
TAP-N-PLAY	2,127	(1,680)	(157)	(80)	(85)	125
e-INSTANTS	27,215	(24,280)	-	(1,026)	(1,087)	822
OTHER	1,577	-	-	-	-	1,577
Total	\$ 222,812	\$ (140,283)	\$ (12,886)	\$ (8,342)	\$ (8,837)	\$ 52,464
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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2023 and 2022
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NOTE 6 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, 2023 and 2022, the Lottery’s net transfers to the General Fund of the District were \$33,450 and \$40,670, respectively.

NOTE 7 LONG-TERM LIABILITIES

The following summarizes long-term liabilities as of September 30, 2023 and 2022:

	Balance as of 9/30/2022	Additions	Reductions	Balance as of 9/30/2023	A mount Due Within One Year
Compensated Absences	\$ 1,015	\$ 640	\$ (761)	894	\$ 390
Lease Payable Principal – Long-term	2,665	-	(1,329)	1,336	1336
Total Long-term Liabilities	<u>\$ 3,680</u>	<u>\$ 640</u>	<u>\$ (2,090)</u>	<u>\$ 2,230</u>	<u>\$ 1,726</u>

	Balance as of 9/30/2021	Additions	Reductions	Balance as of 9/30/2022	A mount 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	(1,318)	2,665	1,329
Total Long-term Liabilities	<u>\$ 1,514</u>	<u>\$ 4,733</u>	<u>\$ (2,567)</u>	<u>\$ 3,680</u>	<u>\$ 1,649</u>

NOTE 8 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, 2023, the value of the lease liability was \$1,336. 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, 2023 is \$1,328 and has accumulated amortization of \$2,655.

The following summarizes long-term Lease Asset liabilities as of September 30, 2023:

Year Ending 9/30	Principal Payment	Interest Payment	Total Payment
2024	1,336	3	1,339
Total	\$ 1,336	\$ 3	\$ 1,339

GOVERNMENT OF THE DISTRICT OF COLUMBIA
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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 \$9 and \$15 for the years ended September 30, 2023 and 2022, respectively. The number of Lottery employees covered under the Federal Civil Service Retirement System is 1.

(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 \$357 and \$325 for the fiscal years ended September 30, 2023 and 2022, 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 has 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 \$22 in 2023 and \$20 in 2022. 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.

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NOTE 10 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 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 \$1,311 and \$850 in fiscal years 2023 and 2022, 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 12 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 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, 2023. Events and transactions were evaluated through January 3, 2024, the date the financial statements were available to be issued.



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

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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 year ended September 30, 2023, 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, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lottery's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal 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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those



McConnell Jones

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 the Lottery's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McConnell Jones LLP

Washington, D.C.
January 3, 2024

REPORT WASTE, FRAUD, ABUSE, AND MISMANAGEMENT.

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