

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

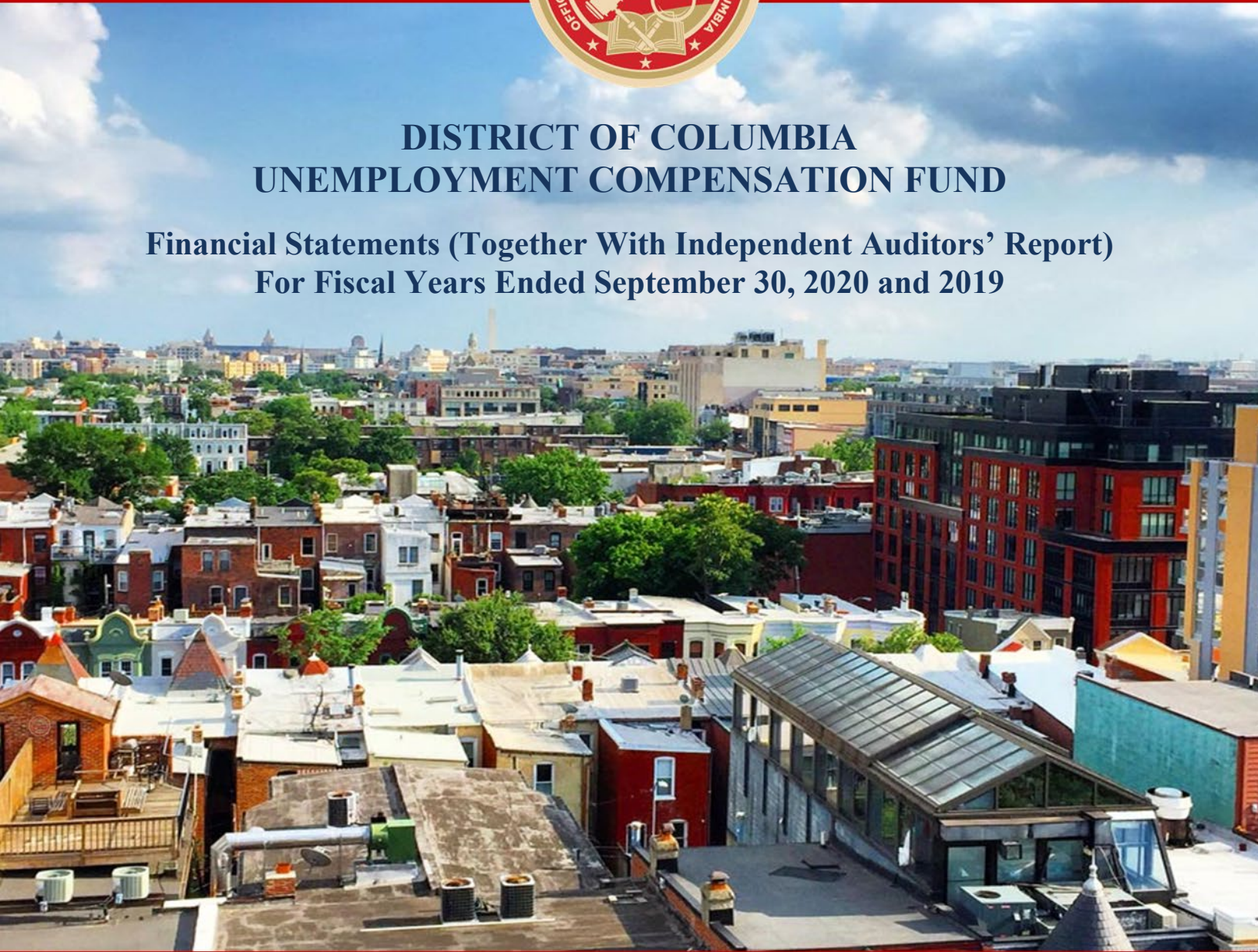
OIG Project No. 21-1-14BH

January 2021



DISTRICT OF COLUMBIA UNEMPLOYMENT COMPENSATION FUND

Financial Statements (Together With Independent Auditors' Report)
For Fiscal Years Ended September 30, 2020 and 2019



Guiding Principles

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

Mission

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

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

Vision

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

Core Values

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



GOVERNMENT OF THE DISTRICT OF COLUMBIA

Office of the Inspector General

Inspector General



January 29, 2021

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

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

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Unemployment Compensation Fund Financial Statements (Together With Independent Auditors' Report) for the Fiscal Years Ended September 30, 2020 and 2019* (OIG No. 21-1-14BH). 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 2020.

On January 26, 2021, MJ issued its opinion and concluded that the financial statements are presented fairly in all material respects, in accordance with accounting principles generally accepted in the United States of America. MJ identified no material weaknesses in internal control over financial reporting.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "D. Lucas", is positioned above the printed name of the Inspector General.

Daniel W. Lucas
Inspector General

DWL/ws

Enclosure

cc: See Distribution List

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The Honorable Kathy Patterson, D.C. Auditor, Office of the D.C. Auditor, Attention: Cathy Patten (via email)

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**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND
An Enterprise Fund of the District of Columbia**

**FINANCIAL STATEMENTS
For the Years Ended September 30, 2020 and 2019**

(Together with Independent Auditors' Report)

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Government of the District of Columbia Unemployment Compensation Fund (the Fund), an enterprise fund of the Government of the District of Columbia, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the 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, 2020, the changes in its financial position or, its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to the matter.

Other Matters***Prior Period Financial Statements***

The financial statements of the Fund as of and for the year ended September 30, 2019 were audited by other auditors. Those auditors expressed an unmodified opinion on those statements in their report dated December 23, 2019.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2021, on our consideration of the Fund'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 Fund's internal control over financial reporting and compliance.



Washington, D.C.
January 26, 2021

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020 AND 2019**

(Dollar amounts expressed in thousands)

This section of the annual financial report of the Government of the District of Columbia Unemployment Compensation Fund (the Fund) presents our discussion and analysis of the financial performance of the Fund during the fiscal years (FY) ended September 30, 2020 and 2019, compared to the fiscal year ended September 30, 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and the accompanying notes to the basic financial statements. The financial statements, footnote disclosures, and management's discussion and analysis are the responsibility of the Fund's management.

REPORTING ENTITY

The Fund was established by the Government of the District of Columbia (the District) to account for its unemployment compensation program. The Fund is administered by the District's Department of Employment Services (DOES). Substantially all administrative costs of the program are paid by federal grants and special purpose revenues, which are recorded in the District's General Fund.

FINANCIAL STATEMENT PRESENTATION

The Fund's basic financial statements consist of (a) statement of net position; (b) statement of revenues, expenses, and changes in net position, and (c) statement of cash flows.

Statement of Net Position

The Statement of Net Position presents the Fund's assets, liabilities, and net position. Net position is the difference between assets and liabilities. The net position is comprised of the restricted net position. Over time, increases or decreases in the Fund's net position may serve as a useful indicator of whether the Fund's financial position is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the Fund's revenues and expenses. The difference between revenues and expenses is reported as "changes in net position". All changes in the net position are reported as soon as the events underlying the changes occur regardless of the timing of the related cash flows. Thus, revenues and expenses reported in this statement also include items that will result in cash flow in future fiscal periods (for example, accrued revenues and accrued expenditures).

Statement of Cash Flows

The Statement of Cash Flows presents information on sources and uses of cash for operating and investing activities.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020 AND 2019**

(Dollar amounts expressed in thousands)

FINANCIAL HIGHLIGHTS

- The District's average unemployment rate for the fiscal year ended September 30, 2020 was 7.3%, which is a 1.8% increase compared to 5.5% at the end of FY 2019, and a 0.2% decrease in FY 2019, compared to 5.7% at the end of FY 2018.
- In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally and the World Health Organization (WHO) declared it a pandemic in March 2020. The COVID-19 pandemic is affecting major economic and financial markets, and virtually all industries and governments are facing challenges associated with the economic conditions resulting from efforts to address it along with record level unemployment across all states. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress to protect the American people from the public health and economic impacts of COVID-19 and new unemployment compensation programs were established.

Unemployment Compensation Programs expanded under the CARES Act are as follows:

- Pandemic Unemployment Assistance (PUA) – this program provides up to 39 weeks of unemployment benefits to individuals not eligible for regular unemployment compensation or extended benefits such as independent contractors, gig workers or those with insufficient history.
- Pandemic Emergency Unemployment Compensation (PEUC) – PEUC provides up to 13 weeks of additional unemployment benefits to individuals who previously collected state or federal unemployment compensation (UC) but exhausted those benefits and
- Federal Pandemic Unemployment Compensation (FPUC) – Effective March 29, 2020 through July 25, 2020, this program provides an eligible individual with \$600 per week on top of the weekly benefit amount he or she receives from certain other UC programs.

In addition to the expanded unemployment programs under the Act, the District also received a federal grant for Lost Wages Supplemental Payment Assistance.

All unemployment compensation benefits paid for programs under the Act are 100% federally funded.

- As of September 30, 2020, the Fund's assets exceeded its liabilities by \$73,538. The Fund reported a decrease in net position of \$415,858 or 84.97% in FY 2020, as compared to \$52,657 or 12.06% increase in FY 2019.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020 AND 2019**

(Dollar amounts expressed in thousands)

OVERALL FINANCIAL ANALYSIS

The Fund's overall financial position significantly declined as a result of the year's activities. The Fund's financial position and operations for the past three years are summarized in Tables 1 and 2.

Table 1 - Summary of Net Position

	2020	2019	Change	2018	Change
Assets					
Cash Held with U.S. Treasury	\$ 142,891	\$ 524,003	\$ (381,112)	\$ 481,740	\$ 42,263
Receivables (net)	105,112	14,796	90,316	13,047	1,749
Total Assets	248,003	538,799	(290,796)	494,787	44,012
Liabilities					
Payables	156,966	32,916	124,050	33,505	(589)
Due to D.C. Government	17,499	16,48	1,012	24,543	(8,056)
Total Liabilities	174,465	49,403	125,062	58,048	(8,645)
Net Position					
Restricted for Unemployment Compensation Benefits	\$ 73,538	\$ 489,396	\$ (415,858)	\$ 436,739	\$ 52,657

- The Fund's largest asset is the cash held with U.S. Treasury, which represented 57.62% of the Fund's total assets. The FY 2020 cash balance decreased by \$381,112 or 72.73%, primarily due to the unemployment benefit payments significantly exceeding the cash receipts from employer taxes. The FY 2019 cash balance increased by \$42,263 or 8.77% from FY 2018.
- Receivables, net of allowance for doubtful accounts including funds Due from the District and the federal government, increased by \$90,316 or 610.41% in FY 2020, compared to FY 2019, mainly due to the increase in receivables relating to employers, due from Federal Government for CARES Act programs and from other states during the FY 2020. The Fund's receivables consist of amounts due from employers for unpaid taxes, claimants for unemployment benefit overpayments, the Federal government, and other states for unemployment benefits paid. In FY 2019, there was a net increase in receivables of \$1,749 or 13.41% from FY 2018.
- The Fund's total liabilities for FY 2020 increased by \$125,062 or 253.15%, as compared to a decrease by \$8,645 or 14.89% in FY 2019. The Fund reported an estimated claimants' payable of \$126,749 in FY 2020, which represents an increase of \$107,113 or 545.49%, compared to the prior fiscal year, mainly due to the increase of the number of claims filed, CARES Act Programs and an increase in the unemployment rate. In addition, accounts payable increased by \$16,937 or 127.54% compared to prior fiscal year as a result of CARES Act credit due to employers. In FY 2019, estimated claimants' payable was \$19,636, a decrease of \$2,676 or 11.99% from FY 2018.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020 AND 2019**

(Dollar amounts expressed in thousands)

- Due to D.C. Government represents unspent Reed Act, Unemployment Compensation Modernization funds, interest and penalties assessed, payments made by the District on behalf of the Fund and collected from employers for late tax payments but not yet paid to the District. For FY 2020, the Fund's payables to D.C. Government increased by \$1,012 or 6.14%, compared to September 30, 2019, and a decrease by \$8,056 or 32.82% in FY 2019, as compared to September 30, 2018. The increase was primarily due to amounts owed to DC Govt. for employers' credits related to the pandemic in FY 2020. The unspent Reed Act and Unemployment Compensation Modernization funds totaled \$10,205 in FY 2020, compared to \$10,346 in FY 2019 and \$10,767 in FY 2018. The Reed Act and Unemployment Compensation Modernization funds were received from the Federal government through the Reed Act and Modernization Accounts to pay for the Fund's administrative and modernization costs.
- For FY 2020, the Fund's current assets of \$248,003 were sufficient to cover current liabilities of \$174,465; a ratio of \$1.42 in assets for every dollar in liabilities. For FY 2019, the total current assets and current liabilities of the Fund were \$538,799 and \$49,403 respectively; a ratio of \$10.91 in assets for every dollar in liabilities.

Table 2 - Summary of Revenues, Expenses, and Changes in Net Position

	2020	2019	Change	2018	Change
Operating Revenues:					
Employer Taxes	\$ 139,833	\$ 142,877	\$ (3,044)	\$ 144,068	\$ (1,191)
Governmental Contributions	1,001,721	17,841	983,880	16,836	1,005
Total Operating Revenues	1,141,554	160,718	980,836	160,904	(186)
Operating Expenses:					
Unemployment Benefits	1,568,065	120,010	1,448,055	131,764	(11,754)
Operating Income/(Loss)	(426,511)	40,708	(467,219)	29,140	11,568
Non-operating Revenues:					
Interest Revenue	10,653	11,949	(1,296)	10,347	1,602
Total Non-operating Revenues	10,653	11,949	(1,296)	10,347	1,602
Change in Net Position	(415,858)	52,657	(468,515)	39,487	13,170
Total Net Position - Beginning	489,396	436,739	52,657	397,252	39,487
Total Net Position - Ending	\$ 73,538	\$ 489,396	\$ (415,858)	\$ 436,739	\$ 52,657

Total operating revenues and non-operating revenues were \$1,152,207 in FY 2020, compared to \$172,667 in FY 2019 and \$171,251 in FY 2018.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020 AND 2019**

(Dollar amounts expressed in thousands)

In FY 2020, the Fund's operating revenues totaled \$1,141,554 compared to \$160,718 in FY 2019 and \$160,904 in FY 2018. Operating revenues increased by \$980,836 or 610.28% from FY 2019 to FY 2020, primarily due to an increase in governmental contributions from CARES Act programs funding. Operating revenues decreased by \$186 or 0.12% from FY 2018 to FY 2019. Federal, and other state and local governments reimburse the Fund 100% for benefits paid to their former employees as well as claimants in expanded CARES Act programs.

Table 3 shows sources of operating revenues for the Fund in FY 2020, 2019 and 2018.

Table 3 - Operating Revenue by Sources

Operating Revenues by Sources	2020	2019	Change	% change	2018	Change	% Change
Employer Taxes	\$ 139,833	\$ 142,877	\$ (3,044)	(2.13%)	\$144,068	\$ (1,191)	(0.83%)
Governmental Contributions:							
Federal Government	980,232	8,207	972,025	11,843.85%	6,394	1,813	28.35%
Other States' Contributions	13,542	\$4,679	8,863	189.42%	5,288	(609)	(11.52%)
D.C. Government	7,947	4,955	2,992	60.38%	5,154	(199)	(3.86%)
Total	\$ 1,141,554	\$160,718	\$ 980,836	610.28%	\$160,904	\$ (186)	(0.12%)

Federal government contributions were \$980,232 for FY 2020, compared to \$8,207 in FY 2019 mainly due to an increase in Federal contributions as result of COVID 19 activities. In FY 2019, Federal government reimbursements revenue was \$8,207 compared to \$6,394 in FY 2018. The increase during this period was due to reimbursable revenue relating to eligible unemployed former Civilian Federal Employees.

Interest income which is the Fund's primary sources of non-operating revenue decreased to \$10,653 in FY 2020 from \$11,949 in FY 2019, resulting in a decrease of \$1,296 or 10.85%; this is due to a decrease of \$381,112 or 72.73% in the cash held with U.S. Treasury from \$524,003 to \$142,891 in FY 2019 and FY 2020, respectively.

Figures 1 and 2 show the percentage of revenues received from the Fund's different sources during FY 2020 and FY 2019. Governmental contributions were the largest source of revenues, which represented 87% of total revenues in FY 2020, compared to 10% of total revenues in FY 2019 and FY 2018.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020 AND 2019**
(Dollar amounts expressed in thousands)

Figure 1: Total Revenues (Operating and Non-Operating) for the Year Ended September 30, 2020

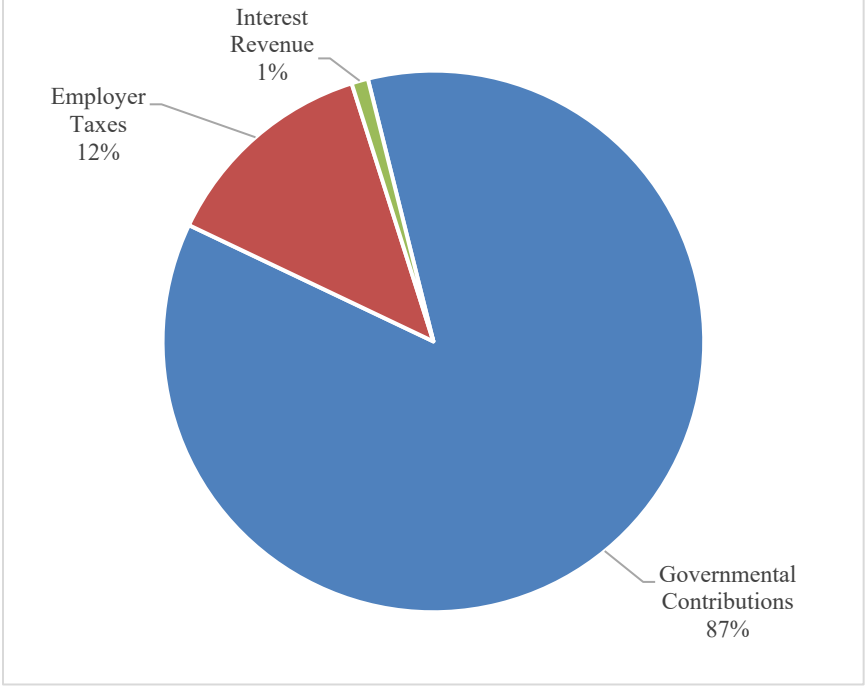
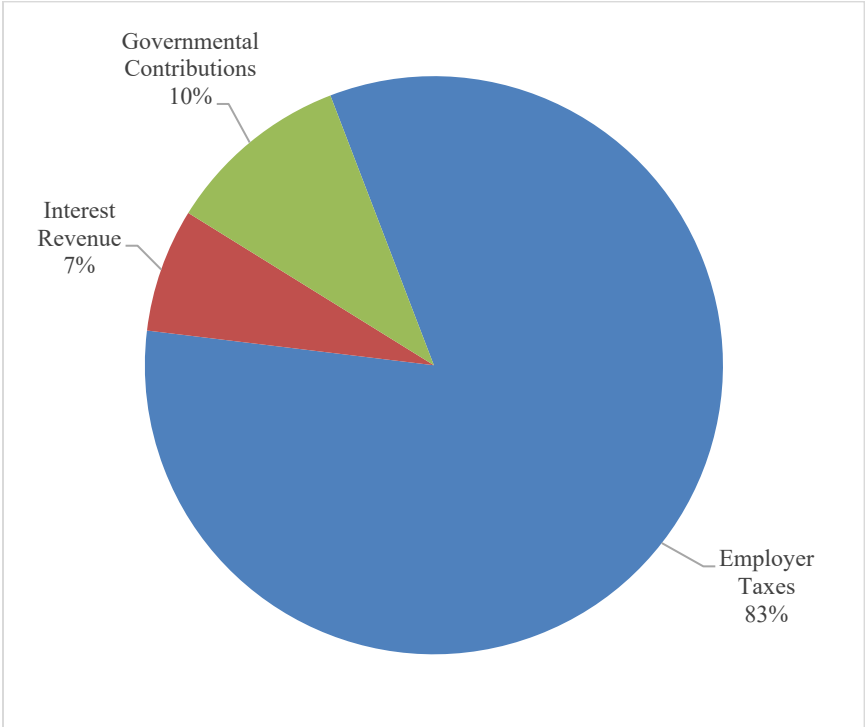


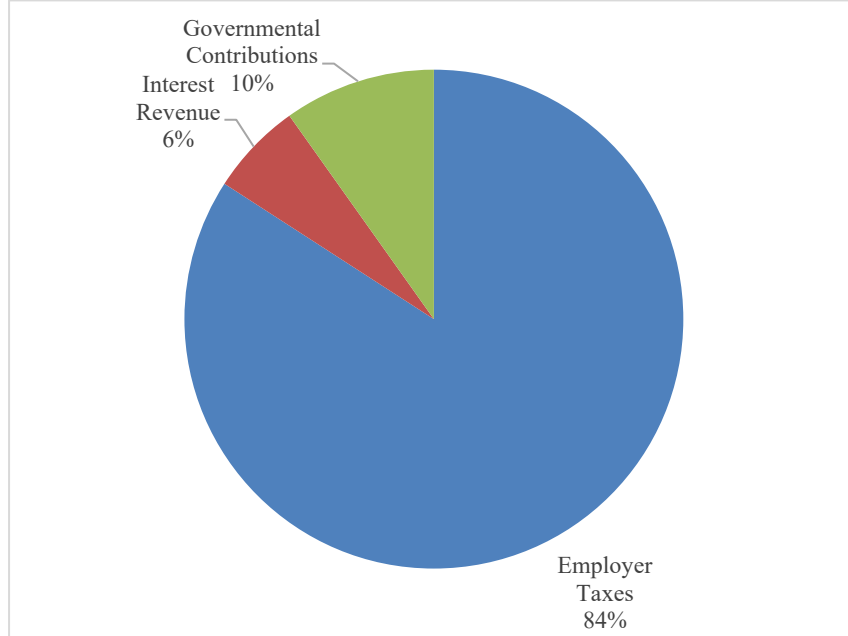
Figure 2: Total Revenues (Operating and Non-Operating) for the Year Ended September 30, 2019



**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020 AND 2019
(Dollar amounts expressed in thousands)**

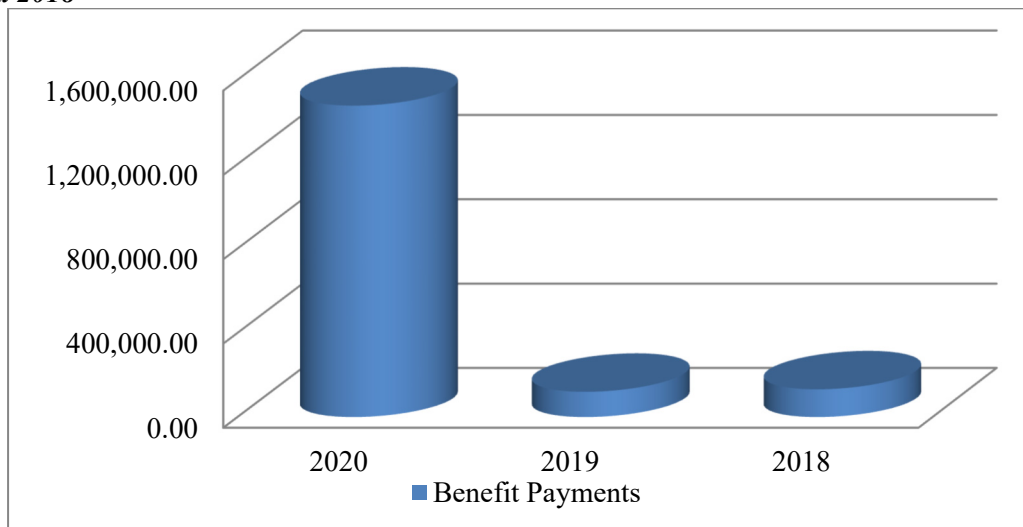
Figure 3: Total Revenues (Operating and Non-Operating) for the Year Ended September 30, 2018



Operating Expenses

The Fund's only operating expense is unemployment benefit payments. Figure 3 shows the comparison of benefits payments in FY 2020, FY 2019 and FY 2018.

Figure 3: Total Operating Expenses for the Fiscal Years Ended September 30, 2020, September 30, 2019 and 2018



**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020 AND 2019**

(Dollar amounts expressed in thousands)

The Fund's unemployment benefit payments increased by \$1,448,055 or 1,206.61% in FY 2020, compared to a decrease of \$11,754 or 8.92% in FY 2019, and a decrease of \$12,178 or 8.46% in FY 2018. The increase was primarily as a result of an increase in overall unemployment rate and an increase in claims filed by eligible unemployed former Civilian Federal Employees, other state and local government and claimants in expanded programs under the CARES Act. The CARES Act established new programs which expanded unemployment benefit compensation to claimants not usually covered under regular unemployment programs. The average unemployment rate within the District increased to 7.3% as of September 30, 2020 from 5.5% as of September 30, 2019, representing a 1.8% increase.

Table 4: District's Unemployment Rate by Month for the Year Ended September 30, 2020

FY 2020 Average Unemployment Rate = 7.3%

Current Year	Month	Labor Force	Number of Employed	Number of Unemployed	Unemployment Rate (%)
2019	Oct	411,867	390,098	21,769	5.3
2019	Nov	411,999	390,156	21,843	5.3
2019	Dec	411,960	390,081	21,879	5.3
2020	Jan	413,042	391,465	21,577	5.2
2020	Feb	414,353	393,016	21,337	5.1
2020	Mar	420,505	395,074	25,431	6.0
2020	Apr	402,453	355,455	46,998	11.7
2020	May	387,790	353,764	34,026	8.8
2020	Jun	393,763	359,702	34,061	8.7
2020	Jul	393,988	360,407	33,581	8.5
2020	Aug	397,554	363,417	34,137	8.6
2020	Sep	399,638	363,614	36,024	9.0

Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020 AND 2019**
(Dollar amounts expressed in thousands)

Table 5: District's Unemployment Rate by Month for the Year Ended September 30, 2019

FY 2019 Average Unemployment Rate = 5.5%

Current Year	Month	Labor Force	Number of Employed	Number of Unemployed	Unemployment Rate (%)
2018	Oct	403,252	381,720	21,532	5.3
2018	Nov	403,393	381,835	21,558	5.3
2018	Dec	403,518	381,907	21,611	5.4
2019	Jan	404,021	382,041	21,980	5.4
2019	Feb	404,742	382,337	22,405	5.5
2019	Mar	406,049	383,327	22,722	5.6
2019	Apr	407,824	384,821	23,003	5.6
2019	May	409,829	386,638	23,191	5.7
2019	Jun	411,205	388,072	23,133	5.6
2019	Jul	412,091	389,100	22,991	5.6
2019	Aug	412,006	389,465	22,541	5.5
2019	Sep	411,897	389,739	22,158	5.4

*Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics.
FY2019 unemployment data have been revised to reflect updates from source data.*

ECONOMIC CONDITION AND OUTLOOK

In fiscal year 2020, employment within the District and employment of District residents declined significantly due to the COVID-19 pandemic and subsequent curtailment of economic and business activity. Population growth has slowed in recent years. Population growth has been important in increasing the District's income, property, and sales tax bases, and was one of the driving forces behind rising home values. Between 2016 and 2020, the District's population has grown by almost 24,000, an increase that has averaged about 4,800 residents per year over that period. The District's private sector employment declined in 2020 along with the national economy due to COVID-19.

Federal civilian employment accounted for 26.8% of all wage and salary jobs located in the District and 30.4% of District wages and salaries. Approximately 13% of employed District residents work for the federal government. Furthermore, federal contracting accounts for additional jobs and income in the area, which also contribute to the District's tax base. With such a dominant federal presence, significant changes in federal spending can have a major impact on the District's economy and revenues.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020 AND 2019**

(Dollar amounts expressed in thousands)

The following are summaries of some recent trends in the District's economy:

- In the three months ended September 2020, there were 53,533 (6.7%) fewer wage and salary jobs located in the District than in the same period a year earlier. Of particular note, there were 30,400 (42.0%) fewer hotel and restaurant jobs in September than there were a year earlier, accounting for most of the loss in private sector jobs.
- District resident employment in the three months ended September 2020 was 27,100 (7%) lower than a year earlier.
- The September 2020 unemployment rate was 9.0% (seasonally adjusted), up from 5.4% a year ago.
- Wages earned in the District grew 1.8% in the quarter ended September 30, 2020, compared to the same quarter a year ago. Personal income in the District was 6.9% higher on September 30, 2020, compared to the same time one year ago.

D.C. Unemployment Compensation Fund Net Position History

Historical data of the principal components of the Fund's net position are shown in Table 6.

Table 6: *Unemployment Compensation Fund Net Position Components*

	2020	2019	2018	2017	2016
Employer taxes / Government Contributions	\$ 1,141,554	\$ 160,718	\$ 160,904	\$ 167,504	\$ 157,915
Interest Earned	10,653	11,949	10,347	9,453	8,472
Benefits Paid	1,568,065	120,010	131,764	143,942	114,633
Net Position	73,538	489,396	436,739	397,252	364,237
Total wages	**	\$18,679,573	\$22,101,374	\$17,467,741	\$17,007,324

**Source: DOES, Office of Labor Market Research and Information. FY 2019 and prior years' total wage data have been revised to reflect updates from source data. ** Data not yet available.*

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020 AND 2019**
(Dollar amounts expressed in thousands)

D.C. Unemployment Compensation Fund Outlook

The financial condition of the Unemployment Compensation Fund depends on three factors: state benefit outlays, employer taxes/government contributions, and taxable wages.

Table 7: Employer Taxes/Government Contributions and Benefits

Year	Employer taxes / Government Contributions	Benefits Payments	Surplus / (Deficit)
2016	157,915	114,633	43,282
2017	167,504	143,942	23,562
2018	160,904	131,764	29,140
2019	160,718	120,010	40,708
2020	1,141,554	1,568,065	(426,511)

Table 8: Taxable Wages

Quarter Ending	FY2020	FY2019	FY2018
December 31,	\$559,532	\$493,451	\$474,162
March 31,	3,810,897	3,663,008	3,598,869
June 30,	492,886	773,595	873,099
September 30,	*	590,999	627,799

Source: DOES, Office of Labor Market Research and Information

**Data not yet available*

Contact Information

This financial report is designed to provide a general overview of the Fund's finances. Questions concerning any information provided in this report, or requests for additional financial information, should be addressed to the Office of the Chief Financial Officer; Government of the District of Columbia; 1350 Pennsylvania Avenue, NW; Washington, D.C. 20004.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2020 AND 2019**
(Dollar amounts expressed in thousands)

	2020	2019
Current Assets:		
Cash Held With U.S. Treasury (note 2)	\$ 142,891	\$ 524,003
Accounts Receivable, Net (note 3)	19,681	13,643
Due From D.C. Government (note 4)	929	455
Due From Federal Government (note 5)	84,502	698
Total Current Assets	248,003	538,799
Current Liabilities:		
Accounts Payable (note 6)	30,217	13,280
Claimants Payable (note 7)	126,749	19,636
Due To D.C. Government (note 8)	17,499	16,487
Total Current Liabilities	174,465	49,403
Net Position:		
Restricted for Unemployment Compensation Benefits	\$ 73,538	\$ 489,396

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

(Dollar amounts expressed in thousands)

	2020	2019
Operating Revenues:		
Employer Taxes	\$ 139,833	\$ 142,877
Governmental Contributions (note 9)	1,001,721	17,841
Total Operating Revenues	1,141,554	160,718
Operating Expenses:		
Unemployment Benefits (note 10)	1,568,065	120,010
Total Operating Expenses	1,568,065	120,010
Operating Income (Loss)	(426,511)	40,708
Non-operating Revenues:		
Interest Revenues	10,653	11,949
Total Non-Operating Revenues	10,653	11,949
Change in Net Position	(415,858)	52,657
Total Net Position – Beginning	489,396	436,739
Total Net Position – Ending	\$ 73,538	\$ 489,396

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

(Dollar amounts expressed in thousands)

	2020	2019
Cash Flows from Operating Activities:		
Cash Receipts from Employers	\$ 133,795	\$ 141,075
Cash Receipts from Governmental Contributions	917,443	17,894
Cash Payments for Accounts Payable/Due to DC	17,949	(5,969)
Cash Payments to Claimants	(1,460,952)	(122,686)
Net Cash (Used) Provided by Operating Activities	(391,765)	30,314
Cash Flows from Investing Activities:		
Interest Income Received	10,653	11,949
Net Cash Provided by Investing Activities	10,653	11,949
Net (Decrease) Increase in Cash	(381,112)	42,263
Cash, Beginning of Year	524,003	481,740
Cash, Ending of Year	\$ 142,891	\$ 524,003
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (426,511)	\$ 40,708
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Increase Receivables/Due from D.C. Govt.	(6,512)	(1,837)
Increase/(Decrease) in Due from Federal Govt.	(83,804)	88
Increase/(Decrease) in Liabilities	125,062	(8,645)
Total Adjustments	34,746	(10,394)
Net Cash Provided/(Used) by Operating Activities	\$ (391,765)	\$ 30,314

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**
(Dollar amounts expressed in thousands)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities: Pursuant to Federal law, the Government of the District of Columbia (the District) maintains an Unemployment Compensation Fund (the Fund). The Fund pays up to 26 weeks of regular statutory benefits to eligible unemployed former employees working in the District of Columbia or the Federal government. The Fund does not currently pay any additional weeks of benefits to eligible claimants who have exhausted their regular 26 weeks of benefits.

The Fund's Operating Revenues consist of employer taxes and reimbursements from governmental agencies for regular unemployment benefits paid to former employees. Non-operating Revenue represents the interest generated by the Fund.

The Fund is administered by the Director of the District's Department of Employment Services. Substantially all administrative costs of the program are paid by Federal grants and Special purpose funds, which are recorded in the District's General Fund. These financial statements present only assets, liabilities, revenues, and expenses of the Fund and are not intended to present the financial position and results of operations of the Government of the District of Columbia taken as a whole.

Basis of Presentation: The Fund's financial statements are presented in accordance with U.S. generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). The Fund is considered an enterprise fund under GAAP for governmental entities.

Basis of Accounting: The accompanying financial statements are prepared on the accrual basis of accounting. Under this accounting method, all revenues are recognized in the fiscal year earned, and expenses are recognized in the fiscal year incurred. *Measurement Focus:* The financial statements are accounted for on a flow of economic resources measurement focus, wherein all assets and liabilities are included in the Statements of Net Position. The related Statements of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in net position.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH HELD WITH U.S. TREASURY

The Fund's cash is held at the U.S. Department of Treasury (the Treasury) in a trust fund in the District's name. The Federal Unemployment Trust Fund includes deposits from the unemployment insurance funds of all states. The Trust Fund is required by federal law to invest only in obligations guaranteed by the United States. Pursuant to the Social Security Act, the funds held at the Treasury earn interest quarterly based on the interest rates of the

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

(Dollar amounts expressed in thousands)

Treasury's Certificates of Indebtedness. Interest earned for the years ended September 30, 2020 and 2019 was \$10,653 and \$11,949 respectively. As of September 30, 2020, cash held at the Treasury was \$142,891, compared to \$524,003 as of September 30, 2019. The Federal Unemployment Trust Fund held at the Federal Reserve Bank is not categorized in accordance with the criteria under GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an Amendment of GASB Statement No. 3*, because the Trust Fund is neither a deposit with a financial institution nor an investment.

NOTE 3 ACCOUNTS RECEIVABLE, NET

The Fund's accounts receivables consisted of the following as of September 30, 2020 and 2019:

	2020	2019
Employer Receivables	\$ 31,808	\$ 28,242
Due from Other States	7,204	1,167
Claimant Receivables	6,453	10,044
Total Receivables	45,465	39,453
Less: Allowance for Doubtful Accounts	(25,784)	(25,810)
Accounts Receivable, Net	\$ 19,681	\$ 13,643

Employer contributions are recognized as revenues in the accounting period in which they become due and measurable. Any contributions not received within the accounting period are recognized as employer receivables. Claimants receivable are benefits paid to claimants who are ultimately proven to be ineligible to receive all or a portion of those benefits. The Fund recognizes a receivable from these claimants when the benefits overpayment is identified. Due from other states is the amount owed to the Fund from other states for unemployment benefits paid on their behalf. *The percentage of ending accounts receivable method* is used to estimate and establish an allowance for doubtful accounts for the employers and claimants receivables.

NOTE 4 DUE FROM D.C. GOVERNMENT

Due from D.C. Government is the amount owed to the Fund from the District for unemployment benefits paid on its behalf to former employees. As of September 2020, and 2019, the amount due from the District was \$929 and \$455, respectively.

NOTE 5 DUE FROM FEDERAL GOVERNMENT

As of September 30, 2020, the amount due from the federal government is \$84,502, compared to \$698 as of September 30, 2019. The balance due from federal government represents benefit payments accrued for Unemployed former Civilian Federal Employees (UCFE), ex-military personnel (UCX), claimants in expanded programs under the CARES Act as well as credits to employers and state taxes withheld for claimants in expanded federal programs under the CARES Act.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**
(Dollar amounts expressed in thousands)

NOTE 6 ACCOUNTS PAYABLE

As of September 30, 2020, and 2019, the Fund had payables to employers for taxes overpaid; various states for unemployment benefits paid to former District employees; and to others for related activities. Employers Tax Refund Payable in FY 2020 includes the 50% credits emergency relief for employers per the CARES Act - \$12,087.

	2020	2019
Employer Tax Refund Payable	\$ 22,277	\$ 11,368
Due to Other States	4,425	1,751
Income Tax Payable	3,508	118
Others	7	43
Total Accounts Payable	\$ 30,217	\$ 13,280

NOTE 7 CLAIMANTS PAYABLE

Claimants payable are estimated amounts due to claimants for the remaining periods of the average duration for claims filed as of year-end and are payable in the next fiscal year. In FY 20 claimant payable for expanded programs under the CARES Act was \$67,100. The Claimants payable as of September 30, 2020 and 2019 were \$126,749 and \$19,636, respectively.

NOTE 8 DUE TO D.C. GOVERNMENT

The amounts reported as Due to D.C. Government consisted of Reed Act, Unemployment Compensation Modernization funds obligated for administrative costs, payments made by the District on behalf of the Fund, administrative assessments, interest and penalties assessed and collected from employers for late tax payments but not yet paid to the District. The amounts payable to the District as of September 30, 2020 and 2019 were \$17,499 and \$16,487, respectively.

	2020	2019
UC Modernization	\$ 8,735	\$ 8,876
District of Columbia on behalf of UI Trust Fund	7,061	5,834
REED ACT	1,470	1,470
Admin asses, int & penalties	233	307
Total Due to D.C. Government	\$ 17,499	\$ 16,487

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

(Dollar amounts expressed in thousands)

NOTE 9 GOVERNMENTAL CONTRIBUTIONS

Governmental contributions consisted of the following for the years ended September 30, 2020 and 2019.

	2020	2019
Contribution - Other States	\$ 13,543	\$ 4,679
Contribution - D.C Government	7,947	4,955
Federal Programs		
UC - Federal Employees (UCFE)	10,362	8,058
UC - Ex-Servicemen (UCX)	165	149
CARES Act 2020		
Federal Pandemic Unemployment Comp (FPUC)	751,006	-
Lost Wage Assistance (LWA)	96,037	-
Pandemic Unemployment Assistance (PUA)	58,591	-
CARES ACT Waived Wait Week Reimbursement	25,691	-
Pandemic Emergency Unemployment Comp (PEUC)	23,976	-
CARES ACT Reimburse Employers Payment	14,403	-
Total	\$ 1,001,721	\$ 17,841

NOTE 10 UNEMPLOYMENT EXPENSES

Compensation for unemployment benefits significantly increased in FY 2020 as a result of COVID 19 activities. Unemployment expenses consisted of the following for the years ended September 30, 2020 and 2019.

	2020	2019
UI Regular	\$ 587,847	\$ 111,802
Federal Programs		
UC - Federal Employees (UCFE)	10,362	8,059
UC - Ex-Servicemen (UCX)	165	149
CARES Act 2020		
Federal Pandemic Unemployment Comp (FPUC)	751,006	-
Lost Wage Assistance (LWA)	96,037	-
Pandemic Unemployment Assistance (PUA)	58,591	-
CARES ACT (Waived Wait Week Reimbursement)	25,691	-
Pandemic Emergency Unemployment Comp (PEUC)	23,963	-
CARES ACT Reimburse Employer Payment	14,403	-
Total	\$ 1,568,065	\$ 120,010

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**
(Dollar amounts expressed in thousands)

NOTE 11 COMMITMENTS AND CONTINGENCIES

As of September 30, 2020, and September 30, 2019, there were no matters of litigation involving the Fund which would materially affect the Fund's financial position should any court decisions on pending matters not be favorable to the Fund.

NOTE 12 SUBSEQUENT EVENTS

On December 2, 2020, the District received funding for federal reimbursement of Short Time Compensation Benefits authorized under the CARES Act. Effective date of funding authorization was October 1, 2020 covering eligible claim payments starting April 1, 2020. As of January 17, 2021, authorized funding is \$5,315,735.

In addition, on December 7, 2020 the Mayor announced a one-time stimulus payment to extend support to those District residents hit hardest by the COVID-19 pandemic using funds received in FY 20 under the CARES Act. The one-time direct payment of \$1,200 will be sent to DC residents who filed and were deemed eligible for Pandemic Unemployment Assistance (PUA) as of November 30, 2020. PUA covers individuals who are not eligible for traditional UI benefits.



**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

To the Mayor, Members of the Council of the Government of the District of Columbia and
Inspector General of the Government of the District of Columbia
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 Unemployment Compensation Fund (the Fund), an enterprise fund of the Government of the District of Columbia, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated January 26, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Washington, D.C.
January 26, 2021

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2020 and 2019
(Dollar Amounts in Thousands)

The following schedule presents the changes in prizes payable:

Balance as of October 1, 2018	\$ 1,547
Increase	20
Decrease	(377)
Balance as of October 1, 2019	1,190
Increase	1
Decrease	(382)
Balance as of September 30, 2020	\$ 809

NOTE 6 GAMING REVENUES AND EXPENSES

Gaming revenues and expenses for the fiscal years ended September 30, 2020 and 2019 were as follows:

Index Class	Gaming Revenue	Prizes	Agent Commissions	Contractor Fees	Advertising	Gross Margin
Fiscal Year 2020						
DC 3	\$ 41,843	\$ (21,316)	\$ (2,735)	\$ (1,473)	\$ (1,248)	\$ 15,071
DC TWO	632	(316)	(41)	(22)	(19)	234
DC FIVE	24,416	(11,569)	(1,399)	(859)	(728)	9,861
DC FOUR	55,931	(30,605)	(3,643)	(1,968)	(1,668)	18,047
FAST PLAY	7,838	(5,712)	(563)	(276)	(234)	1,053
INSTANT	47,188	(34,815)	(3,565)	(1,661)	(1,407)	5,740
THE LUCKY ONE	68	(45)	(5)	(2)	(2)	14
KENO	6,654	(4,580)	(467)	(234)	(198)	1,175
LUCKY FOR LIFE	1,903	(1,079)	(107)	(67)	(57)	593
MEGA MILLIONS	4,741	(2,311)	(214)	(167)	(141)	1,908
POWERBALL	5,810	(2,726)	(303)	(205)	(173)	2,403
RACE2RICHES	8,937	(6,239)	(626)	(315)	(266)	1,491
TAP-N-PLAY	2,171	(1,676)	(159)	(76)	(65)	195
OTHER	5	-	-	-	-	5
Total	\$ 208,137	\$(122,989)	\$ (13,827)	\$ (7,325)	\$ (6,206)	\$ 57,790
Fiscal Year 2019						
DC 3	\$ 38,555	\$ (18,610)	\$ (2,485)	\$ (1,238)	\$ (1,221)	\$ 15,001
DC TWO	540	(254)	(35)	(17)	(17)	217
DC FIVE	22,475	(13,114)	(1,278)	(721)	(712)	6,650
DC FOUR	51,757	(24,124)	(3,217)	(1,661)	(1,639)	21,116
FAST PLAY	8,110	(6,002)	(586)	(260)	(257)	1,005
INSTANT	52,335	(38,453)	(3,930)	(1,680)	(1,658)	6,614
THE LUCKY ONE	179	(119)	(12)	(6)	(6)	36
KENO	6,605	(4,091)	(449)	(212)	(209)	1,644
LUCKY FOR LIFE	2,118	(1,460)	(107)	(68)	(67)	416
MEGA MILLIONS	9,563	(4,677)	(466)	(307)	(303)	3,810
POWERBALL	9,784	(4,696)	(517)	(314)	(310)	3,947
RACE2RICHES	8,710	(5,958)	(607)	(280)	(276)	1,589
TAP-N-PLAY	2,331	(1,817)	(171)	(75)	(74)	194
OTHER	10	-	-	-	-	10
Total	\$ 213,072	\$(123,375)	\$ (13,860)	\$ (6,839)	\$ (6,749)	\$ 62,249

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2020 and 2019
(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, 2020 and 2019, the Lottery's net transfers to the General Fund of the District were \$38,060 and \$45,050, respectively.

NOTE 8 LONG-TERM LIABILITIES

The following summarizes long-term liabilities as of September 30, 2020 and 2019:

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

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

NOTE 9 RETIREMENT PROGRAMS

(a) *Defined Benefit Pension Plan*

The majority of the full-time Lottery employees hired before October 1, 1987 are covered by the Federal Civil Service Retirement System. The Federal Civil Service Retirement System is a cost-sharing multiple employer pension plan.

The U.S. Office of Personnel Management is responsible for administering the Federal Civil Service Retirement System, including collecting the contributions and disbursing the benefits.

The Lottery contributes 7.00% and employees contribute 7.25% of employees' covered compensation to the Federal Civil Service Retirement System. Contributions by the Lottery amounted to \$14 and \$34 for the years ended September 30, 2020 and 2019, respectively. The number of Lottery employees covered under the Federal Civil Service Retirement System is 2.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2020 and 2019
(Dollar Amounts in Thousands)

(b) Defined Contribution Plan

All full-time employees hired after September 30, 1987 are covered by the District-sponsored defined contribution plan. Employees do not contribute to this plan and are eligible to participate after one year of service. The Lottery contributes 5% of an eligible employee's base salary, which amounted to \$271 and \$336 for the fiscal years ended September 30, 2020 and 2019, respectively.

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

(c) Deferred Compensation Plan

Lottery employees are eligible to participate in the District-sponsored deferred compensation plan (D.C. Code § 47-3601) created in accordance with Internal Revenue Code Section 457. Employees may defer an amount equal to or less than 100% of includible compensation or \$19 in 2020 and \$19 in 2019. Maximum annual contribution amounts are determined and set by the Internal Revenue Service (IRS). Compensation deferred, and income earned is taxable when paid or made available to the participant or beneficiary upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the Lottery or District, which have no further liability to the plan.

NOTE 10 COMMITMENTS AND CONTINGENCIES

(a) Operating Leases

The Lottery leased certain facilities under a fifteen (15) year long-term, non-cancelable, and operating lease, effective December 12, 2014. Future minimum rental commitments are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2021	\$ 2,074
2022	2,124
2023	2,176
2024	2,228
2025	2,282
2026-2029	9,767
Total	<u>\$ 20,651</u>

Rent expense for the fiscal years ended September 30, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Rent Expense	\$ 2,568	\$ 2,456

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2020 and 2019
(Dollar Amounts in Thousands)

(b) Annuity Contracts

The winner of a \$1 million DC Black instant ticket in 2012 was awarded an annuity prize payable in annual installments over 20 years, with the first payment made by the Lottery. The Lottery entered into an agreement with an insurance company under which the Lottery purchased an annuity under contract that provides payments corresponding to its obligations to the prize winner. Future installment payments will be made directly to the winner by the insurance company, thus neither the present value of the annuity nor the present value of related future payments are reflected in the accompanying financial statements. The Lottery will be liable for such future payments if the insurance company defaults on its payments.

(c) Risk of Loss

The Lottery is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery or District covers all of the Lottery's claim settlements and judgments out of the Lottery revenues or the District's General Fund resources.

NOTE 11 RELATED PARTY TRANSACTIONS

The Lottery usually has related party transactions with the Office of the Chief Financial Officer (OCFO) of the District of Columbia Government to provide financial and managerial oversight. These services included, but were not limited to, internal audit and internal security, legal, human resources, procurement, financial management, and executive management oversight services. The annual contractual cost was \$1,059 and \$887 in fiscal years 2020 and 2019, respectively. Other services provided by District Government entities to the Lottery include central processing of payroll, accounting, computer technology services, and the handling of intra-district transactions for rent, telephone, security guard services, etc. Personnel costs for these services are budgeted and accounted for as part of the respective entity's regular operations.

NOTE 12 LITIGATION

The Lottery is a defendant in legal claims arising from its normal operations. While the ultimate outcome of unsolved lawsuits cannot be predicted at the time, it is the opinion of management and in-house counsel that the disposition of any litigation in which the Lottery is involved will not have a material adverse effect on the financial position, results of operations, or cash flows of the Lottery.

NOTE 13 SUBSEQUENT EVENTS

The Lottery did not have any subsequent events that based on the facts and circumstances, required recording or disclosure in the financial statements for the year ended September 30, 2020. Events and transactions were evaluated through January 8, 2021, 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

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.

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, 2020, 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 8, 2021.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal 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 may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Washington, D.C.
January 8, 2021