

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF LOTTERY AND CHARITABLE GAMES**

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

**SEPTEMBER 30, 2017 AND 2016**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF LOTTERY AND CHARITABLE GAMES  
SEPTEMBER 30, 2017 and 2016**

**TABLE OF CONTENTS**

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



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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

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

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of the Office of Lottery and Charitable Games (the Lottery), an enterprise fund of the Government of the District of Columbia, as of and for the years ended September 30, 2017 and 2016, the related statements of revenues, expenses, and change in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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



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## **Opinion**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of September 30, 2017 and 2016, and the change in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

As discussed in Note 1 to the financial statements, the financial statements present only the Lottery enterprise fund and do not purport to, and do not present fairly the financial position of the District of Columbia as of September 30, 2017 and 2016, the changes in its financial position or, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to the matter.

### *Required Supplementary Information*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2018, on our consideration of the Lottery's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal controls over financial reporting and compliance.

Washington, D.C.  
January 10, 2018

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2017 and 2016  
*(Dollar Amounts in Thousands)*

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The discussion and analysis of the Office of Lottery and Charitable Games (the Lottery) financial performance provides an overview of its financial activities for the fiscal years ended September 30, 2017 and 2016. 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 (District). In accordance with law, the Lottery is responsible for generating revenues through the sale of lottery products and is required to remit monthly gaming revenues less prizes, operating expenses and a reserve not to exceed 2% of annual prize payments to the General Fund of the District.

The Lottery's financial transactions are accounted for as an enterprise fund in the District's basic financial statements.

**Financial Highlights**

- Gross revenues from lottery gaming activities decreased by \$9,451 or 4.14% from the prior year amount.
- The Lottery generated ticket sales of \$218,709 for a decrease of \$9,453 or 4.14% less than the prior year total of \$228,162.
- Total operating expenses decreased by \$1,641 or less than 1% primarily because of lower prize payouts.
- Prize payouts in 2017 decreased by \$2,010 or 1.52% compared to 2016 and reflected a payout rate of 59.45% of ticket sales versus 57.87% the prior year.
- Contractor's fees decreased by \$241 or 3.37% from the prior year due to decreased sales.
- Transfers to the District's General Fund decreased by \$7,678 equivalent to 14.43% below the prior year's total due to decreased sales.

To effectively understand the Lottery's operations and to assess its financial activities, the reader must be aware of individual game sales, related prize expenses and payout percentages, the impact on change in net position and resulting transfer to the District's General Fund. Prize payouts and the volume of Powerball, Mega Million and Lucky For Life sales have the most dramatic impact on transfer levels but are beyond the control of management.

**Using This Financial Report**

This financial report consists of a series of financial statements, prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. These statements focus on the financial condition, the results of operations, and cash flows of the Lottery as a whole.

One of the most important questions asked about the Lottery's finances is whether or not they have improved as a result of the year's activities. The key to understanding this core question is the Statements of Net Position; the Statements of Revenues, Expenses, and Change in Net Position; and the Statements of Cash Flows. These statements present financial information in a form that is similar to that used by commercial entities.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)  
SEPTEMBER 30, 2017 and 2016  
(*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 Statement of Net Position includes all assets and liabilities. It is prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when the related liability is incurred.

The Statements of Revenues, Expenses and Change in Net Position present the revenues earned and the expenses incurred during each year. Activities are reported as either operating or non-operating. Another important factor to consider when evaluating financial viability is the Lottery's ability to meet financial obligations as they come due. The Statement 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 \$83, \$74 and \$158 for the years ended September 30, 2017, 2016 and 2015, respectively. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2017, 2016, and 2015.

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

	<b>September 30</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Assets:</b>			
Current and Other Assets	\$ 16,011	\$ 16,149	\$ 15,641
Capital Assets (net of accumulated depreciation)	350	330	169
Restricted Investments	1,939	2,336	3,422
Total Assets	<u>18,300</u>	<u>18,815</u>	<u>19,232</u>
<b>Liabilities:</b>			
Accounts Payable and Accrued Expenses	4,207	3,867	4,086
Unearned Revenue	39	81	34
Accrued Prizes and Commissions	7,518	8,017	7,250
Obligations for Unpaid Prizes – Short-term	410	807	1,160
Obligations for Unpaid Prizes – Long-term	1,529	1,529	2,262
Total Liabilities	<u>13,703</u>	<u>14,301</u>	<u>14,792</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	350	330	169
Unrestricted	4,247	4,184	4,271
Total Net Position	<u>\$ 4,597</u>	<u>\$ 4,514</u>	<u>\$ 4,440</u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*  
SEPTEMBER 30, 2017 and 2016  
*(Dollar Amounts in Thousands)*

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

	<b>Years Ended September 30</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Operating Revenues:			
Gaming Revenues	\$ 218,732	\$228,183	\$212,495
Operating Expenses:			
Prizes	130,035	132,045	115,278
Other	43,206	42,837	41,484
Total Operating Expenses	173,241	174,882	156,762
Operating Income	45,491	53,301	55,733
Non-operating Revenues – Interest and Dividends Income before Transfers	192	60	11
	45,683	53,361	55,744
Transfers to the District's General Fund	(45,600)	(53,287)	(55,586)
Change in Net Position	\$ 83	\$ 74	\$ 158

Unrestricted net position was \$4,247, \$4,184 and \$4,271 as of September 30, 2017, 2016 and 2015, which represents an increase of \$63, a decrease of \$87 and an increase of \$158, respectively. Current and other assets decreased by \$138 in 2017, increased by \$508 in 2016 and increased by \$1,574 in 2015, respectively. Total liabilities decreased \$598 or 4.18%, \$491 or 3.33% and \$1,545 or 9.46% for the years ended September 30, 2017, 2016 and 2015, respectively; primarily due to the result of decreases in the Lottery's obligations for unpaid prizes. The Multistate Lottery Association (MUSL) purchases U.S. government securities in the name of the Lottery for Lotto America and Powerball jackpot winners from the District of Columbia. Jackpot winners have the option of accepting the cash value of the jackpot amount or annuity payments for 25 years. The restricted investments balance of \$1,939, \$2,336 and \$3,422 as of September 30, 2017, 2016 and 2015, respectively, represents the net present value of securities totaling \$2,010, \$2,410 and \$3,560 as September 30, 2017, 2016 and 2015, respectively, to fund future annuity installment payments. The restricted investments value decreased by \$397, \$1,086, and \$2,860 during fiscal years 2017, 2016 and 2015, respectively, due to payments of \$400, \$1,150 and \$2,962, net of unrealized gains of \$51, \$74 and \$128 in fiscal years 2017, 2016 and 2015, respectively. Accretion of investments totaled negatives of \$39 in 2017, \$285 in 2016 and \$428 in 2015, respectively. Corresponding amounts are recorded as obligations for unpaid prizes.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
SEPTEMBER 30, 2017 and 2016  
(Dollar Amounts in Thousands)

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

Index Class	Gaming Revenue	Prizes	Agents' Commissions	Contractor Fee	Advertising	Gross Margin	Transfers
<b>Fiscal Year 2017</b>							
DC 3	\$ 42,030	\$ (19,646)	\$ (2,691)	\$ (1,327)	\$ (1,250)	\$ 17,116	\$ 12,826
DC FIVE	21,934	(11,946)	(1,241)	(693)	(652)	7,402	5,546
DC FOUR	56,322	(30,974)	(3,621)	(1,779)	(1,675)	18,273	13,692
FAST PLAY	8,575	(6,531)	(611)	(271)	(255)	907	680
HOT LOTTO	470	(202)	(26)	(15)	(14)	213	160
INSTANT	50,318	(37,798)	(3,789)	(1,589)	(1,496)	5,646	4,230
KENO	7,854	(4,818)	(533)	(248)	(234)	2,021	1,515
LUCKY FOR LIFE	2,306	(1,413)	(153)	(73)	(69)	599	448
MEGA MILLIONS	5,193	(2,553)	(278)	(164)	(154)	2,044	1,532
POWERBALL	11,544	(5,585)	(608)	(365)	(343)	4,643	3,480
RACE2RICHES	9,188	(6,253)	(641)	(290)	(273)	1,731	1,296
TAP-N-PLAY	2,975	(2,316)	(217)	(94)	(88)	260	195
OTHER	23	-	-	-	-	23	-
<b>Total</b>	<b>\$ 218,732</b>	<b>\$(130,035)</b>	<b>\$ (14,409)</b>	<b>\$ (6,907)</b>	<b>\$ (6,504)</b>	<b>\$ 60,877</b>	<b>\$ 45,600</b>
<b>Fiscal Year 2016</b>							
DC 3	\$ 43,487	\$ (20,972)	\$ (2,803)	\$ (1,362)	\$ (1,191)	\$ 17,159	\$ 13,493
DC FIVE	19,155	(10,197)	(1,106)	(601)	(525)	6,726	5,291
DC FOUR	55,486	(26,062)	(3,427)	(1,738)	(1,519)	22,740	17,881
FAST PLAY	8,460	(7,204)	(621)	(265)	(232)	138	108
HOT LOTTO	2,158	(1,028)	(122)	(68)	(59)	881	694
INSTANT	51,838	(39,161)	(3,944)	(1,624)	(1,419)	5,690	4,474
KENO	8,642	(5,251)	(588)	(271)	(237)	2,295	1,806
LUCKY FOR LIFE	2,612	(1,458)	(172)	(82)	(72)	828	652
MEGA MILLIONS	6,322	(3,123)	(339)	(198)	(173)	2,489	1,957
POWERBALL	16,442	(7,824)	(871)	(515)	(450)	6,782	5,333
RACE2RICHES	10,193	(7,143)	(719)	(319)	(279)	1,733	1,362
TAP-N-PLAY	3,367	(2,622)	(246)	(105)	(92)	302	236
OTHER	21	-	-	-	-	21	-
<b>Total</b>	<b>\$ 228,183</b>	<b>\$(132,045)</b>	<b>\$ (14,958)</b>	<b>\$ (7,148)</b>	<b>\$ (6,248)</b>	<b>\$ 67,784</b>	<b>\$ 53,287</b>
<b>Fiscal Year 2015</b>							
DC 3	\$ 43,938	\$ (20,754)	\$ (2,821)	\$ -	\$ -	\$ 20,363	\$ 13,976
DC FIVE	18,144	(9,190)	(1,017)	-	-	7,937	5,398
DC FOUR	55,343	(21,851)	(3,320)	-	-	30,172	21,180
FAST PLAY	17,009	(12,838)	(1,203)	-	-	2,968	1,524
HOT LOTTO	2,972	(1,417)	(166)	-	-	1,389	954
INSTANT	32,609	(24,283)	(2,659)	-	-	5,667	2,903
KENO	9,773	(5,992)	(666)	-	-	3,115	1,990
LUCKY FOR LIFE	2,461	(1,484)	(138)	-	-	839	544
MEGA MILLIONS	6,532	(3,192)	(318)	-	-	3,022	2,074
MONOPOLY	140	(147)	(8)	-	-	(15)	(18)
POWERBALL	11,027	(5,247)	(585)	-	-	5,195	3,574
RACE2RICHES	9,335	(6,550)	(655)	-	-	2,130	1,232
TAP-N-PLAY	3,066	(2,333)	(222)	-	-	511	255
OTHER	146	-	-	-	-	146	-
<b>Total</b>	<b>\$ 212,495</b>	<b>\$(115,278)</b>	<b>\$ (13,778)</b>	<b>\$ (6,777)</b>	<b>\$ (6,224)</b>	<b>\$ 70,438</b>	<b>\$ 55,586</b>



**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)  
SEPTEMBER 30, 2017 and 2016  
(*Dollar Amounts in Thousands*)

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Table 3 provides a comparison of sales, prizes, agent commissions, gross margin, and transfers to the District's General Fund generated by each lottery product offered. Overall gaming revenues totaled \$218,732, \$228,183 and \$212,495 in fiscal years 2017, 2016 and 2015, respectively. Prize expenses decreased \$2,010 or 1.52% in 2017, increased \$16,767 or 14.54% in 2016 and decreased \$5,994 or 4.94% in 2015. Total prize payouts as a percentage of gaming revenue was 59.45%, 57.85% and 54.25% in fiscal years 2017, 2016 and 2015, respectively. Agents' commissions decreased \$549 in 2017, increased \$1,180 in 2016 and decreased \$399 in 2015, respectively, due to the respective increases and decreases in ticket sales and prize payouts.

**DC THREE** --- DC Three is a daily three-digit game in which players may wager 50 cents or one dollar with nine ways to win prizes ranging from 25 to 500 dollars. In 2017, sales totaled \$42,030 for a \$1,457 or 3.35% reduction from 2016. Sales in 2016 totaled \$43,487 for a \$451 or 1.03% reduction from 2015. Sales in 2015 totaled \$43,938 for a \$2,233 or 4.84% reduction below 2014. The game continues to be impacted by the economic downturn and demographic changes in the District's population. The Lottery continues to strategically implement marketing and promotional campaigns in an attempt to stabilize and enhance sales for the game.

Prizes amounted to \$19,646 in 2017, for a \$1,326 or 6.32% decrease below the prior year. Prizes amounted to \$20,972 in 2016, for a \$218 or 1.05% increase over 2015. Prizes amounted to \$20,754 in 2015, for a \$1,846 or 8.17% decrease below 2014. Agent or retailer commissions expense decreased by \$112 primarily due to the noted decrease in sales. Net proceeds to the District's General Fund in 2017 totaled \$12,826 for a \$667 or 4.94% decrease compared to 2016. The transfer in 2016 totaled \$13,493 for a \$483 or 3.46% decrease compared to 2015. The transfer in 2015 totaled \$13,976 for a \$1,476 or 11.81% increase compared to 2014. The DC Three game accounted for 19.22% of total gaming revenue and 28.13% of the overall gross margin. The game reflected an increase of .17% in gaming revenue percentage contribution, and an increase of 2.84% in gross margin percentage contribution due to slightly lower sales, agent/retailer commissions and prize payouts than prior year totals.

**DC FOUR** --- DC Four is a daily four-digit game with a fixed prize payout. Players may wager 50 cents or one dollar for a chance to win seven different ways. Ticket sales totaled \$56,322 in 2017, for an \$836 or 1.51% increase from the 2016 ticket sales of \$55,486. Ticket sales were \$55,486 in 2016 for a \$143 or .26% increase from the 2015 tickets sales of \$55,343. Ticket sales were \$55,343 in 2015, for a \$1,581 or 2.78% decrease from the 2014 tickets sales of \$56,924. While the game saw a slight increase in sales, which could be attributed to an increase in prize payouts, it continues to be impacted by economic conditions and demographic changes in the District.

Prizes in 2017 totaled \$30,794, an increase of \$4,912 or 18.85% over the prior year. FY 2016 totaled \$26,062, an increase of \$4,211 or 19.27% from 2015. FY 2015 prize expense totaled \$21,851, a decrease of \$5,430 or 19.90% from 2014. Transfers to the District's General Fund in 2017 totaled \$13,692 for a \$4,189 or 23.43% decrease from the \$17,881 transferred in 2016. Transfers to the District's General Fund in 2016 totaled \$17,881 for a \$3,299 or 15.58% decrease from the \$21,180 transferred in 2015. Transfers to the District's General Fund in 2015 totaled \$21,180 for a \$2,480 or 13.26% increase over the \$18,700 transferred in 2014. The increase in prize payouts accounts for the decrease in the transfer amount. The DC Four game was responsible for 25.75% of total gaming revenue and 30.03% of the overall gross margin. The 1.44% increase in gaming revenue contribution rate and 3.49% decrease in gross margin contribution percentages from over the prior year amounts is directly associated with the increase in higher commissions and prize payouts.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)  
SEPTEMBER 30, 2017 and 2016  
(*Dollar Amounts in Thousands*)

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**DC FIVE** -- DC Five is a daily five-digit game with a fixed prize payout. Players may wager 50 cents or one dollar for a chance to win thirteen different ways. Players select a number within the range 00000 to 99999. Tickets may be purchased for the next draw or up to seven consecutive draws for the mid-day and nightly drawings. Players also have the option for advance day play. This feature allows a player to place a bet for a specific day in the future.

In 2017, ticket sales totaled \$21,934, which represents a \$2,779 or 14.51% increase over the prior year. Prizes and agent/retailer commissions in 2017 amounted to \$11,946 and \$1,241, respectively. The result was an increase in prizes of \$1,749 or 17.15% and an increase to commissions of \$135 or 12.21% over the prior year. The game generated \$5,546 in transfer to the District's General Fund in 2017 or \$255 or 4.82% more than 2016. The increase in sales and decrease in prize payout percentage essentially accounts for the increase in the transfer.

Sales totaled \$19,155 in 2016, which represented a \$1,011 or 5.57% increase over 2015's total of \$18,144. Ticket sales totaled \$18,144 in 2015 and represented a \$1,461 or 8.76% increase over 2014. Prizes and agent/retailer commissions in 2016 and 2015 amounted to \$10,197 and \$1,106 and \$9,190 and \$8,648, respectively. The game generated \$5,291 and \$5,398 in transfers to the District's General Fund in 2016 and 2015, respectively.

**POWERBALL** --- The Powerball game is a five out of sixty-nine plus one out of twenty-six terminal lottery game that pays a grand prize on an annuitized pari-mutuel basis or as a cash lump sum payment and all other prizes on a fixed basis. All annuitized prizes are paid in thirty annual graduated installments. The Powerball game is sponsored by the Multi-State Lottery Association (MUSL), a conglomerate of thirty-five (35) states, a Non-MUSL Group which consists of ten (10) states, the District of Columbia and the Virgin Islands. The jurisdictions combine resources and sales to offer larger jackpots. Party lotteries pool their sales and other resources, but otherwise account for operations separately. The latest prize structure matrix change to the game was October 4, 2015.

Powerball sales totaled \$11,544 in 2017 representing a \$4,898 or 29.79% decrease from the \$16,442 generated in 2016. The decrease in sales can be attributed to the lack of a billion dollar jackpot which was experienced in February 2016. Powerball sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$5,585 in 2017 representing a \$2,239 or 28.62% decrease over the \$7,824 expensed in 2016. Powerball prizes are expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Prize expense decreased due to lower sales and the lack of a \$1.6 billion jackpot experienced in 2016. The \$1,853 decrease in transfer to the District's General Fund to \$3,480 from the \$5,333 transferred in 2016 is due to the allocation of the transfer being based on the gaming revenues that decreased in 2017.

Powerball sales totaled \$16,442 in 2016 representing a \$5,415 or 49.11% increase over the \$11,027 generated in 2015. The increase in ticket sales can be attributed to the \$1.6 billion jackpot in February 2016 which increased player participation and sales volume. Powerball sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$7,824 in 2016 representing a \$2,577 or 49.11% increase over the \$5,247 expensed in 2015. Powerball prizes are expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Prize expense increased due to higher sales intake as a result of the \$1.6 billion jackpot in 2016. The \$1,759 increase in transfer to the District's General Fund to \$5,333 from the \$3,574 transferred in 2015 is due to the allocation of the transfer being based on the gaming revenues that increased in 2016.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)  
SEPTEMBER 30, 2017 and 2016  
(*Dollar Amounts in Thousands*)

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**MEGA MILLIONS** --- The Mega Millions game is a five out of seventy-five plus one out of fifteen terminal lottery game that pays a grand prize or a cash lump sum payment and all other prizes on a fixed basis. All annuity prizes are paid in twenty-six annual installments. Some states offer a megaplier feature to increase non-jackpot prizes by 2, 3, or 4 times. The Mega Millions game is sponsored by the Mega Millions Group, a conglomerate of twelve states, and participating MUSL members that combine resources and sales to offer larger jackpots. All Mega Millions transactions of the Lottery are handled through the Multi-State Lottery Association. Party lotteries pool their sales and other resources, but otherwise account for operations separately.

Mega Million sales totaled \$5,193 in 2017, representing a \$1,129 or 17.86% decrease of the \$6,322 generated in 2016. The decrease in ticket sales can be attributed to the lack of high jackpots that increases player participation and sales volume. Mega Million sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$2,553 in 2017, representing a \$570 or 18.25% decrease from the \$3,123 expensed in 2016. Prizes were expensed at the rate of 49.16% of overall ticket sales in 2017. The noted decrease in ticket sales offset by overall operating costs resulted in a transfer to the District's General Fund of \$1,532 in 2017 or \$425 less than the \$1,957 produced in 2016.

Mega Millions sales totaled \$6,322 in 2016, representing a \$210 or 3.21% decrease of the \$6,532 generated in 2015. The decrease in ticket sales can be attributed to the lack of high jackpots that increases player participation and sales volume. Mega Million sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$3,123 and \$3,192, respectively, in 2016 and 2015. Mega Millions prizes were expensed at the rate of 49.40% of overall ticket sales in 2016. Ticket sales offset by overall operating costs resulted in a transfer to the District's General Fund of \$1,957 in 2016 or \$117 less than the \$2,074 produced in 2015.

**KENO** --- Keno is a 10/20/80 game with fixed prizes. Players choose to play from 1 to 10 spots, with each spot having a different prize structure. Players select twenty numbers from a field of 80 numbers. Draws are held every four minutes during valid game times. Payouts range from five dollars to 100,000 dollars. Tier 1 prizes start as a fixed payout and transitions to a pari-mutuel payout when the number of winners per draw exceeds 10. The game is supplemented by Keno Spin which features a multiplier option to the game's prizes. The Keno game continues to be impacted by the changing demographics in the District of Columbia, inability to add new social settings and the economy. The Keno game is offered at all agent/retailers locations and continues to be marketed through targeted awareness and promotional campaigns.

Ticket sales for Keno totaled \$7,854 in 2017, representing a \$788 or 9.12% decrease of the 2016 sales total of \$8,642. Prize expenses decreased by \$433 to \$4,818 in 2017 when compared to the \$5,251 expensed in 2016. Agent/retailer commissions totaled \$533 or 9.35% less than the \$588 expensed in 2016. Transfers to the District's General Fund decreased \$291 to \$1,515 in 2017 from the \$1,806 transferred in 2016. The decrease in transfer is attributed to the decrease in sales.

Ticket sales for Keno totaled \$8,642 in 2016, representing a \$1,131 or 11.57% decrease of the 2015 sales total of \$9,773. Prizes expense decreased by \$741 to \$5,251 in 2016 when compared to the \$5,992 expensed in 2015. Transfers to the District's General Fund decreased \$184 to \$1,806 in 2016 from the \$1,990 transferred in 2015.

Keno sales totaled \$9,773 in 2015, representing a \$1,812 or 15.64% decrease from the 2014 sales total of \$11,585. Prizes expense decreased by \$1,399 to \$5,992 in 2015 when compared to the \$7,391 expensed in 2014. Transfers to the District's General Fund increased \$40 to \$1,990 in 2015 from the \$1,950 transferred in 2014.

**HOT LOTTO** --- Hot Lotto is a five out of forty-seven plus one out of nineteen terminal lottery game that pays a grand prize, at the election of the player at time of ticket purchase, either on an annuitized pari-mutuel or cash option basis. All other prizes are paid on a fixed basis. Prizes are expensed at the rate of 50.0% of sales intake

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)  
SEPTEMBER 30, 2017 and 2016  
(*Dollar Amounts in Thousands*)

---

less lapsed prizes. The Hot Lotto game is sponsored by the Multi-State Lottery Association (MUSL), a conglomerate of thirteen states and the District of Columbia, which combines resources and sales to offer larger jackpots. The initial jackpot starts at \$1 million and drawings are held every Wednesday and Saturday. Party lotteries pool their sales and other resources, but otherwise account for operations separately.

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

Hot Lotto ticket sales decreased to \$2,158 in 2016, representing an \$814 or 27.39% decrease below the \$2,972 generated in 2015. The decrease in sales in 2016 below the prior year's total is primarily the result of the lack of high jackpots. The prize expense decreased \$389 from \$1,417 to \$1,028 or 27.45%. The agent/retailer commission expenses totaled \$122 and reflected a \$44 or 26.51% decrease in 2016 below the \$166 expensed in 2015. The \$260 decrease in transfers to the District's General Fund in 2016 below the 2015 transfer amount of \$954 is attributed to the reduced sales offset by the overall operating costs.

Hot Lotto ticket sales decreased to \$2,972 in 2015, representing a \$588 or 16.52% decrease below the \$3,560 generated in 2014. The decrease in sales in 2015 below the prior year's total is primarily the result of the lack of higher jackpots. Prize expense decreased to \$1,417 and the agents/retailer commission expenses totaled \$166 and reflected a \$36 or 17.82% decrease in 2015 from the \$202 expensed in 2014. The \$521 decrease in transfers to the District's General Fund in 2015 to \$954 from the 2014 transfer amount of \$1,475 is attributed to reduced sales offset by the overall operating costs.

**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 pay a top prize of \$1,000 per week for actual life and a second tier prize of \$25,000 a year for life. There are eight other ways to win prizes up to \$5,000 for two dollars per play. Lucky for Life transactions are handled through the Multi-State Lottery Association (MUSL). Party lotteries pool their sales and other resources, but otherwise account for operations separately. The Lottery began selling Lucky for Life tickets effective February 15, 2015.

Lucky for Life ticket sales amounted to \$2,306 in 2017, \$306 or 11.72% less than the \$2,612 in 2016. The prizes in 2017 totaled \$1,413, \$45 less than the \$1,458 in 2016. Agent/retailer commissions in 2017 and 2016 totaled \$153 and \$172, respectively. Lucky for Life produced a transfer to the District's General Fund in 2017 and 2016 of \$414 and \$652, respectively.

Lucky for Life ticket sales amounted to \$2,612 in 2016, \$151 or 6.14% more than \$2,461 in 2015. The prizes in 2016 totaled \$1,458, \$26 less than the \$1,484 in 2015. Agent/retailer commissions in 2016 and 2015 totaled \$172 and \$138, respectively. Lucky for Life produced a transfer to the District's General Fund in 2016 and 2015 of \$652 and \$544 in its inaugural year.

**MONOPOLY MILLIONAIRES' CLUB (MMC)** --- The MMC game is a multi-state, terminal lottery game that pays a top prize that is capped at \$25 million. When the top prize is won, a separate drawing takes place that potentially awards a minimum of 10 Millionaires' Club prizes of \$1 million each. Each week the top prize is

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)  
SEPTEMBER 30, 2017 and 2016  
(*Dollar Amounts in Thousands*)

---

not won, the number of \$1 million prizes increases. All MMC transactions of the Lottery 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 MMC tickets effective October 19, 2014.

Ticket sales for MMC were discontinued effective December 26, 2014, due to insufficient ticket sales. Ticket sales amounted to \$140 for 2015. Prizes and commissions resulted in a \$15 deficit.

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

Race2Riches ticket sales amounted to \$10,193 in 2016, representing an \$858 or 9.19% increase from the \$9,335 generated in 2015. The increase in sales in 2016 from the prior year's total is primarily because of increased visibility in retailer/agent locations, as well as, equipment expansion. Prize expense increased to \$7,143 in 2016 from \$6,550 in 2015, which represented a \$593 or 9.05% increase over 2015. The \$130 increase in transfers to the District's General Fund in 2016 to \$1,362, is more than the 2015 transfer amount of \$1,232. The increase in the transfer is attributed to the increase in sales and the increase in gross margin.

Race2Riches ticket sales amounted to \$9,335 in 2015, representing a \$1,604 or 20.57% increase over the \$7,731 generated in 2014. The increase in sales in 2015 over the prior year's total is primarily because of the increased visibility in retailer/agent locations, as well as, equipment expansion. Prize expense increased to \$6,550 in 2015 from \$5,368 in 2014, which represented a \$1,182 or 22.02% increase over 2014. The \$832 increase in transfers to the District's General Fund in 2015 to \$1,232 is more than the 2014 transfer amount of \$400. The increase in the transfer is attributed to the increase in sales and the increase in gross margin.

**FAST PLAY**--- Fast Play games are a series of instant-style games printed and played through agents/retailers terminals. Fast Play tickets have a variety of games and each ticket is randomly drawn from a separate pool of tickets. Tickets cost and prizes vary depending on the version of game played. The Fast Play games' prizes are set at a fixed payout level. The player asks the agent/retailer for a specific type of Fast Play game and the ticket is generated at the terminal. The player knows immediately if he/she is a winner or not.

Ticket sales amounted to \$8,575 in 2017, an increase of \$115 or 1.36% above the \$8,460 in 2016. Prize and agent/retailer commissions totaled \$6,531, \$7,825 and \$14,041 for fiscal years 2017, 2016 and 2015, respectively. Transfers to the District's General Fund amounted to \$680, \$108 and \$1,524 for fiscal years 2017, 2016 and 2015, respectively.

**TAP-N-PLAY** --- Tap-N-Play games are touch activated, interactive, instant win style terminal games played through self-service terminal (MP). Players use the touch screen of the terminal to choose the games and game parameters (price points, numbers, play board etc.). The games are presented in high-quality graphic animations and sounds. Tap-N-Play games launched on April 5, 2013, with 2 games, and are being

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)  
SEPTEMBER 30, 2017 and 2016  
(*Dollar Amounts in Thousands*)

---

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 \$2,975 and \$3,367 in fiscal years 2017 and 2016, respectively. The prize expense was \$2,316 and \$2,622 and amounted to a 77.85% and 77.87% prize payout rate in 2017 and 2016, respectively. Agent/retailer commissions were \$217 in 2017 and \$246 in 2016. Transfers to the District's General Fund were \$195 and \$236 and represented 1.36% and 1.48% of sales for 2017 and 2016, respectively. The decrease in the transfer to the General Fund is primarily because of the decreased sales offset by overall operating costs.

**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 \$50,318 in 2017, representing a \$1,520 or 2.93% decrease below the 2016 sales of \$51,838.

Prizes in 2017 totaled \$37,798 for a \$1,363 or 3.48% decrease below the \$39,161 expensed in 2016. Agent/retailer commissions totaled \$3,789 in 2017 for a \$155 or 3.93% decrease below the \$3,944 expensed in 2016. Transfers to the District's General Fund decreased to \$4,230 in 2017, \$244 or 5.45% less than the \$4,474 generated in 2016. This was primarily the result of a decrease in game revenues.

Instant ticket sales in 2016 totaled \$51,838, an increase of \$19,229 or 58.97% over the \$32,609 in 2015. This was primarily the result of the return of a full portfolio of instant tickets. Prizes in 2016 totaled \$39,161 for a \$14,878 or 61.27% increase over the \$24,283 expensed in 2015. Agent/retailer commissions totaled \$3,944 in 2016 for a \$1,285 or 48.33% increase over the \$2,659 expensed in 2015. Transfers to the District's General Fund increased to \$4,474 in 2016, more than the \$2,903 generated in 2015. This was primarily the result of an increase in game revenues.

Instant ticket sales in 2015 totaled \$32,609, a decrease of \$7,811 or 19.33% below the \$40,420 in 2014. Prizes in 2015 totaled \$24,283 for a \$4,811 or 16.54% decrease below the \$29,094 expensed in 2014. Agent/retailer commissions totaled \$2,659 in 2015 for a \$403 or 13.16% decrease from the \$3,062 expensed in 2014. Transfers to the District's General Fund decreased \$4,118 to \$2,903 in 2015, below the \$7,021 generated in 2014 as a result of a decrease in game revenues.

The Lottery has been able to stimulate sales through a combination of offering higher price point games, designing games with higher prize payouts to increase winning opportunities for players, and providing a full complement of available tickets at all agent locations. The prize payout rate averaged 75.12% and 75.54% as a percentage of tickets sold in 2017 and 2016, respectively. The D.C. Lottery lost its instant tickets vendor contract in July, 2013 and currently uses three vendors to provide instant ticket inventory. All three contracts were awarded after January, 2015. The D.C. Lottery has returned to a full portfolio of instant ticket products.

#### **INTEREST, DIVIDENDS AND OTHER INCOME**

All idle cash of the Lottery is invested through the District's General Fund Pooled Investments Account. Powerball, Mega Millions and Hot Lotto receipts transferred to MUSL to fund major jackpots are invested in securities prior to jackpots being hit and earnings are allocated annually to party lotteries. Interest and dividend income, shown separately in the financial statements, increased by \$132 and \$49 in fiscal years

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)  
SEPTEMBER 30, 2017 and 2016  
(*Dollar Amounts in Thousands*)

---

2017 and 2016, and decreased by \$3 in 2015, respectively. Interest income has been severely impacted by market conditions, the national economy, and other factors beyond the control of individual entities.

Other income increased \$2 to \$23 in 2017. It also decreased \$125 to \$21, and increased \$124 to \$146 in 2016 and 2015.

**Charitable Gaming Activities**

The Lottery also oversees charitable gaming activities to include the licensing and regulation of charitable and other not-for-profit organizations conducting bingo, raffles, and other fund-raising activities within the District of Columbia. The mission of the Lottery with respect to charitable gaming is to ensure that only qualified organizations are licensed to conduct fund-raising activities and that they are carried out in accordance with existing laws, rules and regulations. Revenues generated through the issuance of licenses, processing fees, etc. are not intended to cover costs associated with overseeing program activities.

**Contacting the Lottery**

Interested parties can contact the D.C. Lottery at Office of Lottery and Charitable Games, 2235 Shannon Place, SE, Fifth Floor, Washington, D.C. 20020.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
**STATEMENTS OF NET POSITION**  
**AS OF SEPTEMBER 30, 2017 and 2016**  
*(Dollar Amounts in Thousands)*

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 12,150	\$ 12,375
Accounts Receivable, net	3,859	3,770
Prepaid Expenses and Other	2	4
Restricted Investments	<u>410</u>	<u>807</u>
Total Current Assets	<u>16,421</u>	<u>16,956</u>
<b>Non-current Assets:</b>		
Capital Assets, net	350	330
Restricted Investments	<u>1,529</u>	<u>1,529</u>
Total Non-current Assets	<u>1,879</u>	<u>1,859</u>
Total Assets	<u>18,300</u>	<u>18,815</u>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	2,746	2,114
Compensation Liabilities	292	241
Unearned Revenue	39	81
Accrued Prizes and Commissions	7,518	8,017
Other Accrued Liabilities	723	1,069
Compensated Absences	18	-
Obligations for Unpaid Prizes - Current Portion	<u>410</u>	<u>807</u>
Total Current Liabilities	<u>11,746</u>	<u>12,329</u>
<b>Non-current Liabilities:</b>		
Obligations for Unpaid Prizes - Noncurrent Portion	1,529	1,529
Compensated Absences	<u>428</u>	<u>443</u>
Total Non-current Liabilities	<u>1,957</u>	<u>1,972</u>
Total Liabilities	<u>13,703</u>	<u>14,301</u>
<b>Net Position</b>		
Net Investment in Capital Assets	350	330
Unrestricted	<u>4,247</u>	<u>4,184</u>
Total Net Position	<u>\$ 4,597</u>	<u>\$ 4,514</u>

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



**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEARS ENDED SEPTEMBER 30, 2017 and 2016  
*(Dollar Amounts in Thousands)*

	<u>2017</u>	<u>2016</u>
<b>Operating Revenues</b>		
Instant Games	\$ 50,318	\$ 51,838
Terminal Games	168,391	176,324
License and Permit Fees	<u>23</u>	<u>21</u>
Total Operating Revenues	<u>218,732</u>	<u>228,183</u>
<b>Operating Expenses</b>		
Prizes	130,035	132,045
Agent Commissions	14,409	14,958
Contractor Fees	6,907	7,148
Advertising	<u>6,504</u>	<u>6,248</u>
Total Direct Costs	157,855	160,399
Salaries	7,030	7,249
Professional	658	69
Contractual Services	4,368	4,128
Administration	3,211	2,948
Depreciation	<u>119</u>	<u>89</u>
Total Operating Expenses	<u>173,241</u>	<u>174,882</u>
<b>Operating Income</b>	45,491	53,301
Interest Income	<u>192</u>	<u>60</u>
<b>Net Income Before Transfers</b>	45,683	53,361
Transfer to General Fund	<u>(45,600)</u>	<u>(53,287)</u>
<b>Change In Net Position</b>	83	74
<b>Net Position, Beginning of Year</b>	<u>4,514</u>	<u>4,440</u>
<b>Net Position, End of Year</b>	<u>\$ 4,597</u>	<u>\$ 4,514</u>

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2017 and 2016**  
*(Dollar Amounts in Thousands)*

	<b>2017</b>	<b>2016</b>
<b>Operating Activities:</b>		
Cash Receipts from Customers	\$ 218,386	\$ 229,730
Cash Receipts from Others	215	80
Cash Payments to Vendors	(21,360)	(20,803)
Cash Payments to Employees	(6,976)	(7,207)
Cash Payments for Prizes and Commissions	(144,943)	(146,236)
<b>Net Cash and Equivalents Provided by Operating Activities</b>	<b>45,322</b>	<b>55,564</b>
<b>Cash Flows From Non-Capital Financing Activities</b>		
Transfers Out to the General Fund	(45,600)	(53,287)
<b>Cash Flows From Capital Financing Activities</b>		
Acquisition of Capital Assets	(139)	(251)
<b>Cash Flows From Investing Activities</b>		
Interest and Dividends	192	60
<b>Net (Decrease) Increase in Cash and Equivalents</b>	<b>(225)</b>	<b>2,086</b>
Cash and Cash Equivalents - Beginning of Year	12,375	10,289
Cash and Cash Equivalents - End of Year	<b>\$ 12,150</b>	<b>\$ 12,375</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ 45,491	\$ 53,301
Depreciation	119	89
<i>Effect of Changes in non-cash operating Assets and Liabilities</i>		
Receivables	(89)	1,580
Prepaid Expenses	2	(2)
Accounts Payable	632	(388)
Compensation Liabilities	54	42
Unearned Revenue	(42)	47
Accrued Prizes	(499)	767
Other Current Liabilities	(346)	128
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 45,322</b>	<b>\$ 55,564</b>
<b>Non-cash Investing and Financing Activities:</b>		
Obligations for Unpaid Prizes by Restricted Investments	<b>\$ 1,939</b>	<b>\$ 2,336</b>

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
SEPTEMBER 30, 2017 and 2016  
*(Dollar Amounts in Thousands)*

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**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 Charitable Games on October 1, 2016. In accordance with the law, the Lottery must remit its monthly gaming revenues, less prizes, operating expenses and a reserve not to exceed 2% of projected annual prize payments to the General Fund of the District.
- (b) **Measurement Focus and Basis of Accounting** --- The Lottery's basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The economic measurement focus reports all assets and liabilities associated with the operations and are included on the Statements of Net Position.
- (c) **Implementation of New Accounting Standards** --- In fiscal year 2017, the Lottery did not implement any pronouncements issued by the Government Accounting Standards Board (GASB):
- The GASB has issued Statement No. 85, entitled *Omnibus 2017*. This statement may or will have a material effect on the Lottery's financial statements once implemented.
- The Lottery will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.
- (d) **Basis of Presentation** --- The Lottery's financial transactions are accounted for as an enterprise fund in the District's financial statements. The accompanying financial statements are only those of the Lottery and are not intended to present the financial position, changes in financial position, and cash flows of the District taken as a whole. The District provides certain legal, central accounting and other services to the Lottery. The costs and revenue associated with these services are not reflected in these financial statements.
- (e) **Cash and Cash Equivalents** --- The Lottery participates in the District's pooled cash program whereby cash that is not needed for immediate disbursement is pooled with that of the District's and used to purchase current investments. In accordance with the law, the District may invest the pooled cash directly in, or through repurchase agreements, obligations of the United States or its agencies, which are fully guaranteed by the federal government, and in certificates of deposit, which are issued by federally insured banks. In accordance with District policies, substantially all deposits in the pooled cash program were insured or collateralized with securities held by the District or its agent in the District's name. Interest income from the investment of pooled cash is allocated to the Lottery based on the amount the Lottery invests in the pool. The Lottery considers the pooled cash to be cash equivalents for the purpose of cash flows because the pool may not hold the securities for more than 91 days. Cash and cash equivalents as of September 30, 2017 and 2016, respectively, were \$12,150 and \$12,375.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
 NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
 SEPTEMBER 30, 2017 and 2016  
*(Dollar Amounts in Thousands)*

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

The Lottery has the following recurring fair value measurements as of September 30, 2017:

- U.S. Government and Agency Securities of \$1,939 are valued using quoted market prices, (Level 1 inputs)

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

**(h) Allowance for Uncollectible Accounts** --- The Lottery establishes an allowance for uncollectible accounts for all accounts receivable over 180 days old.

**(i) Unclaimed Prizes** --- Prizes must be claimed within 180 days (D.C. Code § 3-1318) following the drawing date for each game. Prizes unclaimed beyond this period are forfeited by the ticket holder. Total prizes lapsed amounted to \$2,355 and \$2,636 for the fiscal years 2017 and 2016, respectively. These forfeited prizes are netted against prize expense in the Statements of Revenues, Expenses and Change in Net Position.

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

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

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

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
SEPTEMBER 30, 2017 and 2016  
*(Dollar Amounts in Thousands)*

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- (k) **Gaming Revenues** --- Gaming revenues consist of ticket sales and other related revenues including dividends and interest income, penalties assessed on delinquent agents' accounts, and charitable gaming fees. Revenues from terminal tickets are recorded as gaming revenues when the drawings are held. Terminal tickets sold in advance are recorded as unearned revenues until the drawings are held. Revenues are recorded when a terminal ticket is sold if the sale is not associated with a subsequent drawing. Revenues from instant tickets are recorded as gaming revenues when related packs are activated.
- (l) **Games and Prizes** --- The Lottery's main sources of income are from terminal and instant games. Terminal games are comprised of DC Three, DC Four, DC Five, Powerball, Mega Millions, Hot Lotto, Lucky for Life, Keno, Race2Riches, Fast Play and Tap-N-Play. The games are managed by Intralot through a contracted agreement with the Lottery.
- (m) **Prize Expense** --- Instant tickets prize expense is based on the prize payout percentage for each instant lottery game and is accrued as the related gaming revenue is earned. Prize expenses for terminal games, excluding the Powerball, Hot Lotto, Mega Millions, and Fast Play, are accrued based on the draw liability associated with drawings for the specific games. Powerball and Hot Lotto 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 MegaPlier sales. Fast Play prize expenses are recorded when applicable winning tickets are sold. The accrued prize liability represents a payable for prize amounts that have not been claimed as of the fiscal year-end. Prize expenses for all games are reduced by the sum of lapsed prizes not claimed during the required period of 180 days from the sales draw date for terminal games and the respective game closing date for instant games.
- (n) **Compensated Absences** --- The Lottery permits employees to accumulate earned but unused vacation and sick pay benefits depending on the employee's length of service. Employees may be required to use any excess of 240 hours of vacation benefits by a specified date. The Lottery accrues for accumulated vacation as the benefits are earned by employees.
- There is no maximum limit on the amount of unused sick pay benefits employees may accumulate. The Lottery does not accrue for non-vesting accumulating rights to receive sick pay benefits. Lottery employees participating in the Federal Civil Service Retirement System program may convert sick pay benefits to additional service time at the rate of one month for every 176 hours of sick leave not used at the point of retirement.
- (o) **Use of Estimates** --- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
SEPTEMBER 30, 2017 and 2016  
*(Dollar Amounts in Thousands)*

**NOTE 2      ACCOUNTS RECEIVABLE**

The components of accounts receivable as of September 30, 2017 and 2016 were as follows:

	<b>2017</b>	<b>2016</b>
Due from Agents:		
Terminal Games	\$ 2,732	\$ 2,695
Instant Games	1,384	913
Total Due from Agents	4,116	3,608
Other	-	416
Total Accounts Receivable	4,116	4,024
Allowance for Doubtful Accounts	(257)	(254)
	\$ 3,859	\$ 3,770

**NOTE 3      CAPITAL ASSETS**

A summary of capital assets as of September 30, 2017 and 2016 were as follows:

	<b>Balance as of October 1, 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance as of September 30, 2017</b>
<b>Cost:</b>				
Machinery and Equipment	\$ 3,318	\$ 139	\$ -	\$ 3,457
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Cost	4,095	139	-	4,235
<b>Less: Accumulated Depreciation</b>				
Machinery and Equipment	2,988	119	-	3,107
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Accumulated Depreciation	3,766	119	-	3,885
Capital Assets – Net	\$ 330	\$ 20	\$ -	\$ 350
	<b>Balance as of October 1, 2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance as of September 30, 2016</b>
<b>Cost:</b>				
Machinery and Equipment	\$ 3,068	\$ 251	\$ -	\$ 3,318
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Cost	3,846	251	-	4,095
<b>Less: Accumulated Depreciation</b>				
Machinery and Equipment	2,899	89	-	2,988
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Accumulated Depreciation	3,677	89	-	3,766
Capital Assets – Net	\$ 169	\$ 162	\$ -	\$ 330

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF LOTTERY AND CHARITABLE GAMES**  
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
SEPTEMBER 30, 2017 and 2016  
*(Dollar Amounts in Thousands)*

**NOTE 4      MULTI-STATE LOTTERY ASSOCIATION (MUSL)**

**(a) *Background***

The Lottery is a member of the Multi-State Lottery Association (MUSL). MUSL has thirty-three (33) members and administers multi-state lottery games. Powerball was initiated on April 20, 1992 and is a semi-weekly pari-mutuel drawing with a minimum grand prize of \$20,000. Hot Lotto was implemented on April 5, 2004 and is a semi-weekly pari-mutuel drawing with a minimum grand prize of \$1,000. All MUSL members remit a portion of their Powerball and Hot Lotto revenues to MUSL for the prize payments and administrative expenses of the respective games.

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

Lotto-America and 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 Lotto-America and Powerball winners who purchased their winning tickets from the Lottery. MUSL is responsible for providing the Lottery cash to fund these installment payments.

As of September 30, 2017 and 2016, MUSL had purchased for the Lottery, U.S. government securities aggregating \$2,010 and \$2,410, respectively to fund future installment payments for the Lottery's Lotto-America and Powerball winners.

The market value of these securities was \$1,939 and \$2,336 as of September 30, 2017 and 2016, respectively. The investments provide the Lottery cash payments corresponding to the Lottery's obligations to the prize winners. The Lottery has reflected the market value of the securities as restricted investments and as corresponding obligations for unpaid prizes on the statements of net position. All restricted investments are insured and registered or are held by the Lottery or its agent in the Lottery's name.

As of September 30, 2017, the Lottery had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. Government and Agency Securities	\$1,939	\$410	\$1,529	\$ -	\$ -

As of September 30, 2016, the Lottery had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. Government and Agency Securities	\$2,336	\$807	\$1,529	\$ -	\$ -

These investments are obligations explicitly guaranteed by the U.S. government and are held for prize annuities based on quoted market prices. The fair value of the liabilities is based on current interest rates of the related U.S. government security held to fund annuity obligations. MUSL's investment policy limits its exposure to credit risk by investing only in securities that are backed by the full faith and credit of the U.S. government or its agencies.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
SEPTEMBER 30, 2017 and 2016  
*(Dollar Amounts in Thousands)*

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As of September 30, 2017 and 2016, the Lottery had an interest in a SEC 2a7 pooled government cash management fund of \$10; the pool was not rated.

The prize pool for Powerball consists of 50% of each drawing period's sales. Two percent of the prize pool is placed in a prize reserve fund and a set prize reserve fund. These reserve funds serve as contingency funds to protect MUSL from unforeseen liabilities. As of September 30, 2017 and 2016, the total Powerball prize reserve fund was approximately \$81,439 and \$74,232 respectively, of which the Lottery's share was approximately \$380 and \$396, respectively. In addition, the total Powerball set aside prize reserve fund as of September 30, 2017 and 2016 was approximately \$29,582 and \$39,962 respectively, of which the Lottery's share was approximately \$124 and \$172, respectively.

The balance remaining in the reserve funds are refundable to MUSL members if a member leaves or if MUSL disbands. If a member leaves, the member must wait a year before their portion of the prize reserve funds is returned. The balance in the reserve funds may be used at the discretion of MUSL's Board of Directors. Accordingly, the Lottery's share of the reserve funds is not reflected in the accompanying financial statements.

The prize pool for Mega Millions consists of 50% of each drawing period's sales. Two percent of the prize pool is placed in a prize reserve fund and a set prize reserve fund. These reserve funds serve as contingency funds to protect MUSL from unforeseen liabilities. As of September 30, 2017 and 2016, the total Mega Millions prize reserve fund was approximately \$39,562 and \$35,642 respectively, of which the Lottery's share was approximately \$262 and \$260, respectively.

The balance remaining in the reserve funds are refundable to MUSL members if a member leaves or if MUSL disbands. If a member leaves, the member must wait a year before their portion of the prize reserve funds is returned. The balance in the reserve funds may be used at the discretion of MUSL's Board of Directors. Accordingly, the Lottery's share of the reserve funds is not reflected in the accompanying financial statements.

The prize pool for Hot Lotto consists of 50% of each drawing period's sales. The 50% contribution to the prize pool is distributed to grand prizes and a prize reserve fund based on the following jackpot levels:

- \$1,000,000 to \$2,000,000     52.5763% to grand prize
- \$2,000,000 to \$5,000,000     52.5763% to grand prize plus 1.00% to prize reserve fund
- \$5,000,000 to 10,000,000     52.5763% to grand prize plus 3.00% to prize reserve fund

The prize reserve fund serves as a contingency fund to protect MUSL from unforeseen liabilities. As of September 30, 2017 and 2016, the total Hot Lotto prize reserve fund was approximately \$6,373 and \$6,373, respectively, of which the Lottery's share was approximately \$303 and \$303, respectively. The balance in the prize reserve fund may be used at the discretion of the MUSL's Board of Directors. The Lottery's share of the prize reserve fund is not reflected in the accompanying financial statements.



**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
SEPTEMBER 30, 2017 and 2016  
*(Dollar Amounts in Thousands)*

**(c) Credit Risk**

In order to control credit risk, the Lottery invests only in obligations of the United States Government or Agency securities. As of September 30, 2017, 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, 2017, the Lottery's investments were not exposed to custodial credit risk.

**NOTE 5 OBLIGATIONS FOR UNPAID PRIZES**

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

	<b>Jackpot</b>	
	<b>As of September 30,</b>	
	<b>2017</b>	<b>2016</b>
Jackpot Prizes Payable:		
Due Within One Year	\$ 410	\$ 807
Due in Subsequent Years	1,529	1,529
Total (Present Value)	1,939	2,336
Add: Interest to Maturity	71	74
Jackpot Prizes Payable at Maturity	\$ 2,010	\$ 2,410

The unamortized discount on the prizes payable is based on interest rates which range from 1.255% to 2.357% and reflect the interest rates earned by the investments held to fund the related liabilities.

The aggregate amount of prizes payable due in each of the five years following September 30, 2017, was as follows:

2018	\$	410
2019		400
2020		400
2021		400
2022		400
Total	\$	2,010

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
SEPTEMBER 30, 2017 and 2016  
*(Dollar Amounts in Thousands)*

The following schedule presents the changes in prizes payable:

<b>Balance as of October 1, 2015</b>	\$ 3,422
Increase	74
Decrease	(1,160)
<b>Balance as of October 1, 2016</b>	2,336
Increase	71
Decrease	(468)
<b>Balance as of September 30, 2017</b>	\$ 1,939

**NOTE 6 GAMING REVENUES AND EXPENSES**

Gaming revenues and expenses for the fiscal years ended September 30, 2017 and 2016 were as follows:

Index Class	Gaming Revenue	Prizes	Agent Commissions	Contractor Fees	Advertising	Gross Margin
<b>Fiscal Year 2017</b>						
DC 3	\$ 42,030	\$ (19,646)	\$ (2,691)	\$ (1,327)	\$ (1,250)	\$ 17,116
DC FIVE	21,934	(11,946)	(1,241)	(693)	(652)	7,402
DC FOUR	56,322	(30,974)	(3,621)	(1,779)	(1,675)	18,273
FAST PLAY	8,575	(6,531)	(611)	(271)	(255)	907
HOT LOTTO	470	(202)	(26)	(15)	(14)	213
INSTANT	50,318	(37,798)	(3,789)	(1,589)	(1,496)	5,646
KENO	7,854	(4,818)	(533)	(248)	(234)	2,021
LUCKY FOR LIFE	2,306	(1,413)	(153)	(73)	(69)	599
MEGA MILLIONS	5,193	(2,553)	(278)	(164)	(154)	2,044
POWERBALL	11,544	(5,585)	(608)	(365)	(343)	4,643
RACE2RICHES	9,188	(6,253)	(641)	(290)	(273)	1,731
TAP-N-PLAY	2,975	(2,316)	(217)	(94)	(88)	260
OTHER	23	-	-	-	-	23
<b>Total</b>	<b>\$ 218,732</b>	<b>\$ (130,035)</b>	<b>\$ (14,409)</b>	<b>\$ (6,907)</b>	<b>\$ (6,504)</b>	<b>\$ 60,877</b>
<b>Fiscal Year 2016</b>						
DC 3	\$ 43,487	\$ (20,972)	\$ (2,803)	\$ (1,362)	\$ (1,191)	\$ 17,159
DC FIVE	19,155	(10,197)	(1,106)	(601)	(525)	6,726
DC FOUR	55,486	(26,062)	(3,427)	(1,738)	(1,519)	22,740
FAST PLAY	8,460	(7,204)	(621)	(265)	(232)	138
HOT LOTTO	2,158	(1,028)	(122)	(68)	(59)	881
INSTANT	51,838	(39,161)	(3,944)	(1,624)	(1,419)	5,690
KENO	8,642	(5,251)	(588)	(271)	(237)	2,295
LUCKY FOR LIFE	2,612	(1,458)	(172)	(82)	(72)	828
MEGA MILLIONS	6,322	(3,123)	(339)	(198)	(173)	2,489
POWERBALL	16,442	(7,824)	(871)	(515)	(450)	6,782
RACE2RICHES	10,193	(7,143)	(719)	(319)	(279)	1,733
TAP-N-PLAY	3,367	(2,622)	(246)	(105)	(92)	302
OTHER	21	-	-	-	-	21
<b>Total</b>	<b>\$ 228,183</b>	<b>\$ (132,045)</b>	<b>\$ (14,958)</b>	<b>\$ (7,148)</b>	<b>\$ (6,248)</b>	<b>\$ 67,784</b>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
SEPTEMBER 30, 2017 and 2016  
*(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 1<sup>st</sup> 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, 2017 and 2016, the Lottery's net transfers to the General Fund of the District were \$45,600 and \$53,287 respectively.

**NOTE 8      LONG-TERM LIABILITIES**

The following summarizes long-term liabilities as of September 30, 2017 and 2016:

	<b>Balance as of 9/30/2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance as of 9/30/2017</b>	<b>Amount Due Within One Year</b>
Obligations for Unpaid Prizes	\$ 2,336	\$ -	\$ (397)	\$ 1,939	\$ 410
Compensated Absences	443	447	(444)	446	18
Total Long-term Liabilities	<u>\$ 2,779</u>	<u>\$ 447</u>	<u>\$ (841)</u>	<u>\$ 2,385</u>	<u>\$ 428</u>

  

	<b>Balance as of 9/30/2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance as of 9/30/2016</b>	<b>Amount Due Within One Year</b>
Obligations for Unpaid Prizes	\$ 3,422	\$ -	\$ (1,086)	\$ 2,336	\$ 807
Compensated Absences	439	4	-	443	-
Total Long-term Liabilities	<u>\$ 3,861</u>	<u>\$ 4</u>	<u>\$ (1,086)</u>	<u>\$ 2,779</u>	<u>\$ 807</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 \$27 and \$26 for the years ended September 30, 2017 and 2016, respectively. The number of Lottery employees covered under the Federal Civil Service Retirement System is 5. The Lottery contributes for an IT employee of the Office of the Chief Technology Officer (OCTO) who works at the Lottery.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
SEPTEMBER 30, 2017 and 2016  
*(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 \$242 and \$189 for the fiscal years ended September 30, 2017 and 2016, 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 \$18 in 2017 and in 2016. 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>
2018	\$ 1,931
2019	1,978
2020	2,026
2021	2,074
2022	2,124
2023-2027	11,417
2028-2029	5,036
Total	<u>\$ 26,586</u>

Rent expense for the fiscal years ended September 30, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Rent Expense	<u>\$ 2,067</u>	<u>\$ 2,174</u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**OFFICE OF LOTTERY AND CHARITABLE GAMES**  
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
SEPTEMBER 30, 2017 and 2016  
*(Dollar Amounts in Thousands)*

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**(b) Annuity Contracts**

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

**(c) Risk of Loss**

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

**NOTE 11 RELATED PARTY TRANSACTIONS**

The Lottery usually has related party transactions with the Office of the Chief Financial Officer (OCFO) of the District of Columbia Government to provide financial and managerial oversight. These services included, but were not limited to, internal audit and internal security, legal, human resources, procurement, financial management, and executive management oversight services. The annual contractual cost was \$653 and \$1,530 in fiscal years 2017 and 2016, 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, 2017. Events and transactions were evaluated through January 10, 2018, the date the financial statements were available to be issued.



**INDEPENDENT PUBLIC ACCOUNTANTS REPORT ON INTERNAL CONTROLS OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the District of Columbia Office of Lottery and Charitable Games (the Lottery), an enterprise fund of the Government of the District of Columbia, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statement as listed in the table of contents, and have issued our report thereon dated January 10, 2018.

f

**Internal Controls over Financial Reporting**

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

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

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



## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

Washington, DC  
January 10, 2018