

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

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

SEPTEMBER 30, 2016 AND 2015

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
SEPTEMBER 30, 2016 and 2015

TABLE OF CONTENTS

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



S B & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

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 Lottery and Charitable Games Control Board
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying statements of net position of the District of Columbia Lottery and Charitable Games Control Board (the Lottery), an enterprise fund of the Government of the District of Columbia, as of and for the years ended September 30, 2016 and 2015, the related statements of revenues, expenses, and changes 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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



S B & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

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, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2016 and 2015, 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 December 27, 2016, on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 control over financial reporting and compliance.

Washington, D.C.
December 27, 2016

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016 and 2015
(Dollar Amounts in Thousands)

The discussion and analysis of the D.C. Lottery and Charitable Games Control Board's (the Lottery) financial performance provides an overview of its financial activities for the fiscal years ended September 30, 2016 and 2015. 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 increased by \$15,688 or 7.38% from the prior year amount.
- The Lottery generated ticket sales of \$228,162 for an increase of \$15,813 or 7.45% more than the prior year total of \$212,349.
- Total operating expenses increased by \$18,120 or 11.56% primarily because of higher prize payouts.
- Prize payouts in 2016 increased by \$16,767 or 14.54% compared to 2015 and reflected a payout rate of 57.87% of ticket sales versus 54.26% the prior year.
- Contractor's fees increased by \$371 or 5.47% from the prior year due to increased sales.
- Transfers to the District's General Fund decreased by \$2,299, equivalent to 4.14% below the prior year's total due to increased prize payouts.

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 and Mega Million 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 Changes in Net Position; and the Statements of Cash Flows. These statements present financial information in a form that is similar to that used by commercial entities.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2016 and 2015
(*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 Changes 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, capital and non-capital financing and investing activities.

Financial Analysis

The Lottery's net position increased by \$74, \$158 and \$150 for the years ended September 30, 2016, 2015 and 2014, respectively. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2016, 2015, and 2014.

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

	September 30		
	2016	2015	2014
Assets:			
Current and Other Assets	\$ 16,149	\$ 15,641	\$ 14,067
Capital Assets (net of accumulated depreciation)	330	169	270
Restricted Investments	2,336	3,422	6,282
Total Assets	<u>18,815</u>	<u>19,232</u>	<u>20,619</u>
Liabilities:			
Accounts Payable and Accrued Expenses	3,867	4,086	3,390
Unearned Revenue	81	34	66
Accrued Prizes and Commissions	8,017	7,250	6,599
Obligations for Unpaid Prizes – Short-term	807	1,160	2,962
Obligations for Unpaid Prizes – Long-term	1,529	2,262	3,320
Total Liabilities	<u>14,301</u>	<u>14,792</u>	<u>16,337</u>
Net Position:			
Net Investment in Capital Assets	330	169	270
Unrestricted	4,184	4,271	4,012
Total Net Position	<u>\$ 4,514</u>	<u>\$ 4,440</u>	<u>\$ 4,282</u>

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2016 and 2015
(Dollar Amounts in Thousands)

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

	Years Ended September 30		
	2016	2015	2014
Operating Revenues:			
Gaming Revenues	\$ 228,183	\$212,495	\$216,040
Operating Expenses:			
Prizes	132,045	115,278	121,272
Other	42,837	41,484	39,666
Total Operating Expenses	<u>174,882</u>	<u>156,762</u>	<u>160,938</u>
Operating Income	53,301	55,733	55,102
Non-operating Revenues – Interest and Dividends Income before Transfers	<u>60</u>	<u>11</u>	<u>14</u>
	53,361	55,744	55,116
Transfers to the District's General Fund	<u>(53,287)</u>	<u>(55,586)</u>	<u>(54,966)</u>
Change in Net Position	<u>\$ 74</u>	<u>\$ 158</u>	<u>\$ 150</u>

Unrestricted net position was \$4,184, \$4,271 and \$4,012 as of September 30, 2016, 2015 and 2014, which represents a decrease of \$87, and an increase of \$158 and \$307, respectively. Current and other assets increased by \$508 in 2016, increased by \$1,574 in 2015 and decreased by \$1,415 in 2014, respectively. Total liabilities decreased \$491 or 3.33%, decreased \$1,545 or 9.46% and \$5,640 or 25.66% for the years ended September 30, 2016, 2015 and 2014, 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 \$2,336, \$3,422 and \$6,282 as of September 30, 2016, 2015 and 2014, respectively, represents the net present value of securities totaling \$2,410, \$3,560 and \$6,522 as September 30, 2016, 2015 and 2014, respectively, to fund future annuity installment payments. The restricted investments value decreased by \$1,086, \$2,860, and \$3,918 during fiscal years 2016, 2015 and 2014, respectively, due to payments of \$1,150, \$2,962 and \$4,010, net of unrealized gains of \$74, \$128 and \$153 in fiscal years 2016, 2015 and 2014, respectively. Accretion of investments totaled negatives of \$285 in 2016, \$428 in 2015 and \$60 in 2014, respectively. Corresponding amounts are recorded as obligations for unpaid prizes.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
SEPTEMBER 30, 2016 and 2015
(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
Fiscal Year 2016							
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	-
Total	\$ 228,183	\$(132,045)	\$ (14,958)	\$ (7,148)	\$ (6,248)	\$ 67,784	\$ 53,287
Fiscal Year 2015							
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	-
Total	\$ 212,495	\$(115,278)	\$ (13,778)	\$ (6,777)	\$ (6,224)	\$ 70,438	\$ 55,586
Fiscal Year 2014							
DC 3	\$ 46,171	\$ (22,600)	\$ (2,985)	\$ -	\$ -	\$ 20,586	\$ 12,500
DC FIVE	16,683	(8,648)	(950)	-	-	7,085	2,625
DC FOUR	56,924	(27,281)	(3,537)	-	-	26,106	18,700
FAST PLAY	9,669	(7,249)	(682)	-	-	1,738	300
HOT LOTTO	3,560	(1,733)	(202)	-	-	1,625	1,475
INSTANT	40,420	(29,094)	(3,062)	-	-	8,264	7,021
KENO	11,585	(7,391)	(797)	-	-	3,397	1,950
MEGA MILLIONS	8,880	(4,293)	(523)	-	-	4,064	2,975
POWERBALL	11,850	(5,648)	(719)	-	-	5,483	6,955
RACE2RICHES	7,731	(5,368)	(535)	-	-	1,828	400
TAP-N-PLAY	2,545	(1,967)	(185)	-	-	393	65
OTHER	22	-	-	-	-	-	-
Total	\$ 216,040	\$(121,272)	\$ (14,177)	\$ (8,195)	\$ (5,742)	\$ 66,654	\$ 54,966

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2016 and 2015
(*Dollar Amounts in Thousands*)

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 \$228,183, \$212,495 and \$216,040 in fiscal years 2016, 2015 and 2014, respectively. Prize expenses increased \$16,767 or 14.54% in 2016, decreased \$5,994 or 4.94% in 2015 and \$8,153 or 6.30% in 2014. Total prize payouts as a percentage of gaming revenue was 57.85%, 54.25% and 56.13% in fiscal years 2016, 2015 and 2014, respectively. Agents' commissions increased \$1,180 in 2016, decreased \$399 in 2015 and \$1,420 in 2014, 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 2016, sales 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. Sales in 2014 were \$46,171 for a \$2,942 or 5.99% reduction below 2013. The game continues to be impacted by the economic downturn and demographic changes in the District's population. The Lottery Board continues to strategically implement marketing and promotional campaigns in an attempt to stabilize and enhance sales for the game.

Prizes amounted to \$20,972 in 2016, for a \$218 or 1.05% increase over the prior year. Prizes amounted to \$20,754 in 2015, for a \$1,846 or 8.17% decrease below 2014. Prizes amounted to \$22,600 in 2014, for a \$3,480 or 13.34% decrease below 2013. Agent or retailer commissions expense decreased by \$18 primarily due to the noted decrease in sales. Net proceeds to the District's General Fund 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 transfer in 2014 was \$12,500 or a 34.65% decrease compared to 2013. The DC Three game accounted for 19.05% of total gaming revenue and 25.29% of the overall gross margin. The game reflected a decrease of 1.63% in gaming revenue percentage contribution and a decrease of 3.62% in gross margin percentage contribution due to lower sales and agent/retailer commissions 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 \$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. Ticket sales were \$56,924 in 2014, for a \$3,131 or 5.21% decrease from the \$60,055 generated in 2013. While the game saw a slight increase in sales, which could be attributed to increased prize payouts, it continues to be impacted by economic conditions and demographic changes in the District.

Prizes in 2016 totaled \$26,062, an increase of \$4,211 or 19.27% over the prior year. FY 2015 prize expense totaled \$21,851 a decrease of \$5,430 or 19.90% from 2014. FY 2014 total prize expense was \$27,281, representing a \$1,682 or 6.57% increase over the \$25,599 paid out in 2013. 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. Transfers to the District's General Fund in 2014 represented a \$6,469 or 25.70% decrease from the \$25,169 transferred in 2013. The increase in prize payouts accounts for the decrease in the transfer amount. The DC Four game was responsible for 24.31% of total gaming revenue and 33.52% of the overall gross margin. The 1.74% decrease in gaming revenue contribution rate and 9.38% decrease in gross margin contribution percentages from over the prior year amounts is directly associated to the increase in scratcher sales, and higher commissions and prize payouts.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2016 and 2015
(*Dollar Amounts in Thousands*)

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 2016, ticket sales totaled \$19,155, which represents a \$1,011 or 5.57% increase over the prior year. Prizes and agent/retailer commissions in 2016 amounted to \$10,197 and \$1,106, respectively. The result was an increase in prizes of \$1,007 or 10.96% and an increase to commissions of \$89 or 8.75% over the prior year. The game generated \$5,291 in transfer to the District's General Fund in 2016 or \$107 or 1.98% less than 2015. The increase in prizes and commissions essentially accounts for the decrease in the transfer.

Sales totaled \$18,144 in 2015, which represented a \$1,461 or 8.76% increase over 2014's total of \$16,683. Ticket sales totaled \$16,683 in 2014 and represented a \$532 or 3.29% increase over 2013. Prizes and agent/retailer commissions in 2015 and 2014 amounted to \$9,190 and \$8,648 and \$1,017 and \$950, respectively. The game generated \$5,398 and \$2,625 in transfers to the District's General Fund in 2015 and 2014, 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 \$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.

Powerball sales totaled \$11,027 in 2015, representing an \$823 or 6.95% decrease below the \$11,850 generated in 2014. The Multi-State Lottery Association and Mega Millions conglomerates agreed to allow respective member states to cross sell tickets in January 2010. The reduction in ticket sales can be attributed to the lack of higher jackpots that decreased player participation and sales volume. Powerball sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$5,247 in 2015, representing a \$401 or 7.10% decrease from the \$5,648 expensed in 2014. Prize expense decreased due to lower sales intake in 2015 and was reduced by lapsed prizes. The decrease in ticket sales, and the allocation of transfer based on gaming revenue percentage accounts for the \$3,381 decrease in transfers to the District's General Fund to \$3,574 from the \$6,955 transferred in 2014.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2016 and 2015
(*Dollar Amounts in Thousands*)

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 \$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 in 2016, representing a \$69 or 2.16% decrease from the \$3,192 expensed in 2015. Prizes were expensed at the rate of 49.40% of overall ticket sales in 2016. The noted decrease in 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.

Mega Millions sales totaled \$6,532 in 2015, representing a \$2,348 or 26.44% decrease of the \$8,880 generated in 2014. 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 \$3,192 and \$4,293, respectively, in 2015 and 2014. Mega Millions prizes were expensed at the rate of 48.87% of overall ticket sales in 2015. Ticket sales offset by overall operating costs resulted in a transfer to the District's General Fund of \$2,074 in 2015 or \$901 less than the \$2,975 produced in 2014.

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 experienced some cannibalization to the Lottery's new Race 2 Riches game. The game continues to be marketed through targeted awareness and promotional campaigns.

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. Agent/retailer commissions totaled \$588 or 11.71% less than the \$666 expensed in 2015. Transfers to the District's General Fund decreased \$184 to \$1,806 in 2016 from the \$1,990 transferred in 2015. The decrease in transfer is attributed to the decrease in sales.

Ticket sales for Keno 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.

Keno sales totaled \$11,585 in 2014, representing a \$208 or 1.76% decrease from the 2013 sales total of \$11,793. Prizes expense decreased by \$321 to \$7,391 in 2014 when compared to the \$7,712 expensed in 2013. Transfers to the District's General Fund decreased 987 to \$1,950 in 2014 from the \$2,937 transferred in 2013.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2016 and 2015
(*Dollar Amounts in Thousands*)

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 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 \$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.

Hot Lotto ticket sales increased to \$3,560 in 2014, representing a \$165 or 4.86% increase over the \$3,395 generated in 2013. The increase in sales in 2014 over prior year's total is primarily the result of higher jackpots. Prize expense increased to \$1,733 and the agents/retailer commission expenses totaled \$202 and reflected a \$42 or 26.25% increase in 2014 from the \$160 expensed in 2013. The advertising cost reduced by over 52%, while the professional services fees decreased by almost 18%. Other operating expenses essentially remained the same as prior year amounts. The \$454 increase in transfers to the District's General Fund in 2014 to \$1,475 from the 2013 transfer amount of \$1,021 is primarily attributed to a decrease in the prize payout percentage.

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 \$2,612 in 2016, \$151 or 6.14% more than the \$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.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2016 and 2015
(*Dollar Amounts in Thousands*)

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 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 \$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.

Race2Riches ticket sales amounted to \$7,731 in 2014, representing a \$345 or 4.27% decrease below the \$8,076 generated in 2013. The decrease in sales in 2014 below the prior year's total was primarily because of the lack of a long-term instant ticket contract and a significant decrease in instant ticket sales. Instant ticket sales indirectly affect the lottery games portfolio. Prize expense increased to \$5,368 in 2014 from \$5,081 in 2013, which represented a \$287 or 5.65% increase over 2013. The \$660 decrease in transfers to the District's General Fund in 2014 to \$400 from the 2013 transfer amount of \$1,060 is attributed to the increased game prize expense.

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 \$8,460 in 2016, a decrease of \$8,549 or 50.26% below the \$17,009 in 2015. The decrease in sales is attributed to the return of instant tickets and the removal of fast play games from the Instant Ticket Vending Machines (ITVM's). Prize and agent/retailer commissions totaled \$7,825, \$14,041 and \$7,931 for fiscal years 2016, 2015 and 2014, respectively. Transfers to the District's General Fund amounted to \$108, \$1,524 and \$300 for fiscal years 2016, 2015 and 2014, respectively.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2016 and 2015
(*Dollar Amounts in Thousands*)

TAP-N-PLAY --- Tap-N-Play games are touch activated, interactive, instant win style terminal games played through self-service terminal (MP). Players use the touch screen of the terminal to choose the games and game parameters (price points, numbers, play board etc.). The games are presented in high-quality graphic animations and sounds. Tap-N-Play games launched on April 5, 2013, with 2 games, and are being expanded to accommodate various play styles and themes. Currently, D.C. Lottery offers eight (8) different types of games with \$1, \$2, \$3, \$5, \$10 and \$20 price points. Play style includes number/symbol match, bingo, reveal symbol, double or nothing and high/low. Overall odds of winning are 1 in 3.66.

Ticket sales amounted to \$3,367 and \$3,066 in fiscal years 2016 and 2015, respectively. The prize expense was \$2,622 and \$2,333 and amounted to a 77.87% and 76.09% prize payout rate in 2016 and 2015, respectively. Agent/retailer commissions were \$246 in 2016 and \$222 in 2015. Transfers to the District's General Fund were \$236 and \$255 and represented 7.01% and 8.32% of sales for 2016 and 2015, respectively. The increase in the transfer to the General Fund is primarily because of the increased 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 \$51,838 in 2016, representing a \$19,229 or 58.97% increase over the 2015 sales of \$32,609. This is primarily the result of the return of a full portfolio of instant tickets and a substantial increase in game revenue.

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 revenue.

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 revenue.

Instant ticket sales amounted to \$40,420 in 2014, representing a \$16,737 or 29.28% decrease from 2013 sales of \$57,157. Prizes in 2014 totaled \$29,094 for an \$11,252 or 27.89% decrease from the \$40,346 expensed in 2013. Agent/retailer commissions totaled \$3,062 in 2014 for a \$1,226 or 28.59% decrease from the \$4,423 expensed in 2013. Transfers to the District's General Fund increased \$1,974 to \$7,021 in 2014 over the \$5,047 generated in 2013 as a result of a decrease in prize expense.

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 75.54% and 74.47% as a percentage of tickets sold in 2016 and 2015, 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.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2016 and 2015
(*Dollar Amounts in Thousands*)

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 \$49 in fiscal year 2016, and decreased by \$3 and \$18 in 2015 and 2014, respectively. Interest income has been severely impacted by market conditions, the national economy, and other factors beyond the control of individual entities.

Other income decreased \$126 to \$20 in 2016. It also increased \$124 to \$146 and decreased \$8 to \$22 in 2015 and 2014. Refunds from MUSL as a result of rebalancing reserve funds and distributions of excess contributions by participating members amounted to \$0, \$0, and \$0 in fiscal years 2016, 2015, and 2014, respectively.

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 D.C. Lottery and Charitable Games Control Board, 2235 Shannon Place, SE, Fifth Floor, Washington, D.C. 20020.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2016 and 2015
(Dollar Amounts in Thousands)

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 12,375	\$ 10,289
Accounts Receivable, net	3,770	5,350
Prepaid Expenses and Other	4	2
Restricted Investments	<u>807</u>	<u>1,160</u>
Total Current Assets	<u>16,956</u>	<u>16,801</u>
Non-current Assets:		
Capital Assets, net	330	169
Restricted Investments	<u>1,529</u>	<u>2,262</u>
Total Non-current Assets	<u>1,859</u>	<u>2,431</u>
Total Assets	<u>18,815</u>	<u>19,232</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,114	2,502
Compensation Liabilities	241	204
Unearned Revenue	81	34
Accrued Prizes and Commissions	8,017	7,250
Other Accrued Liabilities	1,069	941
Obligations for Unpaid Prizes - Current Portion	<u>807</u>	<u>1,160</u>
Total Current Liabilities	<u>12,329</u>	<u>12,091</u>
Non-current Liabilities:		
Obligations for Unpaid Prizes - Noncurrent Portion	1,529	2,262
Compensated Absences	<u>443</u>	<u>439</u>
Total Non-current Liabilities	<u>1,972</u>	<u>2,701</u>
Total Liabilities	<u>14,301</u>	<u>14,792</u>
Net Position		
Net Investment in Capital Assets	330	169
Unrestricted	<u>4,184</u>	<u>4,271</u>
Total Net Position	<u>\$ 4,514</u>	<u>\$ 4,440</u>

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2016 and 2015
(Dollar Amounts in Thousands)

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Instant Games	\$ 51,838	\$ 32,609
Terminal Games	176,324	179,740
License and Permit Fees	<u>21</u>	<u>146</u>
Total Operating Revenues	<u>228,183</u>	<u>212,495</u>
Operating Expenses		
Prizes	132,045	115,278
Agent Commissions	14,958	13,778
Contractor Fees	7,148	6,777
Advertising	<u>6,248</u>	<u>6,224</u>
Total Direct Costs	160,399	142,057
Salaries	7,249	7,009
Professional	69	68
Contractual Services	4,128	3,768
Administration	2,948	3,726
Depreciation	<u>89</u>	<u>134</u>
Total Operating Expenses	<u>174,882</u>	<u>156,762</u>
Operating Income	53,301	55,733
Interest Income	<u>60</u>	<u>11</u>
Net Income Before Transfers	53,361	55,744
Transfer to General Fund	<u>(53,287)</u>	<u>(55,586)</u>
Change In Net Position	74	158
Net Position, Beginning of Year	<u>4,440</u>	<u>4,282</u>
Net Position, End of Year	<u>\$ 4,514</u>	<u>\$ 4,440</u>

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2016 and 2015
(Dollar Amounts in Thousands)

	2016	2015
Operating Activities:		
Cash Receipts from Customers	\$ 229,730	\$ 211,712
Cash Receipts from Others	80	98
Cash Payments to Vendors	(20,803)	(19,914)
Cash Payments to Employees	(7,207)	(6,911)
Cash Payments for Prizes and Commissions	(146,236)	(128,406)
Net Cash and Equivalents Provided by Operating Activities	55,564	56,579
Cash Flows From Capital and Related Financing Activities		
Acquisition of Fixed Assets	(251)	(33)
Cash Flows From Non-Capital Financing Activities		
Transfers Out to the General Fund	(53,287)	(55,586)
Cash Flows From Investing Activities		
Interest and Dividends	60	11
Net Increase in Cash and Equivalents	2,086	971
Cash and Cash Equivalents - Beginning of Year	10,289	9,318
Cash and Cash Equivalents - End of Year	\$ 12,375	\$ 10,289
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 53,301	\$ 55,733
Depreciation	89	134
<i>Changes in non-cash operating Assets and Liabilities</i>		
Receivables	1,580	(604)
Prepaid Expenses	(2)	1
Accounts Payable	(388)	503
Compensation Liabilities	42	50
Unearned Revenue	47	(32)
Accrued Prizes	767	651
Other Current Liabilities	128	143
Net Cash Provided by Operating Activities	\$ 55,564	\$ 56,579
Non-cash Investing and Financing Activities:		
Obligations for Unpaid Prizes by Restricted Investments	\$ 2,336	\$ 3,422

The accompanying notes are an integral part of these financial statements

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2016 and 2015
(Dollar Amounts in Thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) **Organization** --- The Lottery and Charitable Games Control Board (the Lottery) was established by Public Law 3-172 as an independent agency of the Government of the District of Columbia (the District). 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 Principles** --- In fiscal year 2016, the Lottery implemented the following pronouncements issued by the Government Accounting Standards Board (GASB):

The Governmental Accounting Standard Board (GASB) issued Statement No. 72, entitled *Fair Value Measurement and Application*. This statement was adopted this fiscal year and the effect has been disclosed in the notes to the accompanying financial statements.

The GASB has issued Statement No. 75, entitled *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*; Statement No. 78, entitled, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*; GASB Statement No. 79, entitled, *Certain External Investment Pools and Pools Participants*; GASB Statement No. 80, entitled, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*; GASB Statement No. 81; entitled, *Irrevocable Split-Interest Agreements*; GASB Statement No. 82, entitled, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, and GASB Statement 83, entitled, *Certain Asset Retirement Obligations*, which will require adoption in the future, if applicable. These statements 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.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

SEPTEMBER 30, 2016 and 2015

(Dollar Amounts in Thousands)

- (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, 2016 and 2015, respectively, were \$12,375 and \$10,289.
- (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, 2016:
- U.S. Government and Agency Securities of \$2,336 are valued using quoted market prices, (Level 1 inputs)
- (g) **Revenues and Accounts Receivable (A/R) Recognition** --- Revenue and A/R from terminal tickets are recorded when the drawings are held. Terminal tickets sold in advance of draws are recorded as unearned revenue. Revenue 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 (Public Law 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 \$2,636 and \$2,489 for the fiscal years 2016 and 2015, respectively. These forfeited prizes are netted against prize expense in the Statements of Revenues, Expenses and Changes 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:

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

SEPTEMBER 30, 2016 and 2015

(Dollar Amounts in Thousands)

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

(k) *Gaming Revenues* --- Gaming revenues consist of ticket sales and other related revenue 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 revenue 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
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
 NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
 SEPTEMBER 30, 2016 and 2015
(Dollar Amounts in Thousands)

NOTE 2 ACCOUNTS RECEIVABLE

The components of accounts receivable as of September 30, 2016 and 2015 were as follows:

	2016	2015
Due from Agents:		
Terminal Games	\$ 2,695	\$ 2,301
Instant Games	913	3,081
Total Due from Agents	3,608	5,382
Other	416	166
Total Accounts Receivable	4,024	5,548
Allowance for Doubtful Accounts	(254)	(198)
	\$ 3,770	\$ 5,350

NOTE 3 CAPITAL ASSETS

A summary of capital assets as of September 30, 2016 and 2015 were as follows:

	Balance as of October 1, 2015	Additions	Reductions	Balance as of September 30, 2016
Cost:				
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
Less: Accumulated Depreciation				
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
	Balance as of October 1, 2014	Additions	Reductions	Balance as of September 30, 2015
Cost:				
Machinery and Equipment	\$ 3,035	\$ 33	\$ -	\$ 3,068
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Cost	3,813	33	-	3,846
Less: Accumulated Depreciation				
Machinery and Equipment	2,765	134	-	2,899
Office Furniture and Fixtures	20	-	-	20
Leasehold Improvements	758	-	-	758
Total Accumulated Depreciation	3,543	134	-	3,677
Capital Assets – Net	\$ 270	\$ 101	\$ -	\$ 169

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
 NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
 SEPTEMBER 30, 2016 and 2015
(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, 2016 and 2015, MUSL had purchased for the Lottery, U.S. government securities aggregating \$2,410 and \$3,560, respectively to fund future installment payments for the Lottery's Lotto-America and Powerball winners.

The market value of these securities was \$2,336 and \$3,422 as of September 30, 2016 and 2015, 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, 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	\$ -	\$ -

As of September 30, 2015, 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	\$3,422	\$1,160	\$2,262	\$ -	\$ -

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
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

SEPTEMBER 30, 2016 and 2015

(Dollar Amounts in Thousands)

As of September 30, 2016 and 2015, 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, 2016 and 2015, the total Powerball prize reserve fund was approximately \$74,232 and \$74,844 respectively, of which the Lottery's share was approximately \$396 and \$439, respectively. In addition, the total Powerball set aside prize reserve fund as of September 30, 2016 and 2015 was approximately \$39,962 and \$35,096, respectively, of which the Lottery's share was approximately \$172 and \$191, 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, 2016 and 2015, the total Mega Millions prize reserve fund was approximately \$35,642 and \$36,381, respectively, of which the Lottery's share was approximately \$260 and \$305, 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, 2016 and 2015, the total Hot Lotto prize reserve fund was approximately \$6,373 and \$8,053, respectively, of which the Lottery's share was approximately \$303 and \$358, 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
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
 NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
 SEPTEMBER 30, 2016 and 2015
(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, 2016, 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, 2016, the Lottery's investments were not exposed to custodial credit risk.

NOTE 5 OBLIGATIONS FOR UNPAID PRIZES

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

	Jackpot	
	As of September 30,	
	2016	2015
Jackpot Prizes Payable:		
Due Within One Year	\$ 807	\$ 1,160
Due in Subsequent Years	1,529	2,262
Total (Present Value)	2,336	3,422
Add: Interest to Maturity	74	138
Jackpot Prizes Payable at Maturity	\$ 2,410	\$ 3,560

The unamortized discount on the prizes payable is based on interest rates which range from 1.089% 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, 2016, and the five year incremental totals thereafter, is as follows:

2017	\$	807
2018		400
2019		400
2020		400
2021 - 2022		403
Total	\$	2,410

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
 NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
 SEPTEMBER 30, 2016 and 2015
(Dollar Amounts in Thousands)

The following schedule presents the changes in prizes payable:

Balance as of October 1, 2014	\$ 6,282
Increase	138
Decrease	(2,998)
Balance as of October 1, 2015	3,422
Increase	74
Decrease	(1,160)
Balance as of September 30, 2016	\$ 2,336

NOTE 6 GAMING REVENUES AND EXPENSES

Gaming revenues and expenses for the fiscal years ended September 30, 2016 and 2015 were as follows:

Index Class	Gaming Revenue	Prizes	Agent Commissions	Contractor Fees	Advertising	Gross Margin
Fiscal Year 2016						
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
Total	\$ 228,183	\$ (132,045)	\$ (14,958)	\$ (7,148)	\$ (6,248)	\$ 67,784
Fiscal Year 2015						
DC 3	\$ 43,938	\$ (20,754)	\$ (2,821)	\$ -	\$ -	\$ 20,363
DC FIVE	18,144	(9,190)	(1,017)	-	-	7,937
DC FOUR	55,343	(21,851)	(3,320)	-	-	30,172
FAST PLAY	17,009	(12,838)	(1,203)	-	-	2,968
HOT LOTTO	2,972	(1,417)	(166)	-	-	1,389
INSTANT	32,609	(24,283)	(2,659)	-	-	5,667
KENO	9,773	(5,992)	(666)	-	-	3,115
LUCKY FOR LIFE	2,461	(1,484)	(138)	-	-	839
MEGA MILLIONS	6,532	(3,192)	(318)	-	-	3,022
MONOPOLY	140	(147)	(8)	-	-	(15)
POWERBALL	11,027	(5,247)	(585)	-	-	5,195
RACE2RICHES	9,335	(6,550)	(655)	-	-	2,130
TAP-N-PLAY	3,066	(2,333)	(222)	-	-	511
OTHER	146	-	-	-	-	146
Total	\$ 212,495	\$ (115,278)	\$ (13,778)	\$ (6,777)	\$ (6,224)	\$ 70,438

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
 NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
 SEPTEMBER 30, 2016 and 2015
(Dollar Amounts in Thousands)

NOTE 7 TRANSFERS TO THE DISTRICT'S GENERAL FUND

The District Budget Act (PL 4-162) (the Act) of 1983 requires the Lottery to transfer its revenues less expenses and less a reserve not to exceed 2% of annual prize payments to the General Fund of the District. 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, 2016 and 2015, the Lottery's net transfers to the General Fund of the District were \$53,287 and \$55,586, respectively.

NOTE 8 LONG-TERM LIABILITIES

The following summarizes long-term liabilities as of September 30, 2016 and 2015:

	Balance as of 9/30/2015	Additions	Reductions	Balance as of 9/30/2016	Amount Due Within One Year
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>

	Balance as of 9/30/2014	Additions	Reductions	Balance as of 9/30/2015	Amount Due Within One Year
Obligations for Unpaid Prizes	\$ 6,282	\$ -	\$ (2,860)	\$ 3,422	\$ 1,160
Compensated Absences	398	41	-	439	-
Total Long-term Liabilities	<u>\$ 6,680</u>	<u>\$ 41</u>	<u>\$ (2,860)</u>	<u>\$ 3,861</u>	<u>\$ 1,160</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 (5 U.S.C. 8331). 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.

In accordance with the Balance Budget Act of 1997 (Public Law 105-33), 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 \$26 and \$48 for the years ended September 30, 2016 and 2015, 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
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD**

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

SEPTEMBER 30, 2016 and 2015

(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 \$189 and \$278 for the fiscal years ended September 30, 2016 and 2015, 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 2016 and in 2015. 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>
2017	\$ 1,886
2018	1,931
2019	1,978
2020	2,026
2021	2,074
2022-2026	11,148
2027-2029	7,429
Total	<u>\$ 28,472</u>

Rent expense for the fiscal years ended September 30, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Rent Expense	<u>\$ 2,174</u>	<u>\$ 2,855</u>

GOVERNMENT OF THE DISTRICT OF COLUMBIA
D.C. LOTTERY AND CHARITABLE GAMES CONTROL BOARD
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2016 and 2015
(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 \$1,530 and \$1,020 in fiscal years 2016 and 2015, 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, 2016. Events and transactions were evaluated through December 27, 2016 the date the financial statements were available to be issued.



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

To the Mayor, Members of the Council of the Government of the District of Columbia,
Inspector General of the Government of the District of Columbia and
The Lottery and Charitable Games Control Board
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 Lottery and Charitable Games Control Board (the Lottery), an enterprise fund of the Government of the District of Columbia, as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statement as listed in the table of contents, and have issued our report thereon dated December 27, 2016.

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 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 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*.



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

Purpose of this Report

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

Washington, DC
December 27, 2016