

# Maryland State Lottery Agency

AN ENTERPRISE FUND OF THE STATE OF MARYLAND

*Comprehensive Annual Financial Report for the Years Ended June 30, 2010 and 2009*



Prepared by the Accounting Department of the Maryland State Lottery Agency.



# MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

# MARYLAND STATE LOTTERY AGENCY

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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# MARYLAND STATE LOTTERY AGENCY

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FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

# Introductory Section

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IN FISCAL YEAR 2010, THE MARYLAND LOTTERY CELEBRATED 37 YEARS OF DOING GOOD THINGS FOR MARYLAND.



# MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

## MARYLAND LOTTERY

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Baltimore, Maryland 21230

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Martin O'Malley, *Governor* • Stephen Martino, *Director*



December 20, 2010

The Honorable Martin O'Malley, Governor  
J. Kirby Fowler, Chairman, Maryland Lottery Commission  
Matthew Thomas, Vice Chairman, Maryland Lottery Commission  
Maryland Lottery Commission

### INTRODUCTION

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Maryland State Lottery Agency (the Lottery) for the fiscal year ended June 30, 2010. This report has been prepared by the Accounting Department of the Lottery. Responsibility for both the accuracy of the financial data and the completeness and fairness of presentation, including all disclosures, rests solely with the Lottery. To the best of our knowledge and belief, the enclosed data is accurate and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the Lottery. All disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities have been included.

Presented in this report is information about the Lottery, an independent agency of the State of Maryland. The Lottery was established by the General Assembly through the enactment of Chapter 365 of Laws of Maryland of 1972 and the voters' approval that same year of a constitutional amendment. The amendment was ratified on November 7, 1972, and operations commenced on January 2, 1973. During the 2007 special session of the Maryland General Assembly, House Bill 4 and Senate Bill 3 were enacted relating to the legalization of video lottery terminals (VLTs) in the State. House Bill 4 was a constitutional amendment that was approved by the voters on November 4, 2008, which sets up broad parameters for the operation of the VLTs and establishment of VLT facilities within the State. House Bill 4 allows for the issuance of a maximum of five VLT facility licenses and a maximum of 15,000 VLTs. Senate Bill 3 established the operational and regulatory framework for the VLT program. Among its provisions, Senate Bill 3 specifies that the State Lottery Commission shall regulate the operation of VLTs, including licensing of operators and operation of a Central Monitoring and Control System. The bill further provides for the Maryland State Lottery Agency to provide assistance to the Lottery Commission in the performance of its duties. Senate Bill 3 also expanded the Lottery Commission from five to nine members. These members are appointed by the Governor with the advice and consent of the Senate of Maryland. The Commission provides direction and guidance to the Lottery Director concerning lottery operations and will regulate the operation of the VLTs with assistance from the Maryland State Lottery Agency staff.

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The Lottery is operated as a business enterprise within the framework of State laws and regulations. The mission of the Lottery is to provide revenue to the State of Maryland through the sale of entertaining lottery products to support State programs and services benefiting the citizens of Maryland. The mission of the Lottery's VLT program is to implement and oversee the program with the dual goals of generating revenue for the State of Maryland while maintaining integrity, transparency and fair play.

The Lottery is an enterprise fund of the State and is included in the State's Comprehensive Annual Financial Report. Lottery activity is reported as a major enterprise fund type and includes all activity for which the Lottery is financially accountable.

## HISTORY OF LOTTERIES

The history of lotteries can be traced as far back as Moses and the Bible. Since the beginning of time, lotteries have been used to award prizes and finance various projects. In the Bible, Moses used a lottery to award land west of the Jordan River. It has also been said that lottery funds were used to construct the Great Wall of China and finance cannons for the Revolutionary War. Lotteries flourished throughout the 1700s and 1800s with lotteries serving as a standard source for public and private financing. Schools, churches, and some of the more notable colleges, such as Harvard, Yale, and Princeton, were erected with lottery proceeds. However, as lotteries became more widespread, so did corruption within these lotteries. The State of New York passed the first constitutional prohibition of lotteries in the United States, and, by 1878, all states except Louisiana prohibited lotteries.

The prohibition against lotteries in the United States lasted until 1964, when New Hampshire became the first state lottery created. New York and New Jersey followed shortly thereafter and the first online system was implemented in New Jersey in 1971. On May 15, 1973, tickets for the Maryland Lottery's first game, Twin Win, went on sale. The 50-cent tickets were available at approximately 4,800 retail outlets throughout the State. The top prize of \$50,000 was awarded to players who matched all six numbers in the exact order. The first drawing was held on May 24, 1973, at Hopkins Plaza in Baltimore. There were four top-prize winners.

Throughout the years, lotteries have evolved and have become more diversified, offering players a variety of choices. Today, 43 states and the District of Columbia operate lotteries, selling both online games and instant tickets. During fiscal year 2010, these lotteries generated in excess of \$54.6 billion in sales. The Maryland Lottery ranked fifth among state lotteries in per capita sales during this time period.

Lotteries continue to fund various initiatives and provide benefits to the citizens of their states. Since its inception, the Lottery has exceeded \$32.7 billion in sales and has contributed more than \$11.7 billion to the State of Maryland. Lottery revenues are contributed to the State's General Fund and are used to support various programs and services such as education, public health and safety, human resources, and the environment. In addition, the Lottery is required by statute to contribute a defined amount each year to the Maryland Stadium Authority.

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## ECONOMIC OUTLOOK

The national recession continued to take its toll on the Maryland economy as the number of jobs in Maryland continued to decrease. By February 2010 there were 139,000 fewer jobs in Maryland than in February 2008. The unemployment rate has more than doubled since the start of the recession, from 3.5% at the onset to a peak of 7.7%. Furthermore, both wage income and total personal income have seen their worst extended periods of growth in more than five decades, declines in capital gains have exceeded those experienced 10 years ago, home prices continued to fall and home sales have, in recent months, resumed double-digit declines.

Through September 2010, total employment has declined 0.5% for the year, much improved over the 3.1% decline of calendar year 2009. However, as is the case nationwide, the unemployment rate has not fallen much from its peak and, in fact, in recent months the unemployment rate has crept upwards. In September 2010 the unemployment rate stood at 7.5%, up from 7.1% in June and July 2010. Nationally, the unemployment rate was at 9.6%, down slightly from its peak of 10.1% in October 2009. A broader measure of unemployment, including those who have not looked for a job in the past four weeks and those who are working part-time who would like to be employed full-time, has continued to increase, rising from 6.3% at the start of the recession to 10.2% at the end of the recession, in June 2009, to 13.0% in mid-2010. While employment growth has resumed, the labor market is a long way from healthy.

With the troubles in the labor market, growth in personal income has suffered. All four quarters of 2009 saw growth of 0.7% or less. The only comparable period is 1954, during which personal income increased 0.46%, slightly better than the 0.44% growth of 2009. The next lowest annual rate of growth in the intervening period was 3.4% in 1958. Personal income has rebounded in 2010, but only to a degree, with growth of about 2.4% for the first two quarters of the year. The primary cause for the slowdown in personal income is the falloff in employment. Wage and salary income declined 2.0% in the first quarter of 2009, and fell 0.8% over the course of the year. Wage and salary income is roughly half of total personal income. Both wage income and total personal income have recovered in the first quarter of 2010, increasing roughly 2.4% and 1.4%, respectively.

Nevertheless, Maryland's economy is beginning to show signs of recovery. Since late spring, many measures of Maryland's economy have shown stabilization, if not a resumption of growth. Several industries have added jobs through the first three quarters of the year, including the federal government (up 5.8% partly due to temporary Census employment), professional and business services (up 1.5%), education and health services (up 1.4%) and leisure and hospitality services (up 3.5%). In terms of size of the industry and average pay, the last three industries are the most important in the State. All four have shown strong acceleration throughout the year, as has every major industry except for manufacturing, transportation and utilities, and state and local government.

Another current bright spot in the Maryland economy is the impact the Base Realignment and Closure (BRAC) has had on Maryland. While a rough idea of the impact of BRAC has existed since 2005, it is only in recent months that these defense-related jobs have actually been moving

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into the State. Through the third quarter of 2010, roughly 1,200 jobs have been moved into Maryland, primarily at Aberdeen Proving Ground. Another 5,000 or so defense contractors and similar positions have moved into or been created in the State. Preparation for these moves has created about 4,300 temporary construction jobs. Through September 2011, a total of 21,400 military and related jobs will move into the State, and at least as many contractor positions are expected. These changes will help to improve an otherwise sluggish job market.

While Maryland's economy may be, in many respects, in a better position than most other states, a strong rebound is not expected. Troubles in the housing market have locked many homeowners into place, limiting the flexibility necessary to bring equilibrium to the labor market. Troubles in the housing market, as well as lingering uncertainty about job stability, are keeping growth in consumer spending to low levels. Tightening government budgets, possibly even at the federal level in the near future, may counterbalance some growth in the private sector. However, it does appear that slow growth, although maybe not steady, of Maryland's economy is the most reasonable expectation through 2011.

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## MARYLAND LOTTERY PRODUCTS

The Lottery has introduced a number of different games since its inception and continues to provide players with the opportunity to participate in a variety of online and instant ticket games. Online games allow players to pick their numbers or utilize automatic computer-generated plays. Customers receive a ticket and then wait for the drawing to determine if they have won. Instant games are played by scratching a latex covering off a play area to reveal pre-printed combinations. If a winning combination appears, the customer is an instant winner.

Games offered during fiscal year 2010 included the following:

### PICK 3

FISCAL YEAR 2010 STATISTICS:

\$266.9 million in net sales

15.6% of total net sales

\$9.3 million decrease from fiscal year 2009 Pick 3 net sales

**PICK 3** was introduced in July 1976 and was the first online game offered by the Lottery. Players choose three numbers from zero to nine for the chance of winning prizes ranging from \$25 to \$500. Drawings are held twice daily, seven days a week.

### PICK 4

FISCAL YEAR 2010 STATISTICS:

\$246.7 million in net sales

14.5% of total net sales

\$2.5 million decrease from fiscal year 2009 Pick 4 net sales

**PICK 4** was introduced in April 1983. Players choose four numbers from zero to nine for the chance of winning prizes ranging from \$100 to \$5,000. Drawings are held twice daily, seven days a week.

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# Keno.

## FISCAL YEAR 2010 STATISTICS:

\$206.9 million in net sales

12.1% of total net sales

\$40.9 million decrease from fiscal year 2009 Keno net sales

**KENO** is an online game that is predominantly sold in a social atmosphere, and drawings are held every four minutes. Keno was introduced in January 1993. The Lottery's computer continuously generates random sets of 20 numbers. These numbers are then displayed on a Keno monitor. Players select from one to ten numbers from a field of 80 numbers and win prizes ranging from \$2 to \$100,000 by matching anywhere from zero numbers to ten numbers.



## FISCAL YEAR 2010 STATISTICS:

\$48.7 million in net sales

2.9% of total net sales

\$85.7 million decrease from fiscal year 2009 Keno Bonus net sales

**KENO BONUS®** is an online game that was introduced statewide in April 1999 and is sold in conjunction with Keno. By matching a Keno wager, players have an opportunity to multiply their winnings by three, four, five or ten. The multiplier is determined by a computer-generated wheel that is spun prior to each drawing. The maximum prize that can be won per game on any one Keno ticket when Keno Bonus is played is \$1 million.



## FISCAL YEAR 2010 STATISTICS:

\$136.1 million in net sales

8.0% of total net sales

\$124.2 million increase from fiscal year 2009 Keno Super Bonus net sales

**KENO SUPER BONUS™** is an online game that was introduced in June 2009 and is sold in conjunction with Keno. The amount of the Keno Super Bonus wager is twice the amount of the Keno wager. By matching a Keno wager, players have an opportunity to multiply their winnings by two, three, four, five, six, ten, twelve or twenty. The multiplier is determined by a computer-generated wheel that is spun prior to each drawing and is part of the Keno Bonus wheel. The maximum prize that can be won on any Keno ticket when Keno Super Bonus is played is \$2 million.



FISCAL YEAR 2010 STATISTICS:

\$90.8 million in net sales

5.3% of total net sales

\$2.3 million increase from fiscal year 2009 Racetrax® net sales

**RACETRAX®** is an online game that launched statewide in August 2006. The game is predominantly sold in a social atmosphere, and drawings are held approximately every five minutes. This game is a computer-animated monitor game that offers the thrill of horse racing with advanced 3-D graphic animation that results in the horses and races appearing realistic. Players select from one to twelve horses to win prizes ranging from \$1.20 to \$31,454.



FISCAL YEAR 2010 STATISTICS:

\$9.4 million in net sales

0.5% of total net sales

**RACETRAX® BONUS** is an online game that was launched statewide in August 2009 and is sold in conjunction with Racetrax. By matching a Racetrax wager, players have an opportunity to multiply their winnings by three, four, five or ten. The multiplier is determined by a computer-generated wheel that is spun prior to each drawing. The maximum prize that can be won per game on any Racetrax ticket when Racetrax Bonus is played is \$3.15 million.



FISCAL YEAR 2010 STATISTICS:

\$490.9 million in net sales

28.8% of total net sales

\$16.2 million decrease from fiscal year 2009 Instant Ticket net sales

**INSTANT TICKETS**, also known as scratch-offs, were first introduced in 1976. Similar to today's instant ticket games, the first instant ticket game launched in Maryland provided players with the opportunity to win by scratching a latex play area. From 1976 to 1985, the Lottery launched a limited number of instant tickets games; however, by 1986, instant games were launched on a more frequent basis. Today, instant tickets have become one of the fastest growing products in Maryland and within the lottery industry. During fiscal year 2010, the Lottery launched 54 different instant ticket games.



FISCAL YEAR 2010 STATISTICS:

\$125.3 million in net sales

7.3% of total net sales

\$695 thousand decrease from fiscal year 2009 Mega Millions net sales

**MEGA MILLIONS®** is an online multi-state jackpot game. The Lottery joined Mega Millions in September 1996. The Mega Millions membership consists of 12 states that include: California, Georgia, Illinois, Massachusetts, Maryland, Michigan, New York, New Jersey, Ohio, Texas, Virginia and Washington. In January 2010 the Mega Millions membership joined forces with the Multi-State Lottery Association, the organization that leads the Powerball® game, and began cross-selling their products. Currently, 42 lotteries sell Mega Millions. Players choose or request the computer to generate a total of six numbers from two different fields. Players pick five numbers from a field of 56 and one Mega Ball number from a field of 46. Players matching all numbers and the Mega Ball win the jackpot. If there are multiple winners, the jackpot prize is divided evenly among all the winners. Jackpots start at \$12 million and increase each drawing for which there is no jackpot winner(s). Players can also win prizes ranging from \$2 to \$250,000. Drawings are held every Tuesday and Friday.

MARYLAND



FISCAL YEAR 2010 STATISTICS — POWERBALL:

\$26.6 million in net sales

1.6% of total net sales

FISCAL YEAR 2010 STATISTICS — POWER PLAY:

\$2.3 million in net sales

0.14% of total net sales

**POWERBALL®** is an online, multi-state jackpot game. The Lottery began selling Powerball/Power Play in January 2010 when the Multi-State Lottery Association joined forces with the Mega Millions membership and began cross-selling their products. Currently, 43 lotteries sell Powerball/Power Play. In Powerball, players choose or request the computer to generate a total of six numbers from two different fields. Players pick five numbers from a field of 59 and one Powerball from a field of 39. Players matching all numbers and the Powerball win the jackpot. If there are multiple winners, the jackpot prize is divided evenly among all winners. Jackpots start at \$20 million and increase each drawing for which there is no jackpot winner(s). Players can also win prizes ranging from \$3 to \$500,000. **POWER PLAY®** is a special feature of Powerball that allows a winner to increase their original Powerball prize amount. For an extra \$1, Powerball players winning the \$3 to \$10,000 prize levels can multiply their winnings by two, three, four or five times. Drawings are held every Wednesday and Saturday.



FISCAL YEAR 2010 STATISTICS:

\$35.2 million in net sales

2.1% of total net sales

\$2.3 million increase from fiscal year 2009 Multi-Match net sales

**MULTI-MATCH®** is an online jackpot game that was introduced in February 2006, replacing Lotto, the Lottery's original in-state jackpot game. Players receive three lines of six numbers. Players choose or request the computer to generate the first line of numbers from a field of 43. The computer then generates the remaining two lines of numbers. Players matching all six numbers in a single line, in any order, win the jackpot, which typically starts at \$500,000 and increases after each drawing, if not won. If there are multiple winners, the jackpot is divided by the number of winners. Players can also win fixed prizes ranging from \$2 to \$3,000 by matching three or more numbers in a single line or five or more numbers in the combined lines. Multi-Match drawings are held on Monday and Thursday evenings.



FISCAL YEAR 2010 STATISTICS:

\$20.8 million in net sales

1.2% of total net sales

\$2.7 million decrease from fiscal year 2009 Bonus Match 5 net sales

**BONUS MATCH 5** is an online game that was originally introduced in September 1995. The game was discontinued in January 1998 and re-introduced in February 2002. Players select or request the computer to generate five numbers from a field of 39. Players matching all five numbers, in any order, win \$50,000. In the event that there are more than twelve \$50,000 winners in one drawing, each winner will receive an equal share of the \$600,000 prize pool. Players may also win prizes ranging from \$2 to \$600. Drawings are held seven nights a week.

## HIGHLIGHTS OF FISCAL YEAR 2010

Fiscal year 2010 proved to be another successful year for the Lottery, as for the thirteenth consecutive year, the Lottery achieved its highest sales point in history. Additional financial information can be found in the Management's Discussion and Analysis Section of this report, which begins on page 29.

Aside from another record-breaking year in sales, other significant accomplishments included:

- The Lottery continued to capitalize on its monitor game growth by launching Racetrax® Bonus on August 29, 2009. Racetrax Bonus is played in conjunction with Racetrax® and gives players the chance to multiply their winnings up to 10 times when they win on the base Racetrax ticket. The cost of Racetrax Bonus is the same as the amount of the Racetrax wager. For example, if the base Racetrax ticket cost is \$2, the Bonus wager would cost \$2, for a total purchase of \$4. The Lottery believes that this add-on feature will be successful, as it generated more than \$9.4 million in sales during its first 10 months of operation.
- The Mega Millions® states and the Multi-State Lottery Association, the association that leads Powerball®/Power Play® joined together and entered into agreements to cross-sell each others' products. On January 31, 2010, the Lottery began selling Powerball and Power Play. In less than six months, almost \$29 million in sales and more than \$12 million in revenue was generated for the State.
- For the first time ever, the National Football League (NFL) began allowing lotteries to form partnerships with football teams in their home markets. As a result, the Lottery formed a partnership with the Baltimore Ravens and produced the Ravens Cash Fantasy instant ticket. With this ticket, players had a chance to win \$1 million in cash plus one-of-a-kind merchandise prizes like Ravens season tickets for life. This ticket was launched in August 2009 and by the end of the football season, six months later, this ticket had become the most successful instant ticket in the history of the Lottery.
- The success of the Ravens Cash Fantasy instant ticket was followed up by the launch of the Reese's instant ticket. By the end of the fiscal year, this ticket became the fastest-selling \$2 instant ticket for that year.
- In June 2010, the Lottery extended its online gaming system contract for an additional five years with its current lottery system provider, Scientific Games International. Under this extension, the Lottery will receive, among other things, upgrades to its existing lottery terminals which will include additional memory and speed, flat panel televisions to display its monitor games (i.e., Keno and Racetrax), and the installation of a point-of-sale digital merchandising and content management system that will provide for advertising and messaging of lottery products inside retail locations.
- The Lottery began aggressively preparing for the implementation of the video lottery program which was approved by referendum in 2008. In January 2010 the Lottery entered into a

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five-year contract with GTECH to provide for the design, development, installation and operation of a Central Monitoring and Control System for the video lottery terminal program. This system will have the capability to support and account for all gaming activity on up to 15,000 video lottery terminals, the maximum amount allowed in the State. Furthermore, in June 2010, the Lottery entered into contracts with several video lottery terminal manufacturers for the purchase and/or lease of 1,500 video lottery terminals to be placed in the State's first casino.

- In addition to the execution of several contracts for the implementation of the video lottery program, the Lottery began expanding its licensing division, which will be responsible for licensing all casino employees, vendors and video lottery terminal manufacturers.

## FINANCIAL INFORMATION

### ACCOUNTING SYSTEMS AND POLICIES

The Lottery operates only enterprise activities. These activities are sales of lottery tickets to the public and all necessary supporting functions, including, but not limited to, personnel, finance, administration, marketing, security and licensing. No general government functions or operations are managed by the Lottery or included in this report. The Lottery, like a private business, utilizes the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the related liabilities are incurred.

### BUDGETARY SYSTEMS AND CONTROLS

Budgetary control for all State agencies is maintained through the Governor's approval and the enactment of the State's budget by the General Assembly. Each year, the Lottery submits its budget to the Governor for approval. The budget includes all costs to operate the Lottery with the exception of prizes paid to winners and commissions paid to retailers. Prizes and commissions are funded from the sale of Lottery tickets and are not included as part of the annual budget submitted for approval.

The Governor, in turn, submits the budget for the entire State (including the Lottery's budget) to the General Assembly for enactment. The Lottery's official budget, as enacted by the General Assembly, is divided among the various divisions within the Lottery. These divisions are responsible for monitoring expenditures within their division in order to ensure expenditures do not exceed the amount budgeted. Encumbrance accounting is utilized whereby purchase orders, contracts, and other commitments are treated as expenditures for budgetary purposes. The Lottery's Budget Department is responsible for monitoring the Lottery's entire budget, including the budgeted funds allocated to the various divisions, in order to ensure that the Lottery's total expenditures (including encumbrances) do not exceed the approved budget without first obtaining the approval of the Governor and the General Assembly.

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## DEBT ADMINISTRATION

The Lottery's long-term liabilities are primarily payments owed to Lotto jackpot and lifetime winners and capital lease obligations. The payments due to winners are fully funded by amounts invested primarily in United States Government Agency Obligations (coupon bonds). Some investments are also held in annuity contracts. Capital lease obligations are for gaming equipment primarily leased through the State Treasurer's Office.

## CASH MANAGEMENT

The Lottery collects cash due for instant and online sales from its approximately 4,200 retailers on a weekly basis. Funds are collected electronically from the retailers' designated bank accounts. The Treasury of the State of Maryland invests cash primarily in overnight repurchase agreements, United States Government Obligations, and money market mutual funds.

## RISK MANAGEMENT

The Lottery is exposed to various levels of risk associated with theft, damage or destruction of assets, torts and game liability. To manage the related risks, the Lottery participates in the State's insurance program, which provides general liability, personal and casualty, and workers' compensation insurance. The Lottery is assessed an annual premium by the State to fund such coverage.

To manage the risks associated with games' liabilities, the Lottery has established aggregate payout limits for each game type.

## INTERNAL CONTROL ENVIRONMENT

Management of the Lottery is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misuse, and to ensure that the accounting system allows compilation of accurate and timely financial information. The structure is designed to provide reasonable assurance that these objectives are met.

To enhance controls over accounting procedures, the Lottery has segregated the following functions: personnel; payroll; purchasing; accounts payable; accounts receivable; and general ledger accounting. Data input and processing are separate from system programming with management providing approval and oversight. In addition, an internal auditor reviews all areas of the Lottery and reports jointly to the Director of the Lottery and to the Chairman and one other member of the Lottery Commission.

Since the Lottery manages instant tickets and controls the disbursement of prizes, the following steps have been taken to ensure the operations remain secure and meet the highest ethical standards:

- employing specialized investigative staff;
- maintaining secure lottery facilities and limiting access to them;
- performing background checks on retailers, vendors and employees;

- 
- printing lottery tickets with special security features;
  - performing unannounced inspections at the drawing studio to ensure compliance with established operating procedures;
  - processing daily transaction data of all vendor activity by Lottery personnel using the Lottery's internal control system programs and reconciling transactions to reports generated by the online gaming vendor; and
  - providing a variety of access and other controls in the Lottery's computer systems.

The Lottery currently has 189 employees, most of whom are located at the Lottery's headquarters in Baltimore. As of June 30, 2010, all drawings were conducted at the broadcast facility of the television station producing the drawings. All drawings are broadcast except for Saturday midday drawings.

## **FUTURE PROJECTS**

During fiscal year 2011, the Lottery will be fully engaged in the implementation of the video lottery terminal program as it anticipates the first two casinos will become operational. Activities undertaken by the Lottery will include the implementation of the Central Monitoring and Control System, the purchase of additional video lottery terminals for the second casino and any other casino that may open, the continued expansion of the Lottery's accounting system to account for all gaming activity and the hiring of additional staff to work on-site at each casino, and to license all employees, vendors and manufacturers.

The Lottery will also oversee the implementation of the rollout of the upgraded lottery terminals and the point-of-sale digital merchandising and content management system at Lottery retailer locations.

## **INDEPENDENT AUDIT**

The Lottery has contracted with an independent certified public accounting firm to perform an annual audit of the Lottery. The independent auditors' opinions on the Lottery's financial statements and internal controls are included in the financial section of this report.

## **GFOA CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its CAFR for the fiscal year ended June 30, 2009. This marked the sixth consecutive year the Lottery received this prestigious national award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Lottery believes its current CAFR continues to meet Certificate of Achievement Program requirements and is submitting it to the GFOA to determine eligibility for another certificate.

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## ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the efficient and dedicated services of Cecilia Lee, Accounting Manager. A special note of thanks is also given to the Lottery's Creative Services Division and current creative services partner for assisting in the layout of this report; David Roose, Director of the State's Bureau of Revenue Estimates for his assistance in providing information concerning the Maryland economy; and the Lottery's independent auditors for providing assistance in developing this report.

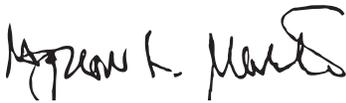
This Comprehensive Annual Financial Report reflects the Lottery's commitment to maintaining its financial statements and record-keeping systems in conformance with the highest standards of accountability.

Respectfully Submitted,

MARYLAND STATE LOTTERY AGENCY



Gina M. Smith, CPA  
Assistant Director and Chief Financial Officer



Stephen L. Martino  
Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Maryland  
State Lottery Agency

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



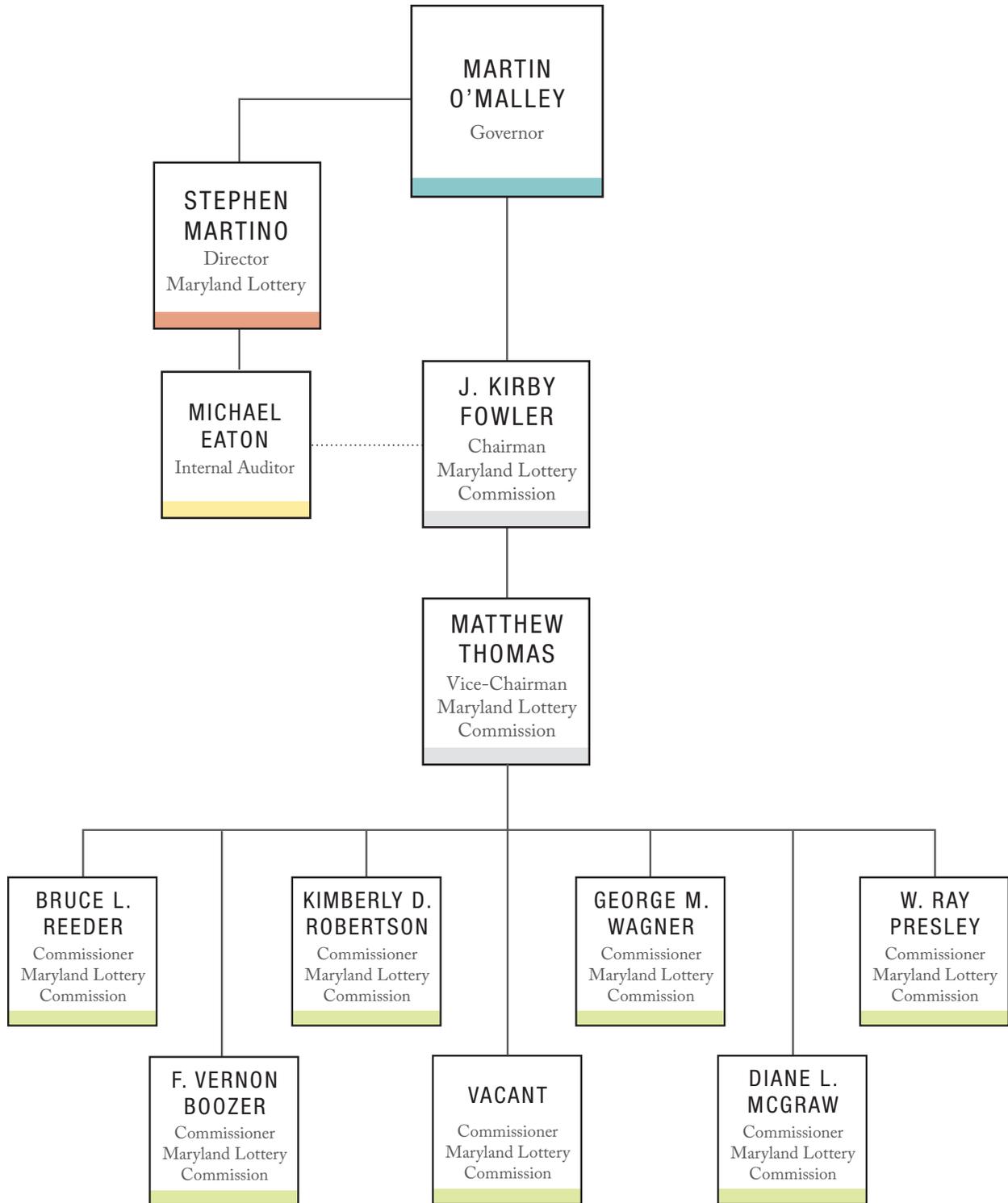
A handwritten signature in black ink, appearing to read "JEFFREY R. EMER".

President

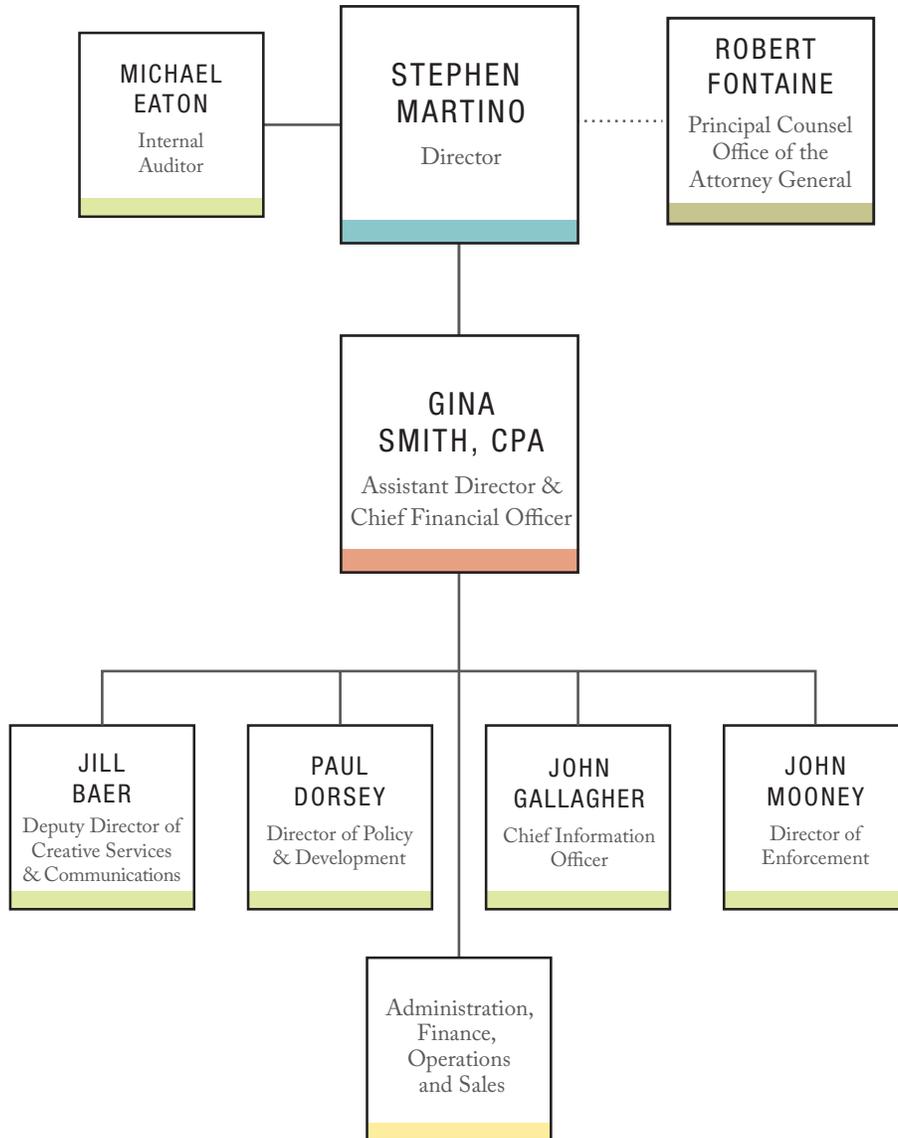
A handwritten signature in black ink, appearing to read "JEFFREY R. EMER".

Executive Director

MARYLAND STATE LOTTERY AGENCY  
PRINCIPAL OFFICIALS



MARYLAND STATE LOTTERY AGENCY  
ORGANIZATIONAL CHART



# MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

# Financial Section

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IN FISCAL YEAR 2010 THE MARYLAND LOTTERY ACHIEVED ITS 13<sup>TH</sup> STRAIGHT YEAR OF RECORD-BREAKING SALES AND AN INCREASE OF \$8.5 MILLION FROM FISCAL YEAR 2009.



# MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009



## INDEPENDENT AUDITORS' REPORT

To the Maryland State Lottery Agency:

We have audited the accompanying financial statements of the Maryland State Lottery Agency (an agency of the State of Maryland), as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Maryland Lottery Agency's management. Our responsibility is to express an opinion on the 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 the *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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Maryland State Lottery Agency are intended to present the financial position and the changes in financial position and cash flows, where applicable, of the Maryland State Lottery Agency. They do not purport to, and do not, present fairly the financial position of the State of Maryland as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maryland State Lottery Agency, as of June 30, 2010 and 2009, the changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2010, on our consideration of the Maryland State Lottery Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our

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testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed with *Government Auditing Standards* and should be considered in the assessing the results of our audits.

The Management's Discussion and Analysis on pages 29 through 39 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion about it.

Our audit was conducted for the purpose of forming an opinion on the June 30, 2010 financial statements that collectively comprise the Maryland State Lottery Agency's basic financial statements. The supplementary schedule of revenues, expenses and changes in net assets — budget and actual on page 60 is presented for the purpose of additional analysis and is subjected to our auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Stout, Causey & Horning, P.A.*

September 22, 2010

## MARYLAND STATE LOTTERY AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) provides an overview of the Maryland State Lottery Agency's (Lottery) performance for the fiscal years ended June 30, 2010 and 2009. As you read the MD&A, 2010 refers to the fiscal year ended June 30, 2010, 2009 refers to the fiscal year ended June 30, 2009 and 2008 refers to the fiscal year ended June 30, 2008. The information contained in the MD&A should be read in conjunction with the information contained in the financial statements and notes to the financial statements, which begins on page 40.

### FINANCIAL HIGHLIGHTS

- Net sales were a record \$1.707 billion in 2010, an increase of \$8.5 million or 0.5% as compared to 2009, which increased \$20.5 million or 1.5% as compared to 2008.
- Cost of sales increased \$112,000 or 0.01% in 2010 as compared to 2009, which increased \$73.1 million or 6.67% as compared to 2008. The major components of these increases in cost of sales were:
  - Commissions paid to Lottery retailers in 2010 totaled \$113.1 million, an increase of \$8.8 million or 7.18% as compared to 2009, which increased \$4.1 million or 3.45% as compared to 2008.
  - Prizes paid to winners in 2010 totaled \$1.034 billion, an increase of \$8.3 million or 0.8% as compared to 2009, which increased \$69 million or 7.21% as compared to 2008.
  - Gaming vendor and data processing fees along with instant ticket printing and delivery costs in 2010 totaled \$23 million, an increase of \$390,000 or 1.73% as compared to 2009, which increased \$71,000 or 0.31% as compared to 2008.
- Operating expenses increased by \$1.8 million or 4.87% in 2010 as compared to 2009, which increased by \$449,000 or 1.24% as compared to 2008.
- Payments to the State of Maryland in 2010 were \$510.6 million, an increase of \$17.4 million or 3.53% as compared to 2009, which decreased \$36.2 million or 6.84% as compared to 2008.
- In February 2010, the Lottery transferred \$13.8 million to the State's Education Trust Fund. This transfer was made after the Video Lottery Facility Location Commission approved the award of two video lottery terminal (VLT) operator licenses.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Lottery is an independent agency of the State of Maryland (the State) that was created to generate revenue through the operation of a lottery. During the 2007 special session of the Maryland General Assembly, House Bill 4 and Senate Bill 3 were enacted relating to the legalization of VLTs in the State. Under this legislation, the Lottery is responsible for regulation of the VLT operations which include the operation of a Central Monitoring and Control System, the licensing of VLT operators, machine manufacturers and employees and contractors of the VLT facilities, the collection of VLT proceeds, and compliance with established internal controls and technical standards. The Lottery is accounted for as a proprietary-type enterprise fund using the accrual basis of accounting, similar to a private business entity.

MARYLAND STATE LOTTERY AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statements

The financial statements included in this report are: the statements of net assets; statements of revenues, expenses and changes in net assets; and statements of cash flows. The statements of net assets present the assets and liabilities of the Lottery with the difference between the two being reported as net assets. The statements of revenues, expenses and changes in net assets report the revenues and expenses of the Lottery and are used to measure the success of the Lottery's operations for a given period of time as it relates to contributions to the State of Maryland. The statements of cash flows reconcile the changes in cash and cash equivalents with the activities of the Lottery for the periods presented. The activities are classified as operating, noncapital financing, capital and related financing, and investing.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the financial statements. Notes to financial statements can be found on pages 44 to 59 of this report.

**FINANCIAL ANALYSIS**

Table 1 is a summarized version of the statements of net assets as of June 30, 2010, 2009 and 2008. The table reflects the Lottery's overall change in financial resources and claims on those resources. The majority of the Lottery's assets consist of cash held by the State Treasury, investments, accounts receivable and cash and cash equivalents — VLT. The Lottery's investments and accounts receivable, as well as the majority of cash held by the State Treasury, are used to pay Lottery winners or are transferred as income to the State of Maryland. Cash and cash equivalents — VLT are the funds received from applicants who applied for a VLT operator license and funds received from VLT manufacturers, contractors and individuals seeking to receive a gaming license from the Lottery. Most liabilities represent prize awards payables, amounts due to the State of Maryland and VLT escrow payables.

**Table 1 — Net Assets (in thousands)**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Current Assets	\$ 154,228	\$ 171,965	\$ 129,443
Non-Current Assets	88,694	106,270	127,438
Capital Assets, net	4,470	5,777	837
<b>Total Assets</b>	<b>\$ 247,392</b>	<b>\$ 284,012</b>	<b>\$ 257,718</b>
Current Liabilities	\$ 146,617	\$ 159,645	\$ 116,315
Non-Current Liabilities	78,818	96,994	112,474
<b>Total Liabilities</b>	<b>\$ 225,435</b>	<b>\$ 256,639</b>	<b>\$ 228,789</b>
Net Assets			
Invested in Capital Assets, net of related debt	\$ (792)	\$ 29	\$ 189
Unrestricted	22,749	27,344	28,740
<b>Total Net Assets</b>	<b>\$ 21,957</b>	<b>\$ 27,373</b>	<b>\$ 28,929</b>

MARYLAND STATE LOTTERY AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Current Assets

The Lottery's current assets decreased by \$17.7 million or 10.31% in 2010 as compared to 2009, which increased by \$42.5 million or 32.85% as compared to 2008. The majority of these changes occurred in cash and cash equivalents — VLT, cash held with the State Treasury, current portion of investments for annuity payments and accounts receivable.

Cash and cash equivalents — VLT decreased by \$7.9 million or 19.99% in 2010 as compared to 2009. Cash and cash equivalents — VLT are the funds received from applicants who applied for a VLT operator license and funds received from VLT manufacturers and contractors and individuals seeking to receive a gaming license from the Lottery. The decrease is the result of the Lottery transferring \$13.8 million to the State's Education Trust Fund after the Video Lottery Facility Location Commission approved the award of two VLT operator licenses. In accordance with the law, these funds are either to be transferred to the State's Education Trust Fund after an award for an operator license is made or transferred to the Lottery to cover its administrative costs incurred for investigating and issuing VLT licenses. The decrease is offset by deposits into the account from fees paid by the facility operators, VLT manufacturers, contractors and individuals seeking a license from the Lottery. During 2009, cash and cash equivalents — VLT increased by \$39.2 million from license fees that were received from applicants applying for a VLT license.

Cash held with the State Treasury decreased by \$7.5 million or 10.19% in 2010 as compared to 2009 which increased by \$14.3 million or 24.16% as compared to 2008. Cash held with the State Treasury primarily represents cash received from Lottery agents from the sale of Lottery tickets, income waiting to be transferred to the State, unpaid prizes and unclaimed prizes. Changes in these balances have a corresponding effect on the Lottery's cash position. Revenue earned in the month of June 2010 was significantly lower than the revenue earned in June 2009 and the decrease in the balance of the unclaimed prize fund caused the decline. Cash received from Lottery agents during June 2009 was higher than the cash received in June 2008 because in 2009 the funds collected from Lottery agents during the last week of June made it into the State Treasury by June 30<sup>th</sup> whereas in 2008 funds for the last week of June were not collected until July. In addition, revenue earned in the month of June 2009 was higher than in June 2008. The increase in the cash held with the State Treasury was offset by a slight decrease in the balance in the unclaimed prize fund from 2009 as compared to 2008.

The current portion of investments for annuity payments decreased by \$4.6 million or 15.51% in 2010 as compared to 2009, which decreased by \$3.9 million or 11.53% as compared to 2009. The decreases in 2010 and 2009 resulted from fewer jackpot winners electing to receive their prize in the form of an annuity compared to the number of annuities that expired.

The decrease in current assets in 2010 compared to 2009 was partially offset by an increase in accounts receivable. Accounts receivable increased by \$1.6 million or 5.93% in 2010 as compared to 2009, which decreased by \$7.3 million or 20.94% as compared to 2008. Accounts receivable represents the amount due from Lottery retailers from the sale of Lottery tickets. On a weekly basis, amounts due

MARYLAND STATE LOTTERY AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Current Assets (continued)

from retailers are collected electronically from the retailers' bank accounts. In 2010, three days of sales activity were waiting to be collected, compared to two days in 2009 and eight days in 2008.

Non-Current Assets

The Lottery's investments for annuity payments, net of current portion, decreased by \$17.6 million or 16.54% in 2010 as compared to 2009, which decreased \$21.2 million or 16.61% as compared to 2008. This decrease resulted from fewer jackpot winners electing to receive their prize in the form of an annuity compared to the number of annuities that have expired.

Capital Assets, Net

Net capital assets decreased by \$1.3 million or 22.64% in 2010 as compared to 2009, which increased by \$4.9 million or 590.00% as compared to 2008. The decrease in 2010 compared to 2009 was the result of recognizing 12 months of depreciation in 2010 for 850 Instant Ticket Vending Machines (ITVMs) purchased in April of 2009 compared to three months of depreciation that was recognized in 2009. The increase in 2009 compared to 2008 was the result of the purchase of 850 ITVMs in April 2009. Details of capital assets, additions and depreciation are included in Note 4 to the financial statements, on page 52.

Current Liabilities

Current liabilities decreased by \$13.0 million or 8.16% in 2010 as compared to 2009, which increased by \$43.3 million or 37.25% as compared to 2008. The majority of the decrease in 2010 is attributable to the decrease in the transfer due to the State of Maryland General Fund, the VLT escrow payable, the current portion of annuity prizes payable, and accounts payable and accrued expenses. The decrease was slightly offset primarily by an increase in prize awards payable. The 2009 increase was attributable to the increases in the transfers due to the State of Maryland General Fund, prize awards payable and the VLT escrow payable. These increases were slightly offset by a decrease in the current portion of annuity prizes payable.

The transfer due to the State of Maryland General Fund decreased by \$4.7 million or 10.79% in 2010 as compared to 2009, which increased \$4.3 million or 10.99% as compared to 2008. The transfer due to the State of Maryland General Fund represents the net income generated during the month of June each year. The decrease in 2010 was a result of less income earned in June as compared to the previous year. Conversely, the increase in 2009 from 2008 is the result of more income generated in June 2009 than in June 2008.

VLT escrow payable decreased by \$7.9 million or 19.99% in 2010 as compared to 2009. VLT escrow payable represents funds received from the applicants applying for a VLT operator license or a gaming license (e.g., VLT manufacturers and contractors and employees of VLT facilities). The decrease is the result of the Lottery transferring \$13.8 million to the State's Education Trust Fund after the Video Lottery Facility Location Commission approved the award of two lottery operator licenses. The decrease was slightly offset by deposits into the account from the fees paid from the aforementioned parties.

MARYLAND STATE LOTTERY AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Current Liabilities (continued)

The current portion of annuity prizes payable decreased by \$4.4 million or 15.51% in 2010 as compared to 2009, which decreased \$4.0 million or 12.25% as compared to 2008. The decreases in 2010 and 2009 in the current portion of annuity prizes payable resulted from fewer jackpot winners electing to receive their prize in the form of an annuity compared to the number of annuities that expired.

Accounts payable and accrued expenses decreased by \$1.1 million or 40.08% in 2010 as compared to 2009 which decreased \$443,000 or 14.28% as compared to 2008. Accounts payable and accrued expenses represents the year-end accrual. The decrease in 2010 as compared to 2009 is the result of the Lottery being able to process more 2010 invoices prior to year end in comparison to the 2009 invoices that were not able to be processed by the end of June 2009. Similarly, the decrease in 2009 compared to 2008 is the result of the Lottery processing more 2009 invoices prior to year end in comparison to the 2008 invoices that were not able to be processed by the end of June 2008.

Prize awards payable increased by \$3.9 million or 9.57% in 2010 as compared to 2009, which increased \$3.8 million or 10.27% as compared to 2008. The increase in prize awards payable is primarily the result of higher \$20 price-point instant ticket sales in 2010 as compared to 2009. The higher price-point instant tickets have higher prize payout percentages.

Non-Current Liabilities

Non-current liabilities decreased by \$18.2 million or 18.74% in 2010 as compared to 2009, which decreased \$15.5 million or 13.76% as compared to 2008. Annuity prizes payable decreased by \$17.0 million or 18.59% in 2010 as compared to 2009, which decreased by \$20.7 million or 18.51% as compared to 2008. The primary reason for these decreases is fewer jackpot winners electing to receive their prize in the form of an annuity compared to the number of annuities that expired. A similar decrease in non-current investments for annuity payments is discussed above. Capital lease obligations, net of current portion, decreased by \$1.2 million or 22.17% from 2009, which increased by \$5.1 million or 3,221.08% from 2008. The decrease in 2010 is the result of the capital lease payments made during 2010. Additional information on the Lottery's non-current liabilities may be found in Notes 5, 6, and 7 to the financial statements, beginning on page 53.

Net Assets

Net assets decreased by \$5.4 million or 19.79% in 2010 as compared to 2009, which decreased by \$1.6 million or 5.38% as compared to 2008. The majority of the change in net assets is attributed to the change in the unclaimed prize fund at year end. Because the Lottery is required by law to transfer its entire budgetary basis net income to the State of Maryland, changes in net assets do not reflect the results of the Lottery's operating activities. Rather, changes in net assets reflect differences between budgetary basis net income and net income in accordance with accounting principles generally accepted in the United States and the unclaimed prize fund. The unclaimed prize fund represents prizes not claimed by players within 182 days of the drawing, or the end of an instant game. The funds in the account are given back to players in the form of prizes primarily through promotions.

MARYLAND STATE LOTTERY AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Table 2 is a summarized version of the statements of revenues, expenses and changes in net assets for the years ended June 30, 2010, 2009 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Sales			
Online games	\$ 1,215,719	\$ 1,191,017	\$ 1,159,179
Instant games	490,853	507,057	513,860
<b>Total sales</b>	<b>1,706,572</b>	<b>1,698,074</b>	<b>1,673,039</b>
VLT Revenue — State Grant	1,121	186	—
VLT Revenue — Facility Applicants	3,592	896	—
<b>Total Revenue</b>	<b>1,711,285</b>	<b>1,699,156</b>	<b>1,673,039</b>
Cost of sales	1,170,274	1,170,386	1,097,237
<b>Gross profit</b>	<b>541,011</b>	<b>528,770</b>	<b>575,802</b>
Operating expenses	34,980	36,769	36,321
<b>Income from operations</b>	<b>506,031</b>	<b>492,001</b>	<b>539,481</b>
Non-operating expenses			
Unrealized gain (loss) on investments	(782)	(335)	4,710
Interest expense	(56)	(16)	(30)
Payments to State of Maryland General Fund and Stadium Authority	(510,609)	(493,206)	(529,404)
<b>Total non-operating expenses</b>	<b>(511,447)</b>	<b>(493,557)</b>	<b>(524,724)</b>
<b>Change in Net Assets</b>	<b>(5,416)</b>	<b>(1,556)</b>	<b>14,757</b>
Total Net Assets — beginning of year	27,373	28,929	14,172
<b>Total Net Assets — end of year</b>	<b>\$ 21,957</b>	<b>\$ 27,373</b>	<b>\$ 28,929</b>

MARYLAND STATE LOTTERY AGENCY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Sales

Net sales were a record \$1.707 billion in 2010, an increase of \$8.5 million or 0.5% as compared to 2009, which increased \$25.0 million or 1.5% as compared to 2008.

Lottery sales are categorized as online or instant games. Online games are further categorized as Numbers, Monitor, Matrix and Raffle games.

Online game sales increased by \$24.7 million or 2.07% in 2010, as compared to 2009, which increased \$31.8 million or 2.75% as compared to 2008. In 2010, the growth in online game sales is attributable to the Monitor and Matrix games which was offset by a slight decline in all other categories of online games; whereas, in 2009 growth was attributed to the Numbers and Monitor games which was offset by a decline in Matrix games as shown in Table 3.

**Table 3 — Net Sales of Online Games (in thousands)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Numbers	\$ 513,618	\$ 525,522	\$ 509,185
Monitor	492,000	483,178	460,796
Matrix	210,101	182,317	184,017
Raffle	—	0	5,181
<b>Total</b>	<b>\$ 1,215,719</b>	<b>\$ 1,191,017</b>	<b>\$ 1,159,179</b>

Sales for the Numbers games, which include Pick 3 and Pick 4, decreased by \$11.9 million or 2.27% in 2010 as compared to 2009, which increased by \$16.3 million or 3.21% as compared to 2008. Pick 4 sales decreased in 2010 and increased in 2009 by \$2.5 million and \$14.3 million, respectively. Pick 3 sales decreased in 2010 and increased in 2009 by \$9.4 million and \$2.1 million, respectively. The decrease in sales in the Numbers games in 2010 can be attributed to players seeking a higher payout in a daily game. The top prize for Pick 3 and Pick 4 is \$500 and \$5,000, respectively. Pick 4 sales increased in 2009 and decreased in 2008 by \$14.3 million and \$5.2 million, respectively. Pick 3 sales increased in 2009 and decreased in 2008 by \$2.1 million and \$17.6 million, respectively. The increase in sales in the Numbers games can be attributed in part to the higher than normal payouts that were experienced during 2009 as compared to 2008. As the Numbers games pay out higher than expected, players tend to purchase more tickets, thus increasing sales.

Sales for the Monitor games, which includes Keno, Keno Bonus, Keno Super Bonus, Racetrax®, and Racetrax® Bonus increased by \$8.8 million or 1.83% in 2010 as compared to 2009, which increased \$22.4 million or 4.86% as compared to 2008. The increase in Monitor games during 2010 can be attributed to the launch of Racetrax Bonus on August 31, 2009. Additionally, effective April 19, 2010, Racetrax was made available at all Maryland Lottery retailers. The increase in Monitor games

MARYLAND STATE LOTTERY AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Sales (continued)

during 2009 can be attributed to the launch of Keno Super Bonus on June 1, 2009 as well as the continued expansion of Racetrax®.

Sales for Matrix games, which include Mega Millions®, Multi-Match®, Bonus Match 5, Powerball® and Power Play® increased by \$27.8 million or 15.24% in 2010 as compared to 2009, which decreased by \$1.7 million or .92% as compared to 2008. Mega Millions sales slightly decreased by \$695,000 or 0.55% in 2010 as compared to 2009, which decreased by \$3.4 million or 2.70% as compared to 2008. A slight decrease in Mega Millions sales can be attributed to the launch of Powerball and Power Play on January 31, 2010 which generated \$28.8 million in sales during 2010. Players generally prefer games with higher jackpots and longer odds. Powerball's starting jackpot is \$20 million in comparison to the Mega Millions starting jackpot of \$12 million. Bonus Match 5 sales decreased by \$2.7 million or 11.51% in 2010, whereas moderate growth was achieved in 2009 and 2008. The decrease can be attributed to the launch of Powerball and Power Play which offers a much higher jackpot. Multi-Match sales increased by \$2.3 million or 7.08% in 2010 as compared to sales for 2009, which increased by \$1.7 million or 5.40% as compared to 2008. The increase in Multi-Match can be attributed to the game offering higher jackpots in 2010 than in 2009.

Instant games are the second type of Lottery game offered to the public. Instant game sales decreased by \$16.2 million or 3.20% in 2010 as compared to 2009, which decreased \$6.8 million or 1.32% as compared to 2008 as shown in Table 4. The decrease in instant tickets in 2010 was primarily attributed to the abnormally cold winter which produced back-to-back blizzards that paralyzed the State. It is estimated that the Lottery lost approximately \$6 million in instant ticket sales during these blizzards. The decrease in instant tickets in 2009 was primarily attributed to the tremendous growth experienced in 2008. In 2008, the Lottery experienced the largest growth in the country in the instant ticket product. This growth was attributed to the continuous monitoring of play styles and payouts as well as the wide variety of instant ticket games that were offered for sale.

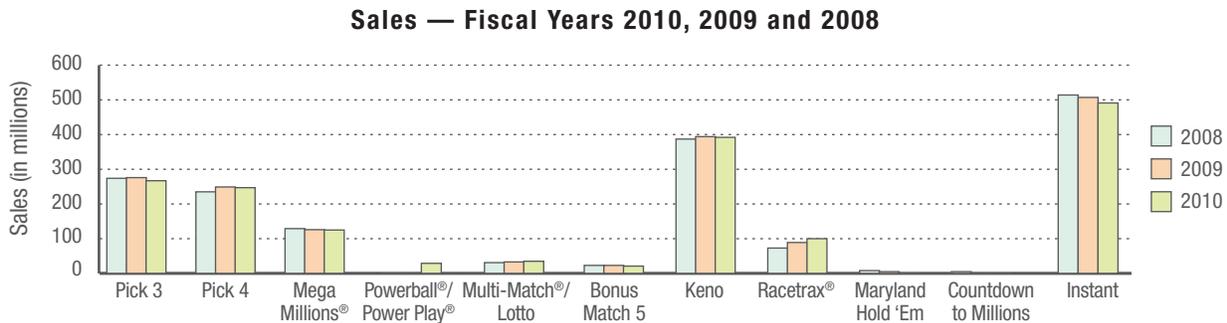
**Table 4 — Net Sales of Instant Games by Price Point  
(in thousands)**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
\$1	\$ 43,967	\$ 49,319	\$ 49,469
\$2	51,995	59,733	69,567
\$3	42,927	41,678	48,017
\$5	197,076	206,158	210,135
\$10	106,714	108,126	90,343
\$20	48,174	42,043	46,329
<b>Total</b>	<b>\$490,853</b>	<b>\$507,057</b>	<b>\$513,860</b>

MARYLAND STATE LOTTERY AGENCY  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Sales (continued)

The following graph depicts the Lottery's online and instant sales for 2010, 2009 and 2008. Keno, Keno Bonus and Keno Super Bonus sales (labeled as Keno for the chart below) have been combined, as has Racetrax® and Racetrax® Bonus sales (labeled as Racetrax for the chart below).



VLT Revenue – State Grant and Facility Applicants

VLT Revenue — State Grant and Facility Applicants represent funds received by the Lottery from the State of Maryland to pay for the costs of the VLT operations. The facility applicant portion represents costs incurred by the Lottery to perform background investigations on applicants who have applied for a gaming license. These costs will be billed to the applicant and returned to the State once collected by the Lottery. The State grant portion represents costs incurred by the Lottery which are not reimbursable by the facilities. VLT Revenue — State Grant increased by \$935,000 or 503.35% in 2010 as compared to 2009. VLT Revenue — Facility Applicants increased by \$2.70 million or 300.78% in 2010 as compared to 2009. The increases in these categories are the result of the expansion of the VLT Program. During 2010, the Video Lottery Commission approved the award of two VLT operator licenses. After the approval of these two licenses, the Lottery increased its staff and began its investigations into VLT manufacturers and contractors and employees of the VLT facilities who required gaming licenses.

Cost of Sales

Cost of sales consists of prize expense, retailer commissions, costs paid to vendors to operate and maintain the online system, and costs paid for the printing and delivery of instant games. Cost of sales decreased by \$112,000 or .01% in 2010 as compared to 2009, which increased \$73.1 million or 6.67% as compared to 2008.

The Lottery's most significant expenses (prize expense and retailer commissions) are predictable, because they have a direct correlation to sales. Prize expense increased by \$8.3 million or .80% in 2010 as compared to 2009, which increased \$69.0 million or 7.21% as compared to 2008. In general, as sales increase, prize expense increases at a proportional rate. Prize expense for instant games is controllable by designing and printing a predetermined number and value of winning tickets. Prize

## MARYLAND STATE LOTTERY AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

### Cost of Sales (continued)

expense for online games is impacted by the “luck of the draw.” Over time, such prize payouts generally reflect the design of the game and the odds of winning.

Commissions paid to Lottery retailers decreased by \$8.8 million or 7.18% in 2010 as compared to 2009, which increased \$4.1 million or 3.45% as compared to 2008. The decrease in commissions was the result of a law change that took effect on July 1, 2009. This change lowered the selling commission paid to Lottery retailers from 5.50% to 5.00%.

### Operating Expenses

Operating expenses increased by \$1.8 million or 4.87% in 2010 as compared to 2009, which increased by \$449,000 or 1.24% as compared to 2008. Fluctuations in operating expenses are primarily due to changes in the Lottery's budgetary appropriation or the timing of liquidating prior year encumbrances. The Lottery's operating expenses have remained relatively stable since the Lottery's budgetary appropriation and outstanding encumbrances have remained relatively stable for the past several years.

### Non-operating Expenses

Non-operating expenses decreased by \$17.9 million or 3.62% in 2010 as compared to 2009, which increased by \$31.2 million or 5.94% as compared to 2008. Non-operating expenses primarily consist of unrealized gains and losses on investments held to fund obligations to annuitants and payments to the State of Maryland General Fund and Stadium Authority.

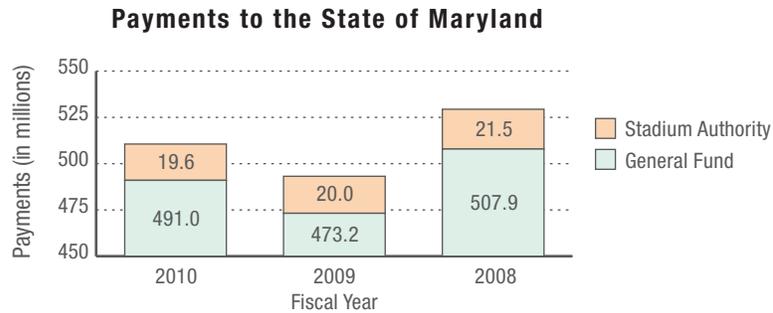
The Lottery expects to realize the face value of its investments, since it intends to hold these investments until maturity. Therefore, any interim unrealized gains or losses on investments will reverse. The change in fair value of the investments held by the Lottery is discussed in more detail on page 49.

The Lottery is required by State law to transfer its budgetary basis net income to the State of Maryland (General Fund and Stadium Authority). Accordingly, the Lottery's success can be measured by the income it transfers to the State.

Transfers to the State of Maryland totaled \$510.6 million in 2010, an increase of \$17.4 million or 3.53% as compared to 2009, which decreased \$36.2 million or 6.84% as compared to 2008. The increase in 2010 resulted from an increase in sales and revenues and a decrease in the percentage that retailers are paid for selling lottery tickets. The decrease from 2009 as compared to 2008 was the result of abnormally high payouts in the Pick 3 and Pick 4 games. These games alone returned \$40 million less to the State of Maryland in 2009 than they did in 2008. The graph on the following page depicts the payments made to the State of Maryland for 2010, 2009 and 2008.

MARYLAND STATE LOTTERY AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-operating Expenses (continued)



Contacting the Lottery's Financial Management

The financial report is designed to provide a general overview of the Lottery's financial activity for those interested in the Lottery's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Gina Smith, Assistant Director/CFO, Maryland Lottery, 1800 Washington Boulevard, Suite 330, Baltimore, Maryland 21230.

MARYLAND STATE LOTTERY AGENCY  
STATEMENTS OF NET ASSETS

	As of June 30	
	2010	2009
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,276,559	\$ 1,649,885
Cash and cash equivalents — VLT	31,613,296	39,512,031
Cash and cash equivalents — Agent	117,082	153,012
Cash held with State Treasury	65,954,636	73,434,214
Accounts receivable	29,113,894	27,292,248
Accounts receivable — VLT	131,267	314,895
Prepaid commissions	34,817	36,412
Current portion of investments for annuity payments	24,986,597	29,571,946
Total current assets	<u>154,228,148</u>	<u>171,964,643</u>
Non-current assets:		
Capital assets, net of accumulated depreciation	4,469,688	5,777,761
Investments for annuity payments, net of current portion	88,694,602	106,269,880
Total non-current assets	<u>93,164,290</u>	<u>112,047,641</u>
Total assets	<u>\$ 247,392,438</u>	<u>\$ 284,012,284</u>
Liabilities and Net Assets:		
Current liabilities:		
Current portion of annuity prizes payable	\$ 24,098,548	\$ 28,521,310
Current portion of employee related payables	1,222,176	1,130,695
Current portion of capital lease obligation	1,166,514	487,134
Transfer due to State of Maryland General Fund	39,025,816	43,748,041
Prize awards payable	44,310,432	40,441,704
Accounts payable and accrued expenses	1,592,152	2,657,075
Accounts payable and accrued expenses — VLT	131,267	314,895
VLT Escrow Payable	31,613,296	39,512,031
Agent Escrow Payable	117,082	153,012
Unearned revenue	2,321,788	2,412,944
Taxes and other liabilities	1,018,338	266,589
Total current liabilities	<u>146,617,409</u>	<u>159,645,430</u>
Non-current liabilities:		
Annuity prizes payable, net of current portion	74,226,413	91,181,551
Employee related payables, net of current portion	496,649	550,860
Capital lease obligation, net of current portion	4,094,608	5,261,123
Total non-current liabilities	<u>78,817,670</u>	<u>96,993,534</u>
Total liabilities	<u>225,435,079</u>	<u>256,638,964</u>
Net Assets:		
Invested in capital assets, net of related debt	(791,434)	29,504
Unrestricted	22,748,793	27,343,816
Total net assets	<u>21,957,359</u>	<u>27,373,320</u>
Total liabilities and net assets	<u>\$ 247,392,438</u>	<u>\$ 284,012,284</u>

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

## MARYLAND STATE LOTTERY AGENCY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years ended June 30	
	2010	2009
Sales:		
Online games	\$ 1,215,719,486	\$ 1,191,017,032
Instant games	490,853,089	507,057,024
Total sales	1,706,572,575	1,698,074,056
VLT Revenue — State Grant	1,120,566	185,724
VLT Revenue — Facility Applicants	3,591,922	896,234
Total Revenue	1,711,285,063	1,699,156,014
Cost of sales:		
Prize expense	1,034,157,126	1,025,901,163
Retailer commissions	113,130,686	121,888,107
Gaming vendor and data processing fees	16,201,910	15,975,142
Instant ticket printing and delivery	6,784,297	6,621,144
Total cost of sales	1,170,274,019	1,170,385,556
Gross profit	541,011,044	528,770,458
Operating expenses:		
Salaries, wages and benefits	12,870,370	12,981,499
Advertising and promotions	13,767,713	19,036,583
Depreciation and amortization	1,308,073	649,441
Other general and administrative expenses	2,320,982	3,019,878
Administrative Expense — VLT	4,712,488	1,081,958
Total operating expenses	34,979,626	36,769,359
Income from operations	506,031,418	492,001,099
Non-operating revenues (expenses):		
Investment revenue (loss)	6,536,045	8,742,144
Amortization of discount for annuity prize liabilities	(7,318,771)	(9,076,186)
Interest expense	(56,021)	(16,480)
Payments to State of Maryland General Fund	(491,008,632)	(473,206,260)
Payments to State of Maryland Stadium Authority	(19,600,000)	(20,000,000)
Total non-operating revenues (expenses)	(511,447,379)	(493,556,782)
Change in net assets	(5,415,961)	(1,555,683)
Total net assets — beginning of year	27,373,320	28,929,003
Total net assets — end of year	\$ 21,957,359	\$ 27,373,320

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

MARYLAND STATE LOTTERY AGENCY  
STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2010	2009
Cash flows from operating activities:		
Receipts from customers	\$ 1,710,733,490	\$ 1,744,837,516
Payments to suppliers	(40,249,357)	(44,676,444)
Payments to employees	(12,833,100)	(12,848,814)
Payments to agents	(113,203,187)	(121,981,230)
Prize payments/awards to players	<u>(1,028,577,324)</u>	<u>(1,022,250,895)</u>
Net cash and cash equivalents provided by operating activities	515,870,522	543,080,133
Cash flows from noncapital financing activities:		
Payments to the State of Maryland General Fund and Stadium Authority	(515,330,856)	(488,875,851)
Payments to the State of Maryland Education Fund	(13,824,754)	—
Transfers from other Mega Millions states	—	14,227,278
Shared prize winner payments	—	(14,227,277)
Prize payments/awards	<u>(29,655,996)</u>	<u>(33,762,996)</u>
Net cash and cash equivalents used in noncapital financing activities	(558,811,606)	(522,638,846)
Cash flows from capital and related financing activities:		
Payments of capital lease obligations	(487,135)	(489,654)
Interest payments	<u>(56,021)</u>	<u>(16,480)</u>
Net cash and cash equivalents used in capital and related financing activities	(543,156)	(506,134)
Cash flows from investing activities:		
Coupon bonds purchased	(959,325)	—
Proceeds from matured annuities and bonds	<u>29,655,996</u>	<u>33,762,996</u>
Net cash and cash equivalents provided by investing activities	<u>28,696,671</u>	<u>33,762,996</u>
Net (decrease) increase in cash and cash equivalents	(14,787,569)	53,698,149
Cash and cash equivalents, beginning of year	114,749,142	61,050,993
Cash and cash equivalents, end of year	<u>99,961,573</u>	<u>\$ 114,749,142</u>
Noncash investing and financing activities:		
Acquisition of equipment through capital lease	\$ —	\$ 5,589,841
Change in fair value of investments	<u>\$ (782,725)</u>	<u>\$ (334,041)</u>

MARYLAND STATE LOTTERY AGENCY  
STATEMENTS OF CASH FLOWS (CONTINUED)

	Years ended June 30	
	2010	2009
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:		
Operating income	\$ 506,031,418	\$ 492,001,099
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	1,308,073	649,441
Deferred prize payments	959,325	—
Effect of changes in operating assets and liabilities:		
Accounts receivable	(1,638,018)	7,312,921
Prepaid commissions	1,595	10,824
Accounts payable and accrued expenses	(9,183,216)	39,537,398
Employee related payables	37,270	132,685
Taxes and other liabilities	751,749	(116,898)
Prize awards payable	3,868,728	3,767,167
Unearned revenue	(91,156)	(214,504)
Due to other funds	13,824,754	—
Net cash and cash equivalents provided by operating activities	<u>\$ 515,870,522</u>	<u>\$ 543,080,133</u>

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### LEGISLATIVE ENACTMENT

The Maryland State Lottery Agency (Lottery) was established by the Maryland General Assembly enactment of Chapter 365 of Laws of Maryland of 1972, and the voters' approval that same year of a constitutional amendment to allow the Lottery. The amendment was ratified on November 7, 1972, and the Lottery commenced operations on January 2, 1973. The Lottery is a part of the primary government of the State of Maryland and is reported as a proprietary fund and business-type activity within the State of Maryland's financial statements.

The mandate of the Lottery law was to establish a State-operated lottery, under the immediate supervision of a Director and the guidance of a Commission, for the purpose of producing revenue for the General Fund of the State. The Governor, with the advice and consent of the Senate of Maryland, appoints the Director and nine Commission members.

The State of Maryland prepares a comprehensive annual financial report (CAFR). The Lottery is an enterprise fund of the State of Maryland and is included in the basic financial statements of the CAFR of the State of Maryland.

### BASIS OF ACCOUNTING AND PRESENTATION

The Lottery is accounted for as a proprietary fund special purpose government engaged in business-type activities. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and with accounting principles generally accepted in the United States of America, the financial statements are prepared on the accrual basis of accounting which requires recognition of revenue when earned and expenses when incurred. As permitted by GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund Accounting*, the Lottery has elected to not adopt Financial Accounting Standard Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

### 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 in the financial statements and accompanying notes. Actual results may differ from those estimates.

### LOTTERY GAME OPERATIONS — REVENUE RECOGNITION AND PRIZE OBLIGATIONS

The Lottery originates its revenue from two product lines: online games and instant games. The Lottery develops multiple game themes and prize structures to comply with its enabling legislation and customer

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

demand. Independent and corporate retailers comprised principally of grocery and convenience stores, package goods stores, and restaurants serve as the primary distribution channel for online and instant lottery sales to the general public. For the years ended June 30, 2010 and 2009, retailers received a sales commission of 5% and 5.5% of net sales, respectively, and a cashing commission of 3% of prizes redeemed.

Licensed Lottery agents sell online lottery tickets to the public through the use of computerized terminals. Online games include: Numbers (Pick 3 and Pick 4), Matrix (Lotto, Multi-Match<sup>®</sup>, Mega Millions<sup>®</sup>, Powerball<sup>®</sup>/Power Play<sup>®</sup>, and Bonus Match 5), Monitors (Keno, Keno Bonus, Keno Super Bonus, Racetrax<sup>®</sup>, Racetrax<sup>®</sup> Bonus, and Maryland Hold 'Em) and Raffle (Countdown to Millions). Online game revenue is recognized in the month in which the related drawings are held. Revenue from the sale of tickets and commissions paid for future drawings are deferred until the drawings are held. Revenue from instant games is recognized when the retailer activates the book of tickets.

Prize obligations for online games are determined and recognized after each drawing is held. For all online games, winners are paid a certain amount depending upon the number of winners and the order of the winning numbers drawn. Prize obligations are recognized monthly for instant games based on the books activated by retailers and the related prize expense based on the specific game's prize structure.

### OPERATING AND NON-OPERATING REVENUES AND EXPENSES

Operating revenues and expenses for proprietary funds such as the Lottery are revenues and expenses that result from providing services and producing and delivering goods and/or services. Operating revenues for the Lottery are derived from providing various types of lottery games. Operating expenses include the costs to operate the various games, pay prize winners and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposited with financial institutions, deposits with the Maryland State Treasury, and overnight investments in repurchase agreements.

### CASH AND CASH EQUIVALENTS — VLT

Cash and cash equivalents — VLT consists of funds deposited in escrow with a financial institution and the related interest earned. Monies deposited into the escrow accounts were received from applicants for Video Lottery Terminal (VLT) licenses. The VLT license application fees will be held in escrow until the application review process is complete and the license is either awarded or denied. If the license is awarded, the monies being held will be transferred to the Education Trust Fund of the State of Maryland. If the license is denied, the monies received will be returned to the applicant.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### CASH AND CASH EQUIVALENTS — AGENT

Cash and cash equivalents — Agent consists of funds deposited in escrow with a financial institution and the related interest earned. Monies deposited into the escrow accounts were received from select agents who deposited monies with the Lottery in lieu of obtaining a bond.

### ACCOUNTS RECEIVABLE

Accounts receivable represents the amounts due from Lottery retailers from the sale of Lottery tickets. The Lottery utilizes the allowance method to provide for doubtful accounts based on management's evaluation of the collectibility of accounts receivable. The Lottery determines accounts receivable to be delinquent when greater than 10 days past due. Receivables are written off when it is determined that amounts are uncollectible. As of June 30, 2010 and 2009, management believes all accounts receivable are collectible, and, as such, no allowance for doubtful accounts has been recorded.

### ACCOUNTS RECEIVABLE — VLT

Accounts receivable — VLT represent the amounts due from applicants for VLT facility licenses to cover the cost of the Lottery's licensing investigation. This balance includes an offset of funds used under authority of the State to pay for costs of vetting the applicants. Those costs will be billed to the applicants and when paid, will be returned to the State.

### CAPITAL ASSETS AND LEASEHOLD IMPROVEMENTS

The Lottery has adopted a policy of capitalizing assets with individual amounts exceeding \$25,000 and all leased assets. These assets are comprised principally of technology equipment necessary to administer lottery games. The purchased assets are recorded at cost, and depreciation is computed using the straight-line method over three-to-five year useful lives. Assets acquired through capital leases are initially recorded at the lower of fair value at the date of the lease or the net present value of the minimum lease payments. Assets acquired under capital leases are amortized over the lesser of the lease term or the estimated useful life of the leased asset.

### INVESTMENTS

Investments consist of United States Government Treasury Bonds and annuity contracts. The investments in United States Government Treasury Bonds are purchased in the name of the Lottery and stated at fair value based on quoted market prices. Investments in annuity contracts are purchased in the name of the Lottery and stated at present value, which approximates fair value.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### COMPENSATED ABSENCES

The Lottery accrues compensated absences in accordance with GASB No. 16, *Accounting for Compensated Absences*. All full-time Lottery employees except contractual employees accrue annual leave at variable rates based on the number of years employed by the State of Maryland. The maximum annual leave an employee can earn per calendar year is 25 days. At the end of each calendar year, an employee's accrued annual leave may not exceed 75 days. Accrued annual leave is included in the employee related payables in the accompanying statements of net assets. All full-time Lottery employees except contractual employees also accrue sick pay benefits. However, the Lottery does not record a liability for accrued sick pay benefits as neither the State of Maryland nor the Lottery has a policy to pay unused sick leave when employees terminate from State service.

### PAYMENTS TO THE STATE OF MARYLAND

The State of Maryland law requires the Lottery to transfer its revenue in excess of funds allocated to prize awards, operating expenses, and the Maryland Stadium Authority to the State of Maryland General Fund. The income from operations of the Mega Millions<sup>®</sup> game is transferred to the Maryland Stadium Authority up to an annual cap set by the authorized appropriation. These payments are recorded as a non-operating expense in the accompanying statements of revenues, expenses and changes in net assets.

### RESTRICTED ASSETS

State law restricts the Lottery's assets in their entirety. The Lottery's assets are not reported as restricted on the statements of net assets since the restriction created by State law is as broad as the Lottery operations.

### NET ASSETS

Net assets are presented as either unrestricted or invested in capital assets, net of related debt. Net assets invested in capital assets, net of related debt, represents the difference between capital assets and the related capital lease obligations. Unrestricted net assets represent the net assets available for future operations, including outstanding encumbrances as of year-end and unrealized gains or losses on investments. Market gains or losses represent temporary fluctuations and are not recognized in the calculation of the amount due to the Maryland Stadium Authority or State of Maryland General Fund.

### NEW ACCOUNTING PRONOUNCEMENTS

The Lottery has implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, effective for the fiscal year ended June 30, 2010. Implementation of these standards had no impact on the Lottery's financial position.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement will be effective for the Lottery for the fiscal year ended June 30, 2011. The Lottery has determined that implementation of this standard will have no impact on its financial position. In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement will be effective for the Lottery for the fiscal year ended June 30, 2012. In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement will be effective for the Lottery for the fiscal year ended June 30, 2011. The Lottery is in the process of assessing the impact of these statements and will implement them as of the effective dates.

## 2. CASH AND CASH EQUIVALENTS

As of June 30, 2010 and June 30, 2009, the carrying amounts of deposits with financial institutions were \$34,006,937 and \$41,314,928, respectively. The corresponding bank balances were \$33,584,302 and \$40,855,698 as of June 30, 2010 and June 30, 2009, respectively.

As of June 30, 2010 and June 30, 2009, the amount on deposit with the Maryland State Treasury was \$65,954,636 and \$73,434,214, respectively. The corresponding Maryland State Treasury balances were \$26,935,068 and \$73,404,904, respectively. The State Treasury has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards and commissions. The deposits with the State Treasury are part of the State of Maryland's internal investment pool and are not separately identifiable as to specific types of securities. The Treasury maintains these and other Maryland State agency funds on a pooled basis in accordance with State statute. The Lottery does not obtain interest on funds deposited with the State Treasury. As of June 30, 2010 and 2009, the Lottery's deposits with the State Treasury were less than 2% of the total deposits with the State Treasury.

**Custodial credit risk** — Custodial credit risk is the risk that in the event of a bank failure, the Lottery's deposits will not be returned to it. The Lottery's deposit policy requires that it comply with the State law that governs the State Treasury deposits. Specifically, unexpended or surplus money may be deposited in a financial institution in the State if the deposit is interest bearing; the financial institution provides collateral that has a market value that exceeds the amount by which a deposit exceeds the deposit insurance; the custodian holds the collateral.

Federal depository insurance covers a portion of the Lottery's deposits with a financial institution, and the remaining balance is collateralized with securities that are held by the State of Maryland's agent in the State's name. These deposits are invested in overnight repurchase agreements. As of June 30, 2010 and 2009, the collateral for the repurchase agreements were Federal National Mortgage Association (FNMA) Mortgage-Backed Securities which are not rated; however, the amount of collateral meets or exceeds the deposit insurance.

## 2. CASH AND CASH EQUIVALENTS (CONTINUED)

Interest rate risk — The State Treasury investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the State Treasury will not directly invest in securities maturing more than five years from the date of purchase.

Credit risk — State law requires that the State Treasury investments in repurchase agreements be collateralized by United States Treasury and Agency Obligations. In addition, investments may be made directly in United States Agency Obligations. State law also requires that money market mutual funds receive the highest possible rating from at least one nationally recognized statistical rating organization.

Concentration of credit risk — The State Treasury's investment policy limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. There is no other limit on the amount that may be invested in any one issuer. More than 5% of government funds investments are in the FNMA, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, the Federal Farm Credit Bank and the Federal Agricultural Mortgage Corporation. As of June 30, 2010, these investments are 56.0%, 17.0%, 8.6% and 12.8% of the State of Maryland's internal investment pool total investments, respectively.

## 3. INVESTMENTS

### UNITED STATES GOVERNMENT TREASURY BONDS

It is the Lottery's policy to fund jackpot and lifetime prize awards through the purchase of United States Government Treasury Bonds. Furthermore, it is the policy of the Lottery to hold these investments to maturity. The investment maturities approximate the annuity prizes payable installment due dates.

The Lottery has purchased long-term investments to fund jackpot and lifetime prize awards. The majority of these investments are United States Government Treasury Bonds, which carry a yield to maturity of approximately 1.8% to 8.4%. As of June 30, 2010 and June 30, 2009, the Lottery's United States Government Treasury Bonds totaled \$113,334,252 and \$135,458,305, respectively. The investments in United States Government Treasury Bonds are carried at fair value based on quoted market prices on the accompanying statements of net assets and the related unrealized gains and interest income are recorded as investment revenue on the accompanying statements of revenues, expenses and changes in net assets.

Through the State securities lending program, authorized under section 2-603 of the State's Finance and Procurement Article of the Annotated Code of Maryland, the State Treasurer's Office lends United States Government securities to broker-dealers and other entities (borrowers). As of June 30, 2010 and June 30, 2009, Lottery United States Government Treasury Bonds totaling \$64,771,000 and \$110,169,000, respectively, were lent as part of this program. The State Treasurer's Office controls

### 3. INVESTMENTS (CONTINUED)

the program and authorizes all transactions. The State's (and Lottery's) custodial bank manages the securities lending program by contracting with a lending agent who receives cash as collateral. The lending agent may use or invest cash collateral in accordance with the reinvestment guidelines approved by the State Treasurer's Office. Additionally, under the terms of the lending agreement, the lending agent indemnifies the State against any credit loss arising from investment of the collateral. The collateral will be returned for the same securities by the next business day if the aggregate value of the collateral falls to less than 100 percent of the market value of the securities lent against the collateral. Cash collateral is initially pledged at greater than the market value of the securities.

At year-end, the State has no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. As of June 30, 2010 and 2009, the related collateral for the Lottery securities lent totaled \$65,824,000 and \$100,747,000, respectively, resulting in 101.6% and 100.6% collateralization of the fair value of the Lottery securities lent. The benefit of collateral received or income earned is not passed onto the Lottery and therefore not reflected in the Lottery's financial statements.

Either the State or the borrower may terminate the lending agreements on demand. Lending agreements are usually short in duration. The duration of the lending agreements is matched with the term to maturity of the investment of the cash collateral by investing only in repurchase agreements. Such matching existed at year-end. The State's custodial bank is obligated to indemnify the State against liability for any suits, actions, or claim of any character arising from or relating to the performance of the bank under the contract, except for liability caused by acts or omissions of the State. The State did not experience any losses on their securities lending transactions for the years ended June 30, 2010 and 2009.

#### ANNUITY CONTRACTS

Certain investments are held in annuity contracts that return guaranteed interest ranging from 7.6% to 12.1%. As of June 30, 2010 and June 30, 2009, the annuity contracts totaled \$346,947 and \$383,521, respectively. The annuity contracts were purchased in 1976 to satisfy the Lottery's obligation for certain lifetime prizes. The value of the annuity contracts and related annuity prizes payable were adjusted in fiscal year 2005 based on revised actuarial life expectancy tables.

Interest rate risk is the risk that an investment's fair value decreases as market interest rates increase. Typically, this risk is higher in debt securities with longer maturities. The Lottery is not subject to interest rate risk because it is our policy to hold the investments until maturity, unless an annuitant through a court order forces the sale of an investment to settle the Lottery's obligation to the annuitant, at which time the annuitant would be paid the proceeds received from the sale of the investments.

For an investment, custodial 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. The Lottery is not subject to custodial risk because the United States

MARYLAND STATE LOTTERY AGENCY  
 NOTES TO FINANCIAL STATEMENTS

**3. INVESTMENTS (CONTINUED)**

Government Treasury Bonds are held in the Lottery's name by its custodian, and annuity contracts are not evidenced by securities that exist in physical or book entry form.

As of June 30, 2010, the Lottery had the following investments:

Investment Type	Fair Value	Credit Quality Rating	% of Investments	Investment Maturities (In Years)				
				Less than 1	1-5	6-10	11-20	21-30
<u>Investments in prize annuities:</u>								
United States								
Treasury Bonds	\$113,334,252	1	99.7%	\$24,935,556	\$60,585,381	\$17,733,156	\$10,080,159	\$-
Annuity Contracts	346,947	2	.3%	51,041	208,053	64,870	22,983	-
<b>Total Investments</b>	<b>\$113,681,199</b>		<b>100.0%</b>	<b>\$24,986,597</b>	<b>\$60,793,434</b>	<b>\$17,798,026</b>	<b>\$10,103,142</b>	<b>\$-</b>

1 Credit quality ratings not required for U.S. government and agency securities that are explicitly guaranteed by the U.S. government.

2 Annuity contracts not rated.

MARYLAND STATE LOTTERY AGENCY  
NOTES TO FINANCIAL STATEMENTS

#### 4. CAPITAL ASSETS

A summary of capital asset activity for the years ended June 30, 2010 and 2009 is as follows:

	<b>2009</b>	<b>Increases</b>	<b>Decreases</b>	<b>2010</b>
Capital Assets				
Machinery and Equipment	\$ 7,292,793	\$ —	\$ —	\$ 7,292,793
Leasehold Improvements	613,240	—	—	613,240
Total Capital Assets	7,906,033	—	—	7,906,033
Less Accumulated Depreciation and Amortization				
Machinery and Equipment	1,724,555	1,246,749	—	2,971,304
Leasehold Improvements	403,717	61,324	—	456,041
Total Accumulated Depreciation and Amortization	2,128,272	1,308,073	—	3,436,345
Net Capital Assets	<u>\$ 5,777,761</u>	<u>\$ 1,308,073</u>	<u>\$ —</u>	<u>\$ 4,469,688</u>
	<b>2008</b>	<b>Increases</b>	<b>Decreases</b>	<b>2009</b>
Capital Assets				
Machinery and Equipment	\$ 9,372,613	\$ 5,589,841	\$ 7,669,661	\$ 7,292,793
Leasehold Improvements	613,240	—	—	613,240
Total Capital Assets	9,985,853	5,589,841	7,669,661	7,906,033
Less Accumulated Depreciation and Amortization				
Machinery and Equipment	8,806,098	588,118	7,669,661	1,724,555
Leasehold Improvements	342,393	61,324	—	403,717
Total Accumulated Depreciation and Amortization	9,148,491	649,442	7,669,661	2,128,272
Net Capital Assets	<u>\$ 837,362</u>	<u>\$ 4,940,399</u>	<u>\$ —</u>	<u>\$ 5,777,761</u>

MARYLAND STATE LOTTERY AGENCY  
NOTES TO FINANCIAL STATEMENTS

## 5. ANNUITY PRIZE OBLIGATIONS

The Lottery carries long-term annuity prize obligations at present value. Presented below is a summary of long-term annuity prize payment requirements for annuities payable to maturity:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 24,098,548	\$ 903,448	\$ 25,001,996
2012	19,190,945	2,139,051	21,329,996
2013	14,304,871	2,658,125	16,962,996
2014	10,858,048	2,835,948	13,693,996
2015	7,973,897	2,633,099	10,606,996
2016–2020	14,027,098	7,447,966	21,475,064
2021–2025	6,160,434	6,124,546	12,284,980
2026–2030	1,710,956	2,460,024	4,170,980
2031	164	269	433
Total	<u>\$ 98,324,961</u>	<u>\$ 27,202,476</u>	<u>\$ 125,527,437</u>

This debt represents annual payments owed to jackpot and lifetime winners. Annuity prizes are paid over a period of time ranging from 20 to 25 years, depending on the time period in which the prize was won. The Lottery has purchased United States Government Treasury Bonds or annuity contracts that fully fund these obligations.

Long-term liability activity of annuity prize payments for the years ended June 30, 2010 and 2009 was as follows:

<b>Fiscal Year Ending</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
June 30, 2010	\$119,702,861	\$ 8,278,096	\$ 29,655,996	\$ 98,324,961	\$ 24,098,548
June 30, 2009	\$144,389,671	\$ 9,076,186	\$ 33,762,996	\$119,702,861	\$ 28,521,310

MARYLAND STATE LOTTERY AGENCY  
NOTES TO FINANCIAL STATEMENTS

## 6. EMPLOYEE RELATED PAYABLES

Changes in long-term employee related payables were as follows for the years ended June 30, 2010 and 2009. The employee related payables due within one year are included in the current portion of the employee related payables on the accompanying statements of net assets, which also includes salaries payable in the amount of \$510,237 and \$499,695 as of June 30, 2010 and 2009, respectively.

	<b>2010</b>		
	<b>Compensated Absences</b>	<b>Workers' Compensation</b>	<b>Combined</b>
Beginning Balance	\$ 981,860	\$ 200,000	\$ 1,181,860
Additions	686,718	38,453	725,171
Reductions	(666,046)	(32,397)	(698,443)
Ending Balance	<u>\$ 1,002,532</u>	<u>\$ 206,056</u>	<u>\$ 1,208,588</u>
Amount Due Within One Year	\$ 680,000	\$ 31,939	\$ 711,939
Non-Current Portion	322,532	174,117	496,649
	<u>\$ 1,002,532</u>	<u>\$ 206,056</u>	<u>\$ 1,208,588</u>

	<b>2009</b>		
	<b>Compensated Absences</b>	<b>Workers' Compensation</b>	<b>Combined</b>
Beginning Balance	\$ 874,496	\$ 234,000	\$ 1,108,496
Additions	711,776	60,752	772,528
Reductions	(604,412)	(94,752)	(699,164)
Ending Balance	<u>\$ 981,860</u>	<u>\$ 200,000</u>	<u>\$ 1,181,860</u>
Amount Due Within One Year	\$ 600,000	\$ 31,000	\$ 631,000
Non-Current Portion	381,860	169,000	550,860
	<u>\$ 981,860</u>	<u>\$ 200,000</u>	<u>\$ 1,181,860</u>

MARYLAND STATE LOTTERY AGENCY  
NOTES TO FINANCIAL STATEMENTS

## 7. COMMITMENTS AND CONTINGENCIES

### LEASES

The Lottery leases office space, warehouse facilities, and online and instant product equipment over periods extending through July 2015. Rent expense for each of the years ended June 30, 2010 and 2009 totaled \$924,108. Certain leases contain a bargain purchase option and are accounted for as capital leases.

The assets acquired under capital leases include:

	June 30, 2010	June 30, 2009
Machinery and Equipment	\$ 5,881,452	\$ 5,881,452
Accumulated Amortization	(1,625,889)	(449,599)
	<u>\$ 4,255,563</u>	<u>\$ 5,431,853</u>

The following is a schedule of future minimum lease payments under these leases:

Year Ending June 30:	Operating Leases	Capital Leases
2011	\$ 924,108	\$ 1,286,294
2012	924,108	1,251,615
2013	385,045	1,216,932
2014	—	1,215,632
2015	—	607,320
Total	\$ 2,233,261	\$ 5,577,793
Less amount representing interest		316,671
Present value of minimum lease payments		5,261,122
Less current maturities		1,166,514
Long-term portion of capital lease obligations		<u>\$ 4,094,608</u>

Liability activity for capital leases was as follows for the years ended June 30,:

	2010	2009
Beginning Balance	\$ 5,748,257	\$ 648,070
Acquisitions	—	5,589,841
Payments	(487,135)	(489,654)
Ending Balance	<u>\$ 5,261,122</u>	<u>\$ 5,748,257</u>

### CONTRACTS

As of June 30, 2010, the Lottery has entered into various contracts totaling approximately \$375,000,000 for services to be rendered. These services relate principally to the operation of, and advertising for, the Lottery's games and the VLT program.

## 8. PARTICIPATION IN MULTI-STATE GAMES MEGA MILLIONS® AND POWERBALL®

The Lottery is a member of the multi-state game Mega Millions. Mega Millions is a lottery game conducted as a cooperative venture by 12 states: Georgia, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, Washington, California and Maryland. Effective January 31, 2010, 22 Powerball states and Washington, D.C. began selling the Mega Millions game. Also on January 31, 2010, the Lottery began selling the Powerball game. Powerball is a lottery game currently sold in 41 states, Washington, D.C. and the U.S. Virgin Islands. The Mega Millions states have agreed to a common set of game rules for both Mega Millions and Powerball and share in a common prize pool for each game. The prize pools are shared on a percent of sales basis. Game accounting is conducted after each semi-weekly drawing. Settlements between the states occur after each jackpot win and annually for all other prizes, unless a state's non-jackpot prize settlement amount exceeds \$1,500,000, at which time the states conduct a mid-year settlement. Settlements occur annually for unclaimed non-jackpot prizes and after the claiming period has expired for unclaimed jackpot prizes.

## 9. RETIREMENT BENEFITS

The Lottery and its employees contribute to the State Retirement and Pension System (the System). The System is a cost-sharing, multiple-employer public employee retirement system established by the State to provide pension benefits for State employees. The Lottery's only obligation to the System is its required annual contribution. The System is administered by a Board of Trustees in accordance with State Personnel and the Pension Article of the Annotated Code of Maryland. The System prepares a separately audited CAFR, which can be obtained from the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202.

### PLAN DESCRIPTIONS

Lottery employees are members of the Employees' Retirement and Pension Systems (two of several systems managed by the System's Board of Trustees). The Employees' Retirement System (the Retirement Plan) includes those employees hired prior to January 1, 1980 who have not elected to transfer to the Employees' Pension System (the Pension Plan). Conversely, members of the Pension Plan include those employees hired after January 1, 1980 and prior employees who have elected to transfer from the Retirement Plan.

The Retirement Plan provides retirement, death and disability benefits to its members. Members of the Retirement Plan are generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of eligible service regardless of age. The annual retirement allowance equals  $\frac{1}{55}$  (1.8%) of the member's highest three-year average final salary (AFS) multiplied by the number of years of accumulated creditable service. A member may retire with reduced benefits after completing 25 years of eligible service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of

## 9. RETIREMENT BENEFITS (CONTINUED)

eligible service, whichever is less. The maximum reduction for a member is 30%. Any member who terminates employment before attaining retirement age but after accumulating five years of eligible service is eligible for a vested retirement allowance.

The Pension Plan provides retirement, death and disability benefits to its members. Members of the Pension Plan are generally eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. Generally, the annual pension allowance for a member equals 1.2% of the member's AFS, multiplied by the number of years creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFS, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. A member may retire with reduced benefits upon attaining age 55 with at least 15 years of eligible service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for a member is 42%. Any member who terminates employment before attaining retirement age but after accumulating five years of eligible service is eligible for a vested retirement allowance.

### FUNDING POLICY

Active members and the employers of the members are required to contribute to the Employees' Retirement and Pension Systems. The Lottery's required contribution is established by annual actuarial valuations using the entry age normal cost method with projection and other actuarial assumptions adopted by the Board of Trustees. Members of the Employees' Retirement System are required to contribute 5% or 7% of earnable compensation depending upon the retirement option selected. Members of the Employee's Pension System are required to contribute 4% of earnable compensation.

The Lottery contributions, which equal 100% of the required contributions, for the three years ended June 30, 2010, 2009 and 2008 are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Lottery contribution	\$ 899,000	\$ 781,000	\$ 784,000
Percentage of payroll	7.00%	6.05%	6.35%

## 10. OTHER POSTEMPLOYMENT BENEFITS

Members of the State Retirement and Pension Systems and their dependents are provided postemployment healthcare benefits through the State Employee and Retiree Health and Welfare Benefits Program (Plan). The Plan is a single-employer defined benefit healthcare plan established by the State Personnel and Pensions Article, Section 2-501 through 2-516 of the Annotated Code of Maryland. The Plan is self-insured to provide medical, hospitalization, prescription drug and dental insurance benefits to

## 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

eligible state employees, retirees and their dependents. A separate valuation is not performed for the Lottery. The Lottery's only obligation to the Plan is its required annual contribution.

Effective June 1, 2004, the State established the Postretirement Health Benefits Trust Fund (OPEB Trust) to receive appropriated funds and contributions to assist the Plan in financing the State's postemployment health insurance subsidy. The OPEB Trust is established in accordance with the State Personnel and Pensions Article, Section 34-101 of the Annotated Code of Maryland and is administered by the Board of Trustees for the State Retirement and Pension System. The Board of Trustees prepares a financial report for the OPEB Trust, which can be obtained from the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Suite 1600, Baltimore, Maryland 21202.

### PLAN DESCRIPTION

Lottery employees are members of the Plan. Members generally may enroll and participate in the health benefit options if the retiree ended State service with at least 10 years of creditable service and within five years before the age at which a vested retirement allowance normally would begin or if the retiree ended State service with at least 16 years of creditable service.

### FUNDING POLICY

Beginning in fiscal year 2008, State law requires the State's Department of Budget and Management to transfer any subsidy received as a result of the federal Medicare Prescription Drug Improvement and Modernization Act of 2003 or similar subsidy to the OPEB Trust to prefund OPEB benefits. To further prefund benefits, during fiscal year 2008, the State transferred funds from the State Reserve Fund Dedicated Purpose Account. Additionally, the State is required by law to provide funding each year for the Plan for the State's share of the pay-as-you-go amount necessary to provide current benefits to active and retired employees and their dependents. Funds may also be separately appropriated in the State's budget for transfer to the OPEB Trust.

Based on current practice, the State subsidizes approximately 50% to 85% of covered medical, dental, prescription and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for postemployment healthcare benefits, which is based on healthcare insurance charges for current employees. Costs for post retirement benefits are for State of Maryland retirees. The State does not distinguish employees by employer/State agency. Instead, the State allocates the postemployment healthcare costs to all participating employers. The cost of these benefits is expensed when paid. For the years ended June 30, 2010 and 2009, the State did not allocate postemployment healthcare costs to participating employers and as a result, no contribution was made by the Lottery. For the year ended June 30, 2009, the Lottery's share of these costs was approximately \$55,000.

## 11. RISK MANAGEMENT

The Lottery is exposed to various risks associated with the theft, damage, or destruction of assets, torts and game liability. To manage the related risks, the Lottery participates in the State's insurance program, which provides general liability, personal and casualty, and workers' compensation insurance. The program requires all agencies to submit premiums based upon proportionate payroll costs and/or claim history. This insurance covers related losses up to a maximum of \$1,000,000 per event. Settlements have not exceeded coverage for any of the past three fiscal years. The activity related to accrued workers' compensation costs is included in the schedule exhibited in Note 6.

To minimize risks associated with game liabilities, the Lottery has established aggregate payout limits for each game type. This approach discontinues sales of the daily numbers games once the potential liability limit is reached for a specific player selection. A maximum payout limit is established for those games with a first-tier prize, which requires multiple first-tier winners to split the related prize.

## 12. VIDEO LOTTERY TERMINAL (VLT) FACILITIES

The Lottery is responsible for receiving funds from applicants for VLT facilities and for vetting the applicants for financial stability. The Lottery will be responsible for regulation of the VLT facilities once operational and collection of funds due to the State from the revenues generated.

As of June 30, 2010, the State provided a grant in the amount of \$1,120,566 to the Lottery to begin the implementation of the VLT program. Additionally, the Lottery spent \$4,488,157 under authority from the State to implement the program. This amount will be billed to facility applicants and repaid to the State.

MARYLAND STATE LOTTERY AGENCY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS —  
BUDGET AND ACTUAL

	For the Year ended June 30, 2010			
	Original Budget	Final Amended Budget	Actual Amounts	Variance with Budget over (under)
Revenues:				
Ticket Sales	\$ 1,455,838,757	\$ 1,490,826,243	\$ 1,710,733,490	\$ 219,907,247
Expenditures and encumbrances:				
Gaming vendor and information technology fees	16,730,374	16,749,037	16,203,510	(545,527)
Instant ticket printing and delivery	7,271,700	7,271,700	6,784,297	(487,403)
Salaries, wages and benefits	13,321,244	12,979,535	12,843,642	(135,893)
Advertising and promotions	12,893,639	14,340,355	13,767,713	(572,642)
Other general and administrative expenses	3,649,077	3,883,698	3,156,320	(727,378)
Reversions	—	(63,754)	—	63,754
Total Expenditures and Encumbrances	53,866,034	55,160,571	52,755,482	(2,405,089)
Excess of Revenues Over Expenditures	1,401,972,723	1,435,665,672	1,657,978,008	222,312,336
Other Uses of Financial Resources:				
Transfers out:				
Payments to Maryland Stadium Authority	(19,600,000)	(19,600,000)	(19,600,000)	—
Payments to the Maryland General Fund	(516,100,000)	(525,696,000)	(491,008,632)	34,687,368
Excess of Revenues Over Expenditures and Other Sources of Financial Resources	\$ 866,272,723	\$ 890,369,672	\$ 1,147,369,376	\$ 256,999,704
Change in Net Assets	\$ (5,415,961)			
Non-Budgetary Expenditures:				
Prize expense	1,034,157,126			
Retailer commissions	113,130,686			
Depreciation	1,308,073			
Bad debt	74,096			
Accounting Principle Differences:				
Accounts receivable	(1,638,018)			
Unearned revenue	(91,156)			
Increase in fair value of investments	(6,536,046)			
Amortization of discount prize liabilities	7,318,771			
Compensated absences	20,672			
Workers' compensation	6,056			
Capital lease payments and related interest	(855,012)			
Cash received for VLT/Agents	5,890,089			
Excess of Revenues Over Expenses	\$ 1,147,369,376			

## 1. BUDGETING AND BUDGETARY CONTROL

The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. Each year the Lottery prepares its annual budget and submits it to the Governor. The Governor then presents the State's annual budget (including the Lottery's) to the General Assembly in accordance with Constitutional requirements. The General Assembly is required to then enact a balanced budget.

The Maryland Lottery's official budget, as adopted by the Legislature, is based upon accounting for certain transactions on the basis of cash receipts and disbursements. Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded as expenditures when the purchase commitment is made, is employed for budgetary purposes. Unliquidated encumbrances are canceled at year-end if it is determined the funds will not be utilized in the future. Unencumbered appropriations lapse at the end of the fiscal year for which they were appropriated. The major differences between the budget basis and the Generally Accepted Accounting Principle (GAAP) basis of accounting are:

- Lottery player prize payments are not budgeted;
- Lottery retailer commissions are not budgeted;
- Revenues are recorded when received in cash (budget) as opposed to when earned (GAAP);
- Expenses (including deferred prizes) are recorded when paid or encumbered (budget) as opposed to when the liability is incurred (GAAP);
- The budget basis excludes depreciation and amortization.

The Maryland Lottery maintains budgetary control by not permitting the total expenditures to exceed appropriations without executive and legislative branch approval.



STOUT, CAUSEY &  
HORNING, P.A.

910 Ridgbrook Road  
Sparks, MD 21152

## 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 Maryland State Lottery Agency:

We have audited the financial statements of the Maryland State Lottery Agency (an agency of the State of Maryland), as of and for the year ended June 30, 2010 and have issued our report thereon dated September 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Maryland State Lottery Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Maryland State Lottery Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Maryland State Lottery Agency's internal control over financial reporting.

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.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Maryland State Lottery Agency's financial statements are free of 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 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*.

We noted certain matters that we reported to management of the Maryland State Lottery Agency, in a separate letter dated September 22, 2010.

This report is intended solely for the information and use of the management of the Maryland State Lottery Agency and the State of Maryland and is not intended to be and should not be used by anyone other than these specified parties.

*Stout, Causey & Horning, P.A.*

September 22, 2010

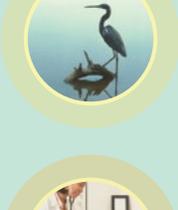
# MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

## Statistical Section

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SINCE ITS INCEPTION IN 1973, THE MARYLAND LOTTERY HAS CONTRIBUTED MORE THAN \$11.7 BILLION TO THE STATE OF MARYLAND WHICH IS USED TO SUPPORT EDUCATION, PUBLIC SAFETY, HEALTH AND ENVIRONMENTAL PROGRAMS. IN FISCAL YEAR 2010 ALONE, \$510.6 MILLION IN REVENUE WAS CONTRIBUTED TO THE STATE, AN INCREASE OF \$17.4 MILLION OVER THE LAST FISCAL YEAR AND THE SECOND-HIGHEST CONTRIBUTION IN THE LOTTERY'S HISTORY.



MARYLAND STATE LOTTERY AGENCY  
STATISTICAL INFORMATION SECTIONS

This section of the Maryland State Lottery Agency’s Comprehensive Annual Financial Report presents detailed information as a supplement to the information presented in the financial statements and note disclosures to assist readers in assessing the Lottery’s overall financial health.

## CONTENTS

### FINANCIAL TRENDS 67

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These schedules contain trend information to help readers understand how the Lottery’s financial performance and position have changed over time. The information presented includes changes in net assets, sales and contribution/transfer data specific to the Lottery as well as the Lottery industry as a whole.

### REVENUE CAPACITY 81

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This schedule contains information to help readers assess the Lottery’s most significant revenue sources. Sales information, included in the financial trends section, provides data about the various games available to the public. The Lottery’s statewide retailer network determines the market exposure for the Lottery’s games.

### DEBT CAPACITY 87

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This schedule presents information to help readers assess the Lottery’s debt burden and the Lottery’s ability to issue additional debt in the future.

### DEMOGRAPHIC AND ECONOMIC INFORMATION 88

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These schedules offer demographic and economic indicators to help readers understand the environment within which the Lottery operates.

### OPERATING INFORMATION 89

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These schedules contain information about the Lottery’s organization and efficiency.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports or the audited financial statements for the relevant year.

MARYLAND STATE LOTTERY AGENCY

NET ASSETS AND CHANGES IN NET ASSETS – FISCAL YEARS 2001 THROUGH 2010

NET ASSETS BY COMPONENT – FISCAL YEARS 2001 THROUGH 2010

FISCAL YEAR	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Invested in capital assets, net of related debt	\$ 415,012	\$ 608,337	\$ 758,018	\$ 376,882	\$ 436,229	\$ 292,874	\$ 341,314	\$ 189,292	\$ 29,504	\$ (791,434)
Unrestricted	12,044,922	7,973,580	3,268,380	43,845,534	44,909,438	26,719,381	13,830,745	28,739,711	27,343,816	22,748,793
<b>Total net assets</b>	<b>\$ 12,459,934</b>	<b>\$ 8,581,917</b>	<b>\$ 4,026,398</b>	<b>\$ 44,222,416</b>	<b>\$ 45,345,667</b>	<b>\$ 27,012,255</b>	<b>\$ 14,172,059</b>	<b>\$ 28,929,003</b>	<b>\$ 27,373,320</b>	<b>\$ 21,957,359</b>

CHANGE IN NET ASSETS – FISCAL YEARS 2001 THROUGH 2010

<b>OPERATING REVENUES:</b>										
Numbers games	\$ 504,013,025	\$ 508,305,575	\$ 500,378,009	\$ 499,988,605	\$ 521,555,497	\$ 534,578,721	\$ 531,992,424	\$ 509,185,489	\$ 525,522,017	\$ 513,618,529
Monitor games	319,452,467	355,711,608	377,419,953	389,796,257	417,458,505	436,527,806	462,551,365	460,795,521	483,177,817	491,999,734
Matrix games	121,595,769	141,995,257	127,783,484	147,728,145	155,750,154	174,467,430	151,186,911	184,017,335	182,317,198	210,101,223
Instant games	264,111,034	299,203,861	316,657,091	355,016,755	390,968,694	415,331,827	425,085,365	513,859,583	507,057,024	490,853,089
Raffle games	—	—	—	—	—	—	6,495,000	5,180,800	—	—
Other games	1,443,932	1,322,196	—	2,898,696	—	—	—	—	—	—
<b>Total sales</b>	<b>1,210,616,227</b>	<b>1,306,538,497</b>	<b>1,322,238,537</b>	<b>1,395,408,458</b>	<b>1,485,732,850</b>	<b>1,560,905,784</b>	<b>1,577,311,065</b>	<b>1,673,038,728</b>	<b>1,698,074,056</b>	<b>1,706,572,575</b>
VLT Revenue - State Grant	—	—	—	—	—	—	—	—	185,724	1,120,566
VLT Revenue - Facility Applicants	—	—	—	—	—	—	—	—	896,234	3,591,922
<b>Total operating revenues</b>	<b>1,210,616,227</b>	<b>1,306,538,497</b>	<b>1,322,238,537</b>	<b>1,395,408,458</b>	<b>1,485,732,850</b>	<b>1,560,905,784</b>	<b>1,577,311,065</b>	<b>1,673,038,728</b>	<b>1,699,156,014</b>	<b>1,711,285,063</b>

COST OF SALES:

Prize expense	671,196,364	733,196,055	743,416,525	786,801,576	856,231,700	904,077,713	927,009,794	956,887,051	1,025,901,163	1,034,157,126
Retailer commissions	76,943,536	85,362,915	87,118,213	91,298,325	97,592,346	102,704,705	112,187,831	117,824,367	121,888,107	113,130,686
Gaming vendor and data processing fees	14,364,972	13,892,789	14,261,693	14,576,720	15,243,781	15,638,778	14,778,613	15,615,384	15,975,142	16,201,910
Instant ticket printing and delivery	4,606,976	5,668,423	5,677,449	6,810,615	4,938,585	6,199,964	5,261,387	6,910,073	6,621,144	6,784,297
<b>Total cost of sales</b>	<b>767,111,848</b>	<b>838,120,182</b>	<b>850,473,880</b>	<b>899,487,236</b>	<b>974,006,412</b>	<b>1,028,621,160</b>	<b>1,059,237,625</b>	<b>1,097,236,875</b>	<b>1,170,385,556</b>	<b>1,170,274,019</b>

OPERATING EXPENSES:

Salaries, wages and benefits	8,813,971	9,956,432	10,351,706	10,275,844	10,583,585	11,402,287	12,355,212	12,224,124	12,981,499	12,870,370
Advertising and promotions	15,634,986	14,253,805	16,907,207	14,013,399	14,889,419	15,859,308	18,332,963	19,805,039	19,036,583	13,767,713
Other general and administrative expenses	4,635,511	3,938,041	4,487,413	4,261,363	4,205,133	4,807,627	3,447,049	3,663,424	3,019,878	2,320,982
Administrative expense — VLT	—	—	—	—	—	—	—	—	1,081,958	4,712,488
Depreciation and amortization	1,247,480	1,433,161	1,830,956	1,623,609	1,500,135	560,257	657,431	627,947	649,441	1,308,073
<b>Total operating expenses</b>	<b>30,331,948</b>	<b>29,581,439</b>	<b>33,577,282</b>	<b>30,174,235</b>	<b>31,178,272</b>	<b>32,629,479</b>	<b>34,792,855</b>	<b>36,320,534</b>	<b>36,769,359</b>	<b>34,979,626</b>

NON-OPERATING REVENUES (EXPENSES):

Unrealized gains (losses) on investments	—	—	—	(25,411,268)	(2,236,689)	(16,973,874)	(1,966,256)	4,709,628	(334,042)	(782,726)
Extraordinary item: income from de-mutualization	—	998,032	—	—	—	—	—	—	—	—
Cumulative effect of change in accounting principles (1)	—	—	2,333,496	58,351,461	—	—	—	—	—	—
Interest expense	(211,356)	(208,577)	(179,456)	(118,156)	(89,863)	(44,066)	(35,452)	(30,449)	(16,480)	(56,021)
Payments to State of Maryland	(407,044,747)	(443,504,348)	(444,896,934)	(458,373,006)	(477,098,363)	(500,970,617)	(494,119,273)	(529,403,554)	(493,206,260)	(510,608,632)
<b>Total non-operating revenues (expenses)</b>	<b>(407,256,103)</b>	<b>(442,714,893)</b>	<b>(442,742,894)</b>	<b>(425,550,969)</b>	<b>(479,424,915)</b>	<b>(517,988,557)</b>	<b>(496,120,981)</b>	<b>(524,724,375)</b>	<b>(493,556,782)</b>	<b>(511,447,379)</b>

CHANGES IN NET ASSETS

	5,916,328	(3,878,017)	(4,555,519)	40,196,018	1,123,251	(18,333,412)	(12,840,196)	14,756,944	(1,555,683)	(5,415,961)
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	6,543,606	12,459,934	8,581,917	44,222,416	44,222,416	27,012,255	14,172,059	28,929,003	27,373,320	27,373,320
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 12,459,934</b>	<b>\$ 8,581,917</b>	<b>\$ 4,026,398</b>	<b>\$ 44,222,416</b>	<b>\$ 45,345,667</b>	<b>\$ 27,012,255</b>	<b>\$ 14,172,059</b>	<b>\$ 28,929,003</b>	<b>\$ 27,373,320</b>	<b>\$ 21,957,359</b>

(1) The Lottery changed its treatment of costs associated with printing instant tickets in fiscal year 2004. Previously, these costs were expensed as incurred. In fiscal year 2005, the Lottery changed its method of accounting for investments held to fund annuity prizes payable. These investments are reported at their fair value as permitted by GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The cumulative effect of the applicable adjustments are reflected in the preceding fiscal year.

MARYLAND STATE LOTTERY AGENCY  
SALES – FISCAL YEARS 2001 THROUGH 2010

SALES BY CATEGORY AND GAME

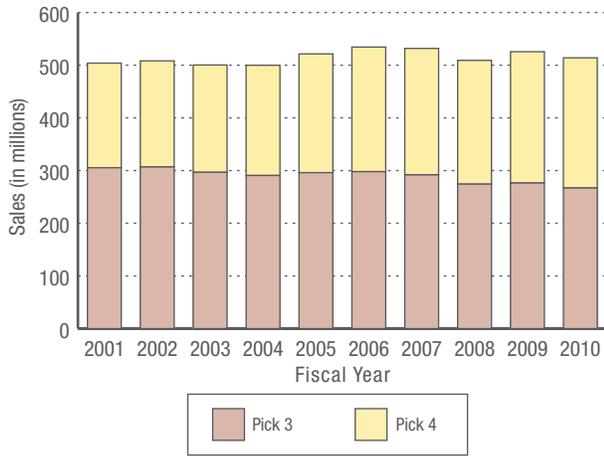
FISCAL YEAR	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>NUMBERS:</b>										
Pick 3	\$ 305,371,869	\$ 306,873,311	\$ 296,702,479	\$ 290,754,971	\$ 296,102,946	\$ 298,075,249	\$ 291,917,229	\$ 274,291,763	\$ 276,347,705	\$ 266,948,839
Pick 4	198,641,156	201,432,264	203,675,530	209,213,634	225,452,551	236,503,472	240,075,195	234,893,726	249,174,312	246,669,690
<b>Numbers Total</b>	<b>504,013,025</b>	<b>508,305,575</b>	<b>500,378,009</b>	<b>499,968,605</b>	<b>521,555,497</b>	<b>534,578,721</b>	<b>531,992,424</b>	<b>509,185,489</b>	<b>525,522,017</b>	<b>513,618,529</b>
<b>MONITOR:</b>										
Keno	238,386,254	256,436,493	265,922,974	266,308,259	279,934,456	287,249,705	268,132,183	248,684,056	247,910,424	206,957,090
Keno Bonus	81,066,213	99,275,115	111,496,979	121,487,998	136,579,121	149,009,769	144,546,887	137,893,276	134,381,213	48,713,189
Keno Super Bonus	-	-	-	-	-	-	-	-	11,910,933	136,129,031
Racetraz®	-	-	-	-	944,928	268,332	49,844,937	72,876,083	88,511,360	90,826,725
Racetraz® Bonus	-	-	-	-	-	-	27,358	1,342,106	463,887	9,373,699
Maryland Hold 'Em	-	-	-	-	-	-	-	-	-	-
<b>Monitor Total</b>	<b>319,452,467</b>	<b>355,711,608</b>	<b>377,419,953</b>	<b>389,796,257</b>	<b>417,458,505</b>	<b>436,527,806</b>	<b>462,551,365</b>	<b>460,795,521</b>	<b>483,177,817</b>	<b>491,999,734</b>
<b>MATRIX:</b>										
Mega Millions®	47,568,280	77,912,406	69,153,072	90,312,228	99,737,552	116,249,659	98,191,153	129,402,134	125,960,400	125,262,563
Lotto	51,872,278	37,660,036	34,178,932	36,179,993	34,096,337	19,975,438	-	-	-	-
Multi-Match®	-	-	-	-	-	15,816,995	30,116,058	31,200,692	32,896,776	35,226,810
Bonus Match 5	-	8,266,718	21,250,620	21,235,924	21,916,265	22,425,338	22,879,700	23,414,509	23,460,022	20,761,956
Powerball®	-	-	-	-	-	-	-	-	-	26,512,016
Power Play®	-	-	-	-	-	-	-	-	-	2,337,878
Cash In Hand	22,155,211	18,156,097	3,200,860	-	-	-	-	-	-	-
<b>Matrix Total</b>	<b>121,595,769</b>	<b>141,995,257</b>	<b>127,783,484</b>	<b>147,728,145</b>	<b>155,750,154</b>	<b>174,467,430</b>	<b>151,186,911</b>	<b>184,017,335</b>	<b>182,317,198</b>	<b>210,101,223</b>
<b>INSTANT:</b>	264,111,034	299,203,861	316,657,091	355,016,755	390,968,694	415,331,827	425,085,365	513,859,583	507,057,024	490,853,089
<b>RAFFLE:</b>	-	-	-	-	-	-	6,495,000	5,180,800	-	-
<b>OTHER:</b>	1,443,932	1,322,196	-	2,898,696	-	-	-	-	-	-
<b>TOTAL SALES</b>	<b>\$ 1,210,616,227</b>	<b>\$ 1,306,538,497</b>	<b>\$ 1,322,238,537</b>	<b>\$ 1,395,408,458</b>	<b>\$ 1,485,732,850</b>	<b>\$ 1,560,905,784</b>	<b>\$ 1,577,311,065</b>	<b>\$ 1,673,038,728</b>	<b>\$ 1,698,074,056</b>	<b>\$ 1,706,572,575</b>

PRODUCT MIX BY CATEGORY

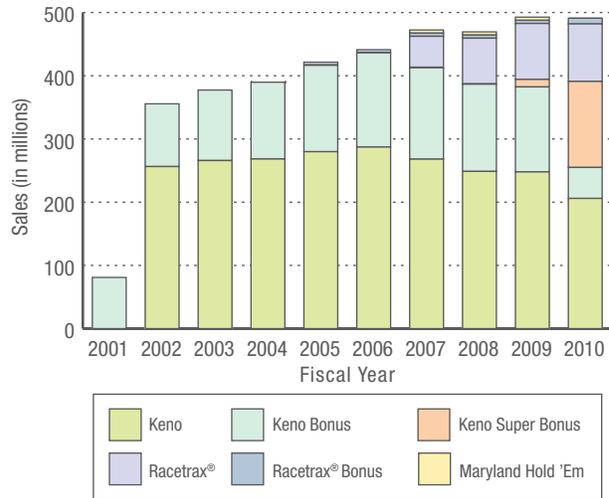
FISCAL YEAR	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Numbers Games	41.63%	38.90%	37.84%	35.83%	35.10%	34.25%	33.73%	30.44%	30.95%	30.10%
Monitor Games	26.39%	27.23%	28.54%	27.93%	28.10%	27.96%	29.33%	27.54%	28.45%	28.83%
Matrix Games	10.04%	10.87%	9.67%	10.59%	10.48%	11.18%	9.58%	11.00%	10.74%	12.31%
Instant Games	21.82%	22.90%	23.95%	25.44%	26.32%	26.61%	26.95%	30.71%	29.86%	28.76%
Raffle Games	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.41%	0.31%	0.00%	0.00%
Other Games	0.12%	0.10%	0.00%	0.21%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

MARYLAND STATE LOTTERY AGENCY  
 SALES – FISCAL YEARS 2001 THROUGH 2010 (CONTINUED)

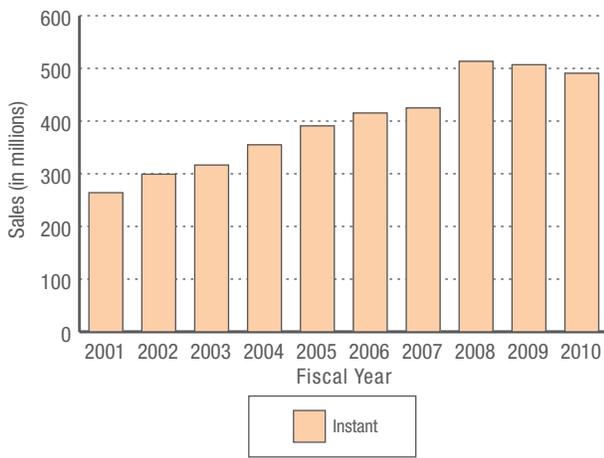
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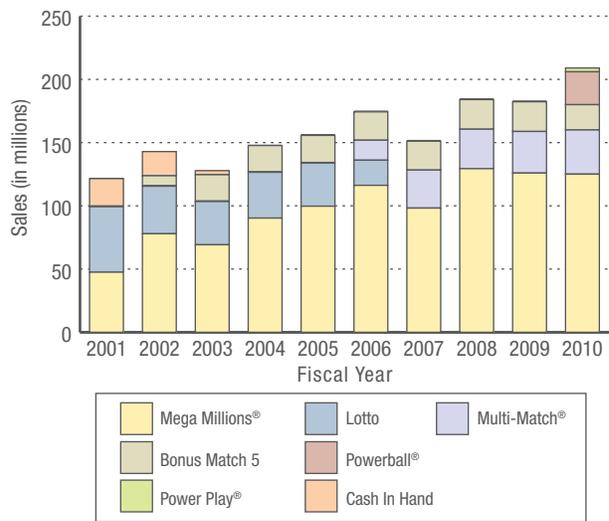
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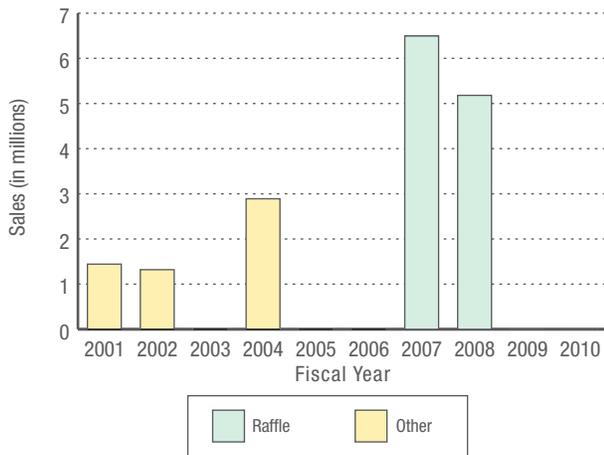
**INSTANT GAMES**



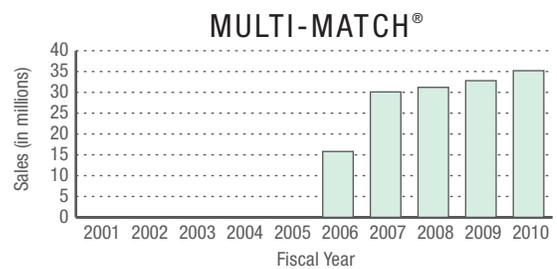
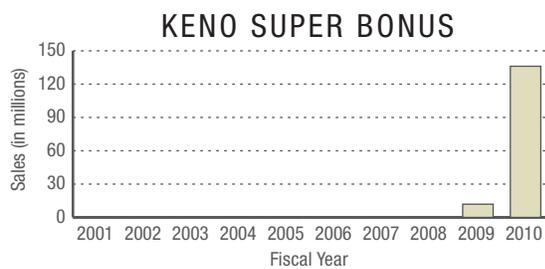
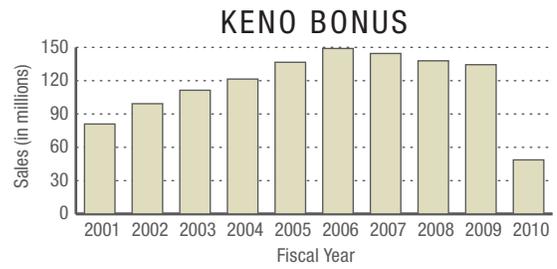
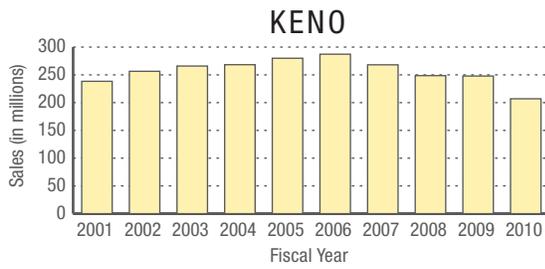
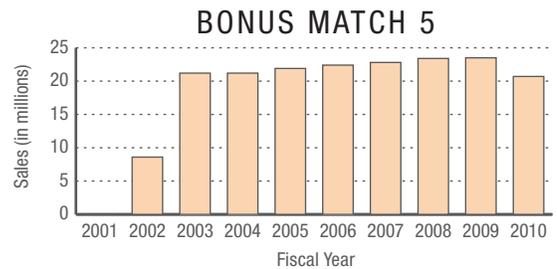
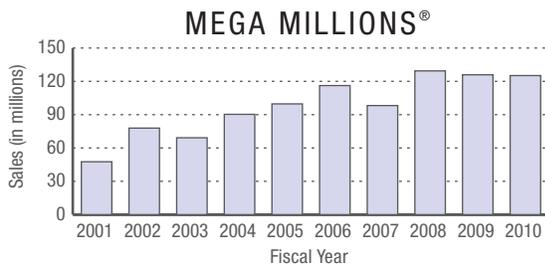
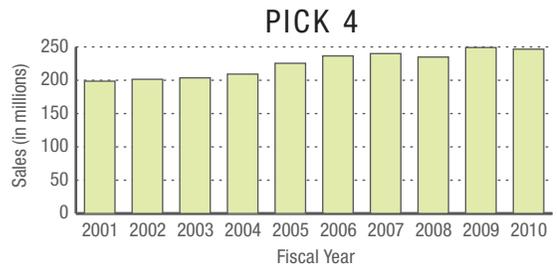
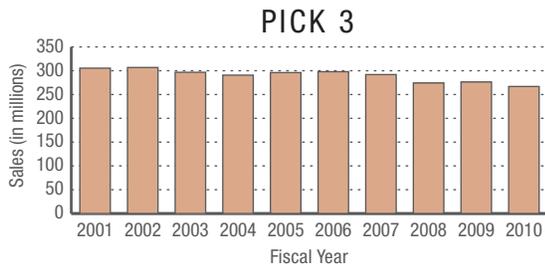
**MATRIX GAMES**



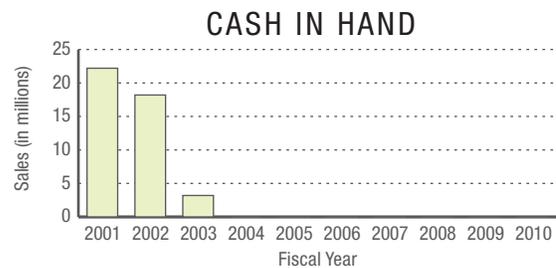
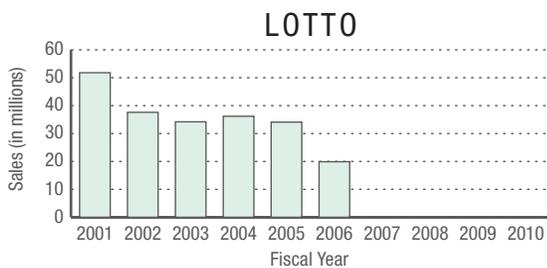
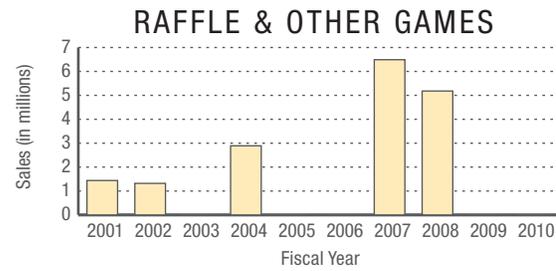
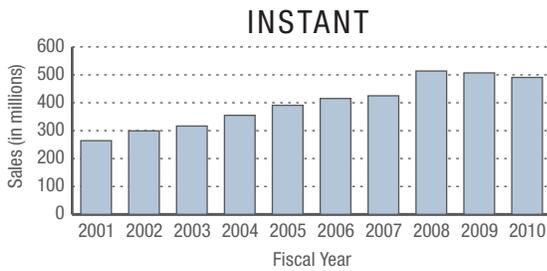
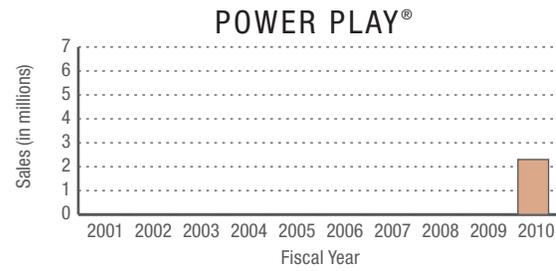
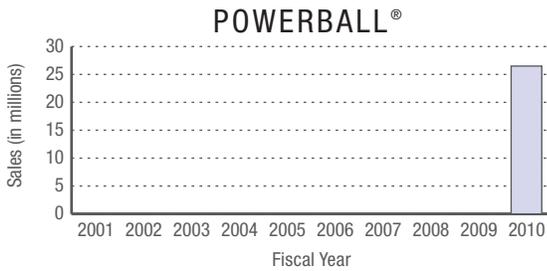
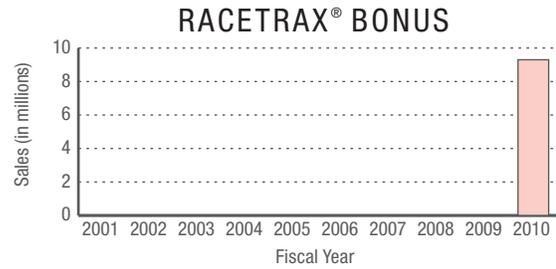
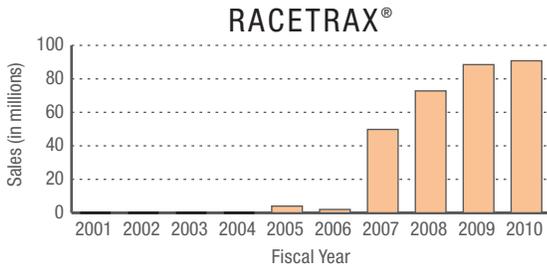
**OTHER GAMES**



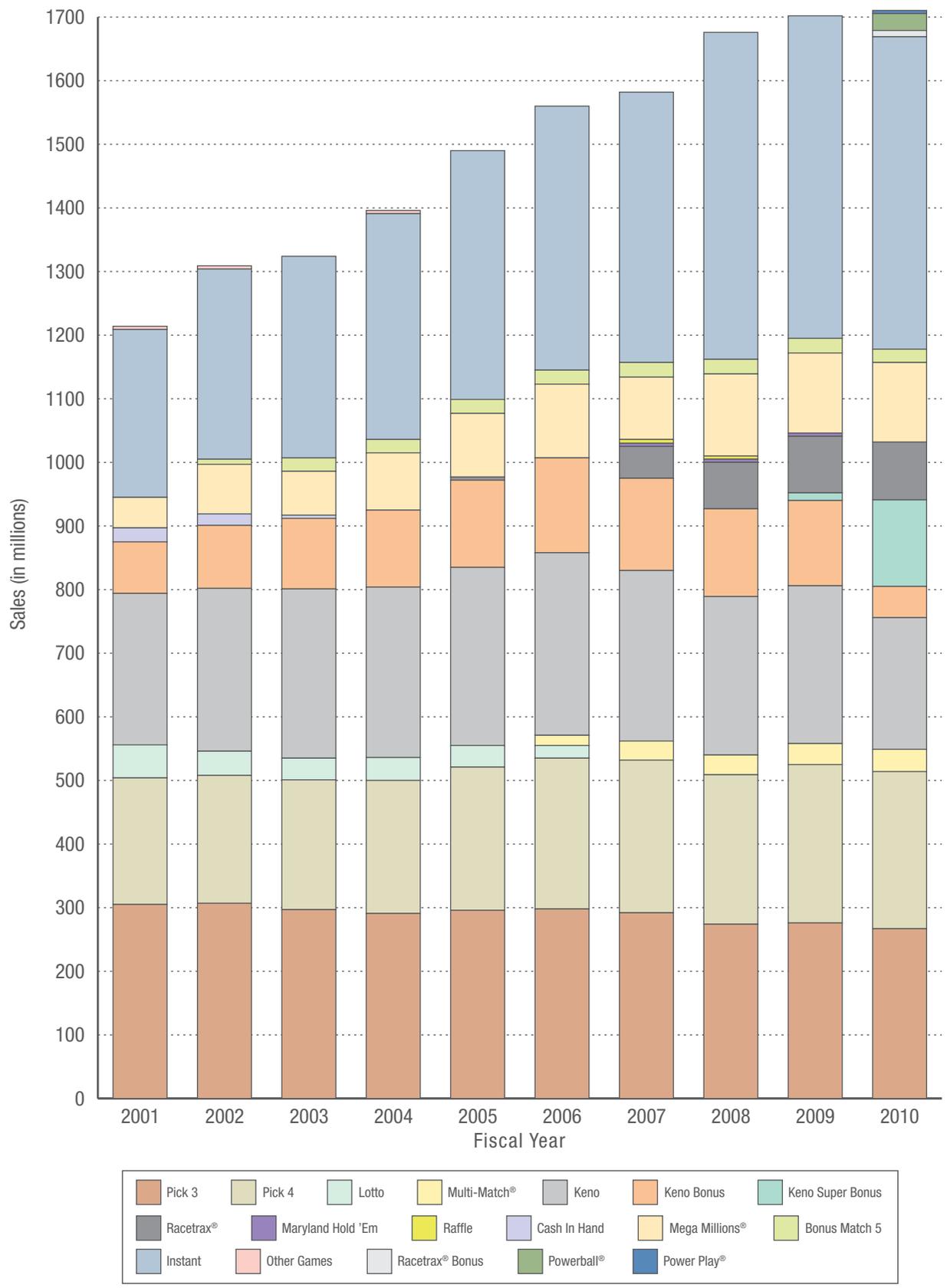
MARYLAND STATE LOTTERY AGENCY  
 SALES – FISCAL YEARS 2001 THROUGH 2010 (CONTINUED)



MARYLAND STATE LOTTERY AGENCY  
 SALES – FISCAL YEARS 2001 THROUGH 2010 (CONTINUED)



MARYLAND STATE LOTTERY AGENCY  
 SALES – FISCAL YEARS 2001 THROUGH 2010 (CONTINUED)



MARYLAND STATE LOTTERY AGENCY

U.S. LOTTERIES PER CAPITA SALES – FISCAL YEAR 2010

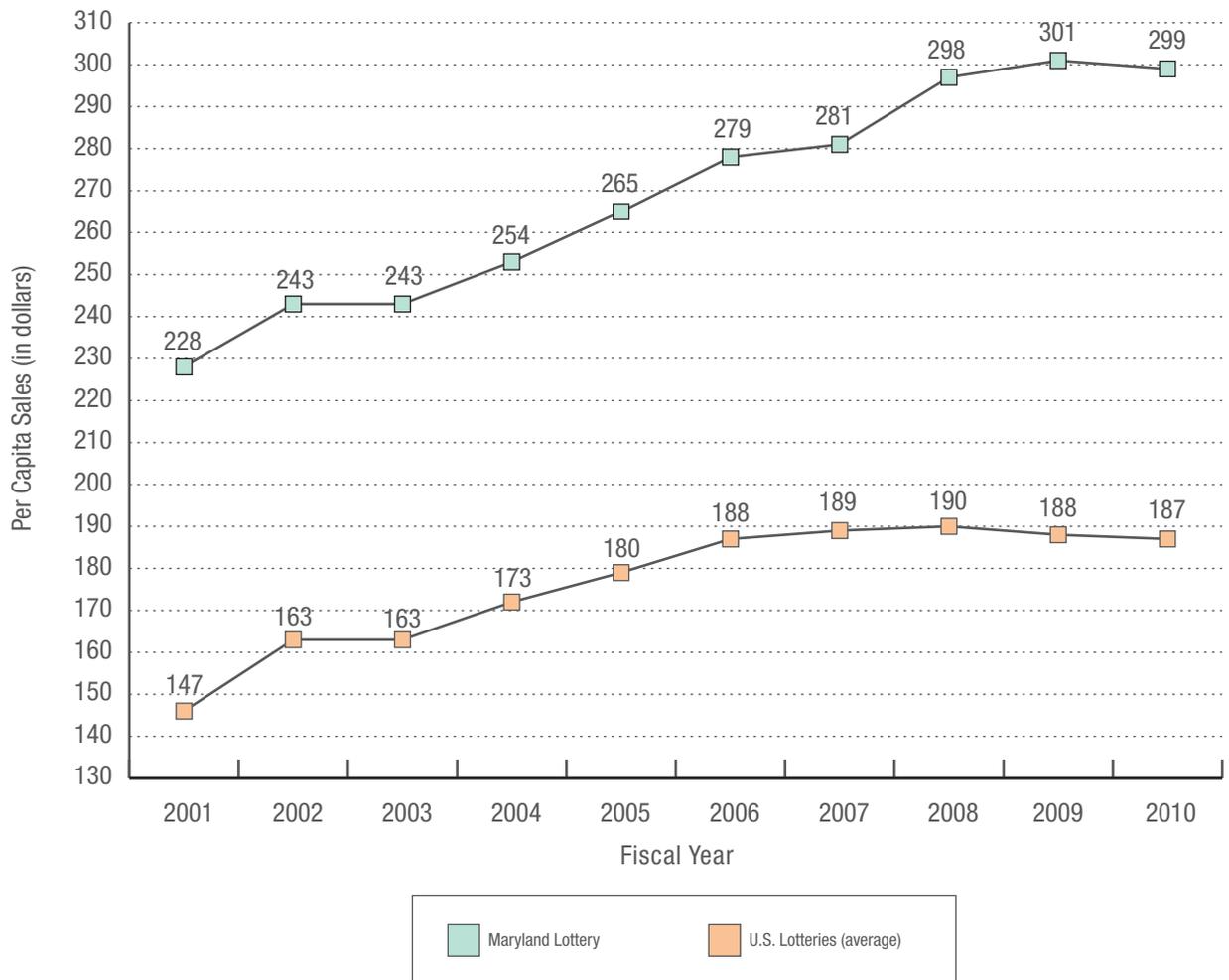
Rank	State	Population (M)	Total Sales (\$M)	Per Capita*
1	Massachusetts	6.6	\$ 4,412.1	\$ 669
2	D. C. (end 6/30)	0.6	233.9	390
3	Georgia	9.8	3,645.4	371
4	New York	19.5	6,781.1	347
<b>5</b>	<b>MARYLAND</b>	<b>5.7</b>	<b>1,706.6</b>	<b>299</b>
6	New Jersey	8.7	2,605.2	299
7	Connecticut	3.5	996.8	283
8	Pennsylvania	12.6	3,065.7	243
9	Michigan (est.)	10	2,348.0	236
10	Rhode Island	1.1	234.7	223
11	South Carolina	4.6	1,007.5	221
12	Ohio	11.5	2,487.1	215
13	Florida	18.5	3,900.5	210
14	Virginia	7.9	1,435.1	182
15	Tennessee	6.3	1,138.4	181
16	Kentucky	4.3	772.5	179
17	New Hampshire	1.3	233.2	176
18	Illinois	12.9	2,216.2	172
19	Maine	1.3	217.3	165
20	Missouri	6.0	971.6	162
21	Vermont	0.6	97.5	157
22	North Carolina	9.4	1,421.3	152
23	Texas	24.8	3,738.4	151
24	Delaware	0.9	123.2	139
25	Arkansas	2.9	383.7	133
26	Indiana	6.4	739.1	115
27	Colorado	5.0	501.2	100
28	West Virginia	1.8	181.2	100
29	Idaho	1.5	146.9	95
30	Minnesota	5.3	499.0	95
31	Kansas	2.8	243.7	86
32	Iowa	3.0	256.3	85
33	Wisconsin	5.7	480.8	85
34	Oregon	3.8	320.7	84
35	Arizona	6.6	551.5	84
36	Louisiana	4.5	372.4	83
37	California	37.0	3,041.0	82
38	Washington	6.7	491.0	74
39	Nebraska	1.8	130.6	73
40	New Mexico	2.0	143.6	71
41	South Dakota	0.8	45.7	56
42	Oklahoma	3.7	199.7	54
43	Montana	1.0	47.0	47
44	North Dakota	0.6	24.3	38
<b>Total</b>		<b>291.3</b>	<b>\$54,588.7</b>	<b>\$ 187</b>

Source: *La Fleur's Magazine*, September/October 2010 Edition

\* Subject to rounding.

MARYLAND STATE LOTTERY AGENCY

U.S. LOTTERIES PER CAPITA SALES – FISCAL YEARS 2001 THROUGH 2010

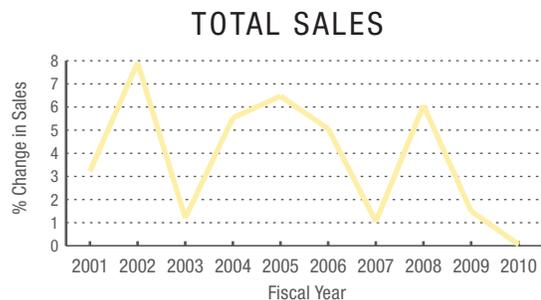
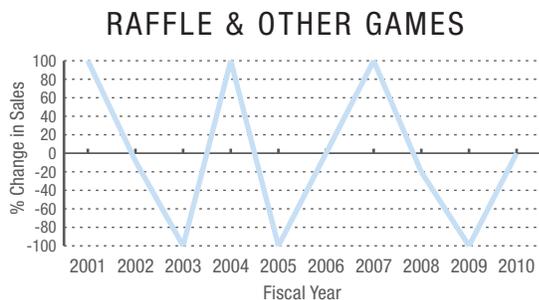
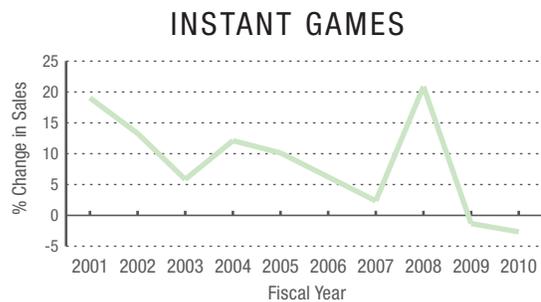
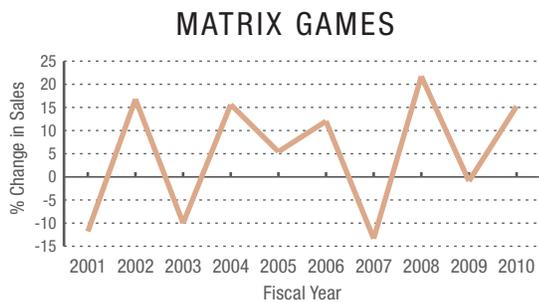
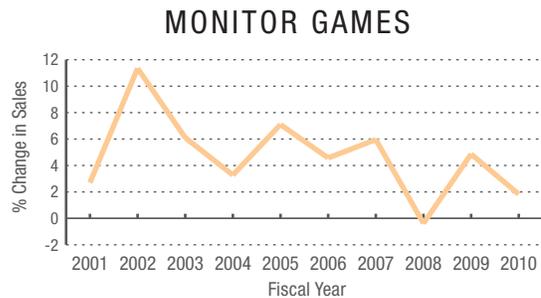
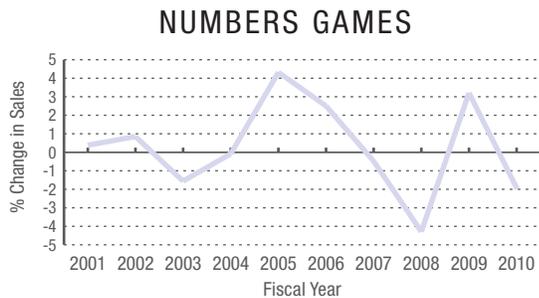


Sources: *LaFleur's Magazine*, September/October 2010 Edition

MARYLAND STATE LOTTERY AGENCY

PERCENTAGE CHANGE IN SALES – FISCAL YEARS 2001 THROUGH 2010

Fiscal Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Numbers Games	0.38%	0.85%	-1.56%	-0.08%	4.32%	2.50%	-0.48%	-4.29%	3.21%	-2.27%
Monitor Games	2.70%	11.35%	6.10%	3.28%	7.10%	4.57%	5.96%	-0.38%	4.86%	1.83%
Matrix Games	-11.80%	16.78%	-10.01%	15.61%	5.43%	12.02%	-13.34%	21.72%	-0.92%	15.24%
Instant Games	19.04%	13.29%	5.83%	12.11%	10.13%	6.23%	2.35%	20.88%	-1.32%	-3.20%
Raffle & Other Games	100.00%	-8.43%	-100.00%	100.00%	-100.00%	0.00%	100.00%	-20.23%	-100.00%	0.00%
<b>Total Sales</b>	<b>3.22%</b>	<b>7.92%</b>	<b>1.20%</b>	<b>5.53%</b>	<b>6.47%</b>	<b>5.06%</b>	<b>1.05%</b>	<b>6.07%</b>	<b>1.50%</b>	<b>0.50%</b>



MARYLAND STATE LOTTERY AGENCY

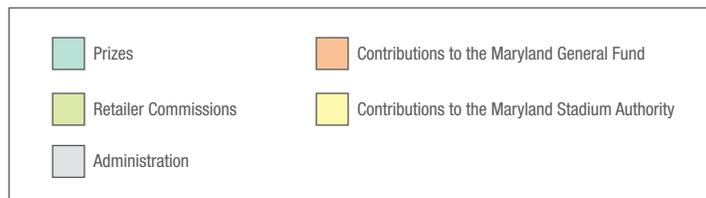
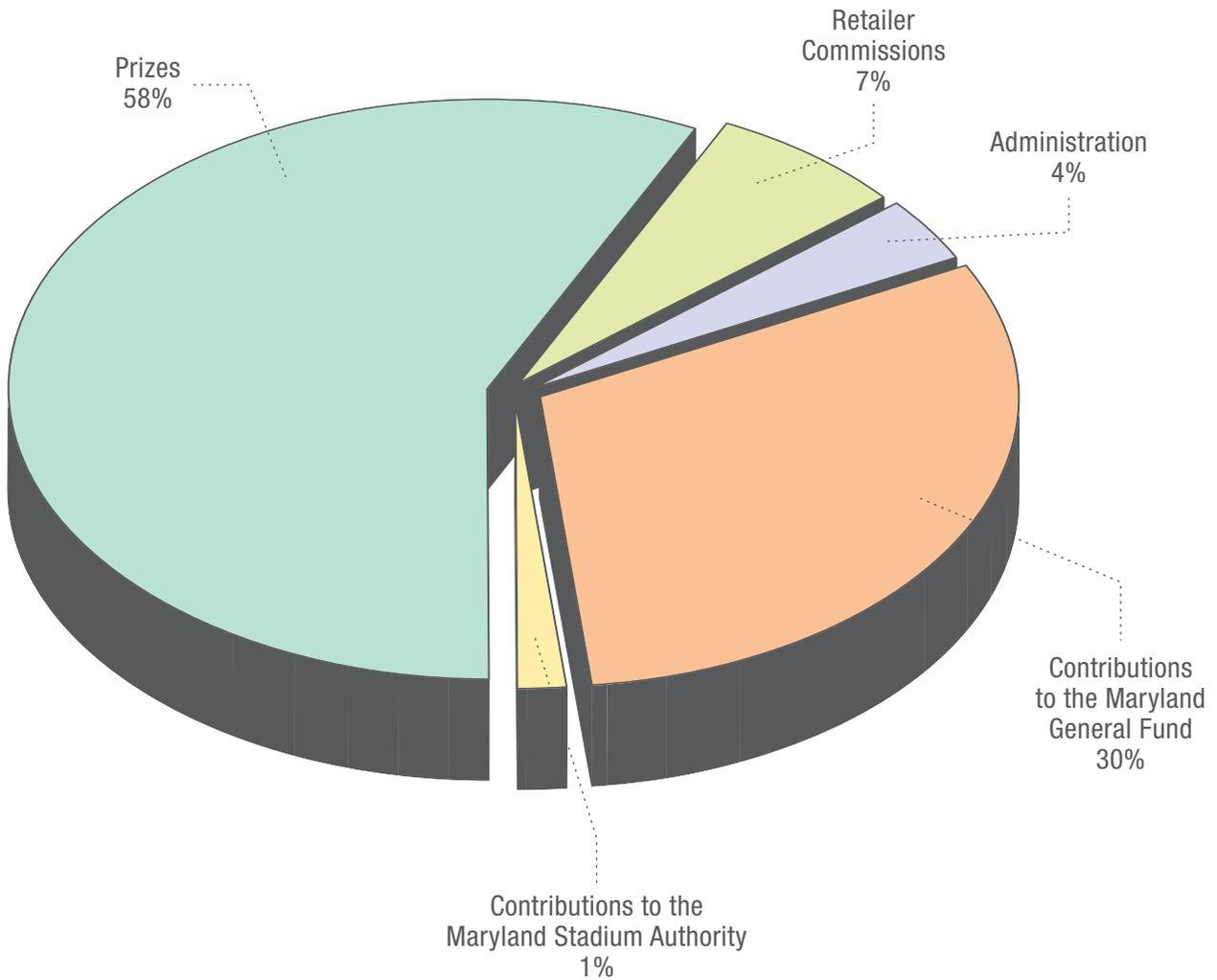
U.S. LOTTERIES PERCENTAGE CHANGE IN SALES – FISCAL YEAR 2010

Rank	State	Total Sales (\$M)	% Change
1	Arizona	\$ 551.5	14%
2	North Dakota	24.3	12%
3	South Dakota	45.7	11%
4	North Carolina	1,421.3	10%
5	Montana	47.0	7%
6	Nebraska	130.6	6%
7	Illinois	2,216.2	6%
8	Iowa	256.3	5%
9	Virginia	1,435.1	5%
10	Idaho	146.9	5%
11	Tennessee	1,138.4	5%
12	New Jersey	2,605.2	4%
13	Minnesota	499.0	4%
14	Oklahoma	199.7	3%
15	Maine	217.3	3%
16	Ohio	2,487.1	3%
17	California	3,040.7	3%
18	Oregon	320.7	2%
19	Wisconsin	480.8	2%
20	Colorado	501.2	2%
21	Vermont	97.5	2%
22	New York	6,781.1	1%
23	New Mexico	143.6	1%
24	Indiana	739.1	1%
25	Kansas	243.7	1%
26	Washington	491.0	1%
27	Connecticut	996.8	1%
<b>28</b>	<b>MARYLAND</b>	<b>1,706.6</b>	<b>1%</b>
29	Texas	3,738.4	0%
30	Missouri	971.6	0%
31	South Carolina	1,007.5	0%
32	Delaware	123.2	0%
33	Massachusetts	4,412.1	0%
34	Georgia	3,645.4	0%
35	Pennsylvania	3,065.7	-1%
36	Florida	3,900.5	-1%
37	Michigan	2,348.0	-1%
38	Louisiana	372.4	-2%
39	Rhode Island	234.7	-2%
40	New Hampshire	233.2	-2%
41	Kentucky	772.5	-5%
42	D.C. (end 6/30)	233.9	-5%
43	West Virginia	181.2	-9%
<b>Total</b>		<b>\$54,204.7</b>	

Source: *La Fleur's Magazine*, September/October 2010 Edition

MARYLAND STATE LOTTERY AGENCY

EXPENSES AND CONTRIBUTIONS – CUMULATIVE FOR FISCAL YEARS 2001 THROUGH 2010



MARYLAND STATE LOTTERY AGENCY  
CONTRIBUTIONS TO THE STATE OF MARYLAND – INCEPTION TO DATE

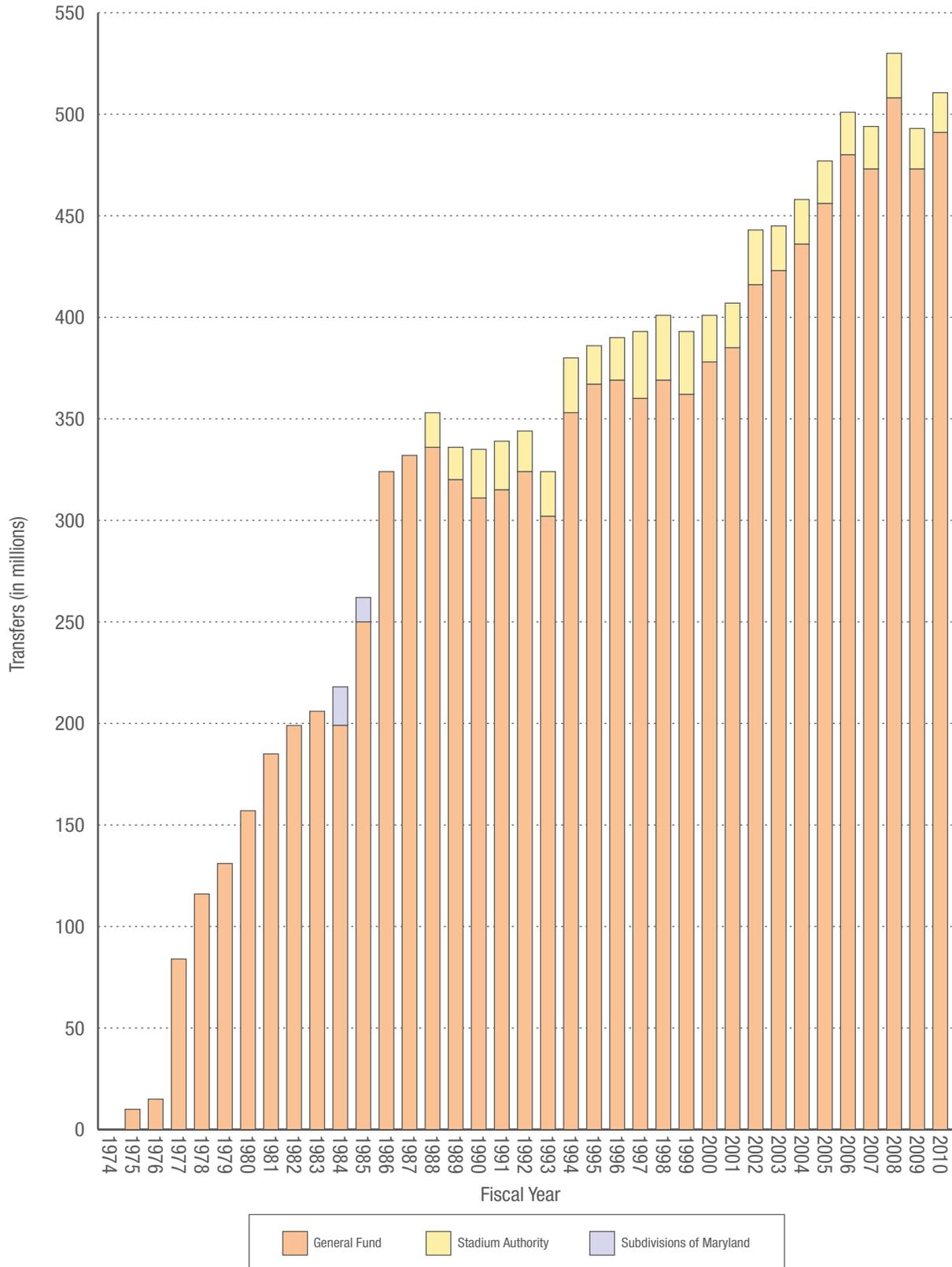
Fiscal Year	The State of Maryland General Fund	The Maryland Stadium Authority	Subdivisions of Maryland	Total Contributions
1975	\$ 10,025,000*	\$ —	\$ —	\$ 10,025,000
1976	15,374,000	—	—	15,374,000
1977	83,928,000	—	—	83,928,000
1978	116,182,000	—	—	116,182,000
1979	131,271,000	—	—	131,271,000
1980	156,768,000	—	—	156,768,000
1981	185,224,000	—	—	185,224,000
1982	199,080,000	—	—	199,080,000
1983	206,236,000	—	—	206,236,000
1984	199,194,000	—	19,095,000	218,289,000
1985	250,123,000	—	12,158,000	262,281,000
1986	323,423,000	—	—	323,423,000
1987	332,366,000	—	—	332,366,000
1988	335,928,000	16,750,000	—	352,678,000
1989	319,605,000	16,221,000	—	335,826,000
1990	311,254,000	24,040,000	—	335,294,000
1991	315,247,000	24,004,000	—	339,251,000
1992	323,814,000	19,752,000	—	343,566,000
1993	301,563,000	21,612,000	—	323,175,000
1994	353,308,000	26,743,000	—	380,051,000
1995	366,577,000	19,077,000	—	385,654,000
1996	369,161,000	20,749,000	—	389,910,000
1997	359,835,000	32,818,000	—	392,653,000
1998	368,501,000	31,625,000	—	400,126,000
1999	362,145,000	31,076,000	—	393,221,000
2000	377,763,000	23,250,000	—	401,013,000
2001	385,045,000	22,000,000	—	407,045,000
2002	416,274,000	27,230,000	—	443,504,000
2003	422,948,000	21,949,000	—	444,897,000
2004	436,373,000	22,000,000	—	458,373,000
2005	455,863,000	21,235,000	—	477,098,000
2006	480,471,000	20,500,000	—	500,971,000
2007	473,119,000	21,000,000	—	494,119,000
2008	507,904,000	21,500,000	—	529,404,000
2009	473,206,260	20,000,000	—	493,206,260
2010	491,008,632	19,600,000	—	510,608,632
<b>Total</b>	<b>\$ 11,216,106,892</b>	<b>\$ 524,731,000</b>	<b>\$ 31,253,000</b>	<b>\$ 11,772,090,892</b>
<b>TOTAL LIFETIME CONTRIBUTIONS</b>				<b>\$ 11,772,090,892</b>

\*Revenues generated from the inception of the Lottery were not transferred to the State of Maryland until fiscal year 1975.

MARYLAND STATE LOTTERY AGENCY

CONTRIBUTIONS TO THE STATE OF MARYLAND – INCEPTION TO DATE (CONTINUED)

TOTAL LIFETIME CONTRIBUTIONS: \$11,772,090,892



MARYLAND STATE LOTTERY AGENCY

U.S. LOTTERIES TRANSFERS TO STATE – FISCAL YEAR 2009\*

Rank	State	Transfer Amount (\$M)	Transfers to State as % of Sales
1	Oklahoma	\$ 69.73	36.1%
2	Louisiana	135.91	35.9%
3	New Jersey	887.21	35.4%
4	California	1,027.73	34.8%
5	Florida	1,287.86	32.7%
6	North Carolina	414.92	32.3%
7	Virginia	430.24	31.5%
8	Michigan	737.22	31.0%
9	Illinois	634.67	30.6%
10	Kansas	68.19	29.6%
11	Pennsylvania	910.48	29.5%
12	North Dakota	6.38	29.4%
<b>13</b>	<b>MARYLAND</b>	<b>493.21</b>	<b>29.0%</b>
14	Ohio	702.29	29.0%
15	Texas	1,062.15	28.6%
16	Connecticut	282.90	28.5%
17	New Hampshire	68.15	28.4%
18	New Mexico	40.81	28.4%
19	Wisconsin	133.30	28.2%
20	D.C.	68.78	28.0%
21	Tennessee	280.15	27.6%
22	Kentucky	204.39	26.7%
23	Arizona	129.08	26.6%
24	Missouri	256.29	26.5%
25	South Carolina	261.52	26.0%
26	Georgia	872.08	25.7%
27	Idaho	35.28	25.3%
28	Iowa	60.55	24.9%
29	Washington	120.39	24.7%
30	Minnesota	118.25	24.6%
31	Nebraska	30.25	24.5%
32	Indiana	178.93	24.4%
33	Colorado	119.60	24.2%
34	Maine	50.57	24.0%
35	Montana	10.13	23.1%
36	Vermont	21.10	22.0%
37	Massachusetts	859.41	19.4%
38	Delaware	311.84	—
39	New York	2,543.95	—
40	Oregon	594.31	—
41	Rhode Island	344.29	—
42	South Dakota	119.88	—
43	West Virginia	616.62	—
	<b>Total</b>	<b>**\$ 17,600.99</b>	

Source: *La Fleur's 2010 World Lottery Almanac* (18<sup>th</sup> Edition)

\* Data for fiscal year 2010 is not available at this time.

\*\* Subject to rounding.

– Percentage of transfers to the state as a percentage of lottery sales is not available because lottery transfers and transfers associated with video lottery terminals (i.e., slot machines) are commingled.

MARYLAND STATE LOTTERY AGENCY  
 RETAILERS, POPULATION AND SALES BY REGION

Fiscal Year 2010

	<b>Allegany County</b>	<b>Anne Arundel County</b>	<b>Baltimore County</b>	<b>Calvert County</b>	<b>Caroline County</b>	<b>Carroll County</b>	<b>Cecil County</b>	<b>Charles County</b>
# of Retailers	57	454	711	73	29	141	94	142
% of Total Retailers	1.24%	9.90%	15.51%	1.59%	0.63%	3.08%	2.05%	3.10%
Population	72,532	521,209	789,814	89,212	33,367	170,089	100,796	142,226
% of Total Population	1.27%	9.14%	13.86%	1.56%	0.59%	2.98%	1.77%	2.49%
% of Sales	0.63%	10.20%	16.34%	1.37%	0.42%	2.01%	1.25%	3.21%

	<b>Dorchester County</b>	<b>Frederick County</b>	<b>Garrett County</b>	<b>Harford County</b>	<b>Howard County</b>	<b>Kent County</b>	<b>Montgomery County</b>	<b>Prince George's County</b>
# of Retailers	34	159	28	179	165	16	429	599
% of Total Retailers	0.74%	3.47%	0.61%	3.90%	3.60%	0.35%	9.36%	13.07%
Population	32,043	227,980	29,555	242,514	281,884	20,247	971,600	834,560
% of Total Population	0.56%	4.00%	0.52%	4.26%	4.95%	0.36%	17.05%	14.64%
% of Sales	0.50%	2.11%	0.19%	3.54%	2.74%	0.25%	9.74%	20.10%

	<b>Queen Anne's County</b>	<b>St. Mary's County</b>	<b>Somerset County</b>	<b>Talbot County</b>	<b>Washington County</b>	<b>Wicomico County</b>	<b>Worcester County</b>	<b>Baltimore City</b>
# of Retailers	53	103	21	33	121	78	112	753
% of Total Retailers	1.16%	2.25%	0.46%	0.72%	2.64%	1.70%	2.44%	16.43%
Population	47,958	102,999	25,959	36,262	145,910	94,222	49,122	637,418
% of Total Population	0.84%	1.81%	0.46%	0.64%	2.56%	1.65%	0.86%	11.18%
% of Sales	0.66%	2.10%	0.37%	0.50%	1.51%	1.19%	1.45%	17.62%

Note: Information is accumulated and retained in this format only for fiscal years 2006–2010. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

MARYLAND STATE LOTTERY AGENCY  
 RETAILERS, POPULATION AND SALES BY REGION (CONTINUED)

**Fiscal Year 2009**

	<b>Allegany County</b>	<b>Anne Arundel County</b>	<b>Baltimore County</b>	<b>Calvert County</b>	<b>Caroline County</b>	<b>Carroll County</b>	<b>Cecil County</b>	<b>Charles County</b>
# of Retailers	57	440	715	73	30	133	93	142
% of Total Retailers	1.26%	9.72%	15.79%	1.61%	0.66%	2.94%	2.05%	3.14%
Population	72,661	510,824	786,547	87,539	32,240	168,195	98,358	139,008
% of Total Population	1.33%	9.32%	14.35%	1.60%	0.59%	3.07%	1.79%	2.54%
% of Sales	0.59%	10.20%	16.07%	1.40%	0.44%	1.97%	1.17%	3.20%

	<b>Dorchester County</b>	<b>Frederick County</b>	<b>Garrett County</b>	<b>Harford County</b>	<b>Howard County</b>	<b>Kent County</b>	<b>Montgomery County</b>	<b>Prince George's County</b>
# of Retailers	38	154	26	175	159	16	421	590
% of Total Retailers	0.84%	3.40%	0.57%	3.87%	3.51%	0.35%	9.30%	13.03%
Population	31,468	222,034	29,649	238,960	270,651	19,197	873,341	801,515
% of Total Population	0.57%	4.05%	0.54%	4.36%	4.94%	0.35%	15.93%	14.62%
% of Sales	0.47%	1.97%	0.18%	3.41%	2.55%	0.25%	9.64%	20.48%

	<b>Queen Anne's County</b>	<b>St. Mary's County</b>	<b>Somerset County</b>	<b>Talbot County</b>	<b>Washington County</b>	<b>Wicomico County</b>	<b>Worcester County</b>	<b>Baltimore City</b>
# of Retailers	50	102	20	36	36	124	81	749
% of Total Retailers	1.10%	2.25%	0.44%	0.80%	2.74%	1.79%	2.28%	16.55%
Population	40,563	86,211	24,747	33,812	131,923	84,644	46,543	651,154
% of Total Population	1.10%	2.25%	0.44%	0.80%	2.74%	1.79%	2.28%	16.55%
% of Sales	0.61%	2.19%	0.37%	0.50%	1.45%	1.22%	1.43%	18.22%

Note: Information is accumulated and retained in this format only for fiscal years 2006–2010. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

MARYLAND STATE LOTTERY AGENCY  
 RETAILERS, POPULATION AND SALES BY REGION (CONTINUED)

**Fiscal Year 2008**

	<b>Allegany County</b>	<b>Anne Arundel County</b>	<b>Baltimore County</b>	<b>Calvert County</b>	<b>Caroline County</b>	<b>Carroll County</b>	<b>Cecil County</b>	<b>Charles County</b>
# of Retailers	53	378	600	59	27	116	83	116
% of Total Retailers	1.4%	9.7%	15.4%	1.5%	0.7%	3.0%	2.1%	3.0%
Population	72,594	512,154	788,994	88,223	32,910	169,220	99,695	140,444
% of Total Population	1.3%	9.1%	14.0%	1.6%	0.6%	3.0%	1.8%	2.5%
% of Sales	0.6%	10.4%	15.8%	1.4%	0.5%	2.0%	1.1%	3.3%

	<b>Dorchester County</b>	<b>Frederick County</b>	<b>Garrett County</b>	<b>Harford County</b>	<b>Howard County</b>	<b>Kent County</b>	<b>Montgomery County</b>	<b>Prince George's County</b>
# of Retailers	32	133	23	157	127	16	357	528
% of Total Retailers	0.8%	3.4%	0.6%	4.0%	3.3%	0.4%	9.2%	13.5%
Population	31,846	224,705	29,627	239,993	273,669	19,987	930,813	828,770
% of Total Population	0.6%	4.0%	0.5%	4.3%	4.9%	0.4%	16.6%	14.8%
% of Sales	0.5%	2.1%	0.2%	3.4%	2.4%	0.3%	9.6%	20.3%

	<b>Queen Anne's County</b>	<b>St. Mary's County</b>	<b>Somerset County</b>	<b>Talbot County</b>	<b>Washington County</b>	<b>Wicomico County</b>	<b>Worcester County</b>	<b>Baltimore City</b>
# of Retailers	43	94	17	31	111	69	89	639
% of Total Retailers	1.1%	2.4%	0.4%	0.8%	2.8%	1.8%	2.3%	16.4%
Population	46,571	100,378	26,016	36,193	145,113	93,600	49,374	637,455
% of Total Population	0.8%	1.8%	0.5%	0.6%	2.6%	1.7%	0.9%	11.3%
% of Sales	0.6%	2.2%	0.4%	0.5%	1.6%	1.3%	1.6%	18.1%

Note: Information is accumulated and retained in this format only for fiscal years 2006–2010. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

MARYLAND STATE LOTTERY AGENCY  
 RETAILERS, POPULATION AND SALES BY REGION (CONTINUED)

**Fiscal Year 2007**

	<b>Allegany County</b>	<b>Anne Arundel County</b>	<b>Baltimore County</b>	<b>Calvert County</b>	<b>Caroline County</b>	<b>Carroll County</b>	<b>Cecil County</b>	<b>Charles County</b>
# of Retailers	52	360	586	52	26	114	81	114
% of Total Retailers	1.3%	9.2%	15.0%	1.3%	0.7%	2.9%	2.1%	2.9%
Population	72,831	509,300	787,384	88,804	32,617	170,260	99,506	140,416
% of Total Population	1.3%	9.1%	14.0%	1.6%	0.6%	3.0%	1.8%	2.5%
% of Sales	0.7%	10.5%	15.4%	1.4%	0.5%	1.9%	1.0%	3.5%

	<b>Dorchester County</b>	<b>Frederick County</b>	<b>Garrett County</b>	<b>Harford County</b>	<b>Howard County</b>	<b>Kent County</b>	<b>Montgomery County</b>	<b>Prince George's County</b>
# of Retailers	32	131	22	154	127	16	340	516
% of Total Retailers	0.8%	3.4%	0.6%	4.0%	3.3%	0.4%	8.7%	13.2%
Population	31,631	222,938	29,859	241,402	272,452	19,983	932,131	841,315
% of Total Population	0.6%	4.0%	0.5%	4.3%	4.8%	0.4%	16.6%	15.0%
% of Sales	0.5%	2.1%	0.2%	3.4%	2.3%	0.3%	9.1%	20.4%

	<b>Queen Anne's County</b>	<b>St. Mary's County</b>	<b>Somerset County</b>	<b>Talbot County</b>	<b>Washington County</b>	<b>Wicomico County</b>	<b>Worcester County</b>	<b>Baltimore City</b>
# of Retailers	38	87	19	29	104	70	83	614
% of Total Retailers	1.0%	2.2%	0.5%	0.7%	2.7%	1.8%	2.1%	15.8%
Population	46,241	98,854	25,774	36,062	143,748	91,987	48,866	631,366
% of Total Population	0.8%	1.8%	0.5%	0.6%	2.6%	1.6%	0.9%	11.2%
% of Sales	0.6%	2.4%	0.4%	0.5%	1.6%	1.3%	1.7%	18.6%

Note: Information is accumulated and retained in this format only for fiscal years 2006–2010. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

MARYLAND STATE LOTTERY AGENCY  
 RETAILERS, POPULATION AND SALES BY REGION (CONTINUED)

**Fiscal Year 2006**

	<b>Allegany County</b>	<b>Anne Arundel County</b>	<b>Baltimore County</b>	<b>Calvert County</b>	<b>Caroline County</b>	<b>Carroll County</b>	<b>Cecil County</b>	<b>Charles County</b>
# of Retailers	50	355	571	51	25	106	77	108
% of Total Retailers	1.40%	9.60%	15.50%	1.40%	0.70%	2.90%	2.10%	2.90%
Population	73,245	509,397	783,405	87,622	31,805	168,397	97,474	138,106
% of Total Population	1.30%	9.10%	14.00%	1.60%	0.60%	3.00%	1.70%	2.50%
% of Sales	0.70%	10.40%	15.30%	1.50%	0.40%	1.90%	1.10%	3.30%

	<b>Dorchester County</b>	<b>Frederick County</b>	<b>Garrett County</b>	<b>Harford County</b>	<b>Howard County</b>	<b>Kent County</b>	<b>Montgomery County</b>	<b>Prince George's County</b>
# of Retailers	28	133	21	156	122	15	343	507
% of Total Retailers	0.80%	3.60%	0.60%	4.20%	3.30%	0.40%	9.30%	13.80%
Population	31,351	220,409	29,863	238,850	269,174	19,908	927,405	842,764
% of Total Population	0.60%	3.90%	0.50%	4.30%	4.80%	0.40%	16.50%	15.00%
% of Sales	0.50%	2.20%	0.20%	3.40%	2.30%	0.30%	9.30%	20.40%

	<b>Queen Anne's County</b>	<b>St. Mary's County</b>	<b>Somerset County</b>	<b>Talbot County</b>	<b>Washington County</b>	<b>Wicomico County</b>	<b>Worcester County</b>	<b>Baltimore City</b>
# of Retailers	37	79	18	28	102	71	81	600
% of Total Retailers	1.00%	2.10%	0.50%	0.80%	2.80%	1.90%	2.20%	16.30%
Population	45,469	96,868	25,666	35,630	141,563	90,252	48,599	636,377
% of Total Population	0.80%	1.70%	0.50%	0.60%	2.50%	1.60%	0.90%	11.30%
% of Sales	0.60%	2.20%	0.40%	0.50%	1.70%	1.20%	1.70%	18.60%

Note: Information is accumulated and retained in this format only for fiscal years 2006–2010. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

MARYLAND STATE LOTTERY AGENCY  
 MARYLAND'S TEN LARGEST PRIVATE EMPLOYERS\*

**2010**  
**Employer (listed alphabetically)**

Adventist Health Care  
 Giant Food Stores  
 Helix Health System Inc.  
 Johns Hopkins Hospital  
 Johns Hopkins University  
 Northrop Grumman Corporation  
 Safeway  
 Target  
 University of Maryland Medical Systems  
 Wal-Mart/Sam's Club

**2009**  
**Employer (listed alphabetically)**

Adventist Health Care  
 Giant Food Stores  
 Helix Health System Inc.  
 Johns Hopkins Hospital  
 Johns Hopkins University  
 Northrop Grumman Corporation  
 Safeway  
 Target  
 University of Maryland Medical Systems  
 Wal-Mart/Sam's Club

**2008**  
**Employer (listed alphabetically)**

Giant of Maryland LLC  
 Helix Health System Inc.  
 Home Depot USA Inc.  
 Johns Hopkins Hospital  
 Johns Hopkins University  
 Northrop Grumman Corporation  
 Safeway Inc.  
 Target Corporation  
 University of Maryland Medical Systems  
 Wal-Mart

**2007**  
**Employer (listed alphabetically)**

Giant of Maryland LLC  
 Helix Health System Inc.  
 Home Depot USA Inc.  
 Johns Hopkins Hospital  
 Johns Hopkins University  
 Macy's  
 Northrop Grumman Corporation  
 Safeway Inc.  
 United Parcel Service  
 Wal-Mart

**2006 and 2005**  
**Employer (listed alphabetically)**

Giant of Maryland LLC  
 Helix Health System Inc.  
 Home Depot USA Inc.  
 Johns Hopkins Hospital  
 Johns Hopkins University  
 Northrop Grumman Corporation  
 Safeway Inc.  
 Target  
 United Parcel Service  
 Wal-Mart

**2004 and 2003**  
**Employer (listed alphabetically)**

Giant of Maryland LLC  
 Helix Health System Inc.  
 Home Depot USA Inc.  
 Johns Hopkins Hospital  
 Johns Hopkins University  
 Northrop Grumman Corporation  
 Safeway Inc.  
 United Parcel Service  
 Verizon Maryland Inc.  
 Wal-Mart

Source: Department of Labor, Licensing and Regulation; Office of Labor Market Analysis and Information.  
 Information reported on a calendar basis. The number of employees is not available.

\* Information for years 2002 and 2001 are not available.

MARYLAND STATE LOTTERY AGENCY

RATIO OF OUTSTANDING DEBT BY TYPE – FISCAL YEARS 2001 THROUGH 2010

<b>Fiscal Year</b>	<b>Capital Leases</b>	<b>Percentage of Annual Lottery Sales</b>
2001	3,320,863	0.27%
2002	3,242,537	0.25%
2003	2,371,900	0.18%
2004	3,131,566	0.22%
2005	1,672,615	0.10%
2006	1,255,713	0.08%
2007	1,123,995	0.07%
2008	648,070	0.04%
2009	5,748,257	0.34%
2010	5,261,122	0.31%

In the future, the Lottery is only authorized to issue additional debt associated with the acquisition of capital assets.

MARYLAND STATE LOTTERY AGENCY

DEMOGRAPHIC AND ECONOMIC STATISTICS – FISCAL YEARS 2001 THROUGH 2010

<b>Fiscal Year</b>	<b>Statewide Population<sup>(1)</sup></b>	<b>Statewide Personal Income<sup>(2)</sup> (expressed in thousands)</b>	<b>Statewide Per Capita Personal Income</b>	<b>Unemployment Rate<sup>(3)</sup></b>
2010	5,699,478	\$ 275,143,448	\$ 48,275	7.4%
2009	5,633,597	270,923,822	48,091	5.9%
2008	5,618,344	262,071,799	46,646	3.7%
2007	5,615,727	247,525,909	44,077	3.9%
2006	5,600,388	235,195,668	41,996	3.8%
2005	5,558,058	218,137,769	39,248	4.2%
2004	5,508,909	205,652,120	37,331	4.3%
2003	5,450,525	197,868,861	36,303	4.7%
2002	5,383,377	190,331,297	35,355	4.6%
2001	5,311,531	181,957,207	34,257	3.8%

Sources:

- (1) U.S. Department of Commerce, Bureau of Census — “Annual Population Estimates by State”
- (2) U.S. Department of Commerce, Bureau of Economic Analysis. All ten years of income data based on April 2004 Comprehensive revisions of State Personal Income Statistics for 1969–2002. Preliminary estimates are provided for 2003–2009. Data provided is for prior ending calendar year.
- (3) State Department of Labor, Licensing and Regulation

MARYLAND STATE LOTTERY AGENCY  
 LOTTERY EMPLOYEES – FISCAL YEARS 2001 THROUGH 2010

As of June 30,	Number of Employees									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agent Administration	7	6	5	5	6	6	6	5	5	7
Communications	18	19	17	19	17	19	21	25	24	24
Customer Service	14	13	13	13	14	13	13	12	12	12
Executive	6	5	6	7	6	5	6	6	6	8
Facilities	6	6	6	6	5	5	5	5	5	5
Finance, Budget & Procurement	15	16	15	14	17	16	15	15	15	14
Information Technology	18	20	21	21	23	24	24	24	24	24
Instant Ticket Warehouse	6	7	7	6	7	7	7	7	7	7
Legal Services	6	5	5	5	6	6	6	6	7	7
Personnel	5	5	4	5	4	4	4	4	4	4
Product Development & Creative Services	10	12	11	13	10	9	9	8	10	9
Sales	58	62	63	61	61	60	61	63	61	60
Security	5	4	6	5	5	5	5	5	5	5
Video Lottery	–	–	–	–	–	–	–	–	1	3
<b>Total</b>	<b>174</b>	<b>180</b>	<b>179</b>	<b>180</b>	<b>181</b>	<b>179</b>	<b>182</b>	<b>185</b>	<b>186</b>	<b>189</b>

MARYLAND STATE LOTTERY AGENCY  
 OPERATING INDICATORS – FISCAL YEARS 2001 THROUGH 2010

**Percentage of Administrative Expenses to Sales**

<b>Fiscal Year</b>	<b>Sales</b>	<b>Administrative Expenses</b>	<b>Percentage of Administrative Expenses to Sales</b>
2001	\$ 1,210,616,230	\$ 49,303,896	4.07%
2002	1,306,538,497	49,142,651	3.76%
2003	1,322,239,552	53,516,424	4.05%
2004	1,395,408,458	51,561,570	3.70%
2005	1,485,732,850	51,360,638	3.46%
2006	1,560,905,784	54,468,221	3.49%
2007	1,577,311,065	54,832,655	3.48%
2008	1,673,038,728	58,845,991	3.52%
2009	1,698,074,056	59,365,645	3.50%
2010	1,706,572,575	57,965,833	3.40%

Administrative expenses includes operating expenses, gaming vendor and data processing fees, and instant ticket printing and delivery.

MARYLAND STATE LOTTERY AGENCY

CAPITAL ASSETS, NET INFORMATION – FISCAL YEARS 2002 THROUGH 2010

	<b>Lottery Equipment</b>	<b>Data Processing Equipment</b>	<b>Office Equipment</b>	<b>Leasehold Improvements</b>	<b>Total Capital Assets</b>
2002	\$ 3,644,775	\$ 206,099	\$ 0	\$ 0	<b>\$ 3,850,874</b>
2003	2,152,411	168,390	231,649	577,468	<b>3,129,918</b>
2004	2,735,984	77,120	179,200	516,144	<b>3,508,448</b>
2005	1,378,351	117,872	157,802	454,819	<b>2,108,844</b>
2006	974,544	81,970	98,578	393,495	<b>1,548,587</b>
2007	574,116	281,518	277,504	332,171	<b>1,465,309</b>
2008	173,689	202,273	190,553	270,847	<b>837,362</b>
2009	5,310,349	132,433	125,456	209,523	<b>5,777,761</b>
2010	4,192,381	65,926	63,182	148,199	<b>4,469,688</b>

Information is accumulated and retained in this format only for fiscal years 2002 through 2010. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.



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