MARYLAND STATE LOTTERY AGENCYANENTERPRISE MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEARS ENDED JUNE 30, 2011 and 2010

MARYLANDERS SUPPORT THE LOTTERY, THE LOTTERY SUPPORTS MARYLAND.

















MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR
THE YEARS ENDED
JUNE 30, 2011 AND 2010

MARYLANDERS SUPPORT THE LOTTERY.

THE LOTTERY SUPPORTS MARYLAND.

COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE YEARS ENDED
JUNE 30, 2011 AND 2010
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, 2011 AND 2010

MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

TABLE OF CONTENTS

INTRODUCTORY SECTION

- 7 Letter of Transmittal
- 21 Certificate of Achievement for Excellence in Financial Reporting
- 22 Principal Officials
- 23 Organizational Chart

FINANCIAL SECTION

- 27 Independent Auditors' Report
- 29 Management's Discussion and Analysis

Financial Statements:

- 42 Statements of Net Assets
- 43 Statements of Revenues, Expenses and Changes in Net Assets
- 44 Statements of Cash Flows
- 46 Notes to Financial Statements

Supplementary Information:

- 64 Schedule of Revenues, Expenses and Changes in Net Assets Budget and Actual
- 65 Notes to Schedule of Revenues, Expenses and Changes in Net Assets Budget and Actual
- 66 Independent Auditors' Report on Internal Controls

STATISTICAL SECTION

70 Statistical Information Sections

Financial Trends:

- 71 Net Assets and Changes in Net Assets Fiscal Years 2002 through 2011
- 72 Sales Fiscal Years 2002 through 2011
- 77 U.S. Lotteries Per Capita Sales Fiscal Year 2011
- 78 U.S. Lotteries Per Capita Sales Fiscal Years 2002 through 2011
- 79 Percentage Change in Sales Fiscal Years 2002 through 2011
- 80 U.S. Lotteries Percentage Change in Sales Fiscal Year 2011
- 81 Expenses and Contributions Cumulative for Fiscal Years 2002 through 2011
- 82 Contributions to the State of Maryland Inception to Date
- 84 U.S. Lotteries Transfers to State Fiscal Year 2010

Revenue Capacity:

- 85 Retailers, Population and Sales by Region
- 91 Gross Terminal Revenue Distribution Fiscal Year 2011
- 93 Maryland's Ten Largest Private Employers

Debt Capacity:

- 94 Ratio of Outstanding Debt by Type Fiscal Years 2002 through 2011
 - **Demographic and Economic Information:**
- 95 Demographic and Economic Statistics Fiscal Years 2002 through 2011 Operating Information:
- 96 Lottery Employees Fiscal Years 2002 through 2011
- 97 Operating Indicators Fiscal Years 2002 through 2011
- 98 Capital Assets, Net Information Fiscal Years 2002 through 2011



MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR
THE YEARS ENDED
JUNE 30, 2011 AND 2010

MARYLAND STATE LOTTERY AGENCY

> AN ENTERPRISE FUND OF THE STATE OF MARYLAND

INTRODUCTORY SECTION

IN FISCAL YEAR 2011, THE MARYLAND STATE LOTTERY CELEBRATED 38 YEARS OF SUPPORTING MARYLANDERS. WITH THE ADDITION OF VIDEO LOTTERY TERMINALS AT STATE-REGULATED FACILITIES, FOR WHICH NEARLY HALF OF THE PROCEEDS DIRECTLY BENEFIT THE MARYLAND EDUCATION TRUST FUND, THE LOTTERY IS SUPPORTING MARYLANDERS MORE THAN EVER.







- 5



MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR
THE YEARS ENDED
JUNE 30, 2011 AND 2010

MARYLAND LOTTERY

Montgomery Park Business Center • 1800 Washington Boulevard, Suite 330 Baltimore, Maryland 21230 Phone: 410-230-8800 • TTY users call Maryland Relay www.mdlottery.com

Martin O'Malley, Governor • Stephen Martino, Director



December 22, 2011

The Honorable Martin O'Malley, Governor
J. Kirby Fowler, Chairman, Maryland Lottery Commission
Kimberly D. Robertson, 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, 2011. 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.

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.

This letter of transmittal is designed to be read in conjunction with the complementary information offered in the Management's Discussion and Analysis (MD&A), which can be found immediately following the independent auditors' report.

The Lottery is operated as a business enterprise within the framework of State laws and regulations. The mission of the Lottery is twofold: providing revenue to the State through the sale of traditional lottery products and through the regulation of a VLT program. The Lottery fulfills this mission by offering the sale of both online and instant ticket games as described further on pages 11 through 15. Since its inception in 1973, traditional lottery sales have exceeded \$34.4 billion and have contributed almost \$13 billion in revenue. Revenue from the traditional lottery is contributed to the State's General Fund and is 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 of traditional lottery revenue each year to the Maryland Stadium Authority. 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 2011, these lotteries generated in excess of \$52.5 billion in sales. The Maryland Lottery ranked sixth among state lotteries in per capita sales during this time period.

The mission of the Lottery's VLT program is to regulate the program with the dual goals of generating revenue for the State of Maryland while maintaining integrity, transparency and fair play. During fiscal year 2011, the Lottery opened its first two casinos. These casinos generated \$103.1 million in gross terminal revenue. The distribution of this revenue is directed by statute and described more fully on page 51 of this report. Today, seven lotteries have the responsibility of regulating casino operations. During fiscal year 2011, casinos regulated by lotteries generated \$3.3 billion in government profits.

ECONOMIC OUTLOOK

Maryland's recovery from the recession has been slow. Employment growth has been tepid, still declining at times, while growth in wage income has accelerated but at historically low rates. Contributing to the recovery, the Base Realignment and Closure (BRAC) process concluded in September 2011, resulting in the addition of many above average wage jobs. Conversely, the prospect of cutbacks in Federal spending, a static housing market and global economic uncertainties give little reason to expect a surge in economic activity any time in the near future. Looking forward, economic growth is expected to continue at a subdued rate, particularly for this point in the economic cycle. The recovery will remain delicate and susceptible to shocks.

Historically, Maryland economic activity has mirrored that of the nation as a whole except during periods of recession. At those times, Maryland's core strengths, particularly its highly educated workforce and proximity to the Federal government, have served to mitigate downturns. This recession

was no different, with economic output deteriorating slower and less severely in Maryland than nationwide. During and immediately after the period from 2008 to 2010 Maryland Federal government employment and wages in Maryland grew 10.0% and 16.8% respectively. At the same time, national Federal government employment increased 7.9% and wages increased 12.6%. Further contrast can be drawn by the composition of Maryland Federal government employment — the second quarter of 2010 saw a ramp up in Federal employment for the decennial census. That work was temporary; recent data shows that the wind-down of that employment has affected the nation to a much greater extent than Maryland, indicating that Maryland's Federal job growth during that period was of a more permanent nature.

Certainly, the BRAC process has had a substantial positive impact on Maryland's economy. As part of BRAC, the commands of the Army Team C4ISR, Defense Information Systems Agency, Defense Media Activity, Army Research, Development and Engineering, and Walter Reed hospital have been moved to Maryland. The Regional Economic Studies Institute estimates that 45,232 jobs with an average wage of \$70,388 would be created in or moved to Maryland as part of the process — of that, more than 15,000 would be direct, more than 22,000 would be indirect, and more than 7,000 would be induced. The job transfers were completed in September of this year, and many of the indirect jobs are also in place. A substantial amount of economic upside remains — a portion of the positions may be tele-working at this time and will likely either move to Maryland at a later date or be filled with Maryland residents as employees turn over. Also, separately but related, the U.S. Cyber Command, established in May 2010 and activated in October 2010, is expected to add 1,000 jobs annually for the next several years.

Maryland is witnessing its first growth in total non-farm employment in three years. Total employment began to contract in 2008 before doing so at a rapid pace in 2009 with the recession fully underway. The contraction eased in 2010 and we are just now seeing the first signs of growth, 0.2% year to date. The big picture shows that Maryland lost 4.3% of its jobs from peak employment in the first quarter of 2008 to the trough in the first quarter of 2010, a net loss of more than 123,000 jobs. Since then, the net number of jobs in the State has increased by close to 36,000.

The education and health services industry served to buffer the State from further net job losses, providing growth throughout the recession. Unfortunately, growth in this sector has slowed of late, with an increase of under 1.0% through the first ten months of this year. No other non-Federal sector has benefited from BRAC more than the professional and business services segment — growing 1.9% year to date with an average wage of \$72,449 after suffering steep losses in the recession. The retail segment was the hardest hit of the five largest industries, losing 9.6% of its jobs from peak to trough, equating to almost 29,000 jobs. Since then only 5,000 of those jobs have been recovered at an average wage of \$29,795. The contraction in local government has lagged due to the recession, with losses beginning in 2010 and continuing into this year as local governments wrestle with declining revenues and structural changes to their fiscal relationship with the State. The leisure and hospitality industry continue to suffer, losing jobs in each of the last three years; to date 4.4% of the industry's jobs have been lost at an average salary of just over \$23,000.

Through October, only three of the State's major industries are performing worse this year than last year—the aforementioned education and health services industry, state and local government employment, and Federal government employment. All other sectors have experienced acceleration in employment this year, although several of those, such as construction and manufacturing, are still declining.

Maryland housing prices continued to fall even as volume increased in 2010. The number of unit sales totaled almost 51,000, a 4.3% increase over the previous year. The 4.2% drop in the median price marks the fourth consecutive year of decline. The price declines have continued this year; every month through October shows a drop from year-ago levels, although the declines have generally been moderate.

Should the European financial crisis deepen substantially, there could be direct effects on Maryland aside from the broader implications of a sharp European recession. Almost one-fifth of Maryland exports are to the Euro Zone, with another 8% or so to the rest of Europe. Nationally, exports to Europe are only 22% of total exports, indicating that, all else being equal, Maryland manufacturers are more at risk from a European downturn.

Maryland's economy is growing, but at a very slow rate. Employment growth of roughly 1% is forecast for the next several years, with wage growth of approximately 3.5% annually. Tremendous uncertainties abound, particularly with regard to potential Federal budget cutbacks. While the Federal government has provided substantial support for the Maryland economy in the past, that support seems very likely to ebb. The reductions do seem likely in some form or another over the next several years; despite the uncertainties, this forecast accounts for a loss of nearly 5,000 jobs in 2013, 12,000 in 2014, and 12,700 in 2015 as a result—roughly half of a percentage point of the State's employment in the latter years. Ultimately, the impact on the State could be lighter, or it could be much worse.

MARYLAND LOTTERY PRODUCTS

The Lottery has introduced a number of different traditional lottery 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 computergenerated 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.

Traditional lottery games offered during fiscal year 2011 included the following:



FISCAL YEAR 2011 STATISTICS:
\$260.8 million in net sales
15.2% of total net sales
\$6.1 million decrease from fiscal year 2010 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.



FISCAL YEAR 2011 STATISTICS:
\$254.6 million in net sales
14.9% of total net sales
\$8.0 million increase from fiscal year 2010 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.



FISCAL YEAR 2011 STATISTICS: \$493.5 million in net sales 28.8% of total net sales

\$2.6 million increase from fiscal year 2010 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 2011, the Lottery launched 57 different instant ticket games.



FISCAL YEAR 2011 STATISTICS: \$202.6 million in net sales 11.8% of total net sales

\$4.4 million decrease from fiscal year 2010 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 2011 STATISTICS: \$45.2 million in net sales 2.6% of total net sales

\$3.5 million decrease from fiscal year 2010 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 2011 STATISTICS: \$132.8 million in net sales 7.7% of total net sales

\$3.3 million decrease from fiscal year 2010 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 2011 STATISTICS: \$102.5 million in net sales 6.0% of total net sales \$11.6 million increase from fiscal year 2010 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 2011 STATISTICS: \$13.7 million in net sales 0.8% of total net sales

\$4.3 million increase from fiscal year 2010 Racetrax® Bonus 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 2011 STATISTICS: \$21.4 million in net sales 1.2% of total net sales

\$628 thousand increase from fiscal year 2010 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.



FISCAL YEAR 2011 STATISTICS — MEGA MILLIONS: \$98.7 million in net sales 5.8% of total net sales \$26.6 million decrease from fiscal year 2010 Mega Millions net sales

FISCAL YEAR 2011 STATISTICS — MEGAPLIER: \$2.9 million in net sales 0.2% of total 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, 43 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. Megaplier® is a special feature of Mega Millions that allows a winner to increase their non-jackpot winnings by two, three or four times for an extra \$1 per play. Drawings are held every Tuesday and Friday.



FISCAL YEAR 2011 STATISTICS: \$27.9 million in net sales 1.6% of total net sales

\$7.3 million decrease from fiscal year 2010 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 2011 STATISTICS — POWERBALL: \$52.7 million in net sales 3.1% of total net sales \$26.2 million increase from fiscal year 2010 Powerball net sales

FISCAL YEAR 2011 STATISTICS — POWER PLAY:
\$5.0 million in net sales
0.3% of total net sales
\$2.6 million increase from fiscal year 2010 Power Play 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, 44 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 \$200,000. 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.

In fiscal year 2011, the Maryland State Lottery introduced video lottery terminals.

Video Lottery Terminals

FISCAL YEAR 2011 STATISTICS: \$103.1 million in gross terminal revenue 2,250 total video lottery terminals

VIDEO LOTTERY GAMES were approved during the 2007 special session of the Maryland General Assembly. This legislation provided for up to 15,000 video lottery terminals to be placed at five locations throughout the State. The first 1,500 terminals were enabled for play in September 2010 and another 750 terminals were enabled for play in January 2011.

HIGHLIGHTS OF FISCAL YEAR 2011

Fiscal year 2011 proved to be another highly successful year for the Lottery, and for the fourteenth consecutive year, the Lottery achieved its highest sales point in history. Furthermore, lottery operations generated \$519.4 million in revenue for the State, an increase of almost \$8.8 million from the previous fiscal year. 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 lottery sales, other significant accomplishments included:

- The Lottery expanded its VLT Licensing Division during fiscal year 2011 and now has 15 employees. This Division is responsible for performing background investigations on manufacturers, vendors, contractors, principal employees, gaming and non-gaming employees who want to obtain a video lottery gaming license. By the end of fiscal year 2011, this Division had issued in excess of 1,600 licenses.
- The Lottery opened the doors to the first two casinos in the State. Hollywood Casino at Perryville opened on September 27, 2011 with 1,500 machines. By the end of the fiscal year, this casino generated more than \$82.7 million in gross terminal revenue, of which more than \$55.3 million was returned to the State to fund various initiatives as defined in Statute. Shortly thereafter on January 4, 2011, the Casino at Ocean Downs opened its doors and generated \$20.4 million in gross terminal revenue by the end of the fiscal year, of which \$13.7 million was returned to the State to fund various initiatives as defined by Statute.
- The Lottery created a Casino Enforcement Division. This division comprises 16 staff (8 per casino) who work at the casinos 24-7 to handle customer complaints and to ensure the casinos remain in compliance with regulations. This Division will expand as more casinos open.
- As part of its corporate responsibility and with the introduction of casinos in the State, the Lottery established a Responsible Gambling Program. Under this program, the Lottery operates a voluntary exclusion program, which allows individuals to ban themselves from Maryland casinos. To date, 51 individuals have banned themselves from the casinos. In addition, the Lottery won a prestigious award at the North American Association of State and Provincial Lotteries annual conference in Indiana for its Responsible Gambling website.
- The Lottery continued to grow its Racetrax game and now offers this game at all retail locations regardless of whether or not there is a monitor. This game grew by almost \$16 million over the previous fiscal 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. This extension provided for the Lottery to receive, among other things, upgrades to its existing lottery terminals such as additional memory and speed, 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. During fiscal year 2011, the upgraded terminals along with the point of sale digital merchandising and content management system were installed at all retail locations. The Lottery is aggressively utilizing this content management system to advertise jackpots, instant tickets and other Lottery promotions.

FINANCIAL INFORMATION

ACCOUNTING SYSTEMS AND POLICIES

The Lottery operates enterprise activities, which include sales of instant and online tickets, the regulation of video lottery operations to the general public, and the related supporting functions: personnel, finance, administration, marketing, security, video 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 traditional lottery and to regulate video lottery operations. Excluded from the budget are lottery prizes paid to winners and commissions paid to Lottery retailers. Lottery 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.

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 lottery gaming equipment and video lottery terminals primarily leased through the State Treasurer's Office.

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 Vice Chairman of the Lottery Commission.

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

- employing specialized enforcement staff who are present at the casinos on a 24-7 basis;
- maintaining secure lottery facilities and limiting access to them;
- performing background checks on retailers, vendors, employees and anyone that wants to obtain a video lottery gaming license;
- 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 lottery gaming vendor;
- comparing, on a daily basis, gross terminal revenue recorded on the Lottery's central system to gross terminal revenue reported by the casinos' slot accounting systems and reconciling any differences; and
- providing a variety of access and other controls in the Lottery's computer systems.

The Lottery currently has 218 employees, most of whom are located at the Lottery's headquarters in Baltimore. As of June 30, 2011, 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

Fiscal year 2012 will be another exciting year for the Lottery as it continues the implementation of the video lottery program. Maryland Live! Casino is scheduled to open by the end of fiscal year 2012. This casino will be one of the largest casinos in North America with 4,750 video lottery terminals. Some of the activities that will be undertaken by the Lottery prior to opening the facility will be the procurement and testing of the video lottery terminals, the review of the casino's internal controls and security plans, and the licensing of all individuals, manufacturers, vendors and contractors working with Maryland Live! Casino.

The Lottery will also continue to serve as staff to the Video Lottery Site Location Commission and will work with the Commission to prepare request for proposals for the two remaining casino sites,

Baltimore City and Rocky Gap, with the anticipation of issuing an award for both sites by the end of the fiscal year.

The Responsible Gambling Program will continue to be promoted, and the Lottery will explore the possibility of extending this program to its traditional lottery operations. In accordance with the Statute, the Lottery will begin to annually assess each casino in operation \$425 per video lottery terminal. This money will go into a Problem Gambling Fund that will be administered by the Department of Mental Health and Hygiene.

In January of 2012, the Maryland State Lottery will be making changes to the Powerball® game along with all other state lotteries that participate in Powerball. The price of the game will increase from \$1 to \$2. In exchange, the players will benefit from higher jackpots, better odds of winning any prize and more millionaires.

The Lottery will work with its online lottery vendor and the Maryland State Police to utilize its digital content message system to display Amber and Silver Alerts at all lottery retail 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.

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, 2010. This marked the seventh 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.

ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the efficient and dedicated services of Daniel Leatherman, Controller, and 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

Smam Snoth

Agreen L. Ments

Deputy Director and Chief Financial Officer

Stephen L. Martino

Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Maryland State Lottery Agency

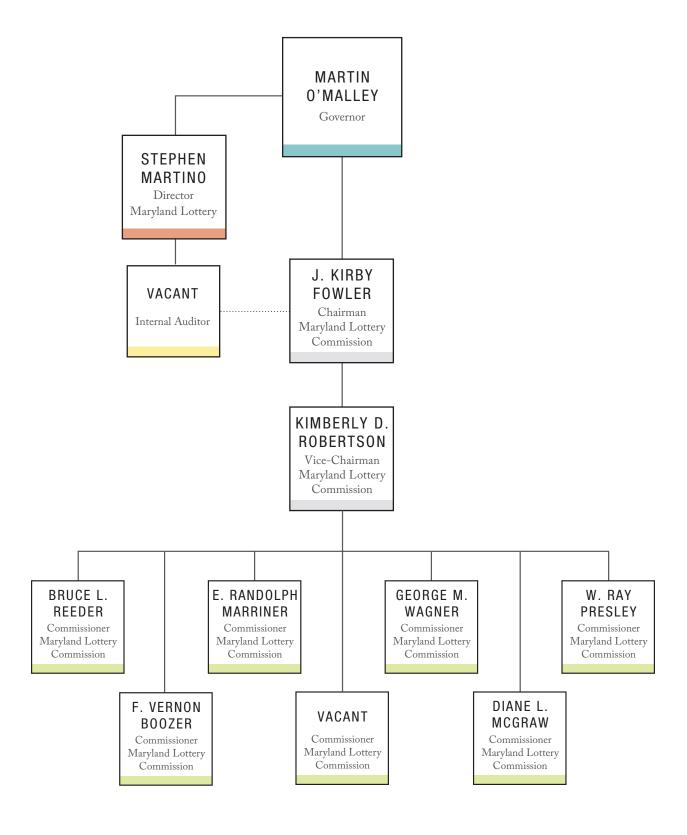
For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010

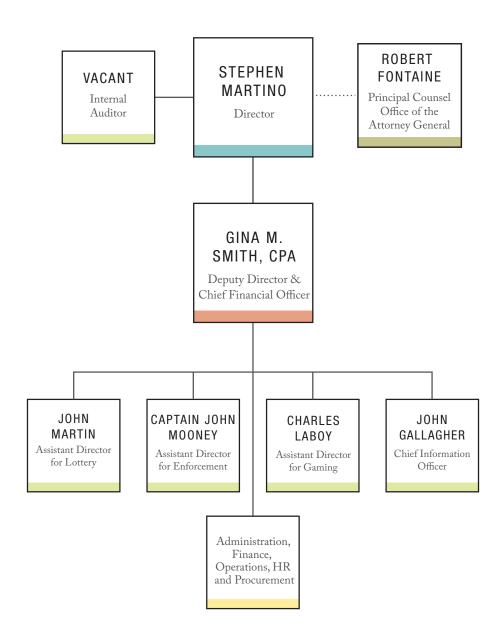
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

STATES STATES President

Executive Director

MARYLAND STATE LOTTERY AGENCY PRINCIPAL OFFICIALS





MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR
THE YEARS ENDED
JUNE 30, 2011 AND 2010

MARYLAND STATE LOTTERY AGENCY

> AN ENTERPRISE FUND OF THE STATE OF MARYLAND

FINANCIAL SECTION

IN FISCAL YEAR 2011, THE MARYLAND STATE
LOTTERY ACHIEVED ITS 14TH STRAIGHT YEAR OF
RECORD-BREAKING SALES AND AN INCREASE IN
REVENUE OF ALMOST \$8.8 MILLION FROM FISCAL
YEAR 2010. VLTs GENERATED \$103.1 MILLION IN
GROSS TERMINAL REVENUE IN THEIR FIRST YEAR.







2!



MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR
THE YEARS ENDED
JUNE 30, 2011 AND 2010



910 Ridgebrook Road Sparks, MD 21152

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, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Maryland State 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, 2011 and 2010, 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, 2011 and 2010, 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 30, 2011, 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 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 in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 29 through 41 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, 2011 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 64 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.

September 30, 2011

Stout, Causey & Horning, P.A.

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, 2011 and 2010. As you read the MD&A, 2011 refers to the fiscal year ended June 30, 2010, refers to the fiscal year ended June 30, 2010, and 2009 refers to the fiscal year ended June 30, 2009. 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 42.

FINANCIAL HIGHLIGHTS

- Net Lottery sales were a record \$1.714 billion in 2011, an increase of \$7.8 million or .46% as compared to 2010, which increased \$8.5 million or .50% as compared to 2009.
- Cost of sales decreased \$5.1 million or .44% in 2011 as compared to 2010, which decreased \$112,000 or .01% as compared to 2009. The major reason for the decrease in the costs of sales was that prizes paid to winners decreased \$5.1 million or .49% as compared to 2010, which increased \$8.3 million or .80% as compared to 2009.
- Operating expenses increased \$53.9 million or 153.98% in 2011 as compared to 2010, which decreased by \$1.8 million or 4.87% as compared to 2009. In 2011, two casinos were opened under the VLT program one in September 2010 and one in January 2011. The Lottery regulates those casinos. The increase in operating expenses in 2011 is attributed to casino related expenses that were incurred to regulate the VLT operations.
- Transfers to the State of Maryland in 2011 from Lottery proceeds were \$519.4 million, an increase of \$8.8 million or 1.72% as compared to 2010, which increased \$17.4 million or 3.53% as compared to 2009.
- Gross terminal revenue generated from the VLTs in 2011 totaled \$103.1 million. The law allows the Lottery to retain 2% of the gross terminal revenue to help cover the costs of regulating the VLT program. The law further requires the Lottery to transfer 33% of the gross terminal revenue to the casino operators and the remainder to various State agencies as described in more detail on page 51.

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. On November 4, 2008, a constitutional amendment was approved by voters which set up broad parameters for the operations of Video Lottery Terminals (VLTs) and establishment of five VLT Facility locations (referred to as casinos) in the State. The Lottery is responsible for regulating the operations of the VLTs including the operation of a central system, the purchase or lease of all VLTs, the licensing of VLT operators, machine manufacturers, employees, vendors and contractors of the VLT facilities, the collection and disbursement of VLT proceeds, and compliance with established internal controls and technical standards. Two casinos

opened in 2011 under the VLT program. The first casino became operational in September 2010 in Perryville, Maryland with 1,500 VLTs and the second casino became operational in January 2011 in Berlin, Maryland with 750 VLTs.

The Lottery is accounted for as a proprietary-type enterprise fund using the accrual basis of accounting, similar to a private business entity.

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 and other government agencies. 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 the financial statements can be found on pages 46 to 63 of this report.

FINANCIAL ANALYSIS

Table 1 (on the following page) is a summarized version of the statements of net assets as of June 30, 2011, 2010 and 2009. 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 the majority of 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. The remaining portion of cash held by the State Treasury is VLT revenue that is to be transferred to the other State agencies or paid to the casino operators. The majority of the cash and cash equivalents — VLT is the operator license fee that was paid by an applicant applying for the Baltimore City casino location who was subsequently denied a license by the Video Lottery Facility Location Commission. This applicant has appealed the decision with the courts and the money will be held by the Lottery until the court case is decided. Most liabilities represent prize awards payables, annuities payable, amounts due to the State of Maryland and amounts due to government agencies.

Table 1 — Net Assets (in thousands)			
	2011	2010	2009
Current Assets	\$ 173,220	\$ 154,228	\$ 171,965
Non-Current Assets	70,077	88,694	106,270
Capital Assets, net	38,433	4,470	5,777
Total Assets	\$ 281,730	\$ 247,392	\$ 284,012
Current Liabilities	\$ 181,655	\$ 146,617	\$ 159,645
Non-Current Liabilities	94,128	78,818	96,994
Total Liabilities	\$ 275,783	\$ 225,435	\$ 256,639
Net Assets			
Invested in Capital Assets, net of related debt	\$ (6,882)	\$ (792)	\$ 29
Unrestricted	12,829	22,749	27,344
Total Net Assets	\$ 5,947	\$ 21,957	\$ 27,373

Current Assets

The Lottery's current assets increased by \$18.9 million or 12.31% in 2011 as compared to 2010 which decreased by \$17.7 million or 10.31% as compared to 2009. The majority of these changes occurred in Cash held with the State Treasury and Cash and Cash equivalents — VLT.

Cash held with the State Treasury increased by \$49.5 million or 75.04% in 2011 as compared to 2010 which decreased by \$7.5 million or 10.19% as compared to 2009. Cash held with the State Treasury primarily represents cash received from Lottery agents from the sale of Lottery tickets, cash received from casinos for the revenue generated by the VLTs, income waiting to be transferred to the State from the Lottery and the VLTs, unpaid prizes, and unclaimed prizes. Changes in these balances have a corresponding effect on the Lottery's cash position. At the end of 2011, there was two months of Lottery revenue waiting to be transferred in comparison to one month of Lottery revenue at the end of 2010. The decline between 2010 and 2009 was due to Lottery revenue earned in the month of June 2010 being significantly lower than the revenue earned in June 2009 and the decrease in the balance of the unclaimed prize fund.

Accounts receivable increased by \$1.4 million or 4.74% in 2011 as compared to 2010, which increased by \$1.8 million or 6.67% in 2010 as compared to 2009. Accounts receivable represents the amount due from Lottery retailers from the sale of Lottery tickets. On a weekly basis, amounts due from retailers are collected electronically from the retailers' bank accounts. In 2011, four days of sales activity were waiting to be collected, compared to three days in 2010 and two days in 2009.

The increase in current assets was offset by a significant decrease in cash and cash equivalents — VLT and a smaller decrease in the current portion of investments for annuity payments.

Current Assets (continued)

Cash and cash equivalents — VLT decreased by \$28.6 million or 90.41% in 2011 as compared to 2010 which decreased by \$7.9 million or 19.99% as compared to 2009. Cash and cash equivalents — VLT are the funds received from applicants who applied for a VLT operator license and, to a lesser extent, funds received from VLT manufacturers and contractors and individuals seeking to receive a VLT license from the Lottery. The decrease is primarily the result of the Lottery transferring \$28.6 million to the State's Education Trust Fund after the Video Lottery Facility Location Commission approved the award for a casino operator's license at the Anne Arundel County location. The decrease from 2009 to 2010 was 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 the two casinos that began operations in 2011. In accordance with the law, these funds are to be transferred to the State's Education Trust Fund after an award for an operator license is made. The decrease was offset by deposits into the account from fees paid to obtain VLT licenses.

The current portion of investments for annuity payments decreased by \$3.6 million or 14.50% in 2011 as compared to 2010, which decreased by \$4.6 million or 15.51% as compared to 2009. The continued decreases during these years resulted from fewer jackpot winners electing to receive their prize in the form of an annuity compared to the number of annuities that expired.

Non-Current Assets

The Lottery's non-current assets consists of investments for annuity payments, net of current portion and capital assets, and net of accumulated depreciation. Non-current assets increased by \$15.3 million or 16.47% as compared to 2010 which decreased by \$18.9 million or 16.85% as compared to 2009.

Capital assets, net of accumulated depreciation increased by \$33.9 million or 759.87% in 2011 as compared to 2010, which decreased by \$1.3 million or 22.64% as compared to 2009. The increase in 2011 is attributed to the procurement of 1,825 VLTs in 2011. Under the law, the Lottery is required to own or lease the VLTs that are in the casinos. The VLTs are capitalized at cost and depreciated over a five-year period. The decrease in 2010 from 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. Details of capital assets, additions and depreciation are included in Note 4 to the financial statements, on page 56.

The Lottery's investments for annuity payments, net of current portion, decreased \$18.6 million or 20.99% in 2011 as compared to 2010 which decreased by \$17.6 million or 16.54% as compared to 2009. These continued decreases 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.

Current Liabilities

Current liabilities increased by \$35.0 million or 23.90% in 2011 as compared to 2010 which decreased by \$13.0 million or 8.16% in 2010 as compared to 2009. The majority of the increase in 2011 is attributed to current portion of capital lease obligation, transfer due to the State of Maryland General Fund and transfers due to Other Government Agencies — VLT. 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.

Current portion of capital lease obligations increased by \$8.7 million or 749.07% in 2011 due to the financing of the 1,825 VLTs as the first payment on these machines is due in September 2011. In January 2011, the State Treasurer's Office issued, on behalf of the Lottery, Certificates of Participation to finance the VLTs in operation at the two casinos. These machines are financed over a five year period.

Transfer due to the State of Maryland General Fund increased in 2011 by \$42.4 million or 108.77% compared to 2010, which decreased by \$4.7 million or 10.79% in 2009. The increase is attributed to two months of Lottery revenue waiting to be transferred at the end of 2011 in comparison to one month of Lottery revenue waiting to be transferred at the end of 2010. The decrease between 2010 and 2009 was a result of less Lottery income earned in June 2010 as compared to 2009. Transfers due to Other Government Agencies — VLT totaled \$8.2 million as of June 2011. This amount represents the June 2011 VLT revenue waiting to be transferred to other government agencies.

The increase in current liabilities was offset primarily by decreases in VLT Escrow Payable and the current portion of annuity prizes payable.

VLT Escrow Payable decreased by \$28.6 million or 90.41% in 2011 as compared to 2010 which decreased by \$7.9 million or 19.99% as compared to 2009. The decrease is primarily the result of the Lottery transferring \$28.6 million to the State's Education Trust Fund after the Video Lottery Facility Location Commission approved the award for an operator's license at the Anne Arundel County casino location. The decrease from 2009 to 2010 was 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 awards for operators' licenses for the two casinos that began operations in fiscal year 2011.

The current portion of annuity prizes payable decreased by \$2.7 million or 11.28% in 2011 compared to 2010 which decreased \$4.4 million or 15.51% as compared to 2009. The continued decreases 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.

Non-Current Liabilities

Non-current liabilities increased by \$15.3 million or 19.43% in 2011 as compared to 2010 which decreased by \$18.2 million or 18.74% in 2010 as compared to 2009. The increase is primarily attributed to the increase in Capital lease obligations, net of current portion, which increased by \$30.9 million or 754.34% over 2010 which decreased by \$1.2 million or 22.17% from 2009. The increase is attributed to the financing of the 1,825 VLTs that were purchased in 2011 for the two casinos. The decrease in 2010 is the result of the capital lease payments made during 2010.

Annuity prizes payable decreased by \$15.7 million or 21.20% in 2011 compared to 2010 which decreased by \$17.0 million or 18.59%. 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.

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 57.

Net Assets

Net assets decreased by \$16.0 million or 72.91% in 2011 compared to 2010 which decreased by \$5.4 million or 19.79% in 2010. Because the Lottery is required by law to transfer its entire budgetary basis net income to the State of Maryland and its VLT revenue to government agencies, 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 deficit in capital assets, net of related debt increased by \$6.1 million or 769.54% over 2010 which increased \$821,000 or 2,782.46% over 2009. The increase in the deficit is due to the financing of 1,825 VLTs for the casinos. The increase in the deficit in 2010 was related to the financing of 850 new ITVMs.

This increase in the deficit in capital assets, net of related debt was offset by a decrease in unrestricted net assets, which consists of unrealized gains or losses on investments, outstanding encumbrances and the unclaimed prize fund. Unrestricted net assets decreased by \$9.9 million or 43.60% compared to 2010 which decreased \$4.6 million or 16.80% compared to 2009. The majority of the decreases in all years is attributed to the unrealized losses on investments.

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, 2011, 2010 and 2009.

	2011	2010	2009
Sales			
Online games	\$ 1,220,854	\$ 1,215,719	\$ 1,191,017
Instant games	493,548	490,853	507,057
Total sales	1,714,402	1,706,572	1,698,074
VLT Revenue — Gross Terminal Revenue	103,133	_	_
VLT Revenue — State Grant	9,605	1,121	186
VLT Revenue — Facility Applicants	1,342	3,592	896
Total Revenue	1,828,482	1,711,285	1,699,156
Cost of sales	1,165,134	1,170,274	1,170,386
Gross profit	663,348	541,011	528,770
Operating expenses	88,841	34,980	36,769
Income from operations	574,507	506,031	492,001
Non-operating expenses			
Unrealized gain (loss) on investments	(3,785)	(782)	(335)
Interest expense	(120)	(56)	(16)
Interest income	7	_	_
Payments to State of Maryland General Fund	(= 4 0 00 4)	(= 4.0.000)	(400.000)
and Stadium Authority	(519,394)	(510,609)	(493,206)
Payments to Other Government	(07.005)		
Funds/Agencies — VLT	(67,225)		
Total non-operating expenses	(590,517)	(511,447)	(493,557)
Change in Net Assets	(16,010)	(5,416)	(1,556)
Total Net Assets — beginning of year	21,957	27,373	28,929
Total Net Assets — end of year	\$ 5,947	\$ 21,957	\$ 27,373

Sales

Net sales were a record \$1.714 billion in 2011, an increase of \$7.8 million or .46% as compared to 2010, which increased \$8.5 million or .50% as compared to 2009.

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

Online games sales increased by \$5.1 million or .42% in 2011, as compared to 2010, which increased \$24.7 million or 2.07% as compared to 2009. In 2011, the growth in online games sales is attributable to the Monitor and Numbers games, which was offset by a slight decline in Matrix games; whereas, in 2010 growth was attributed to the Monitor and Matrix games, which was offset by a decline in Numbers games as shown in Table 3.

Tabl	e 3 — Ne	et Sales of Or	nline G	ames (in tho	usands]
		2011		2010		2009
Numbers	\$	515,463	\$	513,618	\$	525,522
Monitor		496,731		492,000		483,178
Matrix		208,660		210,101		182,317
Total	\$	1,220,854	\$	1,215,719	\$	1,191,017

Sales for the Numbers games, which are Pick 3 and Pick 4, increased by \$1.8 million or .36% as compared to 2010, which decreased by \$11.9 million or 2.27% as compared to 2009. Pick 4 sales increased in 2011 and decreased in 2010 by \$8.0 million and \$2.5 million, respectively. Pick 3 sales decreased in 2011 and 2010 by \$6.2 million and \$9.4 million, respectively. The increase in Pick 4 sales and the continued decrease in Pick 3 sales can be attributed to the top prize offered in these games. The top prize for Pick 3 is \$500, whereas the top prize for Pick 4 is \$5,000.

Sales for the Monitor games, which includes Keno, Keno Bonus®, Keno Super Bonus™, Racetrax® and Racetrax® Bonus increased by \$4.7 million or .96% in 2011 as compared to 2010, which increased by \$8.8 million or 1.83% as compared to 2009. The increase in Monitor games during both 2011 and 2010 can be attributed to Racetrax and Racetrax Bonus, which have become the Lottery's fastest growing games.

Sales for Matrix games, which includes Mega Millions®, Multi-Match®, Bonus Match 5, and Powerball® and Power Play® decreased by \$1.4 million or .69% in 2011 as compared to 2010, which increased by \$27.8 million or 15.24% as compared to 2009. While Powerball and Power Play continued to grow since its launch in January 2010 with sales increasing in 2011 by \$28.9 million or 100.03% in comparison to 2010, Mega Millions sales decreased by \$23.7 million or 18.88% in 2011 as compared to 2010, which only slightly decreased by \$695,000 or .55% as compared to 2009. The decrease in Mega Millions sales can be attributed to the lack of high jackpots in comparison to the Powerball jackpots.

Sales (continued)

Players generally prefer games with higher jackpots and longer odds. During 2011, the Powerball® jackpot exceeded \$100 million a total of six times, whereas the Mega Millions® jackpot only exceeded \$100 million four times. In addition, Powerball's starting jackpot is \$20 million dollars in comparison to the Mega Millions jackpot of \$12 million, and the Powerball jackpot typically grows at a faster rate.

Bonus Match 5 sales slightly increased by \$628,000 or 3.02% in 2011 compared to 2010, which decreased by \$2.7 million or 11.5% compared to 2009. Multi-Match® sales decreased by \$7.3 million or 20.66% in 2011 compared to 2010, which increased by \$2.3 million or 7.1% as compared to 2009. The decrease in Multi-Match can be attributed to the other Matrix games offered, which generate higher jackpots. In addition, Multi-Match jackpots in 2011 were lower than in 2010, which were higher than in 2009.

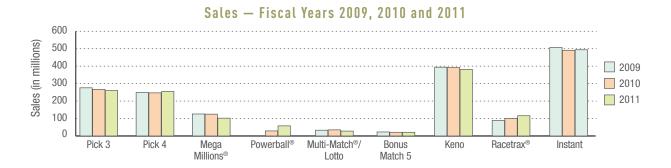
Instant games are the second type of Lottery game offered to the public. Instant game sales increased by \$2.7 million or .55% in 2011 compared to 2010, which decreased by \$16.2 million or 3.20% as compared to 2009 as shown in Table 4. The increase in instant tickets in 2011 is primarily attributed to the growth experienced in both the \$3 and \$20 price points. In 2011, the Lottery changed its strategy for its \$3 price point and launched several extended play tickets. Extended play tickets, as their name implies, are designed for players who enjoy longer play games. The increase in the \$20 price point can be attributed in part to the launch of the Black ticket, which has been very popular throughout the industry, and the Lottery's ability to offer three to five \$1 million annuitized top prizes in each of its \$20 tickets. Instant ticket sales decreased in 2010 as compared to 2009 due to the lagging economy. Instant ticket sales tend to be an impulse purchase. Consumer confidence was low during 2010, and, as such, discretionary spending decreased.

Table 4 -		Instant Games b nousands)	y Price Point
	2011	2010	2009
\$1	\$ 38,541	\$ 43,967	\$ 49,319
\$2	51,880	51,995	59,733
\$3	44,970	42,927	41,678
\$5	191,775	197,076	206,158
\$10	100,725	106,714	108,126
\$20	65,657	48,174	42,043
Total	\$493,548	\$490,853	\$507,057

The graph on the following page depicts the Lottery's online and instant sales for 2011, 2010 and 2009. Keno, Keno Bonus[®] and Keno Super Bonus[™] sales (labeled as Keno for the chart on the following page) have been combined, as have Racetrax[®] and Racetrax[®] Bonus sales (labeled as Racetrax for

Sales (continued)

the chart below). Also listed are Mega Millions® and Megaplier® (labeled as Mega Millions on the chart below), and Powerball® and Power Play® (labeled as Powerball on the chart below).



<u>VLT Revenue — Gross Terminal Revenue, State Grant and Facility Applicants</u>

VLT Revenue — Gross Terminal Revenue (GTR) represents the revenue generated by the VLTs net of related prizes. Gross Terminal Revenue in 2011 totaled \$103.1 million. The following table shows statistics on the two casinos.

	Table 5 — Casino Stat	istics	
Casinos	Date Opened	Number of Machines	2011 GTR (in millions)
Hollywood Casino	September 27, 2010	1,500	\$ 82.7
Casino at Ocean Downs	January 4, 2011	750	20.4
Total		2,250	\$ 103.1

VLT Revenue — State Grant represents funds received by the Lottery from the State of Maryland to help pay for the costs of the VLT operations. VLT Revenue State Grant increased by \$8.5 million or 757.72% in 2011 compared to 2010, which increased by \$935,000 or 503.35% as compared to 2009. The increase between 2011 and 2010 is due to the increased funding needed to pay for the maintenance and leasing of the VLTs. The increase from 2009 to 2010 is attributed to funds needed to pay for increased staffing and systems required to operate the VLT program.

VLT Revenue — Facility Applicants represents costs incurred by the Lottery to perform background investigations on applicants who have applied for a VLT license. VLT Revenue — Facility Applicants decreased by \$2.3 million or 62.64% in 2011 compared to 2010, which increased by \$2.7 million or 300.78% in 2010 as compared to 2009. The decrease is attributed to less complex licensing investigations in 2011 than in 2010. In 2010, the majority of the investigations conducted were on the facilities that applied for a casino license and the VLT machine manufactures. These types of investigations are more complex than investigations on individual employees working at the casinos, which represent the majority of the investigations that were conducted in 2011.

Cost of Sales

Cost of sales consists of prize expense, retailer commissions, costs paid to vendors to operate and maintain the online lottery system, and costs paid for the printing and delivery of instant games. Cost of sales decreased by \$5.1 million or .44% in 2011 compared to 2010, which decreased by \$112,000 or .01% in 2010 as compared to 2009.

Prize expense decreased by \$5.1 million or .49% in 2011 as compared to 2010, which increased by \$8.3 million or .80% as compared to 2009. The decrease is primarily attributed to lower prize expense in Pick 4 and Mega Millions® in 2011 than in 2010. In 2011, Pick 4 prize expense was 50% of game revenues as compared to 53% in 2010. Similarly, in 2011, the prize expense for Mega Millions was 48% of game revenues as compared to 50% in 2010. Prize 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 increased by \$557,000 or .49% in 2011 compared to 2010, which decreased by \$8.8 million or 7.18% as compared to 2009. The increase in 2011 is attributed to Lottery retailers cashing more tickets in 2011 than in 2010. Retailers receive a 3 percent cashing commission for all winning tickets cashed. In addition, bonus money paid to retailers in 2011 was higher than in 2010. Retailers receive a bonus when cashing top tier prizes and select second tier prizes for its matrix games. The decrease in commissions in 2010 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 5.5% to 5.0%.

Operating Expenses

Operating expenses increased by \$53.9 million or 153.98% in 2011 compared to 2010, which decreased by \$1.8 million or 4.87% as compared to 2009. Fluctuations in operating expenses are primarily due to changes in the Lottery's budgetary appropriation and/or the timing of liquidating prior year encumbrances. While the Lottery's operating expenses and encumbrances have remained relatively stable for the past several years, the operating expenses of the VLT program increased significantly in 2011 due to the opening of the two casinos. Administrative Expenses — VLT increased \$42.2 million or 895.71% in 2011 compared to 2010, which increased by \$3.6 million or 335.55% compared to 2009. The majority of the increase is attributed to payments made for the maintenance and lease of the VLTs and payments made to the casino operators for their share of the VLT revenue. Under the law, the casinos transfer 100% of the gross terminal revenue to the Lottery on a daily basis. The Lottery then returns 33% of the gross terminal revenue to the casinos as their share and records this as an operating expense to the Lottery. During 2011, the casinos share of the gross terminal revenue totaled \$34 million.

Depreciation and amortization also contributed to the increase in the total operating expenses. Depreciation and amortization increased by \$5.9 million or 454.78% in 2011 as compared to 2010, which increased by \$659,000 or 101.42% compared to 2009. The increase in 2011 is attributed to the depreciation recognized on the VLTs that were purchased for the two casinos.

Non-operating Expenses

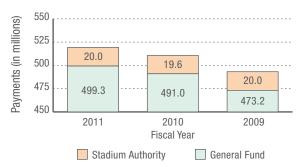
Non-operating expenses increased by \$79.1 million or 15.46% in 2011 compared to 2010, which increased by \$17.9 million or 3.62% as compared to 2009. Non-operating expenses primarily consist of unrealized gains and losses on investments held to fund obligations to annuitants and payments to the State of Maryland General Fund, the Stadium Authority and Other Government Funds/Agencies.

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 pages 54-55.

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

Transfers to the State of Maryland totaled \$519.4 million in 2011, an increase of \$8.8 million or 1.72% compared to 2010, which increased by \$17.4 million or 3.53% as compared to 2009. The increase in 2011 resulted from an increase in sales and revenues. The increase from 2010 as compared to 2009 also resulted from an increase in sales and revenues and a decrease in the percentage that retailers are paid for selling Lottery tickets. The graph below depicts the payments made to the State of Maryland for 2011, 2010 and 2009.

Payments to the State of Maryland



For the VLT operations, the Lottery is required to transfer the gross terminal revenue to specified Government agencies to be used for certain purposes defined in the law. In addition, the Lottery is allowed to keep 2 percent of the gross terminal revenue to help cover the costs of the VLT program. Table 6, on the following page, shows a breakdown of the 2011 disbursements.

Non-operating Expenses (continued)

Fund	2011
Maryland Education Trust Fund (48.5%)	\$ 49.9
Casino Operators (33%)	34.0
Horse Purse Dedication (7%)	7.2
Local Impact Grants (5.5%)	5.7
Race Tracks Facility Renewal Accounts (2.5%)	2.6
Maryland Lottery (2%)	2.1
Small, Minority and Women-Owned Business (1.5%)	1.6
Total	\$ 103.1

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, Deputy Director/CFO, Maryland Lottery, 1800 Washington Boulevard, Suite 330, Baltimore, Maryland 21230.

MARYLAND STATE LOTTERY AGENCY STATEMENTS OF NET ASSETS

	As o	f June 30
	2011	2010
Assets:		
Current assets:	\$ 1,984,046	\$ 2,276,559
Cash and cash equivalents Cash and cash equivalents — VLT	\$ 1,984,046 3,030,894	\$ 2,276,559 31,613,296
Cash and cash equivalents — VEI Cash and cash equivalents — Agent	166,659	117,082
Cash and cash equivalents — Agent Cash and cash equivalents — VLT Acquisition	114,782	-
Cash held with State Treasury	115,447,938	65,954,636
Accounts receivable	30,493,871	29,113,894
Accounts receivable — VLT	192,830	131,267
Accounts receivable — Casino Operators	376,202	-
Prepaid commissions	48,683	34,817
Current portion of investments for annuity payments	21,363,698	24,986,597
Total current assets	173,219,603	154,228,148
Non-current assets:		
Capital assets, net of accumulated depreciation	38,433,711	4,469,688
Investments for annuity payments, net of current portion	70,076,842	88,694,602
Total non-current assets	108,510,553	
Total assets	\$ 281,730,156	\$ 247,392,438
Liabilities and Net Assets: Current liabilities:		
Current portion of annuity prizes payable	\$ 21,379,996	\$ 24,098,54
Current portion of employee related payables	1,232,838	1,222,17
Current portion of long-term debt — other	20,773	1,222,17
Current portion of capital lease obligation	9,904,518	1,166,514
Transfer due to State of Maryland General Fund	81,473,039	39,025,810
Transfer due to Other Government Agencies —VLT	8,197,727	
Prize awards payable	45,447,457	44,310,43
Accounts payable and accrued expenses	6,883,695	1,592,15
Accounts payable and accrued expenses — VLT	235,239	131,26
VLT Escrow Payable	3,030,894	31,613,290
Agent Escrow Payable	166,659	117,082
Unearned revenue Taxes and other liabilities	2,880,715	2,321,788
VLT Purchase Accrual	371,840 429,144	1,018,338
Total current liabilities	181,654,534	146,617,409
Non-current liabilities:	- , ,	-,- , -
Annuity prizes payable, net of current portion	58,489,780	74,226,413
Employee related payables, net of current portion	569,033	496,649
Capital lease obligation, net of current portion	34,981,921	4,094,608
Long-Term obligation — other	87,396	
Total non-current liabilities	94,128,130	78,817,670
Total liabilities	275,782,664	225,435,079
Net Assets:	(0.001.070	(701.40
Invested in capital assets, net of related debt	(6,881,872	•
Unrestricted Total net assets	12,829,364	22,748,793
	5,947,492 \$ 281,730,156	
Total liabilities and net assets	\$ 281,730,156	\$ 247,392,438

MARYLAND STATE LOTTERY AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

,220,854,256 493,548,322 ,714,402,578 103,132,793	\$	2010
493,548,322 ,714,402,578	\$	
493,548,322 ,714,402,578	\$	
,714,402,578		1,215,719,480
		490,853,089
103,132.793		1,706,572,57
		1 100 50
9,605,152 1,341,779		1,120,560
,828,482,302		3,591,922 1,711,285,063
,029,040,616		1,034,157,120
113,687,526		113,130,686
16,129,925		16,201,91
6,275,995		6,784,29
,165,134,062		1,170,274,01
663,348,240		541,011,04
12,896,314		12,870,37
13,811,939		13,767,71
7,256,951		1,308,07
7,952,504		2,320,98
46,922,761		4,712,48
88,840,469		34,979,62
574,507,771		506,031,41
0.050.000		0.500.04
2,058,860		6,536,04
(5,844,335) (119,780)		(7,318,77
6,613		(56,02
(499,393,853)		(491,008,63
(20,000,000)		(19,600,00
(67,225,143)		(13,000,00
		(511 //7 27
		(511,447,37
	\$	27,373,32 21,957,35
	(590,517,638) (16,009,867) 21,957,359 5,947,492	(16,009,867) 21,957,359

MARYLAND STATE LOTTERY AGENCY STATEMENTS OF CASH FLOWS

	Years ende	ed June 30
	2011	2010
Cash flows from operating activities: Receipts from customers Payments to suppliers Payments to employees Payments to agents Prize payments/awards to players	\$ 1,828,387,088 (52,524,732) (12,813,268) (147,932,541) (1,027,847,773)	\$ 1,710,733,490 (40,249,357) (12,833,100) (113,203,187) (1,028,577,324)
Net cash and cash equivalents provided by operating activities	587,268,774	515,870,522
Cash flows from noncapital financing activities: Transfers to the State of Maryland General Fund and Stadium Authority Transfers to the State of Maryland Education Fund Transfers to Other Government Funds/Agencies — VLT Transfers to VLT Special Fund — portion of Lottery 2% Program Allocation Long-term Debt in Excess of Capital Lease Equipment Acquisitions Interest Income Prize payments/awards	6,613 (25,001,996)	(515,330,856) (13,824,754) ————————————————————————————————————
Net cash and cash equivalents used in noncapital financing activities	(589,499,257)	(558,811,606)
Cash flows from capital and related financing activities: Payments of capital lease obligations Interest payments	(1,166,514) (119,780)	(487,135) (56,021)
Net cash and cash equivalents used in capital and related financing activities	(1,286,294)	(543,156)
Cash flows from investing activities: Coupon bonds purchased Proceeds from matured annuities and bonds Net cash and cash equivalents provided by investing activities	(702,473) 25,001,996 24,299,523	(959,325) 29,655,996 28,696,671
investing activities Net increase (decrease) in cash and cash equivalents	20,782,746	(14,787,569)
Cash and cash equivalents, beginning of year Cash and cash equivalents, end of year	99,961,573 \$ 120,744,319	114,749,142 \$ 99,961,573
Noncash investing and financing activities: Acquisition of equipment through capital lease Change in fair value of investments	\$ 40,791,831 \$ (3,785,475)	\$ - \$ (782,725)

MARYLAND STATE LOTTERY AGENCY STATEMENTS OF CASH FLOWS (CONTINUED)

	Years ende	d Jui	ne 30
	2011		2010
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:			
Operating income	\$ 574,507,771	\$	506,031,418
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	7,256,951		1,308,073
Deferred prize payments	702,475		959,325
Effect of changes in operating assets and liabilities:			
Accounts receivable	(1,817,742)		(1,638,018)
Prepaid commissions	(13,866)		1,595
Accounts payable and accrued expenses	(23,135,048)		(9,183,216)
Employee related payables	83,046		37,270
Taxes and other liabilities	(646,498)		751,749
Prize awards payable	1,137,025		3,868,728
Unearned revenue	558,927		(91,156)
Due to other funds	 28,635,733		13,824,754
Net cash and cash equivalents provided by operating activities	\$ 587,268,774	\$	515,870,522

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.

During the 2007 special session of the Maryland General Assembly, Chapter 5 was enacted relating to the legalization of video lottery terminals (VLTs) in the State subject to the passage of a voters' constitutional referendum. In 2008, voters approved the installation of up to 15,000 VLTs at five privately owned facilities at specified locations throughout the State. In November 2008, the Video Lottery Facility Location Commission was established to conduct a competitive bidding process to award up to five licenses to operate a video lottery facility. The Video Lottery Facility Commission is made up of seven members, three of whom are appointed by the Governor, two by the Senate President and two by the House Speaker. The Lottery provides staff to this Commission for assistance in administrative tasks.

The Lottery, in conjunction with the Lottery Commission, serves as the regulator of the VLT program and is responsible for regulating the licensing of VLT operators, VLT manufacturers, employees, contractors and vendors of the VLT facilities (referred to as casinos), the purchase or lease of all VLTs, the collection and disbursement of VLT gross terminal revenue and compliance with established internal controls and technical standards.

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 special purpose government fund 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 GAMES — 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 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, 2011 and 2010, retailers received a sales commission of 5% of net sales 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 (Multi-Match®, Mega Millions®/MegaPlier®, Powerball®/Power Play® and Bonus Match 5), Monitors (Keno, Keno Bonus®, Keno Super Bonus™, Racetrax® and Racetrax® Bonus). 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. The Multi-Match, Mega Millions and Powerball jackpots are calculated as a percentage of total game revenue (16.22% Multi-Match, 31.80% Mega Millions and 32.53% Powerball). If there is not a jackpot winner, the prize pool is carried forward until there is a winner. The remaining Multi-Match, Mega Millions and Powerball prize levels are based on a predetermined set amount. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

VLT (CASINO) OPERATIONS — REVENUE RECOGNITION AND PRIZE OBLIGATIONS

As of the end of fiscal year 2011, three of the five casino operator licenses had been issued for which two casinos had opened. The first casino opened to the public on September 27, 2010 with 1,500 VLTs and the second casino opened to the public on January 4, 2011 with 750 VLTs. The third casino for which a license has been issued is slated to open late fiscal year 2012. VLTs are a self activated video version of lottery games which allow for a player to place bets for the chance to be awarded credits which can either be redeemed for cash or be replayed as additional bets. The prize structures of these video lottery games are designed to award prizes, or credits, at a stipulated rate of total bets played, and prize expenses is netted against total video credits played. The Lottery recognizes VLT revenue as "gross terminal revenue" equivalent to all wagers, net of related prizes. Licensed casino operators receive 33 percent of the gross terminal revenue to operate their casinos. Payments to the casino operators are recorded as an operating expense. The enabling legislation requires the Lottery to disburse the remainder of the gross terminal revenue to other State agencies, which in turn are responsible for making further distributions.

In addition, as of June 30, 2011 and June 30, 2010, the State provided grants to the Lottery in the amount of \$9,605,152 and \$1,120,566, respectively, to help fund the costs of the VLT operations.

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 and various VLT games. Operating expenses for lottery games include the costs to operate the various games, pay prize winners and administrative expenses. Operating expenses for VLTs include the costs to operate the various games 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. The monies deposited are primarily application fees received from VLT Facility Operator License applicants that are held in separate escrow sub accounts until the application review process is complete and the license is either awarded or denied. If the license is awarded, the monies being held are transferred to the Education Trust Fund of the State of Maryland. If the license is denied, the monies received are returned to the applicant. During fiscal

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

year 2011, the Lottery transferred \$28,635,733 to the State's Education Trust Fund after the Video Lottery Facility Location Commission approved the license for the casino slated to open in late fiscal year 2012. During fiscal year 2010, the Lottery transferred \$13,824,754 to this same Fund after the Video Lottery Facility Location Commission approved the license for the two casinos that opened during fiscal year 2011.

Secondarily, the account is used to facilitate the receipt of other license fees that are received from applicants wanting to obtain a VLT license from the Lottery. Under the law, the Lottery is charged with issuing the following licenses: manufacturer, contractor, vendor, principle employee, gaming employee and non gaming employee. For each license, the Lottery receives the following fees: application, license and fingerprint to help cover the costs of its investigation. The total amount of the fees varies based on the type of license to be issued. Such amounts are temporarily deposited into a separate VLT Escrow sub account and are subsequently withdrawn and deposited into the VLT Special Fund account that is held by the State Treasurer. Amounts remaining in the escrow accounts are generally small at month end.

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, 2011 and 2010, management believes all accounts receivable are collectible, and, as such, no allowance for doubtful accounts has been recorded.

ACCOUNTS RECEIVABLE - VLT

Accounts Receivable — VLT represents the difference between all costs incurred by the Lottery to investigate and license applicants since the beginning of the VLT program in fiscal year 2009 and the license, application, fingerprint fees and two percent of the gross terminal revenue received to cover the cost of licensing applicants since the inception of the VLT program. The costs of investigating some applicants are reimbursed to the State by the applicant. These costs are billed to the applicant, and when paid, the monies received offset the costs incurred. To the extent that the monies received from all funding sources in any particular fiscal year exceed the costs incurred, the excess funds are returned to the State at the end of that fiscal year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE - CASINO OPERATORS

Accounts Receivable — Casino Operators represents the amount of gross terminal revenue due from the casino operators. On a daily basis, the Lottery collects the amount of gross terminal revenue due from the casino operators. As of June 30, 2011, management believes that all accounts receivable are collectible, and as such, no allowance for doubtful accounts has been recorded.

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 and VLTs. 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.

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 statement 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® 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The VLT law requires the Lottery to collect, on a daily basis, 100 percent of the gross terminal revenue generated by the VLTs. On a monthly basis, the Lottery transfers these funds as follows:

- A transfer of 48.5% of the gross terminal revenue is made to the State's Department of Eduction into the Education Trust Fund.
- A transfer of 5.5% of the gross terminal revenue is made to the State's Racing Commission into an account for local impact grants.
- A transfer of 7% of the gross terminal revenue, not to exceed a total of \$100 million annually, is made to the State's Racing Commission into the Purse Dedication Account.
- A transfer of 2.5% of the gross terminal revenue, not to exceed a total of \$40 million annually, is made to the State's Racing Commission into the Racetrack Facility Renewal Account.
- A transfer of 1.5% of the gross terminal revenue is transferred to the State's Board of Public Works into the Small, Minority and Women-Owned Businesses Account.

These distributions are recorded as non-operating expenses in the accompanying statements of revenues, expenses and change in net assets.

In addition to the aforementioned transfers, the Lottery retains 2% of the gross terminal revenue to help fund the costs of operations and the casinos receive 33% of the gross terminal revenue. A summary of the distributions for the year ended June 30, 2011 follows:

	2011
Education Trust Fund	\$ 50,019,403
Casino Operators	34,033,822
Purse Dedication	7,219,246
Local Impact Grants	5,663,304
Race Tracks Facility Renewal	2,578,320
Maryland Lottery	2,062,656
Small, Minority and Women-Owned Businesses	1,546,992
Total	103,132,793
Maryland Lottery Return to General Fund	(1,873,828)
Total Distribution-Net of Return	\$101,258,965

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 net of accumulated depreciation 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. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and GASB Statement No. 59, Financial Statements Omnibus effective for the fiscal year ended June 30, 2011. Implementation of these standards had no impact on the Lottery's 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 November 2010, GASB issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. This statement will be effective for the Lottery for the fiscal year ended June 30, 2012. In November 2010, GASB issued Statement No. 61, The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34. This statement will be effective for the Lottery for the fiscal year ended June 30, 2013. In December 2010, GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement will be effective for the Lottery for the fiscal year ended June 30, 2012. In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. This statement will be effective for the Lottery for the fiscal year ended June 30, 2012. In June 2011, GASB issued Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53. This statement will be effective for the Lottery for the fiscal year ended June 30, 2012. 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, 2011 and June 30, 2010, the carrying amounts of deposits with financial institutions were \$5,296,381 and \$41,314,928, respectively. The corresponding bank balances were \$4,891,452 and \$40,855,698 as of June 30, 2011 and June 30, 2010, respectively.

As of June 30, 2011 and June 30, 2010, the amount on deposit with the Maryland State Treasury was \$115,447,938 and \$65,954,636, respectively. The corresponding Maryland State Treasury balances were \$25,492,124 and \$26,935,068 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, 2011 and 2010, the Lottery's deposits with the State Treasury were less than 2.3% 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; and 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, 2011 and 2010, 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.

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 and

2. CASH AND CASH EQUIVALENTS (CONTINUED)

the Federal Agricultural Mortgage Corporation. As of June 30, 2011, these investments are 36.8%, 31.6%, and 18.8% 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 .046% to 8.4%. As of June 30, 2011 and June 30, 2010, the Lottery's United States Government Treasury Bonds totaled \$91,131,707 and \$113,334,252 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 (losses) and interest income are recorded as investment revenue (loss) 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, 2011 and June 30, 2010, Lottery United States Government Treasury Bonds totaling \$74,400,588 and \$64,771,000, respectively, were lent as part of this program. The State Treasurer's Office controls 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, 2011 and 2010, the related collateral for the Lottery securities lent totaled \$75,996,161 and \$65,824,000, respectively, resulting in 102.1% and 101.8% 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

3. INVESTMENTS (CONTINUED)

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, 2011 and 2010.

ANNUITY CONTRACTS

Certain investments are held in annuity contracts that return guaranteed interest ranging from 7.6% to 12.1%. As of June 30, 2011 and June 30, 2010, the annuity contracts totaled \$308,833 and \$346,947, 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 the Lottery's 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 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, 2011, the Lottery had the following investments:

				In	vestment M	aturities (In	Years)	
Investment Type	Fair Value	Credit Quality Rating I	% of nvestments	Less than 1	1–5	6–10	11–20	21–30
Investments in priz	e annuities:							
United States Treasury Bonds	\$91,131,707	1	99.7%	\$21,312,687	\$47,268,554	\$13,960,554	\$8,589,912	\$-
Annuity Contracts	308,833	2	.3%	51,012	186,490	50,402	20,929	_
Total Investments	\$91,440,540		100.0%	\$21,363,699	\$47,455,044	\$14,010,956	\$8,610,841	\$-

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.

4. CAPITAL ASSETS

A summary of capital asset activity for the years ended June 30, 2011 and 2010 is as follows:

	2010	Increases	Decreases	2011
Capital Assets				
Machinery and Equipment	\$ 7,292,793	\$41,220,974	\$ -	\$48,513,767
Leasehold Improvements	613,240			613,240
Total Capital Assets	7,906,033	41,220,974	_	49,127,007
Less Accumulated Depreciation and Amortization				
Machinery and Equipment	2,971,304	7,195,626	_	10,166,930
Leasehold Improvements	456,041	61,325		526,366
Total Accumulated Depreciation and Amortization	3,436,345	7,256,951		10,693,296
	\$ 4,469,688	\$33,964,023	\$ -	\$ 38,433,711
Net Capital Assets	ψ 4,403,000	<u>Ψου,σου 1,σεο</u>		
Net Capital Assets	2009	Increases	Decreases	2010
Net Capital Assets Capital Assets Machinery and Equipment				
Capital Assets	2009	Increases	Decreases	2010
Capital Assets Machinery and Equipment	2009 \$ 7,292,793	Increases	Decreases	2010 \$ 7,292,793
Capital Assets Machinery and Equipment Leasehold Improvements	2009 \$ 7,292,793 613,240	Increases	Decreases	2010 \$ 7,292,793 613,240
Capital Assets Machinery and Equipment Leasehold Improvements Total Capital Assets Less Accumulated Depreciation	2009 \$ 7,292,793 613,240	Increases	Decreases	2010 \$ 7,292,793 613,240
Capital Assets Machinery and Equipment Leasehold Improvements Total Capital Assets Less Accumulated Depreciation and Amortization	2009 \$ 7,292,793 613,240 7,906,033	Increases \$	Decreases	2010 \$ 7,292,793 613,240 7,906,033
Capital Assets Machinery and Equipment Leasehold Improvements Total Capital Assets Less Accumulated Depreciation and Amortization Machinery and Equipment	2009 \$ 7,292,793 613,240 7,906,033	Increases \$ 1,246,749	Decreases	2010 \$ 7,292,793 613,240 7,906,033 2,971,304

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:

Fiscal Year	Principal	Interest	Total
2012	\$ 20,600,688	\$ 779,308	\$ 21,379,996
2013	15,343,729	1,669,267	17,012,996
2014	11,648,051	2,095,945	13,743,996
2015	8,544,034	2,112,962	10,656,996
2016	5,472,144	1,770,015	7,242,159
2017-2021	11,225,957	5,970,144	17,196,101
2022-2026	5,990,130	5,801,850	11,791,980
2027-2031	1,045,042	1,406,175	2,451,217
Total	\$ 79,869,775	\$ 21,605,666	\$ 101,475,441

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, 2011 and 2010 was as follows:

Fiscal Year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
June 30, 2011	\$ 98,324,961	\$ 6,546,811	\$ 25,001,996	\$ 79,869,776	\$ 21,379,996
June 30, 2010	\$119,702,861	\$ 8,278,096	\$ 29,655,996	\$ 98,324,961	\$ 24,098,548

6. EMPLOYEE RELATED PAYABLES

Changes in long-term employee related payables were as follows for the years ended June 30, 2011 and 2010. 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 \$544,020 and \$510,237 as of June 30, 2011 and 2010, respectively.

		2011					
	Compensated Absences		Workers' Compensation		Combined		
Beginning Balance	\$	1,002,532	\$	206,056	\$	1,208,588	
Additions		727,556		1,129		728,685	
Reductions		(658,158)		(21,264)		(679,422)	
Ending Balance	\$	1,071,930	\$	185,921	\$	1,257,851	
Amount Due Within One Year	\$	660,000	\$	28,818	\$	688,818	
Non-Current Portion		411,930		157,103		569,033	
	\$	1,071,930	\$	185,921	\$	1,257,851	

	2010					
	Compensated Absences		Workers' Compensation		Combined	
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	\$	1,002,532	\$	206,056	\$	1,208,588
Amount Due Within One Year	\$	680,000	\$	31,939	\$	711,939
Non-Current Portion		322,532		174,117		496,649
	\$	1,002,532	\$	206,056	\$	1,208,588

7. COMMITMENTS AND CONTINGENCIES

LEASES

The Lottery leases office space, warehouse facilities and online and instant product equipment over periods extending through July 2023. Rent expense for each of the years ended June 30, 2011 and 2010 totaled \$737,827 and \$924,108, respectively. Certain leases contain a bargain purchase option and are accounted for as capital leases.

The assets acquired under capital leases include:

	June 30, 2011	June 30, 2010
Machinery and Equipment	\$46,673,282	\$ 5,881,452
Accumulated Amortization	(8,765,007)	(1,625,889)
	\$37,908,275	\$ 4,255,563

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

Year Ending June 30:	Operating Leases	Capital Leases
2012	\$ 696,006	\$ 9,904,518
2013	723,846	9,870,956
2014	752,800	9,870,152
2015	782,912	9,264,327
2016	814,228	8,657,293
2017	846,798	_
2018	880,669	_
2019	915,897	_
2020	952,532	_
2021	990,633	_
2022	1,030,259	_
2023	530,533	_
Total	\$ 9,917,113	47,567,246
Less amount representing interest		2,680,807
Present value of minimum lease payments		44,886,439
Less current maturities		9,904,518
Long-term portion of capital lease obligations		\$ 34,981,921

7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

	2011	2010
Beginning Balance	\$ 5,261,122	\$ 5,748,257
Acquisitions	40,791,831	_
Payments	(1,166,514)	(487,135)
Ending Balance	\$ 44,886,439	\$ 5,261,122

CONTRACTS

As of June 30, 2011, the Lottery has entered into various contracts totaling approximately \$348,381,242 for services to be rendered. These services relate principally to the operation of, and advertising for, the Lottery's games and the operation of 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. Subsequently, 30 Powerball states and Washington D.C. began selling the Mega Millions game. On January 31, 2010, the Maryland Lottery began selling the Powerball game. Powerball is a lottery game currently sold in 42 states, Washington D.C. and the US 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.

9. RETIREMENT BENEFITS (CONTINUED)

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. Changes were made to the Pension Plan that impact both existing members and new hires on or after July 1, 2011 differently. These changes are described in more detail below.

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 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 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. Certain aspects of eligibility and benefit calculations are different for employee's hired on or after July 1, 2011. Those differences are explained below.

Members of the Pension Plan who were active participants prior to July 1, 2011 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 1/55 (1.8%) of the member's AFS, multiplied by the number of years of creditable service. A member may retire with reduced benefits upon attaining age 55 with at least 15 years of eligible service. Any member who terminates employment before attaining retirement age but after accumulating five years of eligible service is eligible for a vested retirement allowance.

Employees hired on or after July 1, 2011 ("New Hires") are generally eligible for full retirement benefits based upon the "Rule of 90" which states that the sum of the employee's age plus eligible service must equal 90 or the employee must be age 65 with 10 years of service. The annual pension allowance for New Hires equals 1.5% of the member's AFS, multiplied by the number of years of creditable service. AFS for New Hires is calculated using the highest 5 consecutive years. A New Hire may retire with reduced benefits upon attaining age 60 with at least 15 years of eligible service. A New Hire who terminates employment before attaining retirement age but after accumulating ten years of eligible service is eligible for a vested retirement allowance.

9. RETIREMENT BENEFITS (CONTINUED)

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. For service earned after July 1, 2011, members of the Employees' Retirement System and the Employee's Pension System are required to contribute 7% of earnable compensation.

The Lottery contributions, which equal 100% of the required contributions, for the three years ended June 30, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Lottery contribution	\$1,139,690	\$ 899,000	\$ 781,000
Percentage of payroll	7.88%	7.00%	6.05%

10. OTHER POST-EMPLOYMENT BENEFITS

Members of the State Retirement and Pension Systems and their dependents are provided postemployment health care benefits through the State Employee and Retiree Health and Welfare Benefits Program (Plan). The Plan is a single-employer defined benefit health care 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 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 post-employment 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.

10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

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 post-employment health care benefits, which is based on health care 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 post-employment health care costs to all participating employers. The cost of these benefits is expensed when paid. For the years ended June 30, 2011 and June 30, 2010, the State did not allocate post-employment health care costs to participating employers, and as a result no contribution was made by the Lottery.

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.

MARYLAND STATE LOTTERY AGENCY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS — $\tt BUDGET$ and $\tt ACTUAL$

		For the Year ende	ed June 30, 2011	
Revenues:	Original Budget	Final Amended Budget	Actual Amounts	Variance with Budget over (under)
Cash Revenue Receipts from all Sources	\$1,506,864,301	\$1,507,188,661	\$1,828,387,088	\$ 321,198,427
Expenditures and encumbrances: Gaming Vendor and Information Technology Fees Instant Ticket Printing and Delivery Salaries, Wages and Benefits Advertising and Promotions Other General and Administrative Expenses VLT Special Fund VLT General Fund Reversions — VLT Special Fund Reversions — VLT General Fund Reversions — Lottery	17,100,546 6,093,935 13,364,900 12,008,348 5,118,498 44,318,043 11,567,150	17,100,546 6,093,935 13,364,900 12,008,348 5,118,498 44,318,043 11,891,510 (8,942,443) (16,530) (465,020)	17,298,177 6,275,995 12,847,051 12,646,866 4,749,263 35,382,962 11,539,797	197,631 182,060 (517,849) 638,518 (369,235) (8,935,081) (351,713) 8,942,443 16,530 465,020
Total expenditures and encumbrances	109,571,420	100,471,787	100,740,111	268,324
Excess of Revenues over (under) expenditures	1,397,292,881	1,406,716,874	1,727,646,977	320,930,103
Other Sources (uses) of financial resources: Transfers in (out): State of Maryland Stadium Authority State of Maryland General Fund Other Government Agencies/Funds — VLT Excess of revenues over expenditures and	(20,000,000) (547,640,000)	(20,000,000) (512,550,000) —	(20,000,000) (499,393,853) (67,225,145)	13,156,147 (67,225,145)
other sources of financial resources	\$ 829,652,881	\$ 874,166,874	\$1,141,027,979	\$ 266,861,105
Change in Net Assets	\$ (16,009,867)			
Non-budgetary expenditures: Prize Expense Retailer Commissions Depreciation Bad Debt	1,029,040,616 113,687,526 7,256,951 93,355			
Accounting principle differences: Accounts Receivable Unearned Revenue Increase in Fair Value of Investments Amortization of Discount Prize Liabilities Compensated absences Workers' Compensation Capital lease payments and related interest Cash received for VLT/agents Excess of Revenues over Expenses	(1,817,742) 558,927 (2,058,860) 5,844,335 69,398 (20,135) 3,220,378 1,163,097 \$1,141,027,979			

MARYLAND STATE LOTTERY AGENCY

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

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 Accounting Principles Generally Accepted in the United States of America (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.



910 Ridgebrook 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, 2011 and have issued our report thereon dated September 30, 2011. 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.

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 30, 2011.

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.

September 30, 2011

Stout, Causey & Harring, P.A.

MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR
THE YEARS ENDED
JUNE 30, 2011 AND 2010

MARYLAND STATE LOTTERY AGENCY

> AN ENTERPRISE FUND OF THE STATE OF MARYLAND

STATISTICAL SECTION

IN FISCAL YEAR 2011, THE MARYLAND STATE LOTTERY CONTRIBUTED \$519.4 MILLION IN REVENUE TO THE STATE OF MARYLAND, AN INCREASE OF ALMOST \$8.8 MILLION OVER THE LAST FISCAL YEAR. SINCE ITS INCEPTION IN 1973, THE LOTTERY HAS CONTRIBUTED MORE THAN \$12.2 BILLION TO THE STATE, WHICH IS USED TO SUPPORT EDUCATION, PUBLIC SAFETY, HEALTH AND ENVIRONMENTAL PROGRAMS.







65



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 71

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 85

These schedules contain information to help readers assess the Lottery's most significant revenue sources. The Lottery's statewide retailer network determines the market exposure for the Lottery's games.

DEBT CAPACITY 94

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

95

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

OPERATING INFORMATION

96

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.

NET ASSETS AND CHANGES IN NET ASSETS – FISCAL YEARS 2002 THROUGH 2011 MARYLAND STATE LOTTERY AGENCY

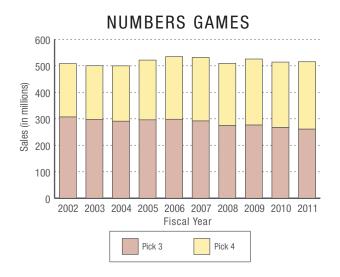
HORNING STORM			NET A	ASSETS BY COMPONENT	PONENT - FISCAL	IL YEARS 2002 THROUGH 2011	HROUGH 2011				
1, 200, 200, 200, 200, 200, 200, 200, 2	FISCAL YEAR	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1,000,538 2,000,370 0,000,520 0,00	Invested in capital assets, net of related debt										
\$ 6,881,917 \$ 4,005,388 \$ 4,402,340,487 \$ 1,402,320	Unrestricted	7,973,580	3,268,380	43,845,534	44,909,438	26,719,381		28,739,711	27,343,816	22	12,829,364
CHANGE IN NET ASSETS - FISCAL YEARS 2002 THROUGH 2011 State										ક્ક	
\$ 500.200.575 \$ 500.200.0575 \$ 500.200.0575 \$ 50.21.000.204 \$ 500.1000.204 \$ 500.000.2			CH/	GE IN NET AS	SETS - FISCAL	YEARS 2002 THR	100GH 2011				
8 506.00 GFSTS 20 GFSTS 000 S 400 GFSTS 000 S 400 GFSTS 000 S 50 G	OPERATING REVENUES:										
1419.065.577 177.788.449 147.728.445 145.745.540 436.5761.84 445.67.240 151.186.911 144.07.5253 147.487.450 151.186.911 144.07.5253 147.487.450 151.186.911 144.07.5253 122.7158.44 147.728.445 145.728.445 145.728.445 147.487.450 151.186.911 144.07.2353 122.7158 149.085.576 149.085.750 147.487.450 147.487.450 151.186.911 144.07.728 149.085.750 147.487.450 147.	Numbers games										
1,206,526,401 17,728,444 1,405,728,445	Monitor games	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	496,730,733
1,202,196 1,100,538,497 1,222,238,537 1,395,408,492 1,495,722,895 1,590,905,794 1,573,11,106 1,573,108,792 1,905,538,497 1,222,238,537 1,395,408,492 1,495,722,895 1,590,905,794 1,573,11,106 1,573,038,728 1,690,71,40 1,710,259 1,100,538,497 1,222,238,537 1,395,408,492 1,495,722,895 1,580,905,794 1,577,311,106 1,573,038,728 1,690,71,40 1,710,259 1,100,538,497 1,222,238,537 1,395,408,49 1,495,722,895 1,580,905,794 1,577,311,106 1,573,038,728 1,690,714 1,710,259 1,131,306 1,595,409 1,495,722,895	Matrix games	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	208,660,360
1,202,196 1,202,298,677 1,322,298,637 1,356,408,458 1,465,722,896 1,560,905,794 1,577,311,065	Instant games	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	493,548,322
1,322,196 1,322,238,637 1,322,408,438 1,485,722,890 1,580,905,784 1,577,311,065 1,673,038,728 1,689,174,066 1,706,572,575 1,386,408,438 1,485,722,890 1,580,905,784 1,577,311,065 1,673,038,728 1,673,038,728 1,132,238,537 1,386,408,438 1,485,722,890 1,580,905,784 1,577,311,065 1,673,038,728 1,673,038,728 1,132,238,537 1,386,408,438 1,485,722,890 1,580,905,784 1,577,311,065 1,673,038,728 1,132,238,138 1,132,238,138 1,386,23	Raffle games	1	1	1	1	1	6,495,000	5,180,800	1	1	I
1,306,538,487 1,322,228,537 1,385,408,488 1,485,722,880 1,560,905,784 1,577,311,065 1,670,387,28 1,689,174,065 1,731,685,725 1,120,586 1,120	Other games	1,322,196	1	2,898,696	1	1	1	1	1	1	ı
1,306,588,497 1,322,238,537 1,396,408,488 1,485,722,890 1,560,905,784 1,577,311,065 1,673,038,722 1,696,408,488 1,485,722,890 1,560,905,784 1,577,311,065 1,673,038,722 1,696,244 1,711,285,083 1,711,285,083 1,712,22,285,083 1,712,22,285,093 1,712,22,235 1,712,23,235 1,712,23,	Total sales	1,306,538,497	1,322,238,537	1,395,408,458	1,485,732,850	1,560,905,784	1,577,311,065	1,673,038,728	1,698,074,056	1,706,572,575	1,714,402,578
1,306,538,497 1,322,238,537 1,386,408,498 1,488,722,880 1,560,996,744 1,671,311,686 1,673,038,728 1,489,722,880 1,489,722,880 1,489,722,880 1,489,722,880 1,489,722,880 1,489,722,880 1,489,722,880 1,489,723,880 1,489,723,880 1,489,723,880 1,489,723,880 1,489,723,880 1,489,723,880 1,489,723,89	VLT Gross Terminal Revenue	ı	1	1	1	1	1	1	1	1	103,132,793
1,306,538,497 1,322,238,537 1,386,408,46 1,560,306,784 1,577,311,06 1,673,038,728 1,699,156,014 1,711,286,063 1,713,806,05 1,813,036,05 1,813,036,05 1,813,036,05 1,813,036,05 1,713,136,063 1,713,136	VLT Revenue — State Grant	ı	ı	ı	1	ı	ı	ı	185,724	1,120,566	9,605,152
1,306,538,497 1,322,238,537 1,396,400,458 1,486,732,586 1,560,906,784 1,577,311,065 1,673,319,065 1,571,318,318,318 1,318,318 1,318,31	VLT Revenue — Facility Applicants	ı	ı	ı	1	1	1	1	896,234	3,591,922	1,341,779
133.96.055 743.416.525 768.801.576 866.231.700 904.077.713 922.009.704 966.887.051 1.025.901.163 1.034.157.126 1.036.124.705 1.02.43.701 1.02.80.103 1.13.13.0868 1.13.13.0868 1.13.13.0868 1.13.13.0868 1.13.13.0868 1.13.13.0868 1.13.13.0868 1.13.13.085.203 1.13.13.085.203 1.13.13.085.203 1.13.13.085.203 1.13.13.085.203 1.13.13.085.203 1.13.13.085.203 1.13.13.085.203 1.13.13.085.203 1.13.13.085.203 1.13.13.085.203 1.13.13.085.203 1.13.13.13.13.13.13.13.13.13.13.13.13.13	Total operating revenues	1,306,538,497	1,322,238,537	1,395,408,458	1,485,732,850	1,560,905,784	1,577,311,065	1,673,038,728	1,699,156,014	1,711,285,063	1,828,482,302
733,196,055 743,416,525 786,801,576 866,231,700 904,077,713 927,009,794 956,887,051 1,025,901,163 1,034,157,126 1,131,300,866 13,892,789 14,261,883	COST OF SALES:										
9 jees 1382,315 87118,213 91,298,325 97,592,346 102,704,705 112,187,831 117,824,367 121,888,107 113,130,686 13,827,89 14,275,720 15,243,71 15,653,44 15,675,342 15,675,442 16,010,103 16,681,778 15,615,344 15,675,442 16,010,103 16,01	Prize expense	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	1,029,040,616
13.892,789 14.251,683 14.7670 15.43781 15.688,778 14.778613 15.615,384 15.615,384 15.615,384 15.0119.0 8.36,120,182 26.677,449 26.100.6412 10.286,585 10.99.964 5.261,387 10.99.27,685 11.002,827,685 10.99.27,685 11.002,827,785 10.97,286,75 11.0035,586 11.002,787 11.002,787 11.002,827,180 11.002,827 11.002,827,180 11.002,827 11.002,137	Retailer commissions	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	113,687,526
S 666,423 5,677,449 6,810,615 4,985,586 6,199,964 5,261,337 6,910,073 6,671,14 6,742,29 7,170,385,566 1,170,274,019 </td <td>Gaming vendor and data processing fees</td> <td>13,892,789</td> <td>14,261,693</td> <td>14,576,720</td> <td>15,243,781</td> <td>15,638,778</td> <td>14,778,613</td> <td>15,615,384</td> <td>15,975,142</td> <td>16,201,910</td> <td>16,129,925</td>	Gaming vendor and data processing fees	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	16,129,925
838120182 860,473,880 899,487,236 974,006,412 1,028,621,160 1,069,237,625 1,107,236,556 1,170,274,019 1,170,274,01	Instant ticket printing and delivery	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	6,275,995
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 14,253,805 16,907,207 14,013,399 14,889,419 15,889,308 18,335,283 19,805,039 19,035,583 13,787,713 13,787,713 13,787,713 13,787,713 13,787,713 13,787,713 14,3316 1,830,956 1,623,609 1,500,135 660,257 667,431 627,947 649,649 14,806,349 14,266,349 14,266,349 14,709,628 14,709,628 14,709,628 14,709,628 14,709,628 14,709,628 14,709,628 14,709,628 14,709,628 14,709,628 14,709,628 14,709,628 14,709,628 14,709,628 17,709,6	Total cost of sales	838,120,182	850,473,880	899,487,236	974,006,412	1,028,621,160	1,059,237,625	1,097,236,875	1,170,385,556	1,170,274,019	1,165,134,062
9,956,432 10,351,706 10,275,844 10,583,585 11,402,287 12,224,124 12,981,499 12,870,370 14,253,805 16,907,207 14,013,399 14,889419 15,893,308 18,322,963 19,006,583 13,767,713 14,253,805 16,907,207 14,013,399 14,899,419 15,899,308 18,322,963 19,006,583 13,767,713 14,233,161 1,830,956 1,623,609 1,500,135 560,257 657,471 649,411 1,308,073 14,33,161 1,830,956 1,623,609 1,500,135 560,257 657,471 649,411 1,308,073 14,33,161 1,830,956 1,623,609 1,500,135 560,257 657,471 649,411 1,308,073 14,33,161 1,830,956 1,623,609 1,500,135 560,257 657,471 649,411 1,308,073 14,33,161 1,830,956 1,623,609 1,607,373 1,182,265 34,792,665 34,792,665 36,306,359 34,979,626 14,33,161 1,830,956 1,623,609 1,607,373 1,182,265 34,792,665 36,306,359 34,979,626 14,33,161 1,830,956 1,623,609 1,607,370,617 1,966,256 4,709,628 1,649,370 1,966,329 14,3504,349 1,44,396,934 1,425,491 1,123,251 1,447,379 1,447	OPERATING EXPENSES:										
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 14,33,161 1,830,986 1,623,609 1,500,135 560,257 657,431 627,947 649,441 1,308,0726 1,331,161 1,830,986 1,623,609 1,500,135 560,257 657,431 627,947 649,441 1,308,073 1,433,161 1,830,986 1,623,609 1,500,135 560,257 657,431 627,947 649,441 1,308,073 1,433,161 1,830,986 1,623,609 1,500,135 1,500,556 36,726,56 36,726,36 34,979,626 29,581,439 33,577,282 30,174,235 31,178,272 32,629,479 34,792,655 36,720,354 36,726,359 34,979,626 1,500,577 1,794,56 1,8156 1,8156 1,916,573 1,9	Salaries, wages and benefits	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	12,896,314
Appenses 3,938,041 4,487,413 4,261,383 4,205,133 4,807,627 3,447,049 3,663,424 3,019,878 2,530,982 1,433,161 1,830,956 1,623,609 1,500,135 560,257 657,437 627,947 649,41 1,308,073 NSES: 29,581,439 33,577,282 30,174,235 31,178,272 32,629,479 34,792,655 36,320,534 649,41 1,308,073 NSES: 1,433,161 1,630,956 31,178,272 32,629,479 34,792,655 36,320,534 36,799,359 34,979,626 nemis 1,233,496 58,351,461 — (2,236,689) (16,973,874) (1,966,256) 4,709,628 (334,042) (782,726) nemiting principles (1) — 2,333,496 58,351,461 — <	Advertising and promotions	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	13,811,939
NSES): NSES): NSES): 1,433,161 1,830,966 1,623,609 1,500,135 560,257 667,431 627,947 649,441 1,308,073 NSES): NSSS(14): NSES): NSSS(14): NSES): NSSS(14):	Other general and administrative expenses	3,938,041	4,487,413	4,261,383	4,205,133	4,807,627	3,447,049	3,663,424	3,019,878	2,320,982	7,952,504
1,433,161 1,830,956 1,623,609 1,500,135 560,257 657,431 627,947 649,441 1,308,073 1,433,161 1,830,956 1,623,609 1,500,135 34,792,655 36,320,534 36,769,359 34,979,626 1,433,161 1,830,956 1,623,609 1,500,135 1,966,256 4,709,628 (334,042 7782,726) 1,435,161 1,830,956 1,623,609 (16,973,874) (1,966,256) 4,709,628 (334,042 7782,726) 1,306,257 1,308,073 (44,896,394 445,891,394 (448,896,394 448,792,416 444,896,394 (448,556,998 444,896,394 (448,556,998 444,896,394 44,222,416 45,333,412 (12,840,196) (11,844,396) (11,856,894 44,222,416 45,333,412 (12,840,196) (11,856,944 11,123,251 (11,840,196) (11,856,944 11,123,251 (11,840,196) (11,856,944 11,123,251 (11,840,196) (11,856,944 11,123,251 (11,840,196) (11,856,944 11,123,251 (11,840,196) (11,856,944 11,123,251 (11,840,196) (11,856,944 11,123,251 (11,840,196) (11,856,944 11,123,251 (11,840,196) (11,856,944 (11,856,944 (11,856,943 (11,856,944 (11,8	Administrative expense — VLT								1,081,958	4,712,488	46,922,761
NSES: NSSES: N	Depreciation and amortization	1,433,161	1,830,956	1,623,609	1,500,135	560,257	657,431	627,947	649,441	1,308,073	7,256,951
NSES: NSES: C (25,411,268) (2,236,689) (16,973,874) (1,966,256) 4,709,628 (334,042) (782,726) ments — ututalization 988,032 — — — — — — — — — — — — — — — — — — —	Total operating expenses	29,581,439	33,577,282	30,174,235	31,178,272	32,629,479	34,792,655	36,320,534	36,769,359	34,979,626	88,840,469
ments — — — — — — — — — — — — — — — — — — —	NON-OPERATING REVENUES (EXPENSES):										
e-mutualization 998,032	Unrealized gains (losses) on investments	ı	ı	(25,411,268)	(2,236,689)	(16,973,874)	(1,966,256)	4,709,628	(334,042)	(782,726)	(3,785,475)
	Extraordinary item: income from de-mutualization	998,032	1	1		1	1	1		1	1
(208,577) (179,456) (118,156) (89,863) (44,066) (35,452) (30,449) (16,480) (56,021) dds/Agencies — VIT (444,596,934) (458,373,006) (477,098,363) (500,970,617) (494,119,273) (629,403,554) (493,206,260) (510,608,632) (620,403,554) (493,206,260) (510,608,632) (620,403,554) (493,206,260) (510,608,632) (620,403,554)	Cumulative effect of change in accounting principles (1)	1	2,333,496	58,351,461	ı	1	1	1	I	1	I
d443,504,348) (444,896,934) (458,373,006) (477,098,363) (500,970,617) (494,119,273) (529,403,554) (493,206,260) (510,608,632) nds/Agencies — VLT - (442,714,893) (442,714,893) (442,714,893) (442,714,893) (442,714,893) (479,424,915) (517,988,557) (496,120,981) (524,724,375) (493,506,782) (511,447,379) (7 ryenses) (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) ryenses) 12,459,934 8,581,917 4,026,398 44,222,416 45,345,667 27,012,255 14,172,059 28,929,003 27,373,320 R 8,81917 8,81917 4,026,398 4,022,416 45,345,667 27,012,255 14,172,059 28,929,003 27,373,320	Interest income (expense)	(208,577)	(179,456)	(118,156)	(89,863)	(44,066)	(35,452)	(30,449)	(16,480)	(56,021)	(113,167)
Appension Nult	Payments to State of Maryland	(443,504,348)	(444,896,934)	(458,373,006)	(477,098,363)	(200,970,617)	(494,119,273)	(529,403,554)	(493,206,260)	(510,608,632)	(519,393,853)
xpenses) (442,714,893) (442,714,893) (442,714,893) (442,714,893) (442,714,893) (442,714,893) (442,714,893) (4756,918) (511,447,379) (611,447,379) (756,618) (511,447,379) (756,618) (756,619) (756,710,710,710) (756,710,710,710) (756,710,710,710)	Payments to other Government Funds/Agencies — VLT	1	1	1	1	1	1	1	1	1	(67,225,143)
PEAR: (4,555,519) 40,196,018 1,123,251 (18,333,412) (12,840,196) 14,756,944 (1,555,683) (5,415,961) **PEAR: 12,459,934 8,581,917 4,026,398 44,222,416 45,345,667 27,012,255 14,172,059 28,929,003 27,373,320 * SERI 017 *** A 029 2416 *** A 4 222 416 *** A 5 241,667 *** A 14,172,059 *** P 5 9 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	Total non-operating revenues (expenses)	(442,714,893)	(442,742,894)	(425,550,969)	(479,424,915)	(517,988,557)	(496,120,981)	(524,724,375)	(493,556,782)	(511,447,379)	(590,517,638)
** YEAR: 12,459,934 8,581,917 4,026,398 44,222,416 45,345,667 27,012,255 14,172,059 28,929,003 27,373,320 Calculate	CHANGES IN NET ASSETS:	(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)	(16,009,867)
\$ 8 E81 017 \$ 4 1056 308 \$ 44.090 416 \$ 45 345 667 \$ 77 1179 055 \$ 10 177 050 \$ 77 373 390 \$ 21 057 350 \$	TOTAL NET ASSETS, BEGINNING OF YEAR:	12,459,934	8,581,917	4,026,398	44,222,416	45,345,667	27,012,255	14,172,059	28,929,003	27,373,320	21,957,359
	TOTAL MET ASSETS END OF VEAD.			¢ 44 222 416							

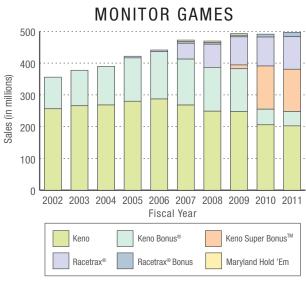
⁽¹⁾ The Lottery changed its treatment of costs associated with printing instant tickets in fiscal year 2004. Previously, these costs were expensed as incurred. In fiscal year 2005, the Lottery changed its method of accounting for investments are reflected in the preceding fiscal year.

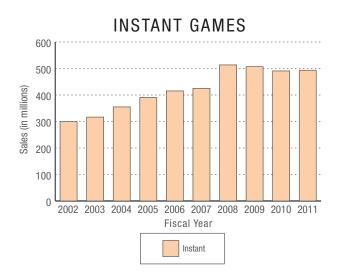
MARYLAND STATE LOTTERY AGENCY SALES - FISCAL YEARS 2002 THROUGH 2011

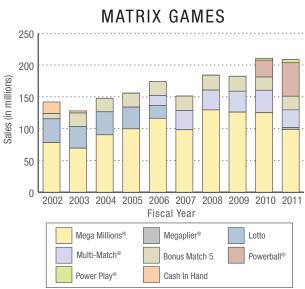
FISCAL YEAR	2002	2003	2004	2002	2006	2007	2008	5009	2010	2011
NUMBERS:										
Pick 3	\$ 306,873,311	\$ 296,702,479	\$ 290,754,971	\$ 296,102,946	\$ 298,075,249	\$ 291,917,229	\$ 274,291,763	\$ 276,347,705	\$ 266,948,839	\$ 260,815,333
Pick 4	201,432,264	203,675,530	209,213,634	225,452,551	236,503,472	240,075,195	234,893,726	249,174,312	246,669,690	254,647,830
Numbers Total	508,305,575	500,378,009	499,968,605	521,555,497	534,578,721	531,992,424	509,185,489	525,522,017	513,618,529	515,463,163
MONITOR:										
Keno	256,436,493	265,922,974	268,308,259	279,934,456	287,249,705	268,132,183	248,684,056	247,910,424	206,957,090	202,589,646
Keno Bonus®	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	45,186,127
Keno Super Bonus™	1	1	1	1	1	1	1	11,910,933	136,129,031	132,789,271
Racetrax®	I	ı	ı	944,928	268,332	49,844,937	72,876,083	88,511,360	90,826,725	102,471,436
Racetrax® Bonus	1	1	1	1	1	1	1	1	9,373,699	13,694,253
Maryland Hold 'Em	I	1	I	1	ı	27,358	1,342,106	463,887	I	
Monitor Total	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	496,730,733
MATRIX:										
Mega Millions [®]	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	98,654,558
Megaplier®	ı	I	ı	I	I	I	ı	ı	I	2,959,179
Lotto	37,660,036	34,178,932	36,179,993	34,096,337	19,975,438	I	1	1	I	
Multi-Match®	ı	I	ı	I	15,816,995	30,116,058	31,200,692	32,896,776	35,226,810	27,949,729
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	21,389,572
Powerball®	I	I	1	1	I	I	1	1	26,512,016	52,734,546
Power Play®	ı	ı	ı	ı	ı	ı	I	ı	2,337,878	4,972,776
Cash In Hand	18,156,097	3,200,860	1	ı	ı	ı	I	I	I	
Matrix Total	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	208,660,360
INSTANT:	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	493,548,322
RAFFLE:	1	ı	1	1	1	6,495,000	5,180,800	ı	1	
OTHER:	1,322,196	1	2,898,696	1	1	1	1	1	1	
TOTAL SALES:	\$ 1,306,538,497	\$ 1,322,238,537	\$ 1,395,408,458	\$ 1,485,732,850	\$ 1,560,905,784	\$ 1,577,311,065	\$ 1,673,038,728	\$ 1,698,074,056	\$1,706,572,575	\$1,714,402,578
				PROD	PRODUCT MIX BY CATEGORY	JRY				
FISCAL YEAR	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Numbers Games	38.90%	37.84%	35.83%	35.10%	34.25%	33.73%	30.44%	30.95%	30.10%	30.07%
Monitor Games	27.23%	28.54%	27.93%	28.10%	27.96%	29.33%	27.54%	28.45%	28.83%	28.97%
Matrix Games	10.87%	%29.6	10.59%	10.48%	11.18%	9.58%	11.00%	10.74%	12.31%	12.17%
Instant Games	22.90%	23.95%	25.44%	26.32%	26.61%	26.95%	30.71%	29.86%	28.76%	28.79%
Raffle Games	0.00%	%00:0	%00:0	%00:0	%00:0	0.41%	0.31%	00:00	%00'0	0.00%
Other Games	0.10%	0.00%	0.21%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

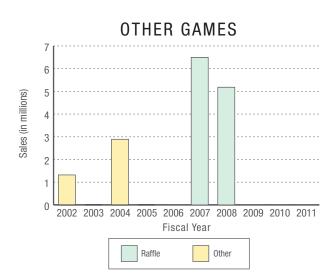
SALES - FISCAL YEARS 2002 THROUGH 2011 (CONTINUED)



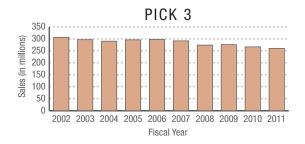




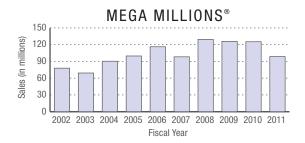


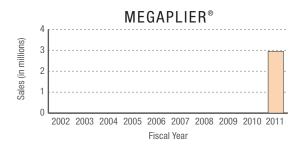


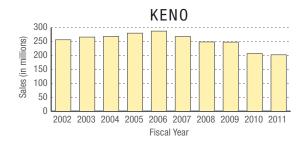
MARYLAND STATE LOTTERY AGENCY SALES - FISCAL YEARS 2002 THROUGH 2011 (CONTINUED)

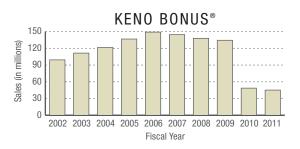


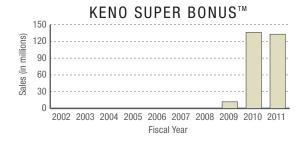


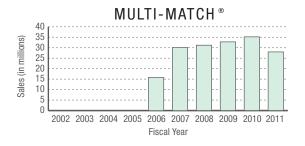






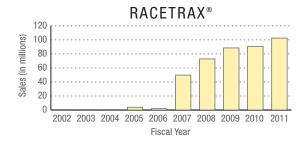


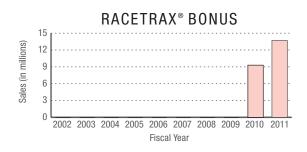


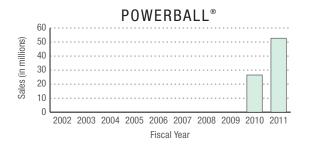




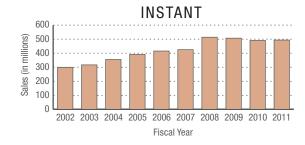
MARYLAND STATE LOTTERY AGENCY SALES - FISCAL YEARS 2002 THROUGH 2011 (CONTINUED)

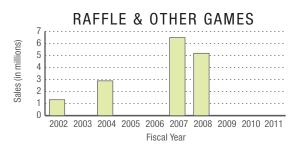


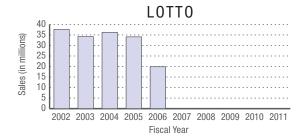


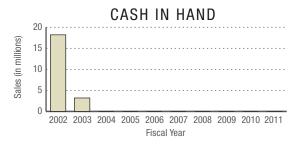




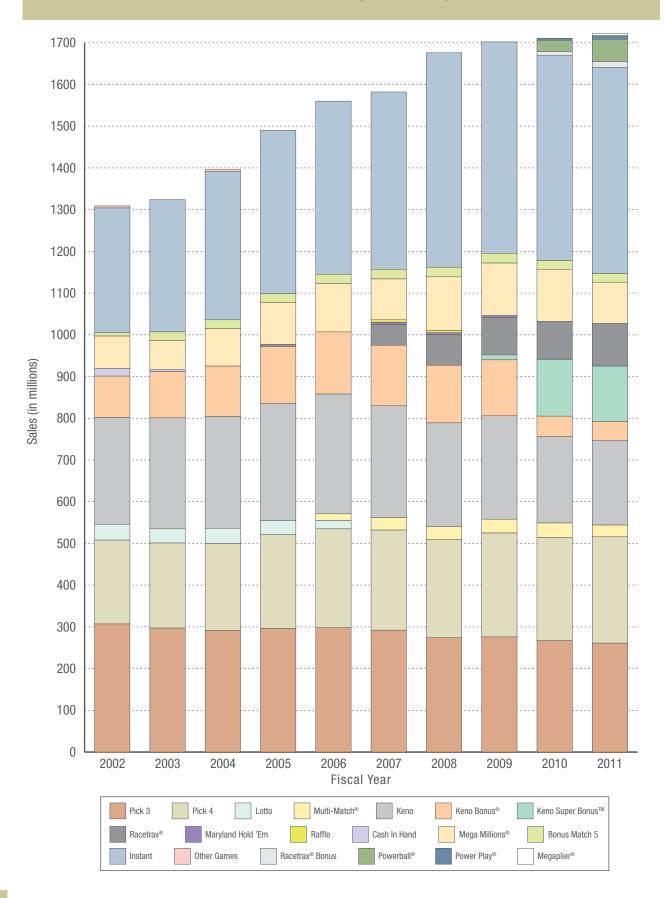








MARYLAND STATE LOTTERY AGENCY SALES - FISCAL YEARS 2002 THROUGH 2011 (CONTINUED)



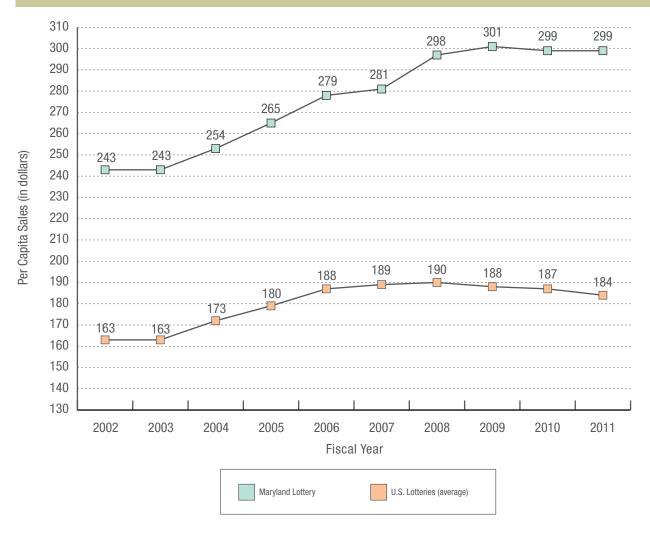
U.S. LOTTERIES PER CAPITA SALES - FISCAL YEAR 2011

Rank	State	Population (M)	Total Sales (\$M)	Per Capita
1	Massachusetts	6.6	\$4,403.3	\$664
2	D.C. (end 6/30)	0.6	231.3	379
3	Georgia	9.9	3,597.9	363
4	New York	19.6	6,758.7	345
5	New Jersey	8.7	2,636.4	302
6	MARYLAND	5.7	1,714.4	299
7	Connecticut	3.5	1,016.6	288
8	Pennsylvania	12.6	3,207.9	254
9	Michigan (est)	9.9	2,364.1	238
10	South Carolina	4.6	1,047.1	221
11	Ohio	11.5	2,596.1	225
12	Rhode Island	11.5 1.1	230.7	218
13	Florida	18.7	4,008.7	215
14	Tennessee	6.3	1,186.6	187
15	Virginia	8.0	1,482.7	186
16	Kentucky	4.3	772.3	178
17	Illinois	12.9	2,278.8	176
18	New Hampshire	1.3	228.4	173
19	Missouri	6.0	1,001.3	167
20	Maine	1 3	216.4	165
21	Arkansas	1.3 2.9 9.5	464.0	159
22	North Carolina	0.5	1,461.1	154
23	Vermont	0.6	95.6	154
24	Texas (est)	25.2	3,783.2	150
25	Delaware	0.9	124.0	139
26	Indiana	6.4	791.4	123
	· · · • · · · · · · · · · · · · · · · ·		······································	
27	West Virginia	1.8	193.6	106
28	Colorado	5.1	518.9	102
29	Minnesota	5.3	504.4	95
30	Idaho	1.6	147.2	94
31	California	37.3	37.3	92
32	lowa	3.0	271.4	90
33	Wisconsin	5.7	502.5	89
34	Arizona	6.7	583.5	87
35	Kansas	2.8	243.8	86
36	Louisiana	4.5	383.6	85
37	Oregon	3.9	317.5	82
38	Washington	6.7	510.5	76
39	Nebraska	1.8	131.9	73
40	New Mexico	2.0	135.5	67
41	South Dakota	0.8	46.6	57
42	Oklahoma	3.7	198.2	53
43	Montana	1.0	46.0	47
44	North Dakota	0.7	23.0	35
Total		285.0	\$52,494.4	\$ 184

Source: La Fleur's Magazine, September/October 2011 Edition

^{*} Subject to rounding.

U.S. LOTTERIES PER CAPITA SALES - FISCAL YEARS 2002 THROUGH 2011

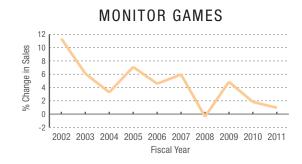


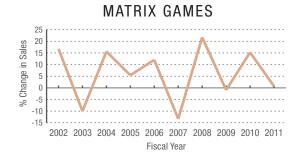
Sources: LaFleur's Magazine, September/October 2011 Edition

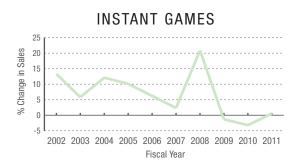
PERCENTAGE CHANGE IN SALES - FISCAL YEARS 2002 THROUGH 2011

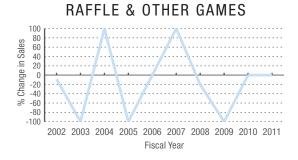
Fiscal Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Numbers Games	0.85%	-1.56%	-0.08%		2.50%	-0.48%	-4.29%	3.21%	-2.27%	0.36%
Monitor Games	11.35%	6.10%	3.28%	7.10%	4.57%	5.96%	-0.38%	4.86%	1.83%	0.96%
Matrix Games	16.78%	-10.01%	15.61%	5.43%	12.02%	-13.34%	21.72%	-0.92%	15.24%	0.69%
Instant Games	13.29%	5.83%	12.11%	10.13%	6.23%	2.35%	20.88%	-1.32%	-3.20%	0.55%
Raffle & Other Games			100.00%	-100.00%	0.00%	100.00%	-20.23%	-100.00%	0.00%	0.00%
Total Sales	7.92%	1.20%	5.53%	6.47%	5.06%	1.05%	6.07%	1.50%	0.50%	0.46%

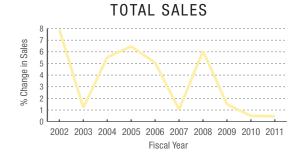
NUMBERS GAMES Selection 1 Bello 1 Bello 2 Selection 2 Selection 2 Selection 3 Selection 3









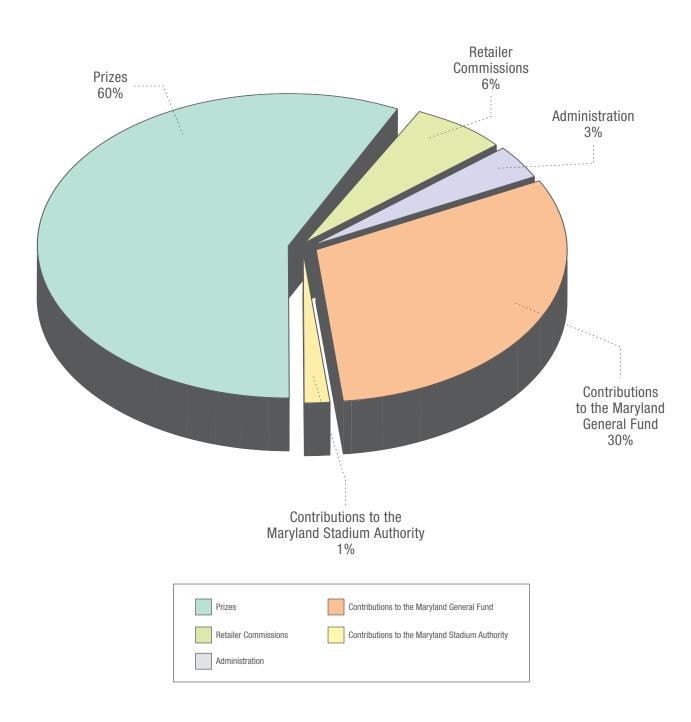


U.S. LOTTERIES PERCENTAGE CHANGE IN SALES - FISCAL YEAR 2011

Rank	State	Total Sales (\$M)	% Change
1	Arkansas	\$464.0	21%
2	California	3,438.6	13%
1 2 3	Indiana	791.4	7%
4	West Virginia	193.6	7%
5	lowa	271.4	6%
6	Arizona	583.5	6%
7	Pennsylvania	3,207.9	5%
8	Wisconsin	502.5	4%
9	Ohio	2,596.1	4%
10	Tennessee	1,186.6	4%
11	Washington	510.5	4%
12	S. Carolina	1,047.1	4%
13	Colorado	518.9	4%
14	Virginia	1,482.7	3%
15	Illinois	2,278.8	3%
16	Missouri	1,001.3	3%
17	Louisiana	383.6	3%
18	N. Carolina	1,461.1	3%
19	Florida	4,008.7	3%
20	Connecticut	1,016.6	2%
21	S. Dakota	46.6	2%
22	New Jersey	2,636.4	1%
23	Texas	3,783.2	1%
24	Minnesota	504.4	1%
25	Nebraska	131.9	1%
26	Delaware	124.0	1%
27	MARYLAND	1,714.4	0%
28	Michigan (est)	2,364.1	0%
29	Idaho	147.2	0%
30	Kentucky	772.3	0%
31	Massachusetts	4,403.3	0%
32	Maine	216.4	0%
33	······································	6,758.7	0%
34	New York		
35	Oklahoma	198.2 317.5	-1% -1%
36	Oregon	231.3	-1% -1%
37	D.C. (end 6/30) Kansas	243.8	-1% -1%
	···•····		- 1 70 - 1 0/_
38	Georgia Phodo Island	3,597.9	-1%
39	Rhode Island Vermont	230.7	-2%
40 41		95.6	-2%
41	New Hampshire	228.4	-2%
	Montana	46.0	-2%
43	North Dakota	23.0	-5%
44	New Mexico	135.5	-6%
Total		\$55,895.7	

Source: La Fleur's Magazine, September/October 2011 Edition

EXPENSES AND CONTRIBUTIONS - CUMULATIVE FOR FISCAL YEARS 2002 THROUGH 2011

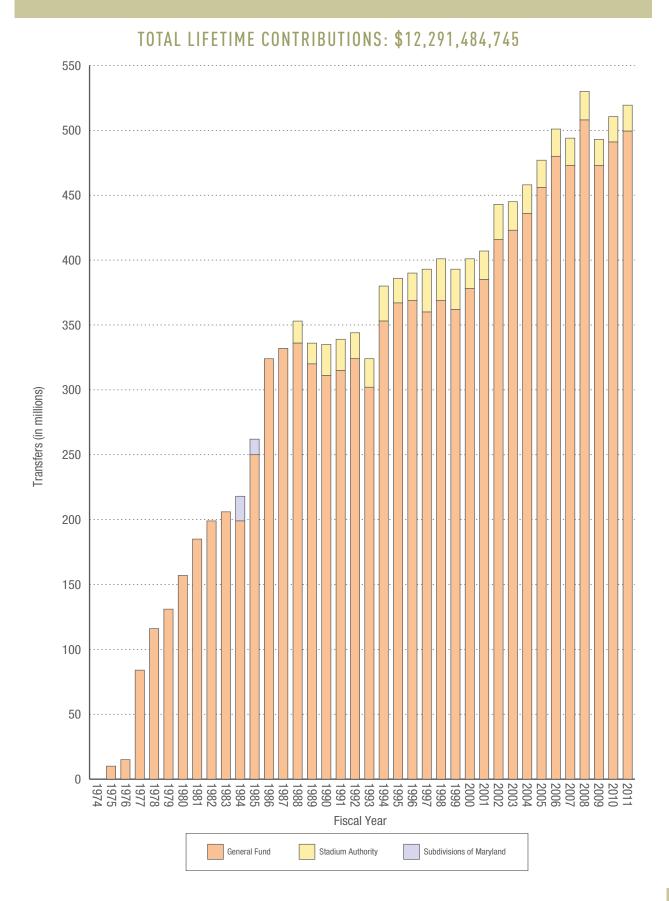


MARYLAND STATE LOTTERY AGENCY CONTRIBUTIONS TO THE STATE OF MARYLAND - INCEPTION TO DATE

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	-	493,206,26
2010	491,008,632	19,600,000	-	510,608,63
2011	499,393,853	20,000,000	_	519,393,85
Total	\$ 11,715,500,745	\$ 544,731,000	\$ 31,253,000	\$ 12,291,484,74

^{*}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)



U.S. LOTTERIES TRANSFERS TO STATE - FISCAL YEAR 2010*

Rank	State	Transfer Amount (\$M)	Transfers to State as % of Sales
1	Louisiana	\$ 133.70	35.9%
2 3	New Jersey	924.01	35.5%
3	California	1,072.50	35.3%
4	Oklahoma	70.47	35.3%
4 5	Florida	1,246.79	32.0%
6	North Carolina	433.21	30.5%
7	New Mexico	43.61	30.4%
8	Michigan	713.65	30.2%
9	Virginia	430.20	30.0%
10	MARYLAND	510.61	29.9%
11	Pennsylvania	915.74	29.9%
12	Illinois	651.73	29.7%
13	Kentucky	214.25	29.6%
14	Ohio	728.63	29.3%
15	D.C.	66.75	29.0%
16	Washington	142.49	29.0%
17	Connecticut	288.12	28.9%
18	Kansas	67.91	28.8%
19	Texas	1,063.09	28.4%
20	New Hampshire	66.22	28.3%
21	Tennessee	288.87	27.2%
22	South Carolina	272.49	27.1%
23	Missouri	259.67	26.7%
23 24		128.08	26.6%
	Wisconsin		26.1%
25	Georgia	883.88	
26	Arizona	141.86	25.7%
27	Indiana	189.66	25.6%
28	Idaho	36.64	24.9%
29	Minnesota	122.25	24.5%
30	Nebraska	32.00	24.5%
31	Maine	52.87	24.4%
32	North Dakota	5.72	23.4%
33	lowa	57.91	22.6%
34	Colorado	112.94	22.5%
35	Montana	10.53	22.5%
36	Vermont	21.58	22.1%
37	Arkansas	83.00	21.6%
38	Massachusetts	903.48	20.5%
39	Delaware	331.61	_
40	New York	2,666.38	-
41	Oregon	541.05	-
42	Rhode Island	344.67	-
43	South Dakota	119.78	-
44	West Virginia	580.91	-
	Total	**\$ 17,971.50	

Source: La Fleur's 2010 World Lottery Almanac (18th Edition)

^{*} Data for fiscal year 2011 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.

Fiscal Year 2011

	Allegany County	Anne Arundel County	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# of Retailers	55	411	682	70	29	129	87	127
% of Total Retailers	1.30%	9.73%	16.14%	1.66%	0.69%	3.05%	2.06%	3.01%
Population	75,087	537,656	805,029	88,737	33,066	167,134	101,108	146,551
% of Total Population	1.30%	9.31%	13.94%	1.54%	1.69%	8.55%	1.75%	2.54%
% of Sales	0.66%	10.27%	16.23%	1.42%	0.39%	2.01%	1.15%	3.36%

	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# of Retailers	32	146	27	169	151	14	390	560
% of Total Retailers	0.76%	3.45%	0.64%	4.00%	3.57%	0.33%	9.23%	13.25%
Population	32,618	233,385	30,097	244,826	287,085	20,197	971,777	863,420
% of Total Population	0.56%	4.04%	0.52%	4.24%	4.97%	0.35%	16.83%	14.95%
% of Sales	0.50%	2.12%	0.20%	3.40%	2.79%	0.25%	9.88%	20.59%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# of Retailers	49	91	18	30	116	74	100	669
% of Total Retailers	1.16%	2.15%	0.43%	0.71%	2.74%	1.75%	2.37%	15.83%
Population	47,798	105,151	26,470	37,782	147,430	98,733	51,454	620,961
% of Total Population	0.83%	1.82%	0.46%	0.65%	2.55%	1.71%	0.89%	10.76%
% of Sales	0.68%	2.06%	0.34%	0.48%	1.51%	1.28%	1.37%	17.05%

Fiscal Year 2010

	Allegany County	Anne Arundel County	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# 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%

	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# 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%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# 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%

Fiscal Year 2009

	Allegany County	Anne Arundel County	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# 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%

	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# 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%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# of Retailers	50	102	20	36	124	81	103	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%

Fiscal Year 2008

	Allegany County	Anne Arundel County	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# 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%

	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# 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%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# 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%

Fiscal Year 2007

	Allegany County	Anne Arundel County	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# 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%

	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# 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%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# 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%

Fiscal Year 2006

	Allegany County	Anne Arundel County	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# 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%

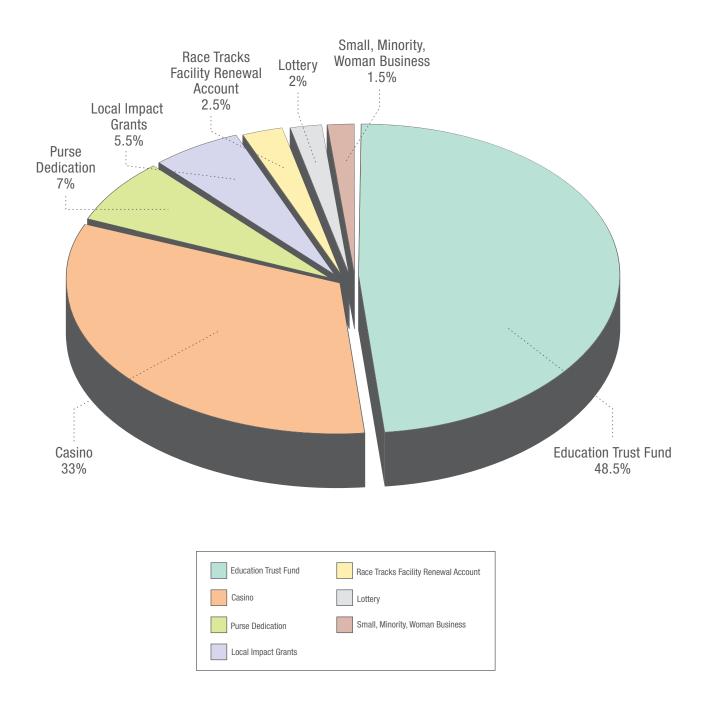
	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# of Retailers	28	133	21	156	122	15	343	507
% of Total Retailers	0.80%	3.60%	0.60%	4.20%	3.30%	0.40%	9.30%	13.80%
Population	31,351	220,409	29,863	238,850	269,174	19,908	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%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# 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%

MARYLAND STATE LOTTERY AGENCY GROSS TERMINAL REVENUE DISTRIBUTION — FISCAL YEAR 2011

	Distribution	Hollywood Casino — Perryville	Casino at Ocean Downs	Total
Education Trust Fund	48.5%	\$ 40,085,575	\$ 9,895,787	\$ 49,981,362
Casino	33%	27,274,721	6,733,216	34,007,937
Purse Dedication	7%	5,785,547	1,428,258	7,213,805
Local Impact Grants	5.5%	4,545,787	1,122,203	5,667,990
Race Tracks Facility Renewal Account	2.5%	2,066,267	510,092	2,576,359
Lottery	2%	1,653,013	408,074	2,061,087
Small, Minority, Woman Business	1.5%	1,239,760	306,055	1,545,815
Total	100%	\$ 82,650,670	\$ 20,403,685	\$ 103,054,355

MARYLAND STATE LOTTERY AGENCY GROSS TERMINAL REVENUE DISTRIBUTION — FISCAL YEAR 2011 (CONTINUED)



MARYLAND'S TEN LARGEST PRIVATE EMPLOYERS*

2011

Employer (listed alphabetically)

Giant Food Stores

Helix Health System, Inc.

Home Depot

Johns Hopkins Hospital

Johns Hopkins University

Northrop Grumman Corporation

Safeway

Target

University of Maryland Medical Systems

Wal-Mart/Sam's Club

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 and 2007

Employer (listed alphabetically)

Giant of Maryland, LLC

Helix Health System, Inc.

Home Depot USA, Inc.

Johns Hopkins Hospital

Johns Hopkins University

Macv's

Northrop Grumman Corporation

Safeway, Inc.

Target Corporation

University of Maryland Medical Systems

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

Johns Hopkins Offiversity

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 year 2002 is not available.

MARYLAND STATE LOTTERY AGENCY RATIO OF OUTSTANDING DEBT BY TYPE - FISCAL YEARS 2002 THROUGH 2011

Fiscal Year	Capital Leases	Percentage of Annual Lottery Sales
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%
2011	4,094,609	0.24%

Fiscal Year	VI Capital		Percentage of Gross Terminal Revenue
2002	\$	0	0.00%
2003		0	0.00%
2004		0	0.00%
2005		0	0.00%
2006		0	0.00%
2007		0	0.00%
2008		0	0.00%
2009		0	0.00%
2010		0	0.00%
2011	40,79	91,831	39.6%

Fiscal year 2011 was the first year for VLT Capital Leases and annual gross terminal revenue.

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 2002 THROUGH 2011

Fiscal Year	Statewide Population ⁽¹⁾	Statewide Personal Income ⁽²⁾ (expressed in thousands)	Statewide Per Capita Personal Income	Unemployment Rate ⁽³⁾
2011	5,773,552	\$ 283,919,505	\$ 49,070	7.0%
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%

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 2003–2010. Data provided is for prior ending calendar year.
- (3) State Department of Labor, Licensing and Regulation

MARYLAND STATE LOTTERY AGENCY LOTTERY EMPLOYEES - FISCAL YEARS 2002 THROUGH 2011

As of June 30,	2002	2003	2004	2005	2006	2007	2008	2009	2010	201
Agent Administration	6	5	5	6	6	6	5	5	7	7
Communications	19	17	19	17	19	21	25	24	24	22
Customer Service	13	13	13	14	13	13	12	12	12	9
Executive	5	6	7	6	5	6	6	6	8	6
Facilities	6	6	6	5	5	5	5	5	5	4
Finance, Budget & Procurement	16	15	14	17	16	15	15	15	14	16
Information Technology	20	21	21	23	24	24	24	24	24	27
Instant Ticket Warehouse	7	7	6	7	7	7	7	7	7	7
Legal Services	5	5	5	6	6	6	6	7	7	7
Personnel	5	4	5	4	4	4	4	4	4	3
Product Development & Creative Services	12	11	13	10	9	9	8	10	9	8
Sales	62	63	61	61	60	61	63	61	60	61
Security	4	6	5	5	5	5	5	5	5	5
Video Lottery	_	_	_	_	_	_	_	1	3	36
Total	180	179	180	181	179	182	185	186	189	218

MARYLAND STATE LOTTERY AGENCY OPERATING INDICATORS - FISCAL YEARS 2002 THROUGH 2011

Percentage of Lottery Administrative Expenses to Sales

Fiscal Year	Sales	Administrative Expenses	Percentage of Administrative Expenses to Sales
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%
2011	1,714,402,578	53,221,207	3.10%

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 2011

	Lottery Equipment	Data Processing Equipment	Office Equipment	Leasehold Improvements	VLTs	Total Capital Assets
2002	\$ 3,644,775	\$206,099	\$ 0	\$ 0	\$ 0	\$ 3,850,874
2003	2,152,411	168,390	231,649	577,468	0	3,129,918
2004	2,735,984	77,120	179,200	516,144	0	3,508,448
2005	1,378,351	117,872	157,802	454,819	0	2,108,844
2006	974,544	81,970	98,578	393,495	0	1,548,587
2007	574,116	281,518	277,504	332,171	0	1,465,309
2008	173,689	202,273	190,553	270,847	0	837,362
2009	5,310,349	132,433	125,456	209,523	0	5,777,761
2010	4,192,381	65,926	63,182	148,199	0	4,469,688
2011	3,074,412	9,418	4,860	86,875	35,258,146	38,433,711

COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR
THE YEARS ENDED
JUNE 30, 2011 AND 2010





1800 WASHINGTON BOULEVARD SUITE 330 BALTIMORE, MARYLAND 21230 410-230-8800 MDLOTTERY.COM®