



MARYLAND | MARYLAND LOTTERY AND
GAMING CONTROL AGENCY

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2013 and 2012



ENTERPRISE FUND OF THE STATE OF MARYLAND

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**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE YEARS ENDED
JUNE 30, 2013 AND 2012**

PREPARED BY THE ACCOUNTING DEPARTMENT OF THE
MARYLAND LOTTERY AND GAMING CONTROL AGENCY



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COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEARS ENDED JUNE 30, 2013 AND 2012 MARYLAND LOTTERY AND GAMING CONTROL AGENCY

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INTRODUCTORY SECTION

IN FISCAL YEAR 2013, THE MLGCA CELEBRATED 39 YEARS OF SUPPORTING MARYLANDERS. THE MLGCA IS THE FOURTH LARGEST CONTRIBUTOR TO THE STATE AFTER INDIVIDUAL TAX, CORPORATE TAX, AND SALES AND USE TAX.



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Maryland Lottery and Gaming Control Agency

Martin O'Malley, Governor • Stephen Martino, Director



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December 22, 2013

The Honorable Martin O'Malley, Governor
Maryland Lottery and Gaming Control Commission

INTRODUCTION

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Maryland Lottery and Gaming Control Agency (MLGCA) for the fiscal years ended June 30, 2012 and June 30, 2013. This report has been prepared by the Accounting Department of the MLGCA. Responsibility for both the accuracy of the financial data and the completeness and fairness of presentation, including all disclosures, rests solely with the MLGCA. 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 MLGCA. All disclosures necessary to enable the reader to gain an understanding of the MLGCA's financial activities have been included.

Presented in this report is information about the MLGCA, an independent agency of the State of Maryland. The MLGCA was established by the Maryland 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, Chapter 4 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 in the State. On August 14, 2012, Senate Bill 1 – Gaming Expansion – Video Lottery Terminals and Table Games – passed the 2012 Second Special Session of the Maryland General Assembly. This bill contained many provisions concerning gaming operations and certain provisions that were subject to voter referendum. As part of this bill, the Maryland State Lottery Agency was renamed the Maryland Lottery and Gaming Control Agency to reflect its added gaming responsibilities. The provisions that were subject to voter referendum passed during the November 6, 2012 election and allowed for a sixth casino, increased the number of VLTs allowed in the State from 15,000 to 16,500, established table games and allowed for around the clock operations. The MLGCA, in conjunction with a seven-member Commission, serves as the regulator of the gaming program and provides guidance to the lottery operations.

The MLGCA is an enterprise fund of the State and is included in the State's Comprehensive Annual Financial Report. MLGCA activity is reported as a major enterprise fund type and includes all activity for which the MLGCA 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 MLGCA is operated as a business enterprise within the framework of State laws and regulations. The mission of the MLGCA is twofold: providing revenue to the State through the sale of traditional lottery products and through the regulation of the gaming program. The MLGCA fulfills this mission by offering the sale of both draw and instant ticket games as described further on pages 15 through 19. Since its inception in 1973, traditional lottery sales have exceeded \$37.9 billion and have contributed \$13.4 billion in revenue to the State. The majority of the 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 MLGCA 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 with their offerings to players. Today, 43 states, the District of Columbia and the U.S. Virgin Islands operate lotteries selling both draw games and instant ticket games. During fiscal year 2013, these lotteries generated in excess of \$61.6 billion in sales. The Maryland lottery ranked seventh among state lotteries in per capita sales during this time period.

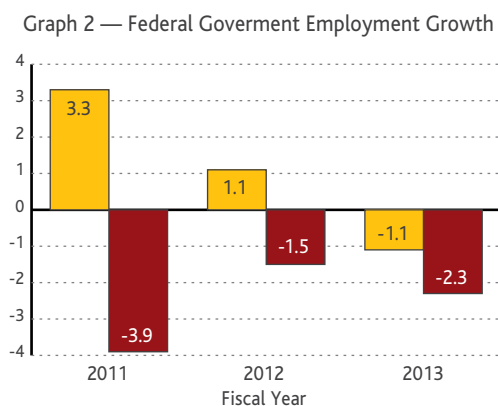
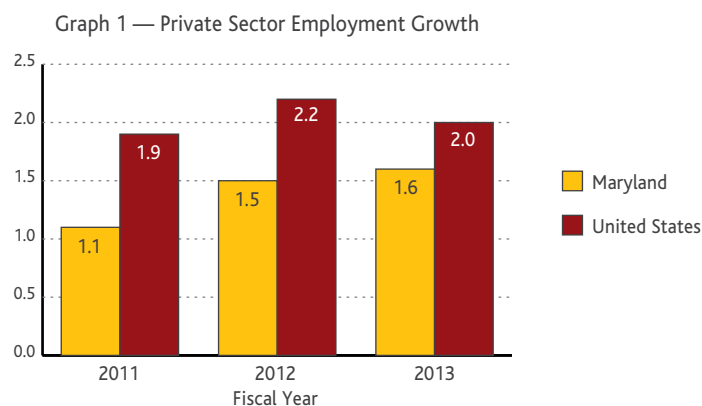
The mission of the gaming program is to regulate the activity with the dual goals of generating revenue for the State of Maryland while maintaining integrity, transparency and fair play. During fiscal year 2013, the MLGCA authorized the opening of the State's fourth casino and implemented table games at three of its four casinos. Since the inception of the gaming program in fiscal year 2011, video lottery gross terminal revenue generated by the casinos totals in excess of \$858.9 million. Table game revenue generated by the three casinos in fiscal year 2013 totaled \$48 million. The distribution of gaming revenue is directed by statute and shown on pages 93 and 100 of this report. Today, eight state lotteries have the responsibility of regulating casino operations. During fiscal year 2013, casinos regulated by lotteries generated \$2.8 billion in revenue.

THE MARYLAND ECONOMY

Maryland's economy displayed resilience throughout the Great Recession; however, the recovery has been tepid, even more so than for the nation as a whole. Many of the headwinds confronting the national economy bear a disproportionately greater impact for Maryland – particularly those related to tax changes and the federal budget. Real gross-state-product grew 2.4% in 2012 and is expected to slow to 1.5% for 2013 and then back to 2.4% in 2014. The heavy federal government presence within the State served as a barrier against much of the recessionary devastation, though for the near term this asset has become a liability as federal budget sequester has been implemented, the federal government was temporarily shut down, and general federal austerity remains atop the news cycle. That said, the outlook for the private sector is bright as the more forward looking private sector that is directly connected to

the federal outlays made principal adjustments back in 2011 and 2012, and those with only secondary relationships (non-federal focused industries) are expanding, albeit at a moderate pace.

Much of the uncertainty surrounding federal budget sequestration remains, though its estimated impact for Maryland has lessened greatly relative to estimates prior to commencement. First, the private sector seems to have taken a defensive position in early 2011 as the Budget Control Act of 2011 was considered by policy makers prior to its passage that August. Maryland's private sector's planning actions are evident in the divergence between private sector employment growth for the nation as a whole and Maryland; while growing, the pace of growth has lagged the nation in each of the last three years (see Graph 1 below).



Source: Bureau of Labor Statistics, Current Employment Statistics

Furthermore, to date, the direct impact for federal employment in Maryland has been muted relative to the national impact (see Graph 2 above). Maryland federal employment in 2011 was boosted by the statutory September 2011 end date of the 2005 Base Realignment and Closure (BRAC) process which brought more than 11,000 direct federal employees to the State. Since 2011, Maryland has continued to fare better than the nation, though just looking at Maryland is somewhat deceptive. The employment statistics cited in the above charts count jobs by location, and since Maryland is a net exporter of workers to Washington, D.C., the district's statistics are salient; Washington, D.C., has lost almost 8,000 federal jobs since 2011. While Maryland residents certainly share in the district's federal job losses, it seems that the greater share of the federal impact to this point has been realized by smaller field offices dispersed throughout the country.

Although the estimated impact of sequestration to the State has been less than originally thought, the impact has been significant. The current estimate for the Maryland job losses from sequester totals 25,000, with losses continuing into calendar year 2015. It is important to note that the above job losses do not directly relate to 25,000 separations; they also include positions that would have been created in the absence of sequestration or positions eliminated through attrition. It is also important to note that significant risk remains for this aspect of the forecast. To date, federal agencies have been generally opaque regarding their methods for reaching their reduced budget targets. For example, many have identified reductions to travel expenses, which would generally have little impact to the State, while others have either not filled or eliminated positions; however, the bulk of federal agencies have been silent regarding their cuts. If the extent to which the cuts made through the first

full year of sequestration are not ongoing cuts, or if current contracts are not renewed, the impact could be greater.

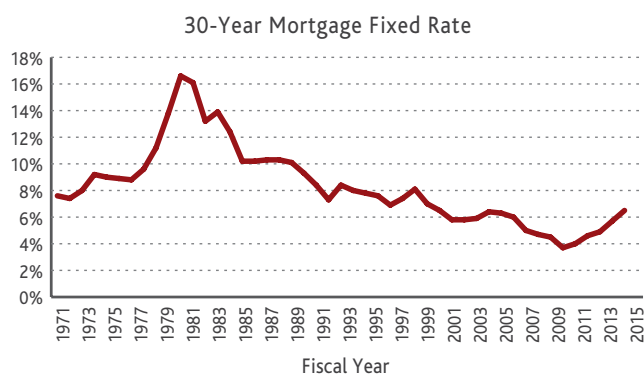
While the general uncertainty regarding federal spending and taxation have plagued the recovery together, the taxation aspect is now somewhat resolved, though to the detriment of Maryland disposable income. As the country rolled towards the fiscal cliff in the fourth quarter of 2012, it seemed that the tax cuts passed between 2001 and 2003 would expire, redirecting more than \$4.0 billion from Maryland residents to the federal government. Congress was able to ward off the full impact, though taxes did increase for 2013, generally for wealthier individuals. While the impact was significantly reduced relative to the fiscal cliff, the more modest changes did shift several hundred million dollars from Maryland residents to the federal government.

Further impacting consumer spending has been poor wage growth and the expiration of the federal payroll tax holiday. Unsurprisingly, the stubbornly elevated unemployment rate (averaged 6.8% year-to-date through October 2013 versus 3.8% pre-recession average) and policy uncertainty have placed significant downward pressure on wages. The average wage increased just 2.1% in 2012 and is estimated to grow only 0.9% for 2013; 2012 growth equaled inflation and 2013 will likely come in well below, indicating an erosion of purchasing power.

However, asset prices and their impact on spending have served as a stimulus to the besieged consumer market by generating income and inducing the so called “wealth effect.” The wealth effect occurs as consumers’ assets’ values rise to levels at which they feel comfortable making additional discretionary purchases. Much of the wealth destroyed in the depths of the recession has been restored – particularly for those with equity investments. Driven by strong corporate earnings and balance sheets, as well as the federal bond-buying programs (quantitative easing), the stock market indices have fared very well since their recessionary troughs, even reaching new highs this year. The Standard and Poor’s 500 index is up 135% from March 2009, and the broader Wilshire 5000 Total Market Index is up 156% from February 2009; for the year, the S&P 500 and Wilshire 5000 are up 25% and 28% respectively.

The housing market has continued to improve as well. Through October 2013, as reported by the Maryland Association of Realtors, unit volume and median price are up 14.6% and 5.2%, respectively. A combination of factors including affordability, pent-up demand, and low interest rates are driving the market. For this year, perhaps the most important factor has been historically low interest rates; the average 30-year fixed rate mortgage as reported by the Federal Home

Loan Mortgage Corporation (Freddie Mac) reached a historic low of 3.45% in December 2012. Subsequently, rates have increased moderately to 4.19% in October 2013 and remain well below historical norms. The general expectation for interest rates to continue to rise back to more normal levels is inciting much of the current activity and should drive growth for this upcoming spring selling season; the estimated difference between a 4% and 6% interest rate for the average mortgage



Sources: *Freddie Mac; Global Insight*

payment is a \$400 per month increase. While rising interest rates will eventually turn to a headwind for the housing market, pent-up household formation is set to fill the void.

The forecast for Maryland remains relatively unchanged from prior year's expectations, with employment and personal income growth accelerating until 2015/2016 when the recovery takes a firm hold and more regular growth rates ensue. As the employment situation improves, so will wages, both in the aggregate and at the average wage level. Capital gains and retirement income will provide a boost to taxable income for the State as increased asset prices and demographics are expected to symbiotically generate enhanced income realization.

As noted above, job gains will drive the broader recovery. For 2013, job growth as reported for the Current Employment Statistics Survey by the U.S. Bureau of Labor Statistics (BLS) shows year to date growth (through October) of 1.4%. The chart below details how the top 10 industries for State employment prior to the recession have fared since. In the aggregate, Maryland needs 8,200 net new jobs to reach its pre-recession peak level of employment. Health Care & Social Assistance has continued to serve as a steady source of growth and positions while Professional & Technical Services and Federal Government categories have benefited substantially from the previously mentioned BRAC process. Manufacturing has continued a long-term decline trend and Construction & Mining and Retail remain well below the housing bubble induced employment levels. These numbers are subject to revision and our current forecast for 2013 (growth of just 0.9%) implies a somewhat significant downwards revision; data from the Quarterly Census of Employment and Wages, essentially a census for the jobs in the State and the most significant later benchmark for the BLS survey, suggests that the BLS survey has been overstating jobs for this year. Employment is expected to improve in 2014 as the level of policy uncertainty is reduced and the national and world economies gather momentum, and further acceleration is expected into 2015 and 2016.

Industry	Share of Total Employment	Growth Since Peak	Job Change Since Peak
Total	100.0%	-0.3%	-8,200
Health Care & Social Assistance	11.8%	+13.3%	+41,000
Retail Trade	11.4%	-3.7%	-11,000
Local Government	9.6%	-0.9%	-2,300
Professional & Tech Services	8.6%	+8.4%	+18,800
Accommodations & Food Services	7.6%	+4.9%	+9,800
Construction & Mining	7.1%	-20.7%	-38,600
Admin & Waste Services	5.9%	+2.9%	+4,400
Manufacturing	5.0%	-20.5%	-26,800
Federal Government	4.8%	+13.9%	+17,500
Other Services	4.5%	-5.7%	-6,800
Everything Else	23.6%	-2.3%	-14,200

Note: Maryland peak employment in February 2008 was used for all industries and share of employment.

As in recent forecasts, risks abound, particularly those related to the federal government. The federal budget and debt ceiling come back into play in the first quarter of 2014, opening the door for another shutdown or possibly a recession, and federal sequester remains a somewhat open issue (as discussed earlier). Also, there is risk regarding the Federal Reserve's expected reduction to its current bond-buying program and the impact it will have on the broader economy as well as the financial markets. Direct upside risks include the positive alteration or removal of sequestration as a component of possible entitlement and/or tax reform and a greater economic impact from the Port of Baltimore's capture of lucrative trade business resulting from the widening of the Panama Canal which is set to conclude in 2015.

MARYLAND LOTTERY PRODUCTS

The MLGCA 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 draw and instant ticket games. Draw games allow players to pick their numbers or utilize automatic computer-generated plays. Customers receive a ticket and then wait for the drawing to determine if they have won. Instant games are played by scratching a latex covering off a play area to reveal pre-printed combinations. If a winning combination appears, the customer is an instant winner.

Traditional lottery games offered during fiscal year 2013 included the following:



FISCAL YEAR 2013 STATISTICS:

\$245.5 million in net sales

14.0% of total net sales

\$9.0 million decrease from fiscal year 2012 Pick 3 net sales

PICK 3 was introduced in July 1976 and was the first draw game offered. 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 2013 STATISTICS:

\$267.8 million in net sales

15.2% of total net sales

\$2.3 million increase from fiscal year 2012 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 2013 STATISTICS:

\$485.8 million in net sales

27.7% of total net sales

\$21.0 million decrease from fiscal year 2012 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, a limited number of instant tickets games were launched; however, by 1986, instant games were launched on a more frequent basis. During fiscal year 2013, the MLGCA launched 54 different instant ticket games.

Keno.

FISCAL YEAR 2013 STATISTICS:

\$181.2 million in net sales

10.3% of total net sales

\$22.7 million decrease from fiscal year 2012 Keno net sales

KENO is a draw game that is predominantly played in a social atmosphere, and drawings are held every four minutes. Keno was introduced in January 1993. A computer generates random sets of 20 numbers for each draw. These numbers are then displayed on a monitor. Players select from one to 10 numbers from a field of 80 numbers and win prizes ranging from \$2 to \$100,000 by matching anywhere from zero numbers to 10 numbers.



FISCAL YEAR 2013 STATISTICS:

\$38.4 million in net sales

2.2% of total net sales

\$5.3 million decrease from fiscal year 2012 Keno Bonus net sales

KENO BONUS® is a draw 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 10. 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 2013 STATISTICS:

\$125.3 million in net sales

7.1% of total net sales

\$14.5 million decrease from fiscal year 2012 Keno Super Bonus net sales

KENO SUPER BONUS™ is a draw 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, 10, 12 or 20. 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 2013 STATISTICS:

\$129.4 million in net sales

7.4% of total net sales

\$12.1 million increase from fiscal year 2012 Racetrax® net sales

RACETRAX® is a draw game that launched statewide in August 2006. The game is predominantly played in a social atmosphere, and drawings are held approximately every four and a half 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 12 horses to win prizes ranging from \$1.20 to \$31,454.



FISCAL YEAR 2013 STATISTICS:

\$19.4 million in net sales

1.1% of total net sales

\$2.5 million increase from fiscal year 2012 Racetrax® Bonus net sales

RACETRAX® BONUS is a draw 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 10. 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 2013 STATISTICS:

\$21.1 million in net sales

1.2% of total net sales

\$788 thousand decrease from fiscal year 2012 Bonus Match 5 net sales

BONUS MATCH 5 is a draw 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 12 \$50,000 winners in one drawing, each winner will receive an equal share of the \$600,000 prize pool. Players also may win prizes ranging from \$2 to \$600. Drawings are held seven nights a week.



FISCAL YEAR 2013 STATISTICS — MEGA MILLIONS:

\$66.7 million in net sales

3.8% of total net sales

\$38.8 million decrease from fiscal year 2012 Mega Millions net sales

FISCAL YEAR 2013 STATISTICS — MEGAPLIER:

\$4.3 million in net sales

0.2% of total net sales

\$900 thousand decrease from fiscal year 2012 Megaplier net sales

MEGA MILLIONS® is a multi-state Jackpot draw game. The MLGCA began selling Mega Millions in September 1996. Currently, 45 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 also can 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 on Tuesday and Friday evenings.



FISCAL YEAR 2013 STATISTICS:

\$28.8 million in net sales

1.6% of total net sales

\$1.9 million decrease from fiscal year 2012 Multi-Match net sales

MULTI-MATCH® is a Jackpot draw game that was introduced in February 2006, replacing Lotto, the MLGCA'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 2013 STATISTICS — POWERBALL:

\$126.2 million in net sales

7.2% of total net sales

\$48.2 million increase from fiscal year 2012 Powerball net sales

FISCAL YEAR 2013 STATISTICS — POWER PLAY:

\$5.1 million in net sales

0.3% of total net sales

\$300 thousand decrease from fiscal year 2012 Power Play net sales

POWERBALL® is a multi-state Jackpot draw game. The MLGCA began selling Powerball/Power Play in January 2010. Currently, 45 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. In January 2012, the base price of a Powerball ticket increased from \$1 to \$2 in all jurisdictions selling the game. At the same time, the starting Jackpot was raised to \$40 million, up from \$20 million and the odds of winning the jackpot improved from 1 in 196 million to 1 in 176 million. Players also can win prizes ranging from \$4 to \$1 million. **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 can win \$12 to \$2 million. Drawings are held on Wednesday and Saturday evenings.



FISCAL YEAR 2013 STATISTICS:

\$11.2 million in net sales

0.6% of total net sales

5 CARD CASH is a draw game that launched statewide in November 2012. Players receive a \$2 ticket featuring five randomly selected cards from the standard deck of 52 playing cards. Players can win instantly if their cards show a poker hand of a pair of jacks or better. Players can win from \$3 to \$100,000. Players have a second chance to win if they match two, three, four or five randomly drawn cards in drawings held seven days a week.

Video Lottery Terminals

FISCAL YEAR 2013 STATISTICS:
\$560.7 million in gross terminal revenue
6,830 total video lottery terminals as of June 30, 2013
\$365.6 million increase from fiscal year 2012 gross terminal revenue

VIDEO LOTTERY TERMINALS were approved during the 2007 special session of the Maryland General Assembly. As of June 30, 2013, four casinos had opened and 6,830 video lottery terminals were in operation.



FISCAL YEAR 2013 STATISTICS:
\$48.0 million in revenue
154 total table games

TABLE GAMES became operational in fiscal year 2013 after the Maryland General Assembly passed the Gaming Expansion Act, making table games available to the casinos, subject to the passage of the voter referendum. In March 2013, Hollywood Casino – Perryville began operating table games. In April 2013, Maryland Live! Casino debuted table games and in May 2013, Rocky Gap Casino Resort opened with table games. As of June 30, 2013 there were 154 table games in operation.

HIGHLIGHTS OF FISCAL YEAR 2013

Fiscal year 2013 proved to be a highly successful year for the MLGCA. The MLGCA generated \$1.756 billion in lottery sales and \$608.72 million in gaming revenue. Lottery sales and gaming revenue in total for fiscal year 2013 is \$374.9 million or 18.8% more than fiscal year 2012.

Aside from the financial success, other significant activities and accomplishments included:

TRADITIONAL LOTTERY

- My Lottery Rewards, a scratch-off customer loyalty program, began in May 2013. The program rewards players with extra chances to win and provides the opportunity for players to earn points for non-winning scratch-off tickets, which in turn can be accumulated and exchanged for rewards merchandise or entries into drawings.
- A new game, 5 Card Cash, was launched in November 2012. This game is a poker style game and includes both an instant win feature and a nightly drawing. Players can win on both the instant win feature and the nightly drawing. The price of the game is \$2, and on the instant win feature, players can win anything from a free ticket up to \$10,000. During the nightly drawing, players can win anywhere from \$3 to \$100,000.
- Working together with our draw games partner, the MLGCA made several changes to the monitor games. First, the MLGCA refreshed the Keno game by developing new graphics

screens and adjusting the timing of the draws. Second, new bet types were introduced to the Racetrax game that are representative of wagers made at horseracing tracks.

- In terms of the Jackpot game portfolio, the MLGCA benefited from sales associated with a \$590.5 million Powerball Jackpot in May of 2013 — the highest ever Powerball Jackpot.
- Administratively, several major MLGCA contracts were bid during fiscal year 2013. These contracts include instant ticket printing; advertising; media buying and planning; website hosting/digital social media; and marketing research. The advertising contract includes both a media and a creative component.
- Effective January 1, 2013, commissions paid to lottery retailers increased from 5% to 5.5%. As of June 30, 2013, there were a total of 4,422 lottery retailers. During fiscal year 2013, 55,406,316 winning Maryland lottery tickets were claimed, and there were 936 winners of \$10,000 or more.

CASINOS

- Fiscal year 2013 was a year of major changes for the MLGCA. As mentioned, in August 2012, Senate Bill 1 – Gaming Expansion – Video Lottery Terminals and Table Games – passed the 2012 Second Special Session of the Maryland General Assembly. While this bill contained several changes, major changes included a name change from the Maryland State Lottery Agency to the Maryland Lottery and Gaming Control Agency and a provision to allow for a sixth casino in Prince George’s County and the implementation of table games at all casinos.
- By the end of FY 2013 two important developments were realized: 1) The Rocky Gap Casino Resort opened in May 2013 with more than 500 employees and became the fourth casino in Maryland; 2) Maryland casinos began to offer table games in addition to slots. The first casino with table games was Hollywood Casino – Perryville, which started with 20 table games in March 2013. Maryland Live! Casino began to offer table games at 122 tables in April 2013, and Rocky Gap opened its doors with 10 table games in May 2013.
- The MLGCA, as staff to the Video Lottery Location Commission, issued a request for proposals for the sixth casino site located in Prince George’s County. Three bids were received, and background investigations were completed on all bidders to qualify them for potential licensure.

RESPONSIBLE GAMING

- As part of its corporate responsibility and with the introduction of a fourth casino, the MLGCA expanded its Responsible Gambling Program. Under this program the MLGCA operates a voluntary exclusion program that allows individuals to ban themselves from Maryland casinos. To date, 368 individuals have done so. The program was expanded during the fiscal year to add a voluntary exclusion program for the traditional lottery. Additionally, the agency participated with North American consortium of lotteries during the 2012 holiday season to deliver public service announcements to remind players that lottery tickets are not appropriate gifts for anyone under 18 years old.

FINANCIAL INFORMATION

ACCOUNTING SYSTEMS AND POLICIES

The MLGCA operates enterprise activities, which include sales of instant and draw game tickets, the regulation of gaming operations to the general public, and the related supporting functions: personnel, finance, administration, marketing, security, information technology and licensing. No general government functions or operations are managed by the MLGCA or included in this report. The MLGCA, 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 MLGCA submits its budget to the Governor for approval. The budget includes all costs to operate the traditional lottery and to regulate gaming operations. Excluded from the budget are lottery prizes paid to winners and commissions paid to lottery retailers. Effective October 1, 2013, commissions paid to casino operators were also excluded from the budget. 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. Commissions paid to the casino operators are funded from the VLT and table game revenue.

The Governor, in turn, submits the budget for the entire State (including the MLGCA's budget) to the General Assembly for enactment. The MLGCA's official budget, as enacted by the General Assembly, is divided among the various divisions within the MLGCA. 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 MLGCA's Budget Department is responsible for monitoring the entire budget, including the budgeted funds allocated to the various divisions, in order to ensure that the 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 MLGCA's long-term liabilities are primarily payments owed to 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 also are held in annuity contracts. Capital lease obligations are for lottery gaming equipment and video lottery terminals leased through the State Treasurer's Office and the VLT manufacturers.

INTERNAL CONTROL ENVIRONMENT

Management of the MLGCA 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. Because the

cost of a control should not exceed the benefits to be derived, the structure is designed to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

To enhance controls over accounting procedures, the MLGCA 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 MLGCA and reports jointly to the Director and to the Commission.

Since the MLGCA 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-hours-a-day/7-days-a-week basis;
- maintaining secure facilities and limiting access to them;
- performing background checks on retailers, vendors, employees and anyone that wants to obtain a 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 transactional data of all vendor activity by MLGCA personnel using internal control system programs and reconciling transactions to reports generated by the lottery draw game vendor;
- comparing, on a daily basis, gross terminal revenue recorded on the MLGCA's central system to gross terminal revenue reported by the casinos' slot accounting systems and reconciling any differences;
- employing auditors at the casinos to ensure table game revenue is accurately accounted for and the casinos are adhering to the required internal controls; and
- providing a variety of access and other controls in the MLGCA's computer systems.

The MLGCA has 294 employees, most of whom are located at the MLGCA's headquarters in Baltimore. The drawing studio is located at the broadcast facility of a television station located in Baltimore, which produces the nightly drawings and Multi-Match drawings. Keno and Racetrax drawings are conducted by random number generators and are maintained and secured at the lottery draw game vendor's office located in Baltimore. Mega Millions and Powerball drawings are held in Georgia and Florida, respectively.

FUTURE PROJECTS

Fiscal year 2014 will present challenges for the MLGCA as it strives to maintain the amount of State contributions that were achieved in fiscal year 2013.

The opening of the Horseshoe Casino in Baltimore in 2014 will add a fifth Casino to the State of Maryland and comes with the opportunity to increase State gaming contributions.

Provisions of the Gaming Expansion Act will continue to be implemented. A Request for Proposal will be issued and evaluated for the implementation of lottery ticket vending machines at qualified veterans' organizations. The MLGCA provided staffing to the Video Lottery Location Commission to assist in its evaluation of an award for a sixth State Casino license, located in Prince George's County. It is expected that one or more casinos will open poker rooms in fiscal year 2014.

On the traditional lottery side, changes to the Mega Millions and Powerball games will be implemented. For Mega Millions the change will involve an adjustment to the game matrix and a higher initial starting Jackpot. For Powerball, the change will be to the Power Play or multiplier feature to the game that allows players the chance to win more if they win a lower tier prize.

The MLGCA will launch several innovative scratch-off products in the year ahead. Among these will be a game that celebrates the Baltimore Ravens Super Bowl XLVII victory, a ticket that highlights a technology prize second chance contest themed promotional partnership with Sony and games that have mobile applications in order to draw in a new player base. Efforts will be made to enhance and grow the My Lottery Rewards program as well.

INDEPENDENT AUDIT

The MLGCA has contracted with an independent certified public accounting firm to perform an annual audit of the MLGCA. The independent auditors' opinions on the MLGCA'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 MLGCA for its CAFR for the fiscal year ended June 30, 2012. This marked the ninth consecutive year the MLGCA 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 MLGCA 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 the Accounting Department. A special note of thanks also is given to the MLGCA's Creative Services Division and current creative services partner for assisting in the layout of this report; Andrew Schaufele, Director of the State's Bureau of Revenue Estimates, for his assistance in providing information concerning the Maryland economy; and the MLGCA's independent auditors for providing assistance in developing this report.

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

Respectfully Submitted,

MARYLAND LOTTERY AND GAMING CONTROL AGENCY



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



Stephen L. Martino
Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

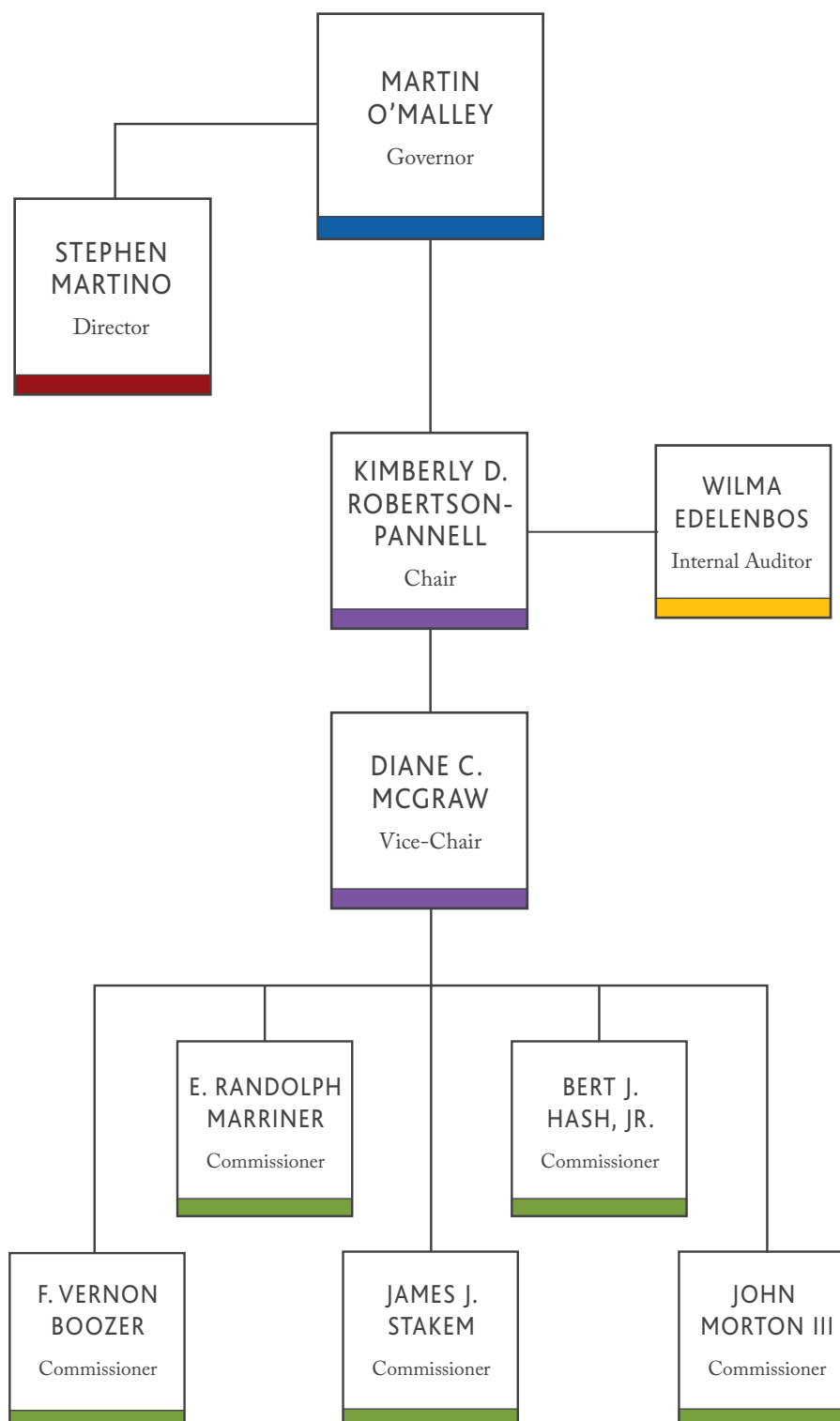
**Maryland State
Lottery Agency**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

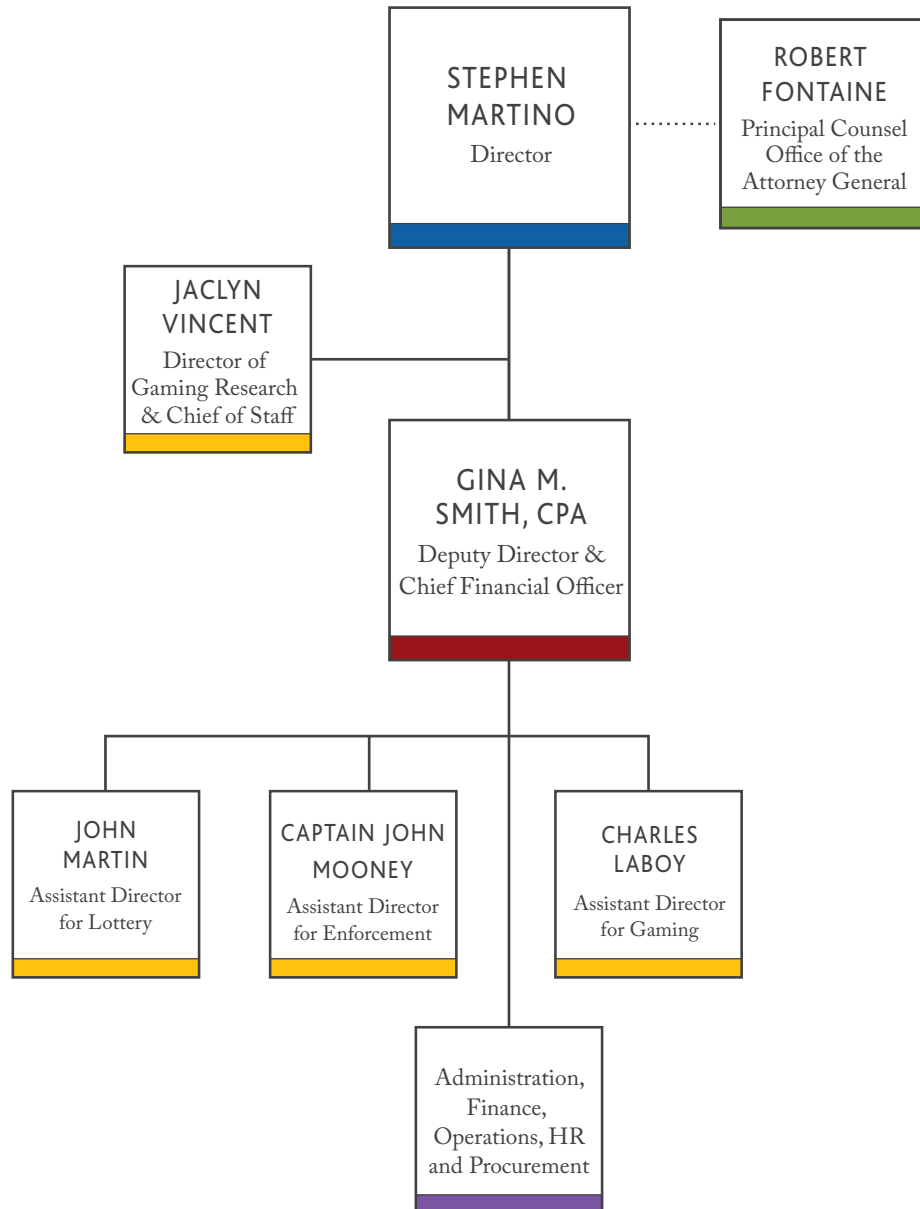
Executive Director/CEO

MARYLAND LOTTERY AND GAMING CONTROL AGENCY
PRINCIPAL OFFICIALS AS OF JUNE 30, 2013





MARYLAND LOTTERY AND GAMING CONTROL AGENCY
ORGANIZATIONAL CHART AS OF JUNE 30, 2013



FINANCIAL SECTION

IN FISCAL YEAR 2013, THE MARYLAND LOTTERY AND GAMING CONTROL AGENCY CONTRIBUTED MORE THAN \$545.2 MILLION TO THE STATE OF MARYLAND IN LOTTERY REVENUE. GAMING ACTIVITIES GENERATED \$608.7 MILLION IN REVENUE.



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INDEPENDENT AUDITORS' REPORT

To the Maryland Lottery and Gaming Control Agency:

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Maryland Lottery and Gaming Control Agency (an agency of the State of Maryland), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents. These financial statements are the responsibility of the Maryland Lottery and Gaming Control Agency's management. Our responsibility is to express an opinion on the financial statements based on our audits.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

OPINIONS

As discussed in Note 1, the financial statements of the Maryland Lottery and Gaming Control Agency are intended to present the financial position and the changes in financial position and cash flows, where applicable, of the Maryland Lottery and Gaming Control Agency. They do not purport to, and do not, present fairly the financial position of the State of Maryland as of June 30, 2013 and 2012, 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 Lottery and Gaming Control Agency, as of June 30, 2013 and 2012, and the respective 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.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 33 through 48 and 73 through 74, respectively, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of the Maryland Lottery and Gaming Control 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 and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Maryland Lottery and Gaming Control Agency's internal control over financial reporting and compliance.

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

Stout, Causey & Horning, P.A.

September 30, 2013



The following Management's Discussion and Analysis (MD&A) provides an overview of the Maryland Lottery and Gaming Control Agency's (MLGCA) performance for the fiscal years ended June 30, 2013 and 2012. As you read the MD&A, 2013 refers to the fiscal year ended June 30, 2013, 2012 refers to the fiscal year ended June 30, 2012 and 2011 refers to the fiscal year ended June 30, 2011. 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 49.

FINANCIAL HIGHLIGHTS

- Net lottery sales were \$1.756 billion in 2013, a decrease of \$38.8 million or -2.16% as compared to 2012, which increased \$80.5 million or 4.70% as compared to 2011.
- Cost of sales increased by \$135.4 million or 10.62% in 2013 as compared to 2012 which increased \$109.5 million or 9.04% as compared to 2011. The major reason for the increase was an increase in commissions paid to casino operators. In 2013, there were three casinos with a full year of operations and a fourth casino which opened in May 2013 compared to two casinos with a full year of operation in 2012 and a third casino opening in June 2012. In addition, table games were launched in the second half of 2013. Casino operators receive a share of revenue generated from both the VLTs (Video Lottery Terminals) and the table games. The overall increase was slightly offset by a decrease in lottery prizes due to players. The majority of the increase in 2012 from 2011 was the result of an increase in commissions paid to casino operators and an increase in lottery prizes due to players.
- Operating expenses increased by \$58.3 million or 103.43% in 2013 compared to 2012 which decreased \$32.5 million or 36.55% as compared to 2011. The increase in operating expenses in both 2013 and 2012 is attributed to the costs incurred to regulate the casinos.
- Transfers to the State of Maryland and the Stadium Authority from lottery proceeds in 2013 were \$545.2 million, a decrease of \$11 million or -1.98% as compared to 2012, which increased \$36.9 million or 7.10% as compared to 2011.
- Gross video lottery terminal revenue was \$560.7 million in 2013, an increase of \$365.6 million or 187.39% as compared to 2012, which increased \$92 million or 89.17% as compared to 2011.
- Table games debuted in the second half of 2013. Table game revenue generated in 2013 totaled \$48 million.
- Transfers to various State agencies from video lottery terminal and table game revenue in 2013 totaled \$376.5 million, an increase of \$247.6 million or 192.16% as compared to 2012, which increased \$61.66 million or 91.72% as compared to 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Maryland Lottery and Gaming Control Agency is an independent agency of 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 VLTs and



MARYLAND LOTTERY AND GAMING CONTROL AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

the establishment of five VLT Facility locations (referred to as casinos) in the State. During the 2012 Second Special Session of the Maryland General Assembly, legislation passed, subject to voter referendum, that allowed, among other things, the implementation of table games as well as a sixth casino. During the November 2012 election, voters approved both table games and the sixth casino. The MLGCA is responsible for regulating the operations of the casinos. As of June 30, 2013, there were four casinos operational in the state with 6,830 VLTs and 154 table games.

The MLGCA 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 position; statements of revenues, expenses, and changes in net position; and statements of cash flows. The statements of net position present the assets and liabilities of the MLGCA with the difference between the two being reported as net position. The statements of revenues, expenses, and changes in net position report the revenues and expenses of the MLGCA and are used to measure the success of its 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 MLGCA 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. The notes to the financial statements can be found on pages 53 to 72 of this report.

FINANCIAL ANALYSIS

Table 1 is a summarized version of the statements of net position as of June 30, 2013, 2012 and 2011. The table reflects the MLGCA's overall change in financial resources and claims on those resources. The majority of the assets consist of cash held by the State Treasury, investments, accounts receivable and cash and cash equivalents – gaming. The MLGCA'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 gaming revenue that is to be transferred to other State agencies. The majority of the cash and cash equivalents – gaming are the operator license fees that were received from applicants applying for casino licenses. Significant liabilities represent prize awards payables, annuities payable, amounts due to the State of Maryland, amounts due to other government agencies, escrow payables related to gaming and capital lease obligations.



Table 1 — Net Position (in thousands)

	2013	2012	2011
Current Assets	\$ 222,418	\$ 176,533	\$ 173,220
Non-Current Assets	45,933	59,192	70,077
Capital Assets, net	23,826	49,230	38,433
Total Assets	\$ 292,177	\$ 284,955	\$ 281,730
Current Liabilities	\$ 231,987	\$ 194,516	\$ 181,655
Non-Current Liabilities	55,212	78,282	94,128
Total Liabilities	\$ 287,199	\$ 272,798	\$ 275,783
Net Position			
Net Investment in capital assets	\$ (7,197)	\$ (6,983)	\$ (6,882)
Unrestricted	12,175	19,140	12,829
Total Net Position	\$ 4,978	\$ 12,157	\$ 5,947

Current Assets

The MLGCA's current assets increased by \$45.9 million or 25.99% in 2013 compared to 2012 which increased by \$3.3 million or 1.91% compared to 2011. The corresponding increases and decreases are as follows:

Cash and Cash Equivalents – Gaming (which includes gaming escrow and gaming licensing deposits) increased \$48.7 million or 171.62% in 2013 compared to 2012 which increased by \$25.05 million or 756.33% to 2011. Cash and cash equivalents – gaming are primarily the funds received from applicants who applied for a casino operator license and to a lesser extent, funds received from entities and individuals seeking to receive a gaming license. The increase in 2013 is primarily related to license fees received for the sixth casino which was authorized during the 2012 Special Session of the Maryland General Assembly. In February 2013, a request for proposals was released for a sixth casino site located in Prince George's County. The law requires bidders to submit an initial license fee of \$3 million for every 500 VLTs proposed. License fees totaling \$53.1 million were received from three interested bidders.

The increase in license fees was slightly offset by the transfer of \$2.1 million to the Education Trust Fund after the award for the casino license to Rocky Gap Casino Resort and the \$2.8 million transferred to the court systems for an unsuccessful Baltimore City bid. The increase in 2012 from 2011 is attributed to license fees received for the Baltimore City and Rocky Gap casino locations. In 2012, the MLGCA received \$22.5 million in license fees from the Baltimore City casino applicant and \$2.1 million in license fees from the Rocky Gap casino applicant.

Accounts receivable increased by \$3.3 million or 7.9% in 2013 compared to 2012 which increased \$10.4 million or 33.49% compared to 2011. Accounts receivable is primarily comprised of amounts



MARYLAND LOTTERY AND GAMING CONTROL AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

Current Assets (continued)

due from lottery retailers from the sale of lottery tickets and gross terminal revenue due from the casino operators. Accounts receivable from lottery retailers increased \$780,000 or 2.16% in 2013 compared to 2012 which increased \$5.6 million or 18.24% as compared to 2011. On a weekly basis, amounts due from retailers are collected electronically from the retailers' bank accounts. On June 30, 2013, seven days of sales activity were waiting to be collected compared to six days at June 30, 2012 and four days at June 30, 2011.

Accounts receivable from casino operators increased by \$2.5 million or 46.28% in 2013 compared to 2012 which increased \$4.8 million or 851.11% compared to 2011. On a daily basis, the gross terminal revenue generated by the casinos is wired to the MLGCA. The increase in 2013 was due to four casinos generating revenue on June 30, 2013 compared to three casinos generating revenue on June 30, 2012. Furthermore, seven days of table game revenue was waiting to be transferred at the end of June 2013. The increase in 2012 from 2011 was the result of three casinos generating gross terminal revenue on June 30, 2012 compared to only two casinos on June 30, 2011. In addition, the two casinos in 2011 were much smaller in size.

The increase in current assets was offset by a decrease in cash held with the State Treasury and a decrease in the current portion of investments for annuity payments.

Cash held with the State Treasury decreased by \$1.7 million or 1.93% in 2013 compared to 2012 which decreased by \$28.9 million or 25.0% compared to 2011. 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 gaming operations, income waiting to be transferred to the State from the lottery and gaming proceeds, unpaid prizes and unclaimed prizes. Changes in these balances have a corresponding effect on the MLGCA's cash position. The decrease from 2013 to 2012 is the result of lottery revenue being less in June 2013 than in June 2012. In addition, a law change that took effect on October 2012 allowed casino operators to retain their commissions for operating the casinos. Prior to this change, MLGCA would collect the commissions and transfer them back to the casino operators at the end of each month. The decrease between 2012 and 2011 was due to there being only one month worth of lottery revenue waiting to be transferred at the end of 2012 in comparison to two months at the end of 2011. The decrease was slightly offset by an increased amount of VLT revenue waiting to be transferred. June's 2012 VLT revenue was higher than June 2011 due to the opening of the third casino.

The current portion of investments for annuity payments decreased by \$3.6 million or 21.47% from 2012 which decreased by \$4.3 million or 20.20% compared to 2011. 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 consist of investments for annuity payments, net of current portion and capital assets, net of depreciation and amortization. Non-current assets decreased by \$38.7 million or 35.66% in 2013 compared to 2012 which decreased slightly by \$88,000 or .08% compared to 2011.

Capital assets, net of depreciation and amortization, decreased by \$25.4 million or 51.60% in 2013 compared to 2012 which increased by \$10.8 million or 28.09% compared to 2011. The decrease in 2013 is attributed to a full year's worth of depreciation and amortization for certain VLTs that are treated as capital leases. Under the law, the lottery is required to own or lease the VLTs that are in the casinos. Owned VLTs are capitalized at cost and depreciated over a five-year period. Certain VLTs are leased and are treated as capital leases. These VLTs have a guaranteed lease period ranging from 12 to 18 months and are capitalized at the lower of their fair value or present value of minimum lease payments and are amortized over their guaranteed lease period. The increase in 2012 is attributed primarily to capitalizing the VLTs that met the criteria for capital leases. This increase was offset by a full year's worth of depreciation and amortization for the VLTs that were purchased for the two casinos that opened in 2011 as well as one month's amortization for certain VLTs that were leased beginning in June 2012. Details of capital assets, additions and depreciation are included in Note 4 to the financial statements, on page 65.

The Lottery's investments for annuity payments, net of current portion, decreased by \$13.3 million or 22.40% in 2013 as compared to 2012 which decreased by \$10.9 million or 15.53% as compared to 2011. 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 \$37.5 million or 19.26% in 2013 compared to 2012 which increased by \$12.8 million or 7.08% compared to 2011. The majority of the increase from 2012 to 2013 is attributed to Gaming Escrow Payable and Transfers due Other Government Agencies – VLT.

Gaming Escrow Payable increased by \$48 million or 173.65% in 2013 compared to 2012 which increased by \$24.6 million or 811.71% compared to 2011. The increase in 2013 was the result of the receipt of casino application fees totaling \$53.1 million from three bidders for the sixth casino location in Prince George's County. The increase was slightly offset by a transfer of \$2.1 million to the Education Trust Fund after the award for the Rocky Gap Casino Resort was made and the return of \$3 million to an unsuccessful bidder for the Baltimore City casino location. The increase in 2012 from 2011 is attributed to application fees received for the Baltimore City and Rocky Gap casino locations.

Transfers due to other government agencies increased by \$9.8 million or 34.83% in 2013 compared to 2012 which increased \$20.0 million or 244.28% compared to 2011. This amount represents the June VLT revenue waiting to be transferred to other government agencies. The increase in 2013 is



MARYLAND LOTTERY AND GAMING CONTROL AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

Current Liabilities (continued)

attributed to a full month of operation for Maryland Live! Casino (versus a partial month in 2012), the additional casino, Rocky Gap Casino Resort, and the implementation of table games. The increase in 2012 compared to 2011 was attributed to three casinos opened in 2012 compared to two casinos in 2011.

The increases in current liabilities in 2013 were offset primarily by decreases in Transfer due to the State of Maryland General Fund, the current portion of annuity prizes payable and the current portion of capital lease obligations.

Transfer due to the State of Maryland General Fund decreased by \$6.8 million in 2013 or 15.68% compared to 2012 which decreased by \$38.2 million or 46.94% compared to 2011. The decrease from 2013 to 2012 is attributed to lower revenue in June 2013 than in June 2012. The decrease from 2012 to 2011 is attributed to one month of lottery revenue waiting to be transferred at the end of 2012 in comparison to two months at the end of 2011.

The current portion of annuity prizes payable decreased by \$3.2 million or 18.87% in 2013 compared to 2012 which decreased \$4.3 million or 20.19% from 2011. 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 have expired.

Current portion of capital lease obligations decreased by \$11.8 million or 45.54% in 2013 compared to 2012 which increased by \$16 million or 161.59% in 2012 compared to 2011. The decrease in 2013 is attributed to the full year of lease payments of certain VLTs that met the criteria for capital leases. The increase in 2012 was attributed to the lease of certain VLTs that were leased for the casino that opened in June 2012. These machines have a guaranteed lease period ranging from 12 to 18 months and meet the criteria for a capital lease. Machine manufacturers are paid on a monthly basis.

Non-Current Liabilities

Non-current liabilities decreased by \$23.1 million or 29.47% in 2013 compared to 2012 which decreased by \$15.8 million or 16.83% compared to 2011. The decreases are primarily attributed to decreases in annuity prizes payable and capital lease obligations, net of current portion.

Annuity prizes payable decreased by \$9.5 million or 20.23% in 2013 compared to 2012 which decreased by \$11.7 million or 19.99% as compared to 2011. 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 MLGCA's non-current liabilities may be found in Notes 5, 6, and 7 to the financial statements, beginning on page 66.

Capital lease obligations, net of current portion decreased by \$13.4 million or 44.19% in 2013 compared to 2012 which decreased \$4.7 million or 13.37% compared to 2011. The decreases in both years are attributed primarily to the capital leases recognized for the VLTs leased at the casino



Non-Current Liabilities (continued)

that opened in June 2012. These VLTs have a specified lease period of 12 to 18 months making the majority of the payment due current as opposed to non-current.

Net Position

Net position decreased by \$7.2 million or 59.05% in 2013 compared to 2012 which increased by \$6.2 million or 104.41% compared to 2011. Because the MLGCA is required by law to transfer its entire budgetary basis net income to the State of Maryland and its gaming revenue to state government agencies, changes in net position do not reflect the results of the MLGCA's operating activities. Rather, changes in net position reflect differences between budgetary basis net income and net income in accordance with accounting principles generally accepted in the United States of America and the unclaimed prize fund.

The decrease in net position from 2013 to 2012 is attributed to the decrease in unrestricted assets which consists of unrealized gains or losses on investments, outstanding encumbrances and the unclaimed prize fund. The majority of this decrease is attributed to the loss on investments. The increase in net position in 2012 from 2011 is attributed primarily to the gain on investments.



MARYLAND LOTTERY AND GAMING CONTROL AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Table 2 is a summarized version of the statements of revenues, expenses, and changes in net position for the years ended June 30, 2013, 2012 and 2011.

Table 2 — Revenues, Expenses, and Changes in Net Position (in thousands)

	2013	2012	2011
Sales			
Draw games	\$ 1,270,280	\$ 1,288,089	\$ 1,220,854
Instant games	485,839	506,804	493,548
Total sales	1,756,119	1,794,893	1,714,402
Gaming Revenue — Gross Terminal Revenue	560,679	195,093	103,133
Gaming Revenue — Table Games	48,038	—	—
Gaming Revenue — State Grant	73,691	28,959	9,605
Gaming Revenue — Facility Applicants	2,704	1,791	1,342
Gaming Revenue — Terminal Assessment	2,964	1,709	—
Total Revenue	2,444,195	2,022,445	1,828,482
Cost of sales	1,409,998	1,274,624	1,202,399
Gross profit	1,034,197	747,821	663,348
Operating expenses	114,663	56,365	51,576
Income from operations	919,534	691,457	574,507
Non-operating expenses			
Unrealized gain (loss) on investments	(4,232)	811	(3,785)
Interest expense	(720)	(911)	(120)
Interest income	—	—	7
Payments to State of Maryland General Fund and Stadium Authority	(545,225)	(556,265)	(519,394)
Payments to Other Government Funds — Gaming	(376,536)	(128,881)	(67,225)
Total non-operating expenses	(926,713)	(685,246)	(590,517)
Change in Net Position	(7,179)	6,210	(16,010)
Total Net Position — beginning of year	12,157	5,947	21,957
Total Net Position — end of year	\$ 4,978	\$ 12,157	\$ 5,947



Sales

Net sales were \$1.756 billion, a decrease of \$38.8 million or 2.16% as compared to 2012, which increased \$80.5 million or 4.69% as compared to 2011.

Lottery sales are categorized as draw or instant games. Draw games are further categorized as Numbers, Monitor or Matrix games.

Draw games sales decreased \$17.8 million or 1.38% in 2013 as compared to 2012, which increased by \$67.23 million or 5.51% as compared to 2011. In 2013, sales decreases occurred in both Number games and Monitor games while Matrix games increased. In 2012, growth occurred in all draw game categories with the most significant growth occurring in the Matrix game category. In 2011, the growth in draw games sales was attributable to the Monitor and Numbers games which was offset by a slight decline in Matrix games as shown in Table 3.

Table 3 — Net Sales of Draw Games (in thousands)

	2013	2012	2011
Numbers	\$ 513,323	\$ 520,135	\$ 515,463
Monitor	493,570	521,673	496,731
Matrix	263,387	246,280	208,660
Total	\$1,270,280	\$1,288,089	\$1,220,854

Sales for the Numbers games, which are Pick 3 and Pick 4, decreased by \$6.8 million or 1.31% in 2013 as compared to 2012, which increased by \$4.7 million or .91% as compared to 2011. Pick 4 sales increased in both 2013 and 2012 by \$2.3 million or .85% and \$10.9 million or 4.28%, respectively whereas Pick 3 sales decreased in both 2013 and 2012 by \$9.0 million or 3.56% and \$6.2 million or 2.39%, 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. It is further believed that the continued decrease in Pick 3 may be the result of the continued growth in Racetrax® sales. Racetrax® offers a trifecta bet that plays like Pick 3 but has better odds of winning.

Sales for the Monitor games, which include Keno, Keno Bonus, Keno Super Bonus, Racetrax®, and Racetrax® Bonus decreased by \$28.1 million or 5.39% in 2013 as compared to 2012 which increased by \$24.9 million in 2012 or 5.02% as compared to 2011. Keno games decreased by \$42.6 million or 11% in 2013 as compared to 2012, which increased by \$6.8 million or 1.80% as compared to 2011. It is believed that the decrease in the Keno games may be attributed to the opening of the Maryland Live! Casino in June 2012.

The decrease in the Keno games was offset by the continued increase in the Racetrax® games. Racetrax® games increased by \$14.5 million or 10.8% in 2013 as compared to 2012, which increased



MARYLAND LOTTERY AND GAMING CONTROL AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

Sales (continued)

by \$18.1 million or 15.58% as compared to 2011. This game continues to grow as it is fast action and offers a trifecta which is attractive to numbers players.

Sales for Matrix games, which includes Powerball and Power Play, Mega Millions and Megaplier, Bonus Match 5, Multi-Match, and 5 Card Cash increased by \$17.1 million or 6.95% in 2013 compared to 2012, which increased by \$37.6 million or 18.03% as compared to 2011.

Of all the Matrix games, Powerball, combined with Power Play, was the only game that showed growth over 2012. Powerball and Power Play sales increased by \$48.5 million or 58.52% in 2013 compared to 2012, which increased \$25.1 million or 43.58% compared to 2011. The growth in 2013 can be attributed to the Jackpot rolling in excess of \$100 million six times. Two of these times, the Jackpot reached \$550 million and \$600 million, respectively. The majority of the growth in 2012 over 2011 can be attributed to the game changes. In January 2012, the cost of the Powerball game went from \$1 to \$2. As a result of the price increase, the starting Jackpot went from \$20 million to \$40 million, the odds of winning the Jackpot changed to 1:175 million from 1:195 million and the prize for matching the five white balls increased from \$200,000 to \$1 million.

Sales of Mega Millions, combined with Megaplier, decreased by \$39.8 million or 35.93% in 2013 compared to 2012, which increased by \$9.2 million or 9.09% in 2012. The decrease in 2013 is attributed to the lack of high Jackpots in comparison to Powerball. During 2013, the Mega Millions Jackpot only rolled in excess of \$100 million two times with the highest Jackpot reaching only \$190 million. The increase in 2012 over 2011 is attributed to the Jackpot rolling a total of 18 times between January 27, 2012, and March 30, 2012, to set a world record Jackpot of \$656 million.

Bonus Match 5 sales decreased by \$788,000 or 3.61% in 2013 compared to 2012, which increased by \$478,000 or 2.23% compared to 2011. Multi-Match sales decreased by \$2 million or 6.36% in 2013 compared to 2012, which increased by \$2.8 million or 9.88% compared to 2011. The increases/decreases in Multi-Match between the years are attributed to Jackpot amounts. Multi-Match Jackpots in 2013 were lower than in 2012, which were higher than in 2011.

In November 2012, a new game, 5 Card Cash was launched. 5 Card Cash is two draw games in one. It is based on a standard poker game using a 52 card playing deck and has both an instant win feature as well as a nightly drawing. For \$2, the player receives five randomly selected cards. If the cards show a poker hand of jacks or better, the player wins instantly. In addition, there is a nightly drawing where five cards are drawn and players win by matching 2, 3, 4 or 5 of the cards in the same suit and rank. Sales for this game in 2013 totaled \$11.2 million.

Instant games are the second category of lottery game offered to the public. Instant game sales decreased by \$21 million or 4.14% in 2013 as compared to 2012, which increased by \$13.3 million or 2.69% as compared to 2011 as shown in Table 4. It is believed that the decrease in instant game sales can be attributed to the Federal sequestration and the opening of the casinos. Since Maryland has such a large number of government workers, it is believed that the Federal sequestration significantly



Sales (continued)

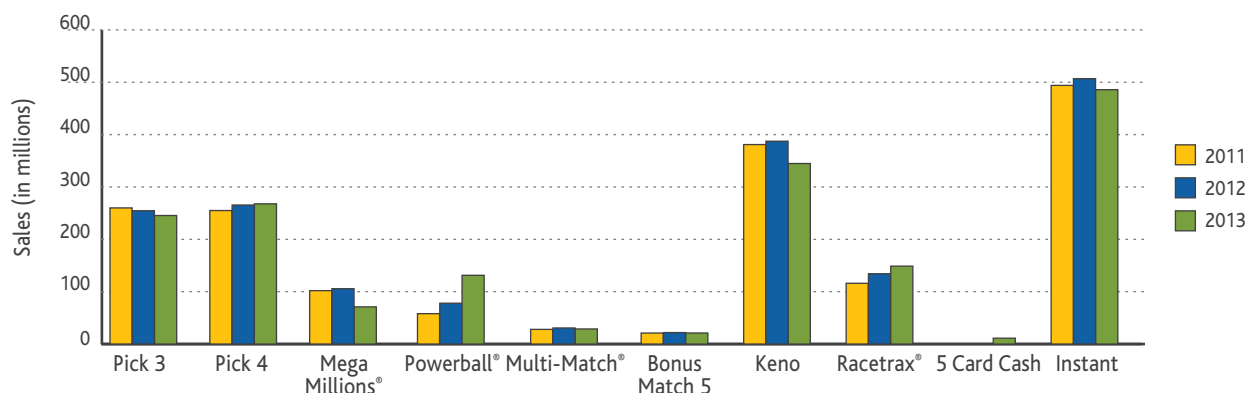
affected the discretionary income of instant ticket players. It is also believed that the opening of all of the casinos has affected instant ticket sales as the casinos offer instant gratification and provide a greater entertainment value. The increase in instant ticket sales in 2012 can be attributed to a change in the MLGCA's strategy for instant ticket launches. During 2012, the MLGCA increased the print run of the instant tickets and concentrated on producing more \$5 price point tickets. The majority of the growth in 2012 occurred in the \$5 price point tickets.

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

	2013	2012	2011
\$1	\$ 28,406	\$ 31,879	\$ 38,541
\$2	47,443	46,444	51,880
\$3	40,532	44,889	44,970
\$5	191,378	209,574	191,775
\$10	115,902	109,107	100,725
\$20	62,178	64,911	65,657
Total	\$ 485,839	\$ 506,804	\$ 493,548

The following graph depicts the MLGCA's on-line and instant sales for 2013, 2012, and 2011. Keno, Keno Bonus and Keno Super Bonus sales (labeled as Keno for the chart below) have been combined as have Racetrax[®] and Racetrax[®] Bonus sales (labeled as Racetrax for the chart below), Mega Millions and Megaplier (labeled as Mega Millions for the chart below), and Powerball and Power Play (labeled as Powerball for the chart below).

Sales — Fiscal Years 2013, 2012 and 2011





MARYLAND LOTTERY AND GAMING CONTROL AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

Gaming Revenue — Gross Video Lottery Terminal Revenue, Table Game Revenue, State Grant, Facility Applicants Fees and Gaming Assessment

Gaming Revenue – Gross Terminal Revenue (GTR) represents the revenue generated by the VLTs net of total payouts. Gross Terminal Revenue in 2013 totaled \$560.7 million, an increase of \$365.6 million or 187.3% over 2012, which increased \$92.0 million or 89.17% over 2011. The increase in 2013 is attributed to a full year of operation for the Maryland Live! Casino and, to a lesser extent, the opening of the Rocky Gap Casino Resort on May 22, 2013. The overall increase in 2013 was slightly offset by a decrease in revenue at the Hollywood Casino – Perryville. The decrease in 2013 at the Hollywood Casino – Perryville can also be attributed to the opening of the Maryland Live! Casino which offers more VLTs and is located in the Baltimore Metropolitan area. The increase from 2011 to 2012 is attributed to a full year of operation for both the Hollywood Casino – Perryville and the Casino at Ocean Downs and the opening of the Maryland Live! Casino in June 2012. The following table shows VLT statistics for the casinos.

Table 5 — Gross Terminal Revenue Statistics

<u>Casinos</u>	<u>Date Opened</u>	<u>Number of Machines as of June 30, 2013</u>	<u>2013 GTR (in millions)</u>	<u>2012 GTR (in millions)</u>	<u>2011 GTR (in millions)</u>
Hollywood Casino — Perryville	September 27, 2010	1,158	\$ 76.0	\$ 118.1	\$ 82.7
Casino at Ocean Downs	January 4, 2011	800	50.5	48.0	20.4
Maryland Live! Casino	June 6, 2012	4,314	431.4	29.0	–
Rocky Gap Casino Resort	May 22, 2013	558	2.8	–	–
Total		6,830	\$ 560.7	\$ 195.1	\$ 103.1

Table Game Revenue — During the 2012 Second Special Session of the Maryland General Assembly, legislation was passed, subject to voter referendum, that authorized table games at the casinos. During the November 2012 election, voters ratified the legislation and table games debuted in March 2013. Table game revenue generated in 2013 totaled \$48 million. The following table shows table game statistics for the casinos.

Table 6 — Table Game Revenue Statistics

<u>Casinos</u>	<u>Date Tables Debuted</u>	<u>Number of Tables as of June 30, 2013</u>	<u>Table Games Revenue 2013 (in millions)</u>
Hollywood Casino — Perryville	March 6, 2013	22	\$ 6.0
Maryland Live! Casino	April 11, 2013	122	41.6
Rocky Gap Casino Resort	May 22, 2013	10	0.4
Casino at Ocean Downs	–	–	–
Total		154	\$ 48.0



Gaming Revenue — Gross Video Lottery Terminal Revenue, Table Game Revenue, State Grant, Facility Applicants Fees and Gaming Assessment (continued)

For the gaming operations, the Gross Terminal Revenue is required to be transferred to specified Government agencies to be used for certain purposes or is retained by the casinos and the MLGCA to assist in covering the costs of the operations. The MLGCA retains 2% of the Gross Terminal Revenue to help fund the gaming operations. All casinos, with the exception of the Rocky Gap Casino Resort, retain 33% of the Gross Terminal Revenue. Rocky Gap Casino Resort retains 50% of the Gross Terminal Revenue. For Table Game revenue, 20% of the revenue is required to be transferred to the Education Trust Fund and the remaining 80% is retained by the casino operators. The table below shows the overall disbursements and allocations.

Table 7 — 2011 through 2013 Gaming Revenue Disbursements/Allocations

Fund	2013 Disbursements	2012 Disbursements	2011 Disbursements
Maryland Education Trust Fund	\$ 284.5	\$ 94.6	\$ 49.9
Casino Operators	223.9	64.4	34.0
Horse Purse Dedication	39.1	13.7	7.2
Local Impact Grants	30.8	10.7	5.7
Race Tracks Facility Renewal Accounts	10.8	4.9	2.6
Maryland Lottery and Gaming Control Agency	11.2	3.9	2.1
Small, Minority and Women-Owned Business	8.4	2.9	1.6
Total	\$ 608.7	\$ 195.1	\$ 103.1

Gaming Revenue – State Grant represents funds received from the State of Maryland to help pay for the costs of the gaming operations. Gaming Revenue State Grant increased by \$44.7 million or 154.46% in 2013 compared to 2012, which increased \$19.35 million or 201.50% compared to 2011. The increase in both 2013 and 2012 is due to the increased funding needed to pay for the maintenance, purchase and leasing of the VLTs. In 2013, a full year's worth of funding was needed to pay for the machines at Maryland Live! Casino in comparison to one month's worth of funding in 2012. The increase in 2012 from 2011 was the result of a full year's worth of funding for both Hollywood Casino – Perryville and The Casino at Ocean Downs, whereas in 2011 only a partial year's worth of funding was needed for both casinos.

Facility Applicant Fees represents money received to perform background investigations on applicants who have applied for a gaming license. Facility Applicant Fees increased by \$912,000 or 50.95% in 2013 compared to 2012 which increased by \$450,000 or 33.5% in 2012 compared to 2011. The increase in 2013 is attributed to the debut of table games at three of the casinos which required the hiring of additional casino staff, the opening of the Rocky Gap Casino Resort in May 2013 and the turnover experienced at all of the casinos. The increase in 2012 from 2011 was attributed to the opening of Maryland Live! Casino.



MARYLAND LOTTERY AND GAMING CONTROL AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

Gaming Revenue — Gross Video Lottery Terminal Revenue, Table Game Revenue, State Grant, Facility Applicants Fees and Gaming Assessment (continued)

Gaming Assessments represents assessments made to casino operators based on the maximum number of VLTs on the floor during the fiscal year and the number of table games on the floor as of the end of the fiscal year. In accordance with the law, casino operators are assessed a yearly fee of \$425 per VLT and \$500 per table. These funds are collected by the MLGCA and subsequently remitted to the Department of Health and Mental Hygiene's Problem Gambling Fund. Gaming Assessments increased by \$1.3 million or 73.46% in 2013 compared to 2012. The increase in 2013 is due to more VLTs in service in 2013 and the implementation of table games.

Cost of Sales

Cost of sales consists of lottery prize expense, lottery retailer commissions, casino operator commissions, costs paid to vendors to operate and maintain the lottery system and the gaming system, and costs paid for the printing and delivery of instant games. In 2013, the MLGCA reclassified commissions paid to casino operators from operational expenses to cost of sales. As such, costs of sales have been restated for 2012 and 2011 to reflect this change.

Cost of sales increased by \$135.4 million or 10.62% in 2013 compared to 2012 which increased \$72.2 million or 6.01% compared to 2011. The increase in 2013 is primarily attributed to the increase in casino operator commissions. Commission paid to casino operators increased by \$159.5 million or 247.82% in 2013 compared to 2012 which increased by \$30.3 million or 89.17% compared to 2011. The increase in 2013 in casino operator commissions is primarily attributed to a full year of operation of the Maryland Live! Casino versus less than a full month of operation in 2012. To a lesser extent, the 2013 increase is the result of the opening of the Rocky Gap Casino Resort in May 2013 and the implementation of table games. The increase in 2012 from 2011 is the result of a full year of operation for both Hollywood Casino – Perryville and the Casino at Ocean Downs as well as a partial month of operation for the Maryland Live! Casino.

Commissions paid to lottery retailers increased by \$1.5 million or 1.25% in 2013 compared to 2012 which increased \$4.6 million or 4.06% compared to 2011. Typically, increases and decreases in commission are a function of sales as retailers receive a percentage of all tickets sold and cashed at their location. Although sales decreased in 2013, commission paid to retailers increased as a result of a change in the commission fees earned. In January 2013, sales commission earned by retailers increased from 5% to 5 ½%. The increase in 2012 from 2011 is attributed to the overall increase in sales from 2011 to 2012.

The increase in cost of sales is partially offset by a decrease in prize expense in 2013. Prize expense decreased by \$27.2 million or 2.55% in 2013 compared to 2012 which increased by \$36.6 million or 3.56% from 2011. There is a direct correlation between prize expense and sales. As such, the decrease in 2013 is the direct result of the decrease in sales, whereas the increase in 2012 is the direct result of an increase in sales.



Operating Expenses

Operating expenses increased by \$58.3 million or 103.43% in 2013 compared to 2012 which decreased \$4.8 million or 9.29% compared to 2011. In 2013, the MLGCA reclassified casino operator commissions from operating expenses to costs of sales. As such the statements have been restated to reflect this change.

Fluctuations in operating expenses are primarily due to changes in the MLGCA's budgetary appropriation or the timing of liquidating prior year encumbrances. While lottery operating expenses and encumbrances have remained relatively stable for the past several years, the operating expenses of the gaming program increased significantly in 2013, 2012 and 2011. Administrative Expenses – Gaming increased by \$63.8 million or 268.29% in 2013 compared to 2012 which increased by \$14.1 million or 146.30% compared to 2011. The increase in 2013 is attributed primarily to a full year of lease payments on the VLTs at the Maryland Live! Casino versus a partial month payment in 2012. The increase in 2012 from 2011 is the result of a full year of payments made for the maintenance, lease and purchase of the VLTs at the Hollywood Casino – Perryville and the Casino at Ocean Downs versus a partial year of payments in 2011.

Depreciation and amortization also contributed to the increase in the total operating expenses. Depreciation and amortization increased by \$14.6 million or 134.85% in 2013 compared to 2012 which increased \$3.6 million or 49.06% compared to 2011. The increase in 2013 is primarily attributed to a full year's worth of amortization for certain leased VLTs compared to a partial month of amortization in 2012. These VLTs had a minimum lease period of either 12 or 18 months. The increase in 2012 from 2011 is attributed to a full year's worth of depreciation for the VLTs purchased in 2011 and one month's worth of amortization for certain VLTs leased at the casino that opened in June 2012.

Non-operating Expenses

Non-operating expenses increased by \$241.5 million or 35.24% in 2013 compared to 2012 which increased \$94.7 million or 16.04% compared to 2011. 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 Agencies.

The MLGCA 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 MLGCA is discussed in more detail beginning on page 63.

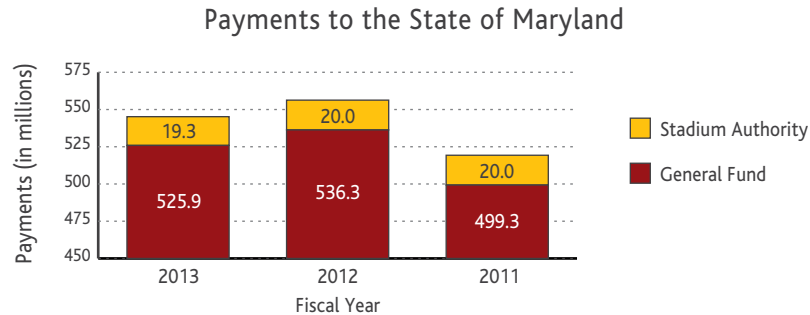
The MLGCA is required by State law to transfer its budgetary basis net income to the State of Maryland (General Fund and Stadium Authority) from its lottery operations. Furthermore, it is required to transfer revenue from its gaming operations to various government agencies. Accordingly, the MLGCA's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



MARYLAND LOTTERY AND GAMING CONTROL AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-operating Expenses (continued)

Transfers to the State of Maryland General Fund and Stadium Authority totaled \$545.2 million in 2013, a decrease of \$11 million or 1.98% compared to 2012 which increased \$36.9 million or 7.38% compared to 2011. The decrease in 2013 from 2012 is the result of the decline in lottery sales and conversely, the increase in 2012 from 2011 is the result of an increase in lottery sales. The graph below depicts the payments made to the State of Maryland for 2013, 2012, and 2011.



Transfers to Other Government Funds/Agencies increased by \$247.7 million in 2013 or 192.16% from 2012 which increased by \$61.7 or 91.72% from 2011. Table 7 on page 45 provides a breakdown of the various accounts. Funds retained by the MLGCA are not included in the increases noted for non-operational expenses. The increase in 2013 is primarily attributed to a full year of operation for the Maryland Live! Casino (versus a partial month in 2012), the opening of the Rocky Gap Casino Resort and the debut of table games. The increase in 2012 from 2011 was attributed to a full year of operation for both Hollywood Casino – Perryville and the Casino at Ocean Downs (versus a partial year in 2011) and to a lesser extent, the opening of the Maryland Live! Casino in June 2012.

Contacting the Lottery's Financial Management

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

MARYLAND LOTTERY AND GAMING CONTROL AGENCY
STATEMENTS OF NET POSITION



	As of June 30	
	2013	2012
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,267,343	\$ 3,024,180
Cash and cash equivalents — Gaming	75,616,457	27,633,026
Cash and cash equivalents — Restricted — Gaming Licensing Deposits	1,324,050	605,632
Cash and cash equivalents — Agent	103,550	125,703
Cash held with State Treasury	84,922,096	86,593,206
Accounts receivable — Lottery	36,834,692	36,054,797
Accounts receivable — Gaming	7,916,886	5,412,100
Prepaid commissions	43,599	35,106
Current portion of investments for annuity payments	13,388,987	17,049,540
Total current assets	222,417,660	176,533,290
Non-current assets:		
Capital assets, net of accumulated depreciation and amortization	23,826,160	49,229,808
Investments for annuity payments, net of current portion	45,933,461	59,192,221
Total non-current assets	69,759,621	108,422,029
Total assets	\$ 292,177,281	\$ 284,955,319
Liabilities and Net Assets:		
Current liabilities:		
Current portion of annuity prizes payable	\$ 13,388,987	\$ 16,453,027
Current portion of employee related payables	1,789,144	1,473,326
Current portion of capital lease obligation	14,110,640	25,909,450
Transfer due to State of Maryland General Fund	36,447,376	43,226,579
Transfer due to Other Government Agencies — Gaming	38,052,948	28,222,797
Prize awards payable	41,094,928	42,818,322
Accounts payable and accrued expenses	2,884,080	3,150,247
Accounts payable and accrued expenses — Gaming	4,155,859	1,589,418
Gaming Licensing Deposits	1,152,763	396,259
Gaming Escrow Payable	75,616,457	27,633,026
Agent Escrow Payable	103,550	125,703
Unearned revenue	2,362,764	2,684,438
Taxes and other liabilities	827,337	833,184
Total current liabilities	231,986,833	194,515,776
Non-current liabilities:		
Annuity prizes payable, net of current portion	37,783,258	47,406,876
Employee related payables, net of current portion	516,299	571,773
Capital lease obligation, net of current portion	16,912,542	30,303,350
Total non-current liabilities	55,212,099	78,281,999
Total liabilities	\$ 287,198,932	\$ 272,797,775
Net Position:		
Net investment in Capital Assets	\$ (7,197,022)	\$ (6,982,992)
Unrestricted	12,175,371	19,140,536
Total net position	4,978,349	12,157,544
Total liabilities and net position	\$ 292,177,281	\$ 284,955,319

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



MARYLAND LOTTERY AND GAMING CONTROL AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years ended June 30	
	2013	2012
Sales:		
Draw games	\$ 1,270,280,595	\$ 1,288,088,749
Instant games	485,838,672	506,803,706
Total Sales	1,756,119,267	1,794,892,455
Gaming Revenue — Gross Terminal Revenue	560,679,031	195,093,073
Gaming Revenue — State Grant	73,690,820	28,959,177
Gaming Revenue — Table Games	48,037,794	-
Gaming Revenue — Facility Applicants	2,703,989	1,791,260
Gaming Revenue — Machine Assessments	2,964,174	1,708,825
Total Revenue	2,444,195,075	2,022,444,790
Cost of sales:		
Prize expense	1,038,475,788	1,065,653,665
Retailer commissions	119,788,227	118,305,427
Casino commissions	223,930,473	64,380,714
Gaming vendor and data processing fees	21,368,102	20,077,153
Instant ticket printing and delivery	6,435,341	6,206,543
Total Cost of Sales	1,409,997,931	1,274,623,502
Gross Profit	1,034,197,144	747,821,288
Operating expenses:		
Salaries, wages and benefits	16,929,270	15,662,232
Advertising and promotions	13,297,155	12,592,589
Depreciation and amortization	25,403,648	10,817,070
Other general and administrative expenses	59,032,711	17,293,017
Total Operating Expenses	114,662,784	56,364,908
Income from Operations	919,534,360	691,456,380
Non-operating revenues (expenses):		
Investment revenue (loss)	(640,822)	5,438,482
Amortization of discount for annuity prize liabilities	(3,590,833)	(4,627,389)
Interest expense	(719,832)	(911,404)
Payments to State of Maryland General Fund	(525,960,121)	(536,264,804)
Payments to State of Maryland Stadium Authority	(19,265,000)	(20,000,000)
Payments to Other Governmental Funds/Agencies — Gaming	(376,536,947)	(128,881,213)
Total Non-Operating Expenses	(926,713,555)	(685,246,328)
Change in Net Position	(7,179,195)	6,210,052
Total Net Assets — Beginning of year	12,157,544	5,947,492
Total Net Assets — End of year	\$ 4,978,349	\$ 12,157,544

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

MARYLAND LOTTERY AND GAMING CONTROL AGENCY
STATEMENTS OF CASH FLOWS



	Years ended June 30	
	2013	2012
Cash flows from operating activities:		
Receipts from customers	\$ 2,489,218,420	\$ 2,037,011,327
Payments to suppliers	(96,022,934)	(61,320,753)
Payments to employees	(20,928,539)	(12,382,245)
Payments to agents	(341,242,754)	(184,179,986)
Prize payments/awards to players	(1,039,420,519)	(1,067,073,409)
Net cash and cash equivalents provided by operating activities	991,603,674	712,054,934
Cash flows from noncapital financing activities:		
Transfers to the State of Maryland General Fund and Stadium Authority	(552,005,563)	(594,497,091)
Transfers to Other Government Funds/Agencies — Gaming	(366,276,348)	(108,856,144)
Transfers from VLT Special Fund to General Fund	(376,061)	361,890
Prize payments/awards	(17,062,994)	(21,379,996)
Net cash and cash equivalents used in noncapital financing activities	(935,720,966)	(724,371,341)
Cash flows from capital and related financing activities:		
Payments of capital lease obligations	(25,189,618)	(10,286,806)
Interest payments	(719,832)	(796,621)
Net cash and cash equivalents used in capital and related financing activities	(25,909,450)	(11,083,427)
Cash flows from investing activities:		
Coupon bonds purchased	(784,505)	(742,734)
Proceeds from matured annuities and bonds	17,062,996	21,379,996
Net cash and cash equivalents provided by investing activities	16,278,491	20,637,262
Net increase (decrease) in cash and cash equivalents	46,251,749	(2,762,572)
Cash and cash equivalents, beginning of year	117,981,747	120,744,319
Cash and cash equivalents, end of year	\$ 164,233,496	\$ 117,981,747
Noncash investing and financing activities:		
Acquisition of equipment through capital lease	\$ -	\$ 21,613,167
Change in fair value of investments	\$ (4,231,655)	\$ 811,093



MARYLAND LOTTERY AND GAMING CONTROL AGENCY
STATEMENTS TO CASH FLOWS (CONTINUED)

	Years ended June 30	
	2013	2012
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:		
Operating income	\$ 919,534,360	\$ 691,456,380
Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	25,403,648	10,817,070
Deferred prize payments	784,505	742,734
Due to DHMH Problem Gambling Program	-	(1,708,825)
Effect of changes in operating assets and liabilities:		
Accounts receivable	(3,284,681)	(10,403,994)
Prepaid commissions	(8,493)	13,577
Accounts payable and accrued expenses	50,964,996	23,258,832
Employee related payables	260,344	243,228
Taxes and other liabilities	(5,847)	461,344
Prize awards payable	(1,723,394)	(2,629,135)
Unearned revenue	(321,764)	(196,277)
Net cash and cash equivalents provided by operating activities	\$ 991,603,674	\$ 712,054,934

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



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LEGISLATIVE ENACTMENT

The Maryland Lottery and Gaming Control Agency (MLGCA) 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 MLGCA commenced operations on January 2, 1973.

The mandate of the 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 State. The Governor, with the advice and consent of the Senate of Maryland, appoints the Director and the Commission members.

During the 2007 special session of the Maryland General Assembly, Chapter 4 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 casinos at specified locations throughout the State.

On August 14, 2012, Senate Bill 1 – Gaming Expansion – Video Lottery Terminals and Table Games passed the 2012 Second Special Session of the Maryland General Assembly. This bill contained many provisions concerning gaming operations and certain provisions that were subject to voter referendum. The provisions which were subject to voter referendum passed during the November 6, 2012 election and allowed for a sixth casino at a site in Prince George's County, increased the maximum number of video lottery terminals allowed in the State from 15,000 to 16,500, established table games and allowed for 24-7 operations.

The MLGCA, in conjunction with its Commission, serves as the regulator of the gaming program and is responsible for regulating the casinos, licensing the casino operators and all other entities and individuals requiring a gaming license, the purchase or lease of all VLTs and the collection and disbursement of VLT gross terminal revenue and table game revenue in accordance with the law.

The MLGCA 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 State of Maryland prepares a comprehensive annual financial report (CAFR). The MLGCA 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 MLGCA 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,



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the MLGCA 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

Revenue from lottery games originates from two product lines: draw games and instant games. The MLGCA 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 draw and instant lottery sales. Retailers also cash winning tickets up to certain dollar amounts. Prior to January 1, 2013, retailers earned a 5% sales commission. Effective January 1, 2013, the sales commission increased to 5 ½%. For the years ended June 30, 2013 and 2012, retailers received a cashing commission of 3% of prizes redeemed in their establishment.

Licensed lottery agents sell draw game lottery tickets to the public through the use of computerized terminals. Draw games are categorized as: Numbers (Pick 3 and Pick 4), Matrix (Multi-Match, Mega Millions/Megaplier, Powerball/Power Play, Bonus Match 5 and 5 Card Cash) and Monitors (Keno, Keno Bonus®, Keno Super Bonus, Racetrax® and Racetrax® Bonus). Draw 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 is deferred until the drawings are held and is reported as unearned revenue on the accompanying statements of net position. Revenue from instant games is recognized when the retailer activates the book of tickets.

Prize obligations for draw games are determined and recognized after each drawing is held. For all draw 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. 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.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GAMING OPERATIONS (VLTs AND TABLE GAMES) — REVENUE RECOGNITION AND PRIZE OBLIGATIONS

As of the end of fiscal year 2013, four casinos were in operation with a total of 6,830 VLTs. 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 are netted against total video credits played. The MLGCA recognizes VLT revenue as “gross terminal revenue” equivalent to all wagers, net of related prizes.

In accordance with the law, three of the casino operators receive 33% of the gross terminal revenue to operate their casinos, while the fourth casino operator receives 50% of the gross terminal revenue. Prior to October 1, 2012, the enabling legislation required, the MLGCA to collect 100% of the gross terminal revenue and then return the casino operator’s share. Effective, October 1, 2012, the enabling legislation allowed the casino operators to retain their share of the gross terminal revenue. During fiscal year 2012, the casino operators share was classified as an operating expense. For fiscal year 2013, the casino operators share is classified as cost of sales and accordingly, the fiscal year 2012 casino operators share has been reclassified. The MLGCA retains 2% of the gross terminal revenue to help fund the operations of the VLT program. The enabling legislation requires the MLGCA to disburse the remainder of the gross terminal revenue to other government agencies, which in turn are responsible for making further distributions.

On March 6, 2013, table games opened at one of the casinos. By the end of fiscal year 2013, there were 154 table games in operation at three of the casinos. Table games include blackjack, roulette, craps and various poker games. Table game revenue is equivalent to all wagers, net of related prizes. Casino operators receive 80% of the table game revenue to operate their casino. These costs are recorded as cost of sales. The remaining 20% is remitted to the MLGCA who in turn transfers it to the Education Trust Fund in accordance with the enabling legislation.

To further help fund the operations of the gaming program, the State provided grants to the MLGCA during fiscal years 2013 and 2012 in the amount of \$73,690,820 and \$28,959,177, respectively.

Administrative expenses for the gaming program are recognized as they are incurred. The majority of the expenses incurred for the VLT program are for the purchase and lease of the VLTs. VLTs that were purchased by the MLGCA were financed through the State Treasurer’s Office and are treated as a capital lease for financial statement purposes. The leased VLTs are comprised of VLTs that have no minimum lease period or VLTs that have a minimum lease period of 12 or 18 months. For the VLTs that do not have a minimum lease period, the MLGCA treats these payments as an administrative expense and recognizes the expense when incurred. For the VLTs that have a minimum lease period, the majority of them meet the criteria for capital leases and are treated as such for financial statement purposes.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING AND NON-OPERATING REVENUES AND EXPENSES

Operating revenues and expenses for proprietary funds such as the MLGCA are revenues and expenses that result from providing services and producing and delivering goods and/or services. Operating revenues for the MLGCA are derived from providing various types of lottery games, VLT games and table games. Operating expenses for lottery games include the costs to operate the various games, pay prize winners, and administrative expenses. Operating expenses for gaming operations 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 — GAMING ESCROW

Cash and Cash Equivalents — Gaming Escrow consists of funds deposited in escrow with a financial institution and the related interest earned. The monies deposited are primarily application fees received from casino 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 year 2013, the MLGCA received \$53,100,000 in application fees from three bidders interested in bidding on the sixth casino location in Prince George's County. During fiscal year 2013, the MLGCA transferred \$2,100,000 to the Education Trust Fund after the award for the Rocky Gap Casino Resort and transferred \$2,798,798 to the court systems for an unsuccessful bidder in Baltimore City.

Secondarily, the account is used to facilitate the receipt of other license fees that are received from applicants wanting to obtain a gaming license from the MLGCA. The total amount of the fees received varies based on the type of license to be issued. Such amounts are temporarily deposited into a separate Gaming Escrow sub account and are subsequently withdrawn and deposited into the Gaming 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 — RESTRICTED — GAMING LICENSING DEPOSITS

Cash and Cash Equivalents — Restricted — Gaming Licensing Deposits account is used to record the receipt of license related fees and investigation deposits that are received from applicants wanting to obtain a gaming license. Under the law, the MLGCA is charged with issuing the following licenses: manufacturer, contractor, vendor, principal employee, gaming employee and non-gaming employee.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For gaming and non-gaming license applicants, the MLGCA receives the following fees: application, license and fingerprint to help cover the costs of licensing these applicants. All of these types of fees are recorded as revenue after the specific applicant and type of fee received is determined. At the end of each month, these fees are transferred to the Gaming Special Fund account.

For principal employee applicants, in addition to the aforementioned fees, the MLGCA also receives a background investigation deposit which is used to pay the investigation costs for the principal employee applicant. These deposit amounts remain in Cash and Cash Equivalents – Restricted – Gaming Licensing Deposits and are recorded as a licensing deposit liability until the investigation is completed. To the extent that the investigation deposit is greater than the costs incurred for the investigation, the monies are refunded to the applicant. To the extent that the investigation deposit is less than the costs incurred for the investigation, the applicant is billed for the deficit. After the investigation is completed, the deposit is recorded as revenue and is transferred to the Gaming Special Fund account.

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 MLGCA in lieu of obtaining a bond.

ACCOUNTS RECEIVABLE — LOTTERY

Accounts receivable represents the amounts due from lottery retailers from the sale of lottery tickets. The MLGCA utilizes the allowance method to provide for doubtful accounts based on management's evaluation of the collectability of accounts receivable. The MLGCA 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, 2013 and 2012, management believes all Accounts Receivable – Lottery are collectible, and, as such, no allowance for doubtful accounts has been recorded.

ACCOUNTS RECEIVABLE — GAMING

Accounts Receivable — Gaming applicants represent outstanding amounts due that have been billed to applicants for completed background investigations and amounts due from VLT manufacturers for liquidated damages.

In addition, this amount includes the amount of gross terminal revenue and table game revenue due from the casino operators. Gross terminal revenue is collected on a daily basis. Also included in the June 2013 balance is the amount due from the casino operators for the \$425 VLT assessment and the \$500 table game assessment that is due to the Problem Gaming Fund. Management believes that all Accounts Receivable – Gaming are collectible, and as such, no allowance for doubtful accounts has been recorded.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS

The MLGCA 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 FOR ANNUITY PAYMENTS

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 MLGCA and stated at fair value based on quoted market prices of similar instruments. Investments in annuity contracts are purchased in the name of the MLGCA and stated at present value, which approximates fair value.

COMPENSATED ABSENCES

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

PAYMENTS TO THE STATE OF MARYLAND

The law requires the MLGCA to transfer its lottery 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 position.

The law further requires the MLGCA to transfer its gaming revenue to various governmental agencies. In addition to the required transfers, the MLGCA retains 2% of the gross terminal revenue to help fund the costs of operations, three of the casinos receive 33% of the gross terminal revenue and one of the casinos receives 50% of the gross terminal revenue to help fund the costs of their operations, and all casinos receive 80% of the table game revenue to help fund the costs of their operations.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On a monthly basis, the MLGCA transfers these funds as follows:

- 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.
- Prior to October 1, 2012, a transfer of 2.5% of the gross terminal revenue, not to exceed a total of \$40 million annually, was made to the State's Racing Commission into the Racetrack Facility Renewal Account. Effective October 1, 2012, this percentage was reduced to 1.5%.
- 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.
- A transfer is made to the State's Department of Education into the Education Trust Fund. The transfer amount for the gross terminal revenue varied during fiscal year 2013 as this fund receives the remainder of the gross terminal revenue after all other transfers have been made. The decrease in the contribution to the Racetrack Facility Renewal Account increased the overall amount transferred to the Education Trust Fund, while the 50% retained by the one casino versus the 33% retained by the other casinos decreased the amount transferred. For fiscal year 2013, the Education Trust Fund received 46.7% of the gross terminal revenue. In addition to a percentage of gross terminal revenue, the Education Trust Fund received 20% of the table game revenue.

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

A summary of the total game revenue and the distributions for the years ended June 30, 2013 and 2012, respectively follows:

Distribution	Fiscal Year 2013 Amount	Fiscal Year 2012 Amount
Education Trust Fund	\$ 284,521,586	\$ 94,620,140
Local Impact Grants	30,760,321	10,730,119
Purse Dedication	39,121,491	13,656,515
Racetracks Facility Renewal	10,780,196	4,877,327
Small, Minority and Women Owned Businesses	8,389,179	2,926,396
Maryland Lottery and Gaming Control Agency	11,213,581	3,901,862
Casino Operators	223,930,473	64,380,714
Total	\$ 608,716,827	\$ 195,093,073



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESTRICTED ASSETS

State law restricts the MLGCA's assets in their entirety. The MLGCA'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 MLGCA's operations.

NET POSITION

Net position is presented as either unrestricted or net investment in capital assets. Net investment in capital assets represents the difference between capital assets net of accumulated depreciation and amortization 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, State of Maryland General Fund or payments to Other Governmental Agencies.

NEW ACCOUNTING PRONOUNCEMENTS

The MLGCA has implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—and amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53* for the fiscal year ended June 30, 2013. None of these statements had a material impact of the MLGCA's financial position; however, GASB Statement No. 63 did require the renaming of net assets to net position.

GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62* effective for periods beginning after December 15, 2012. GASB has also issued Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees* effective for reporting periods beginning after June 15, 2013. GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, has been issued for reporting periods effective after December 15, 2013 and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* has been issued for reporting periods effective after June 15, 2014. The MLGCA is in the process of assessing the impact of these statements and will implement them as of the effective dates.

RECLASSIFICATION

Certain amounts presented in the 2012 financial statements have been reclassified to conform to the 2013 presentation.



2. CASH AND CASH EQUIVALENTS

As of June 30, 2013 and June 30, 2012, the carrying amounts of deposits with financial institutions were \$79,311,400 and \$31,388,541, respectively. The corresponding bank balances were \$78,774,408 and \$30,863,211 as of June 30, 2013 and June 30, 2012, respectively.

As of June 30, 2013 and June 30, 2012, the amount on deposit with the Maryland State Treasury was \$84,922,096 and \$86,593,206, respectively. The corresponding Maryland State Treasury balances were \$12,688,352 and 16,859,587, 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 MLGCA does not obtain interest on funds deposited with the State Treasury. As of June 30, 2013 and 2012, the MLGCA's deposits with the State Treasury were less than 2% of the total deposits with the State Treasury.

Custodial credit risk — Custodial credit risk is the risk that in the event of a bank failure, the MLGCA's deposits will not be returned to it. The MLGCA'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 MLGCA'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, 2013 and 2012, 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.



2. CASH AND CASH EQUIVALENTS (CONTINUED)

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 and the Federal Home Loan Mortgage Corporation. As of June 30, 2013, these investments are 38.99% and 35.02% of the State of Maryland's internal investment pool total investments, respectively. As of June 30, 2012, these investments were 40.54% and 46.35% of the State of Maryland's internal investment pool total investments, respectively.

3. INVESTMENTS

UNITED STATES GOVERNMENT TREASURY BONDS

It is the MLGCA'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 MLGCA to hold these investments to maturity. The investment maturities approximate the annuity prizes payable installment due dates.

The MLGCA 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 .173% to 8.4%. As of June 30, 2013 and June 30, 2012, the MLGCA's United States Government Treasury Bonds totaled \$59,094,730 and \$75,972,649 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 position 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 position.

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, 2013 and June 30, 2012, MLGCA United States Government Treasury Bonds totaling \$33,908,243 and \$59,688,802, respectively, were lent as part of this program. The State Treasurer's Office controls the program and authorizes all transactions. The State's (and MLGCA'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



3. INVESTMENTS (CONTINUED)

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% 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, 2013 and 2012, the related collateral for the MLGCA securities lent totaled \$34,651,503 and \$60,940,096, respectively, resulting in 102.2% as of June 30, 2013 and 2012, collateralization of the fair value of the MLGCA securities lent. The benefit of collateral received or income earned is not passed onto the MLGCA and therefore not reflected in the MLGCA's financial statements.

Either the State or the borrower may terminate the lending agreements on demand. Lending agreements are usually short in duration. The duration of the lending agreements is matched with the term to maturity of the investment of the cash collateral by investing only in repurchase agreements. Such matching existed at year-end. The State's custodial bank is obligated to indemnify the State against liability for any suits, actions, or claim of any character arising from or relating to the performance of the bank under the contract, except for liability caused by acts or omissions of the State. The State did not experience any losses on their securities lending transactions for the years ended June 30, 2013 and 2012.

ANNUITY CONTRACTS

Certain investments are held in annuity contracts that return guaranteed interest ranging from 7.6% to 12.1%. As of June 30, 2013 and June 30, 2012, the annuity contracts totaled \$227,718 and \$269,112, respectively. The annuity contracts were purchased in 1976 to satisfy the MLGCA'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 MLGCA is not subject to interest rate risk because it is the MLGCA's policy to hold the investments until maturity, unless an annuitant through a court order forces the sale of an investment to settle the MLGCA'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 MLGCA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The MLGCA is not subject to custodial risk because the United States Government Treasury Bonds are held in the MLGCA's name by its custodian and annuity contracts are not evidenced by securities that exist in physical or book entry form.



MARYLAND LOTTERY AND GAMING CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS (CONTINUED)

As of June 30, 2013, the MLGCA had the following investments:

Investment Type	Fair Value	Credit Quality Rating	% of Investments	Investment Maturities (In Years)				
				Less than 1	1–5	6–10	11–20	21–30
<u>Investments in prize annuities:</u>								
United States Treasury Bonds	\$59,094,730	1	99.6%	\$13,783,996	\$25,054,101	14,259,691	\$5,996,942	\$ -
Annuity Contracts	227,718	2	.4%	50,970	140,320	19,729	16,699	-
Total Investments	\$59,322,448		100.0%	\$13,834,966	\$25,194,421	\$14,279,420	\$6,013,641	\$ -

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.

As of June 30, 2012, the MLGCA had the following investments:

Investment Type	Fair Value	Credit Quality Rating	% of Investments	Investment Maturities (In Years)				
				Less than 1	1–5	6–10	11–20	21–30
<u>Investments in prize annuities:</u>								
United States Treasury Bonds	\$75,972,649	1	99.6%	\$16,998,433	\$35,627,323	\$15,153,372	\$8,193,521	\$ -
Annuity Contracts	269,112	2	.4%	51,107	164,187	35,079	18,739	-
Total Investments	\$76,241,761		100.0%	\$17,049,540	\$35,791,510	\$15,188,451	\$8,212,260	\$ -

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, 2013 and 2012 is as follows:

	2012	Increases	Decreases	2013
Capital Assets				
Machinery and Equipment	\$ 70,126,934	\$ —	\$ —	\$ 70,126,934
Leasehold Improvements	613,240	—	—	613,240
Total Capital Assets	70,740,174	—	—	70,740,174
Less Accumulated Depreciation and Amortization				
Machinery and Equipment	20,922,675	25,378,097	—	46,300,772
Leasehold Improvements	587,691	25,551	—	613,242
Total Accumulated Depreciation and Amortization	21,510,366	25,403,648	—	46,914,014
Net Capital Assets	<u>\$ 49,229,808</u>	<u>\$ 25,403,648</u>	<u>\$ —</u>	<u>\$ 23,826,160</u>
	2011	Increases	Decreases	2012
Capital Assets				
Machinery and Equipment	\$ 48,513,767	\$ 21,613,167	\$ —	\$ 70,126,934
Leasehold Improvements	613,240	—	—	613,240
Total Capital Assets	49,127,007	21,613,167	—	70,740,174
Less Accumulated Depreciation and Amortization				
Machinery and Equipment	10,166,930	10,755,745	—	20,922,675
Leasehold Improvements	526,366	61,325	—	587,691
Total Accumulated Depreciation and Amortization	10,693,296	10,817,070	—	21,510,366
Net Capital Assets	<u>\$ 38,433,711</u>	<u>\$ 10,796,097</u>	<u>\$ —</u>	<u>\$ 49,229,808</u>



MARYLAND LOTTERY AND GAMING CONTROL AGENCY
NOTES TO FINANCIAL STATEMENTS

5. ANNUITY PRIZE OBLIGATIONS

The MLGCA 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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 13,388,987	\$ 455,009	\$ 13,843,996
2015	9,795,318	961,678	10,756,996
2016	6,298,025	1,044,134	7,342,159
2017	3,683,065	802,927	4,485,992
2018	2,366,658	659,334	3,025,992
2019-2023	11,000,182	5,718,327	16,718,509
2024-2028	4,161,852	3,670,128	7,831,980
2029-2031	478,158	448,667	926,825
Total	<u>\$ 51,172,245</u>	<u>\$ 13,760,204</u>	<u>\$ 64,932,449</u>

This debt represents annual payments owed to Jackpot and lifetime winners. Annuity prizes are paid over a period of time ranging from 20 to 25 years depending on the time period in which the prize was won. The MLGCA 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, 2013 and 2012 was as follows:

<u>Fiscal Year Ending</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
June 30, 2013	\$ 63,859,903	\$ 4,375,338	\$ 17,062,996	\$ 51,172,245	\$ 13,388,987
June 30, 2012	\$ 79,869,776	\$ 5,370,123	\$ 21,379,996	\$ 63,859,903	\$ 16,453,027



6. EMPLOYEE RELATED PAYABLES

Changes in long-term employee related payables were as follows for the years ended June 30, 2013 and 2012. 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 position, which also includes salaries payable in the amount of \$942,289 and \$749,766 as of June 30, 2013 and 2012, respectively.

	2013		
	Compensated Absences	Workers' Compensation	Combined
Beginning Balance	\$ 1,143,333	\$ 152,000	\$ 1,295,333
Additions	825,097	25,056	850,153
Reductions	(746,276)	(36,056)	(782,332)
Ending Balance	<u>\$ 1,222,154</u>	<u>\$ 141,000</u>	<u>\$ 1,363,154</u>
Amount Due Within One Year	\$ 825,000	\$ 21,855	\$ 846,855
Non-Current Portion	397,154	119,145	516,299
	<u>\$ 1,222,154</u>	<u>\$ 141,000</u>	<u>\$ 1,363,154</u>

	2012		
	Compensated Absences	Workers' Compensation	Combined
Beginning Balance	\$ 1,071,930	\$ 185,921	\$ 1,257,851
Additions	798,075	(28,374)	769,701
Reductions	(726,672)	(5,547)	(732,219)
Ending Balance	<u>\$ 1,143,333</u>	<u>\$ 152,000</u>	<u>\$ 1,295,333</u>
Amount Due Within One Year	\$ 700,000	\$ 23,560	\$ 723,560
Non-Current Portion	443,333	128,440	571,773
	<u>\$ 1,143,333</u>	<u>\$ 152,000</u>	<u>\$ 1,295,333</u>



MARYLAND LOTTERY AND GAMING CONTROL AGENCY
NOTES TO FINANCIAL STATEMENTS

7. COMMITMENTS AND CONTINGENCIES

LEASES

The MLGCA 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, 2013 and 2012 totaled \$736,079 and \$650,323 respectively. Certain leases contain a bargain purchase option and are accounted for as capital leases.

The assets acquired under capital leases include:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Machinery and Equipment	\$ 68,286,448	\$ 68,286,448
Accumulated Amortization	(44,717,774)	(19,425,506)
	<u>\$ 23,568,674</u>	<u>\$ 48,860,942</u>

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

<u>Year Ending June 30:</u>	<u>Operating Leases</u>	<u>Capital Leases</u>
2014	\$ 752,800	\$ 14,110,640
2015	782,912	9,286,893
2016	814,228	8,679,860
2017	846,798	—
2018	880,669	—
2019	915,897	—
2020	952,532	—
2021	990,633	—
2022	1,030,259	—
2023	530,533	—
Total	\$ 8,497,261	\$ 32,077,393
Less amount representing interest		1,054,211
Present value of minimum lease payments		31,023,182
Less current maturities		14,110,640
Long-term portion of capital lease obligations		<u>\$ 16,912,542</u>

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

	<u>2013</u>	<u>2012</u>
Beginning Balance	\$ 56,212,800	\$ 44,886,439
Acquisitions	—	21,613,167
Payments	(25,189,618)	(10,286,806)
Ending Balance	<u>\$ 31,023,182</u>	<u>\$ 56,212,800</u>



7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

CONTRACTS

As of June 30, 2013, the MLGCA has entered into various contracts totaling approximately \$400,002,248 for services to be rendered. These services relate principally to the operation of, and advertising for, lottery games and the operation of the gaming program.

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

The MLGCA is a member of the multi-state game Mega Millions. Mega Millions is a lottery game conducted as a cooperative venture by 13 states: Georgia, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, Washington, California, Florida and Maryland. Effective January 31, 2010, 23 Powerball lotteries began selling the Mega Millions game. Currently, 45 jurisdictions sell the Mega Millions game. Also on January 31, 2010, the MLGCA began selling the Powerball game. Powerball is a lottery game currently sold by 45 lotteries. 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 periods have expired for unclaimed Jackpot prizes.

9. RETIREMENT BENEFITS

The MLGCA 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 MLGCA's only obligation to the System is its required annual contribution. The System is administered by a Board of Trustees in accordance with State Personnel and the Pension Article of the Annotated Code of Maryland. The System prepares a separately audited CAFR, which can be obtained from the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202.

PLAN DESCRIPTIONS

MLGCA 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.



9. RETIREMENT BENEFITS (CONTINUED)

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 employees 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.

FUNDING POLICY

Active members and the employers of the members are required to contribute to the Employees' Retirement and Pension Systems. The MLGCA'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.



9. RETIREMENT BENEFITS (CONTINUED)

The MLGCA contributions, which equal 100% of the required contributions, for the three years ended June 30, 2013, 2012, and 2011 are as follows:

	2013	2012	2011
MLGCA contribution	\$ 1,509,065	\$ 1,222,917	\$ 1,139,690
Percentage of payroll	9.04%	7.91%	7.88%

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 MLGCA. The MLGCA'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

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

FUNDING POLICY

Beginning in fiscal year 2008, State law requires the State's Department of Budget and Management to transfer any subsidy received as a result of the Federal Medicare Prescription Drug Improvement and Modernization Act of 2003 or similar subsidy to the OPEB Trust to prefund OPEB benefits. To further prefund benefits, during fiscal year 2008, the State transferred funds from the State Reserve Fund Dedicated Purpose Account. Additionally, the State is required by



10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

law to provide funding each year for the Plan for the State's share of the pay-as-you-go amount necessary to provide current benefits to active and retired employees and their dependents. Funds may also be separately appropriated in the State's budget for transfer to the OPEB Trust.

Based on current practice, the State subsidizes approximately 50% to 85% of covered medical, dental, prescription, and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for postemployment 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 postemployment health care costs to all participating employers. The cost of these benefits is expensed when paid. For the years ended June 30, 2013 and June 30, 2012, the State did not allocate postemployment health care costs to participating employers and as a result no contribution was made by the MLGCA.

11. RISK MANAGEMENT

The MLGCA is exposed to various risks associated with the theft, damage, or destruction of assets, torts, and game liability. To manage the related risks, the MLGCA 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 lottery game liabilities, the MLGCA 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.

Risk is minimized for gaming operations as the law requires a VLT to have an average payout of 87% or more but cannot exceed 100%. A casino's gaming floor is to be configured to collectively achieve, at all times, an average payout of 90% but not exceed 95%. For table games, any overall loss for the day is absorbed by the casinos.

MARYLAND LOTTERY AND GAMING CONTROL AGENCY
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION — BUDGET AND ACTUAL**



For the Year ended June 30, 2013				
	Original Budget	Final Amended Budget	Actual Amounts	Variance with Budget over (under)
Revenues:				
Cash Revenue Receipts from all Sources	\$ 1,826,853,699	\$ 1,888,121,590	\$ 2,489,218,420	\$ 601,096,830
Expenditures and encumbrances:				
Gaming Vendor and Information Technology Fees	17,678,635	18,201,135	18,116,182	(84,953)
Instant Ticket Printing and Delivery	6,430,923	6,430,923	6,435,341	4,418
Salaries, Wages and Benefits	16,764,428	18,495,173	17,166,867	(1,328,306)
Advertising and Promotions	12,344,990	12,344,990	12,379,162	34,172
Other General and Administrative Expenses	4,982,488	4,982,488	5,029,310	46,822
VLT Special Fund	184,745,750	184,763,505	58,664,559	(126,098,946)
VLT General Fund	69,095,408	69,447,032	69,263,791	(183,241)
Reversions — VLT Special Fund	-	(126,098,946)	-	126,098,946
Reversions — VLT General Fund	-	(1,308,330)	-	1,308,330
Reversions — Lottery	-	(202,757)	-	202,757
Total expenditures and encumbrances	312,042,622	187,055,213	187,055,213	-
Excess of Revenues over (under) expenditures	1,514,811,077	1,701,066,378	2,302,163,208	601,096,830
Other Sources (uses) of financial resources:				
Transfers in (out):				
State of Maryland Stadium Authority	(19,265,000)	(19,265,000)	(19,265,000)	-
State of Maryland General Fund	(507,464,000)	(507,464,000)	(525,960,121)	(18,496,121)
Other Government Agencies/Funds — VLT	-	-	(376,536,948)	(376,536,948)
Excess of revenues over expenditures and other sources of financial resources	\$ 988,082,077	\$ 1,174,337,378	\$ 1,380,401,139	\$ 206,063,761
Change in Net Positions	\$ (7,179,195)			
Non-budgetary expenditures:				
Prize Expense	\$ 1,038,475,788			
Commissions	298,971,711			
Depreciation	25,403,648			
Bad Debt	82,002			
Accounting principle differences:				
Accounts Receivable	(3,284,679)			
Unearned Revenue	(321,672)			
Increase in Fair Value of Investments	640,822			
Amortization of Discount Prize Liabilities	3,590,833			
Compensated absences	78,821			
Workers' Compensation	(11,000)			
Capital lease payments and related interest	(25,909,449)			
Cash received for VLT/agents	49,863,508			
Excess of Revenues over Expenses	\$ 1,380,401,139			



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 MLGCA prepares its annual budget and submits it to the Governor. The Governor then presents the State's annual budget (including the MLGCA's) to the General Assembly in accordance with Constitutional requirements. The General Assembly is required to then enact a balanced budget.

The MLGCA'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;
- Beginning October 1, 2012, casino operator commissions were no longer 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 MLGCA maintains budgetary control by not permitting the total expenditures to exceed appropriations without executive and legislative branch approval.



INDEPENDENT AUDITORS' 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 Lottery and Gaming Control Agency:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Maryland Lottery and Gaming Control Agency (an agency of the State of Maryland) (MLGCA), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Maryland Lottery and Gaming Control Agency's basic financial statements, and have issued our report thereon dated September 30, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Maryland Lottery and Gaming Control Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Maryland Lottery and Gaming Control Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Maryland Lottery and Gaming Control 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Maryland Lottery and Gaming Control 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 and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of the Maryland Lottery and Gaming Control Agency, in a separate letter dated September 30, 2013.

PURPOSE OF THIS REPORT

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

Stout, Causey & Horning, P.A.

September 30, 2013

STATISTICAL SECTION

SINCE ITS INCEPTION IN 1973, THE MARYLAND LOTTERY ALONE HAS CONTRIBUTED \$13.4 BILLION TO THE STATE, WHICH IS USED TO SUPPORT IMPORTANT PROGRAMS, INCLUDING EDUCATION, PUBLIC HEALTH, PUBLIC SAFETY AND ENVIRONMENT. SINCE ITS INCEPTION IN 2011, CASINOS HAVE GENERATED \$906.9 MILLION IN REVENUE.



MARYLAND LOTTERY AND GAMING CONTROL AGENCY STATISTICAL INFORMATION SECTIONS

This section of the MLGCA'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 overall financial health of the Agency.

CONTENTS

FINANCIAL TRENDS **79**

These schedules contain trend information to help readers understand how the MLGCA's financial performance and position have changed over time. The information presented includes changes in net position, sales and contribution/transfer data for both the lottery and gaming operations, as well as the lottery industry as a whole.

REVENUE CAPACITY **101**

These schedules contain information to help readers assess the MLGCA's most significant revenue sources. The lottery's statewide retailer network determines the market exposure for the lottery's games. The casinos determine the market exposure for VLTs and table games.

DEBT CAPACITY **110**

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

DEMOGRAPHIC AND ECONOMIC INFORMATION **111**

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

OPERATING INFORMATION **112**

These schedules contain information about the MLGCA's organization and efficiency.

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



MARYLAND LOTTERY AND GAMING CONTROL AGENCY
NET POSITION AND CHANGES IN NET POSITION – FISCAL YEARS 2004 THROUGH 2013

NET POSITION BY COMPONENT – FISCAL YEARS 2004 THROUGH 2013

FISCAL YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Invested in capital assets, net of related debt	\$ 376,882	\$ 436,229	\$ 292,874	\$ 341,314	\$ 189,292	\$ 29,504	\$ (791,434)	\$ (6,881,872)	\$ (6,982,992)	\$ (7,197,022)
Unrestricted	43,845,534	44,909,438	26,719,381	13,830,745	28,739,711	27,343,816	22,748,793	12,829,364	19,140,536	12,175,371
Total net position	\$ 44,222,416	\$ 45,345,667	\$ 27,012,255	\$ 14,172,059	\$ 28,929,003	\$ 27,373,320	\$ 21,957,359	\$ 5,947,492	\$ 12,157,544	\$ 4,978,349

CHANGE IN NET POSITION – FISCAL YEARS 2004 THROUGH 2013

OPERATING REVENUES										
Numbers games	\$ 499,968,605	\$ 521,555,497	\$ 534,578,721	\$ 531,992,424	\$ 509,185,489	\$ 525,522,017	\$ 513,618,529	\$ 515,463,163	\$ 520,134,881	\$ 513,323,309
Monitor games	389,796,257	417,458,505	436,527,806	462,551,365	460,795,521	483,177,817	491,999,734	496,730,733	521,672,673	493,569,979
Matrix games	147,728,145	155,750,154	174,467,430	151,186,911	184,017,335	182,317,198	210,101,223	208,660,360	246,281,195	263,387,307
Instant games	355,016,755	390,968,694	415,331,827	425,085,365	513,859,583	507,057,024	490,853,089	493,548,322	506,803,706	485,838,672
Raffle games	—	—	—	6,495,000	5,180,800	—	—	—	—	—
Other games	2,898,696	—	—	—	—	—	—	—	—	—
Total net sales	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	1,794,892,455	1,756,119,267
Gaming Revenue — Gross Terminal Revenue	—	—	—	—	—	—	—	103,132,793	195,093,073	560,679,031
Gaming Revenue — State Grant	—	—	—	—	—	185,724	1,120,566	9,605,152	28,959,177	73,690,820
Gaming Revenue — Table Games	—	—	—	—	—	—	—	—	—	—
Gaming Revenue — Facility Applicants	—	—	—	—	—	896,234	3,591,922	1,341,779	1,791,260	2,703,989
Gaming Machine Assessment	—	—	—	—	—	—	—	—	1,708,825	2,964,174
Total operating revenues	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	2,022,444,790	2,444,195,075

COST OF SALES:

Prize expense	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	1,065,653,665	1,038,475,788
Retailer commissions	91,298,325	97,592,346	102,704,705	112,187,831	117,824,367	121,888,107	113,130,686	113,687,526	118,305,427	119,789,227
Casino commissions	—	—	—	—	—	—	—	34,033,822	64,380,714	223,930,473
Gaming vendor and data processing fees	14,576,720	15,243,781	15,638,778	14,778,613	15,615,384	15,975,142	16,201,910	19,360,974	20,077,153	21,368,102
Instant ticket printing and delivery	6,870,615	4,938,585	6,199,964	5,261,387	6,910,073	6,621,144	6,784,297	6,275,995	6,206,543	6,435,341
Total cost of sales	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	1,202,398,933	1,274,623,502	1,409,997,931

OPERATING EXPENSES:

Salaries, wages and benefits	10,275,844	10,583,585	11,402,287	12,355,212	12,224,124	12,981,499	13,044,796	14,498,108	15,662,232	16,929,270
Advertising and promotions	14,013,399	14,889,419	15,859,308	18,332,963	19,805,039	19,036,583	13,767,713	13,811,939	12,592,589	13,297,155
Other general and administrative expenses	4,261,383	4,205,133	4,807,627	3,447,049	3,663,424	4,101,836	6,859,044	16,008,540	17,293,017	59,032,711
Depreciation and amortization	1,623,609	1,500,135	560,257	657,431	627,947	649,441	1,308,073	7,256,951	10,817,070	25,403,648
Total operating expenses	30,174,235	31,178,272	32,629,479	34,792,655	36,320,534	36,769,359	34,979,626	51,575,598	56,364,908	114,662,784

NON-OPERATING REVENUES (EXPENSES):

Unrealized gains (losses) on investments	(25,411,268)	(2,236,689)	(16,973,874)	(1,966,256)	4,709,628	(334,042)	(782,726)	(3,785,475)	811,093	(4,231,655)
Cumulative effect of change in accounting principles (1)	58,351,461	—	—	—	—	—	—	—	—	—
Interest income (expense)	(118,156)	(89,863)	(44,066)	(35,452)	(30,449)	(16,480)	(56,021)	(113,167)	(911,404)	(719,832)
Payments to State of Maryland	(458,373,006)	(477,098,363)	(500,970,617)	(494,119,273)	(529,403,554)	(493,206,260)	(510,608,632)	(519,393,853)	(556,264,804)	(545,225,121)
Payments to other Government Funds/Agencies — VLT	—	—	—	—	—	—	—	(67,225,143)	(128,881,213)	(376,536,947)
Total non-operating revenues (expenses)	(425,550,969)	(479,424,915)	(517,988,557)	(496,120,981)	(524,724,375)	(493,556,782)	(511,447,379)	(590,517,638)	(685,246,328)	(926,713,555)

CHANGES IN NET POSITION:

CHANGES IN NET POSITION:	40,196,018	1,123,251	(18,333,412)	(12,840,196)	14,756,944	(1,555,683)	(5,415,961)	(16,009,867)	6,210,052	(7,179,195)
TOTAL NET POSITION, BEGINNING OF YEAR:	4,026,398	44,222,416	27,012,255	27,012,255	14,172,059	28,929,003	27,373,320	21,957,359	5,947,492	12,157,544
TOTAL NET POSITION, END OF YEAR:	\$ 44,222,416	\$ 45,345,667	\$ 27,012,255	\$ 14,172,059	\$ 28,929,003	\$ 27,373,320	\$ 21,957,359	\$ 5,947,492	\$ 12,157,544	\$ 4,978,349

(1) The MLGCA 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 MLGCA changed its method of accounting for investments held to fund annuity prizes payable. These investments are reported at their fair value as permitted by GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The cumulative effect of the applicable adjustments are reflected in the preceding fiscal year.



MARYLAND LOTTERY AND GAMING CONTROL AGENCY SALES – FISCAL YEARS 2004 THROUGH 2013

SALES BY CATEGORY AND GAME

FISCAL YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
NUMBERS:										
Pick 3	\$ 290,754,971	\$ 296,102,946	\$ 298,075,249	\$ 291,917,229	\$ 274,291,763	\$ 276,347,705	\$ 266,948,839	\$ 260,815,333	\$ 254,590,816	\$ 245,523,090
Pick 4	209,213,634	225,452,551	236,503,472	240,075,195	234,893,726	249,174,312	246,669,690	254,647,830	265,544,065	267,800,219
Numbers Total	499,968,605	521,555,497	534,578,721	531,992,424	509,185,489	525,522,017	513,618,529	515,463,163	520,134,881	513,323,309
MONITOR:										
Keno	268,308,259	279,934,456	287,249,705	268,132,183	248,684,056	247,910,424	206,957,090	202,589,646	203,853,846	181,166,747
Keno Bonus*	121,487,998	136,579,121	149,009,769	144,546,887	137,893,276	134,381,213	48,713,189	45,186,127	43,746,000	38,373,084
Keno Super Bonus™	-	-	-	-	-	11,910,933	136,129,031	132,789,271	139,808,393	125,262,206
Racetrax*	-	944,928	268,332	49,844,937	72,876,083	88,511,360	90,826,725	102,471,436	117,329,306	129,391,042
Racetrax* Bonus	-	-	-	-	-	-	9,373,699	13,694,253	16,935,128	19,376,900
Maryland Hold 'Em	-	-	-	27,358	1,342,106	463,887	-	-	-	-
Monitor Total	389,796,257	417,458,505	436,527,806	462,551,365	460,795,521	483,177,817	491,999,734	496,730,733	521,672,673	493,569,979
MATRIX:										
Mega Millions*	90,312,228	99,737,552	116,249,659	98,191,153	129,402,134	125,960,400	125,262,563	98,654,558	105,655,325	66,734,374
Megaplier*	-	-	-	-	-	-	-	2,959,179	5,191,647	4,285,050
Lotto	36,179,993	34,096,337	19,975,438	-	-	-	-	-	-	-
Multi-Match*	-	-	15,816,995	30,116,058	31,200,692	32,896,776	35,226,810	27,949,729	30,709,705	28,755,909
Bonus Match 5	21,235,924	21,916,265	22,425,338	22,879,700	23,414,509	23,460,022	20,761,956	21,389,572	21,867,458	21,078,755
Powerball*	-	-	-	-	-	-	26,512,016	52,734,546	78,014,723	126,245,964
Power Play*	-	-	-	-	-	-	2,337,878	4,972,776	4,842,337	5,097,998
5 Card Cash	-	-	-	-	-	-	-	-	-	11,189,257
Matrix Total	147,728,145	155,750,154	174,467,430	151,186,911	184,017,335	182,317,198	210,101,223	208,660,360	246,281,195	263,387,307
INSTANT:	355,016,755	390,968,694	415,331,827	425,085,365	513,859,583	507,057,024	490,853,089	493,548,322	506,803,706	485,838,672
RAFFLE:	-	-	-	6,495,000	5,180,800	-	-	-	-	-
OTHER:	2,898,696	-	-	-	-	-	-	-	-	-
TOTAL SALES:	\$ 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	\$ 1,794,892,455	\$ 1,756,119,267

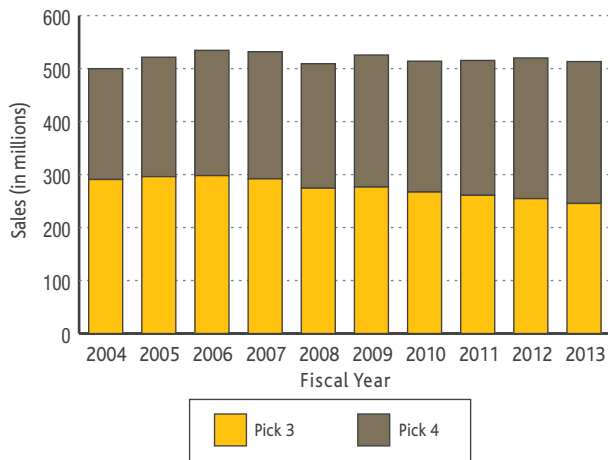
PRODUCT MIX BY CATEGORY

FISCAL YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Numbers Games	35.83%	35.10%	34.25%	33.73%	30.44%	30.95%	30.10%	30.07%	28.98%	29.23%
Monitor Games	27.93%	28.10%	27.96%	29.33%	27.54%	28.45%	28.83%	28.97%	29.06%	28.11%
Matrix Games	10.59%	10.48%	11.18%	9.58%	11.00%	10.74%	12.31%	12.17%	13.72%	15.00%
Instant Games	25.44%	26.32%	26.61%	26.95%	30.71%	29.86%	28.76%	28.79%	28.24%	27.67%
Raffle Games	-%	-%	-%	0.41%	0.31%	-%	-%	-%	-%	-%
Other Games	0.21%	-%	-%	-%	-%	-%	-%	-%	-%	-%

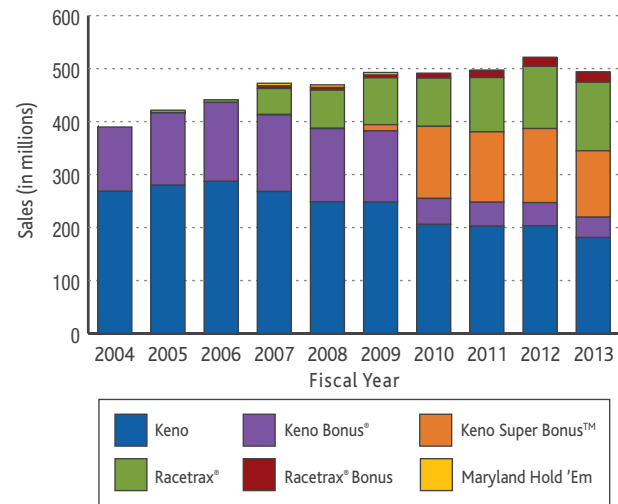
MARYLAND LOTTERY AND GAMING CONTROL AGENCY
SALES – FISCAL YEARS 2004 THROUGH 2013 (CONTINUED)



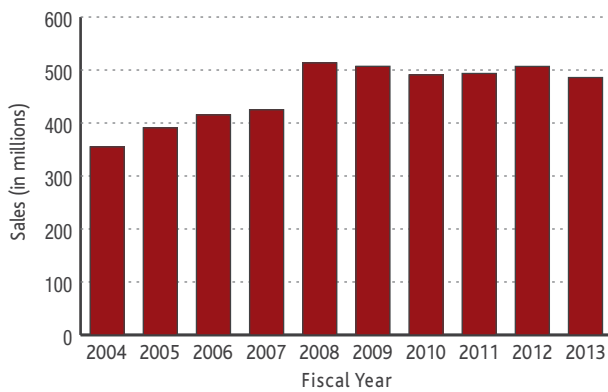
NUMBERS GAMES



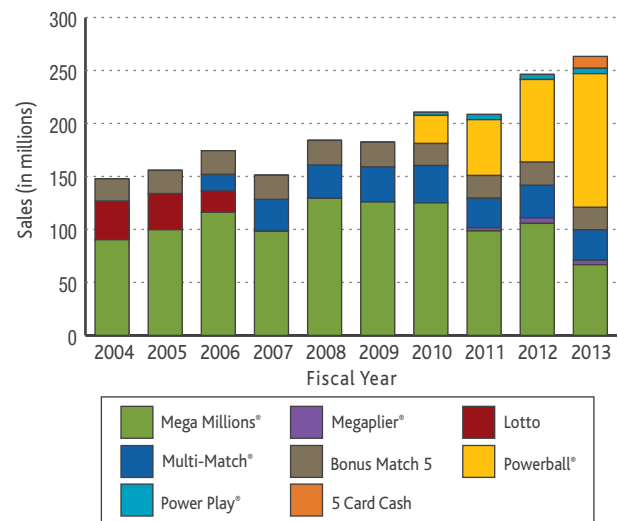
MONITOR GAMES



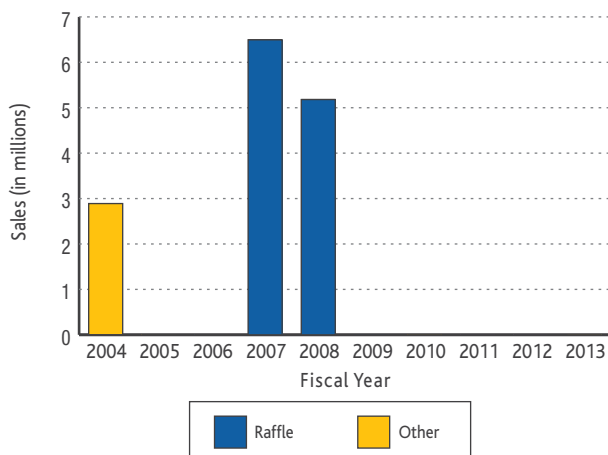
INSTANT GAMES



MATRIX GAMES



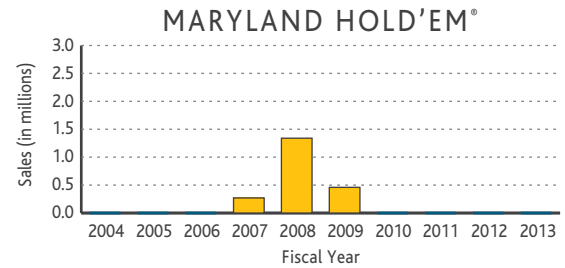
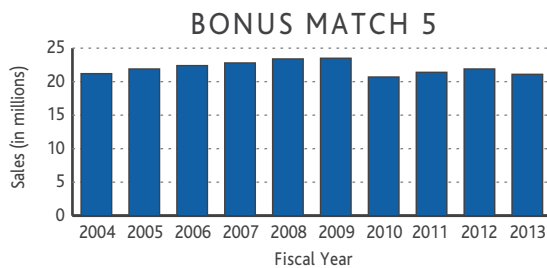
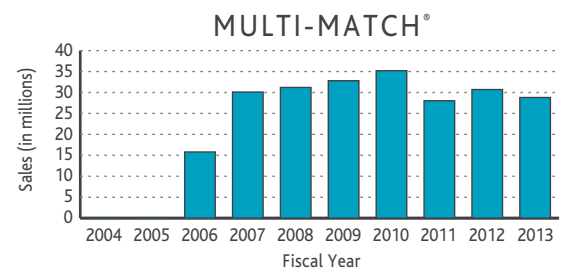
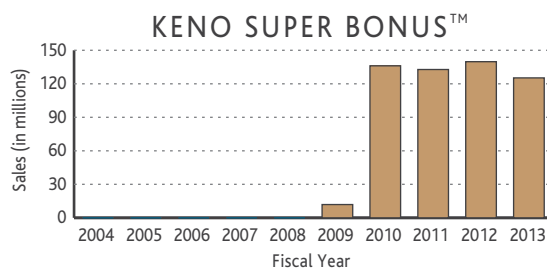
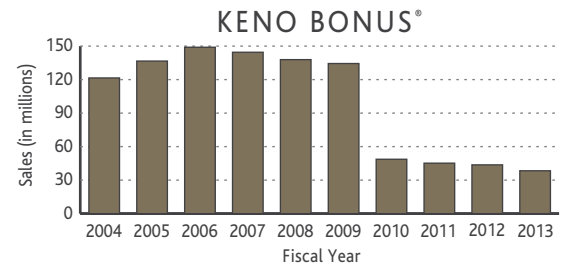
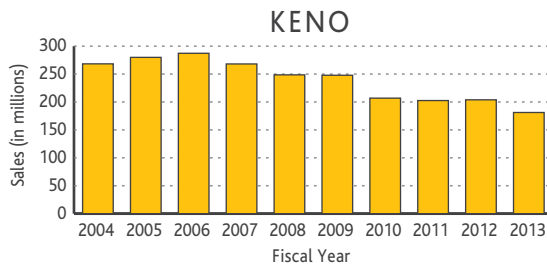
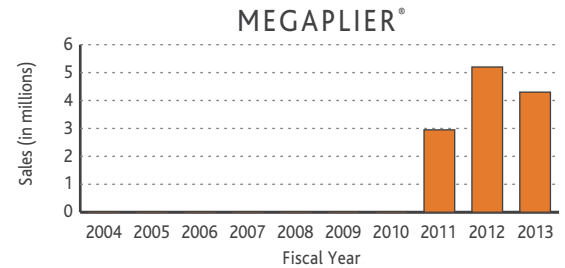
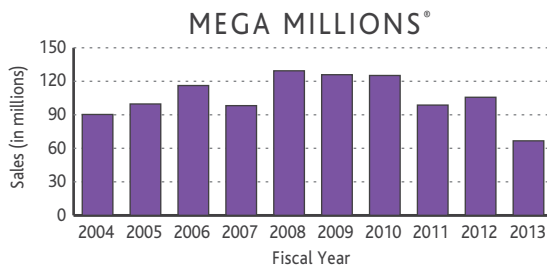
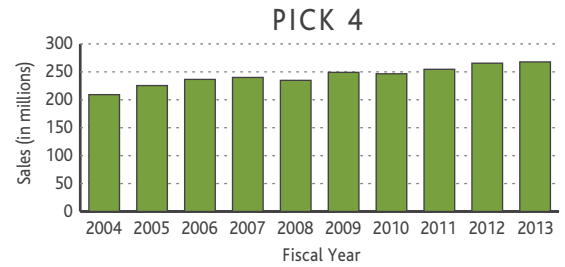
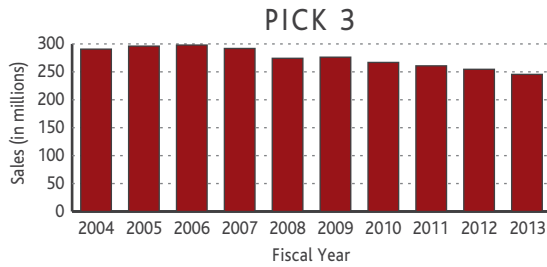
OTHER GAMES



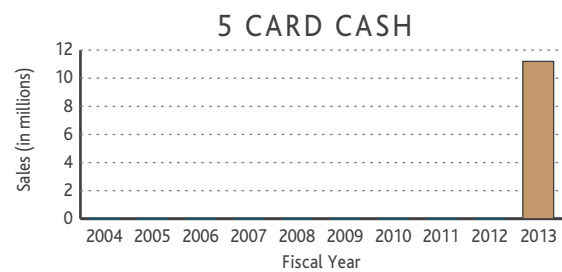
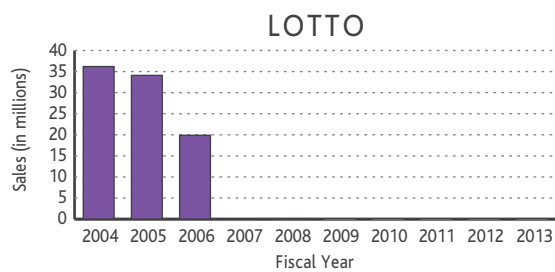
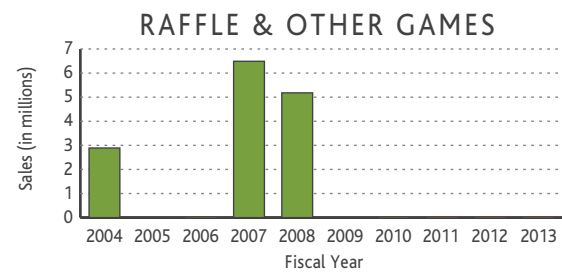
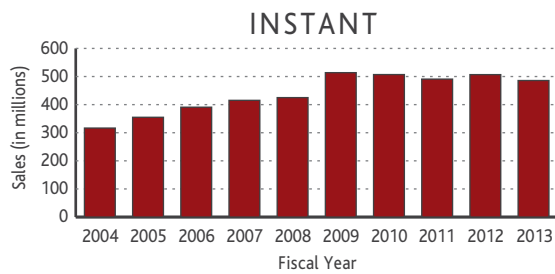
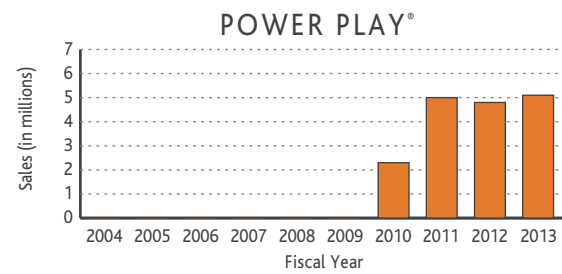
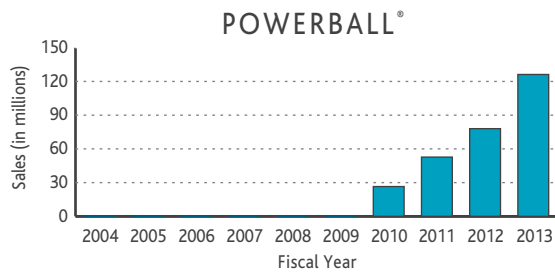
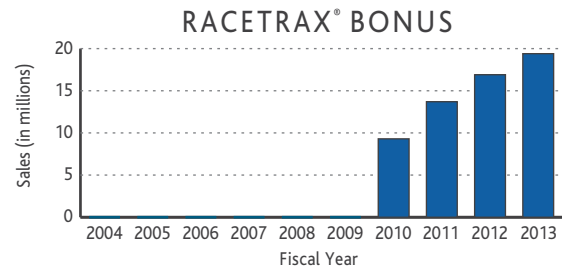
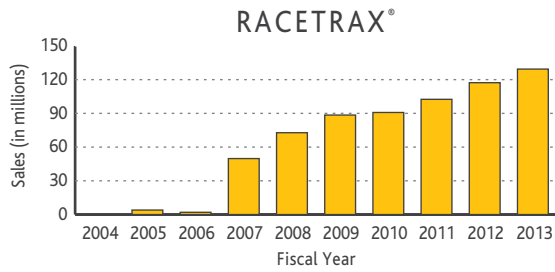


MARYLAND LOTTERY AND GAMING CONTROL AGENCY

SALES – FISCAL YEARS 2004 THROUGH 2013 (CONTINUED)

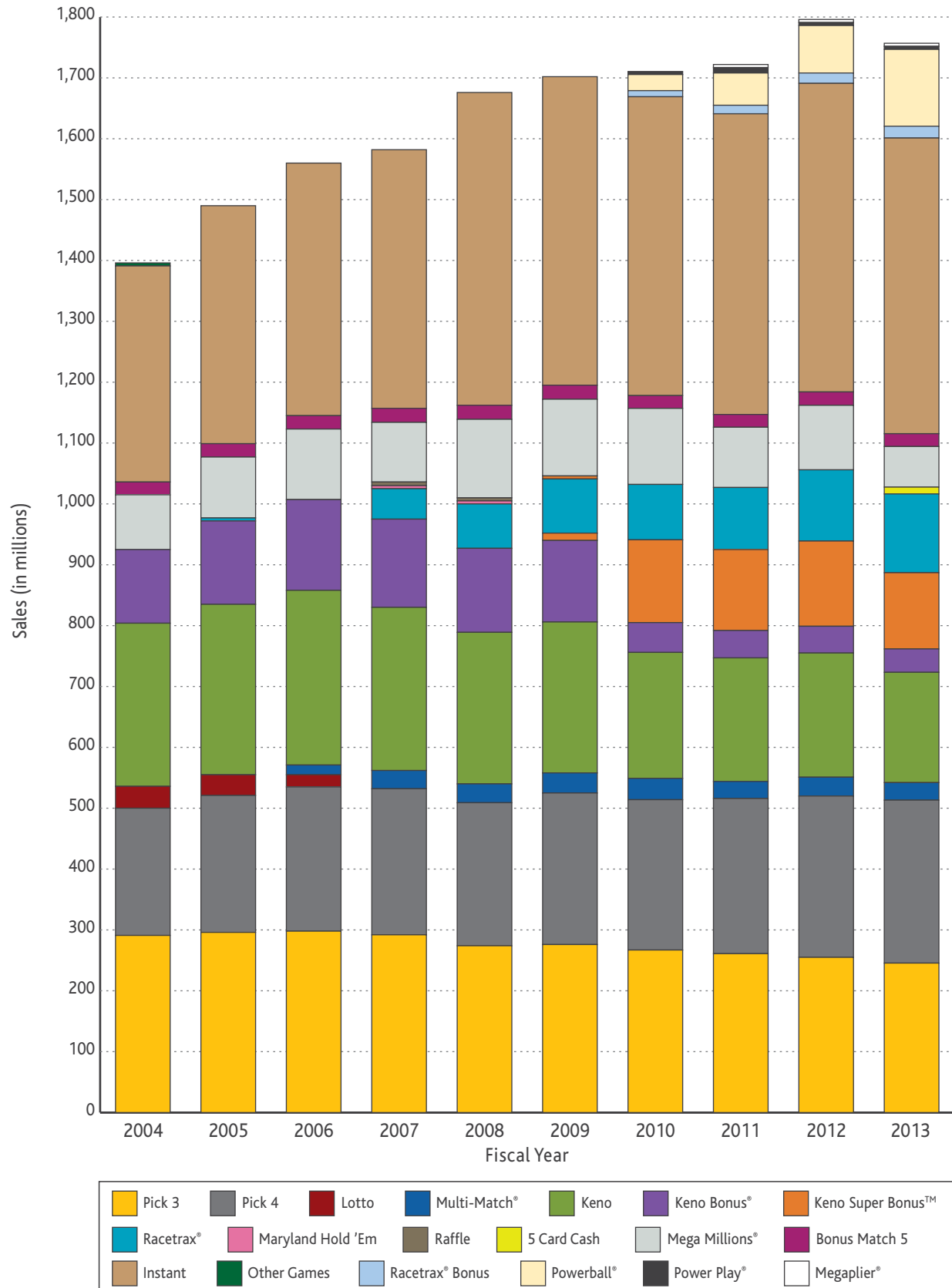


MARYLAND LOTTERY AND GAMING CONTROL AGENCY
SALES – FISCAL YEARS 2004 THROUGH 2013 (CONTINUED)





MARYLAND LOTTERY AND GAMING CONTROL AGENCY
SALES – FISCAL YEARS 2004 THROUGH 2013 (CONTINUED)



MARYLAND LOTTERY AND GAMING CONTROL AGENCY
U.S. LOTTERIES PER CAPITA SALES – FISCAL YEAR 2013



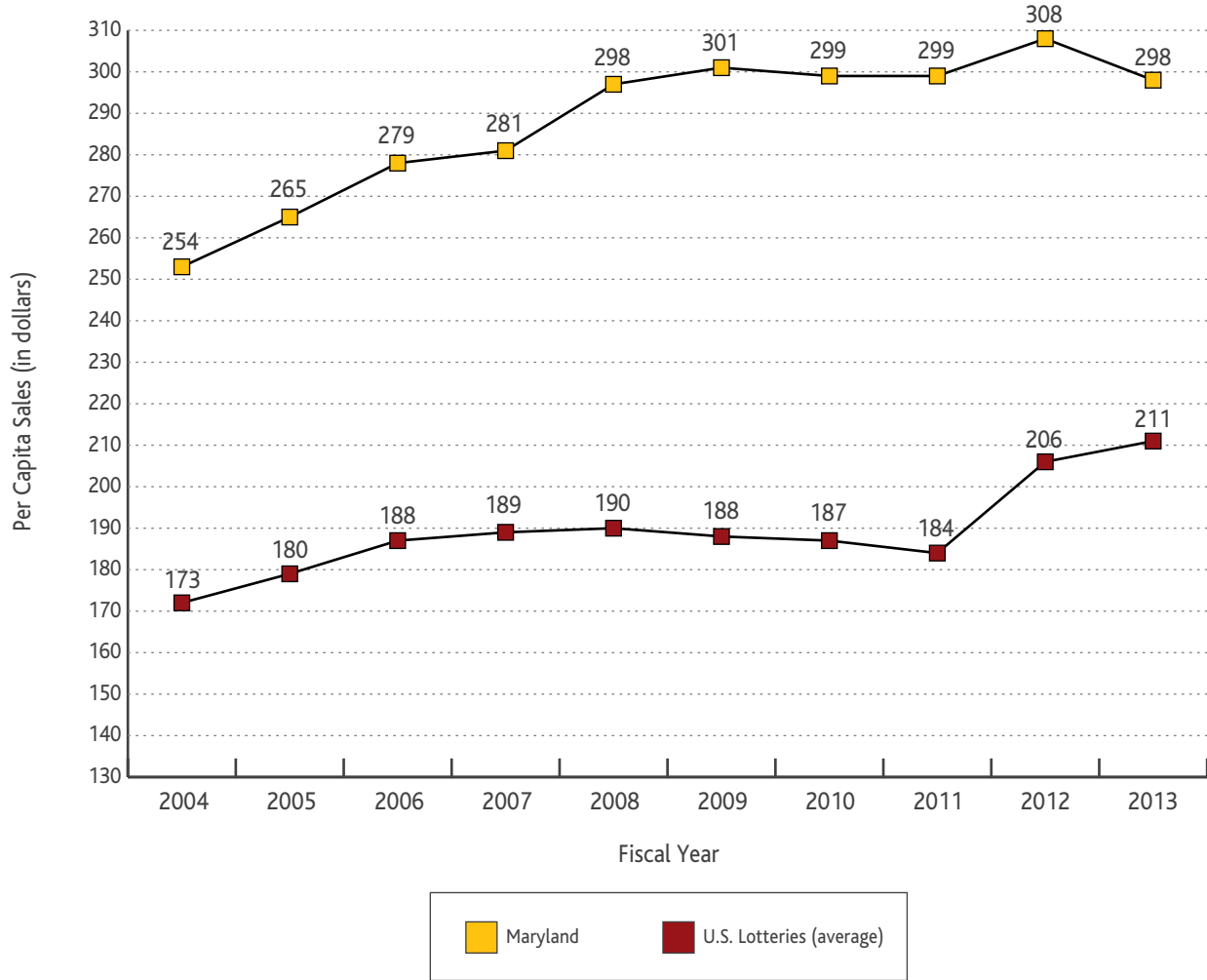
Rank	State	Population (M)	Total Sales (\$M)	Per Capita*
1	Massachusetts	6.6	\$ 4,807.5	\$ 723
2	Georgia	9.9	3,912.2	394
3	Washington, D.C.	0.6	243.8	386
4	New York	19.6	7,108.9	363
5	New Jersey	8.9	2,821.4	318
6	Connecticut	3.6	1,122.7	313
7	MARYLAND	5.9	1,756.1	298
8	Pennsylvania	12.8	3,699.4	290
9	Florida	19.3	5,013.0	260
10	South Carolina	4.7	1,199.2	254
11	Michigan	9.9	2,471.0	250
12	Rhode Island	1.1	253.4	241
13	Ohio	11.5	2,694.9	233
14	Illinois	12.9	2,841.3	221
15	New Hampshire	1.3	278.7	211
16	Virginia	8.2	1,689.2	206
17	Kentucky	4.4	846.7	193
18	Missouri	6.0	1,141.2	190
19	North Carolina	9.8	1,689.8	173
20	Maine	1.3	227.8	171
21	Texas	26.1	4,356.0	167
22	Vermont	0.6	102.1	163
23	Delaware	0.9	146.3	159
24	Arkansas	2.9	439.5	149
25	Indiana	6.5	934.0	143
26	Idaho	1.6	197.6	124
27	California	38.0	4,445.9	117
28	Iowa	3.1	339.3	110
29	Colorado	5.2	566.3	109
30	Arizona	6.6	692.9	106
31	West Virginia	1.9	195.6	105
32	Minnesota	5.4	560.4	104
33	Wisconsin	5.7	565.8	99
34	Louisiana	4.6	447.4	97
35	Kansas	2.9	255.8	89
36	Nebraska	1.9	160.9	87
37	Oregon	3.9	330.5	85
38	Washington	6.9	569.6	83
39	South Dakota	0.8	57.2	69
40	New Mexico	2.1	141.8	68
41	Montana	1.0	57.0	57
42	Oklahoma	3.8	200.2	52
43	North Dakota	0.7	27.8	40
Total		291.4	\$ 61,608.1	\$ 211

Source: *La Fleur's Magazine*, September/October 2013 Edition

* Subject to rounding.



MARYLAND LOTTERY AND GAMING CONTROL AGENCY
**U.S. LOTTERIES PER CAPITA SALES – FISCAL YEARS
2004 THROUGH 2013**



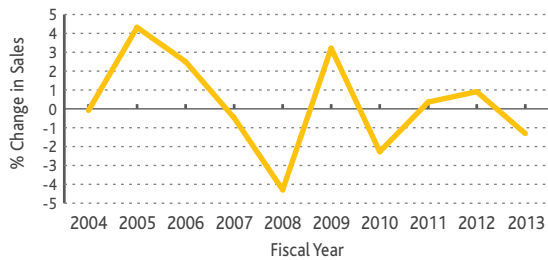
Sources: *La Fleur's Magazine*, September/October 2013 Edition

MARYLAND LOTTERY AND GAMING CONTROL AGENCY
**PERCENTAGE CHANGE IN SALES – FISCAL YEARS
 2004 THROUGH 2013**

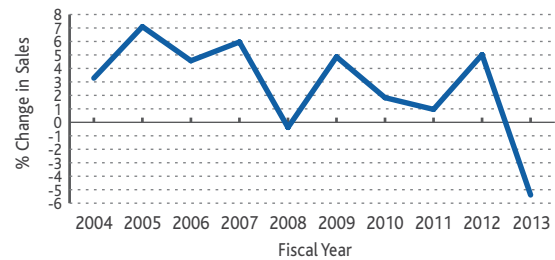


Fiscal Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Numbers Games	-0.08%	4.32%	2.50%	-0.48%	-4.29%	3.21%	-2.27%	0.36%	0.91%	-1.31%
Monitor Games	3.28%	7.10%	4.57%	5.96%	-0.38%	4.86%	1.83%	0.96%	5.02%	-5.39%
Matrix Games	15.61%	5.43%	12.02%	-13.34%	21.72%	-0.92%	15.24%	0.69%	18.03%	6.95%
Instant Games	12.11%	10.13%	6.23%	2.35%	20.88%	-1.32%	-3.20%	0.55%	2.69%	-4.14%
Raffle & Other Games	100.00%	-100.00%	-%	100.00%	-20.23%	-100.00%	-%	-%	-%	-%
Total Sales	5.53%	6.47%	5.06%	1.05%	6.07%	1.50%	0.50%	0.46%	4.70%	-2.16%

NUMBERS GAMES



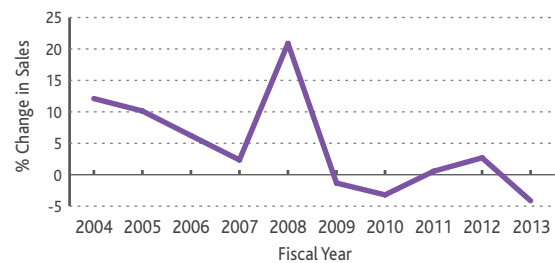
MONITOR GAMES



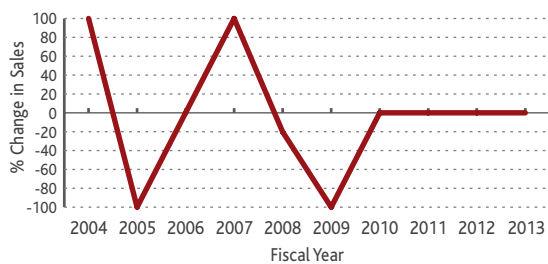
MATRIX GAMES



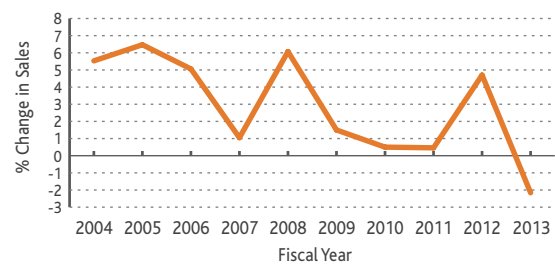
INSTANT GAMES



RAFFLE & OTHER GAMES



TOTAL SALES





MARYLAND LOTTERY AND GAMING CONTROL AGENCY

U.S. LOTTERIES PERCENTAGE CHANGE IN SALES – FISCAL YEAR 2013

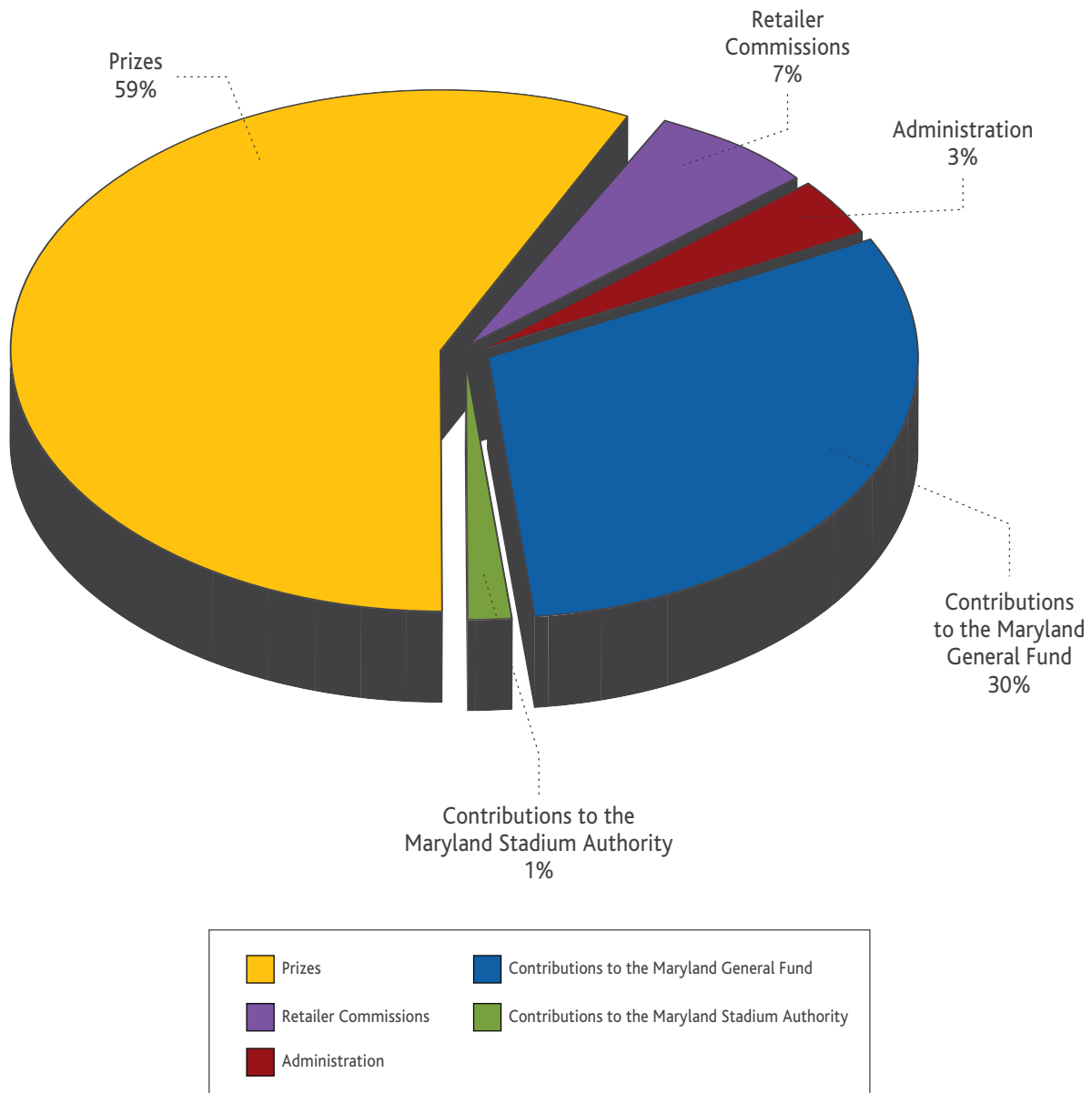
Rank	State	Total Sales (\$M)	% Change
1	Florida	\$ 5,013.0	13%
2	Idaho	197.6	12%
3	New Hampshire	278.7	10%
4	Indiana	934.0	9%
5	Iowa	339.3	9%
6	Montana	57.0	8%
7	Minnesota	560.4	8%
8	South Dakota	57.2	8%
9	Delaware	146.3	8%
10	Nebraska	160.9	7%
11	Arizona	692.9	7%
12	North Dakota	27.8	7%
13	Washington	569.6	6%
14	Pennsylvania	3,699.4	6%
15	Illinois	2,841.3	6%
16	New Mexico	141.8	6%
17	North Carolina	1,689.8	6%
18	South Carolina	1,199.2	6%
19	Virginia	1,689.2	5%
20	Louisiana	447.4	4%
21	Texas	4,356.0	4%
22	Colorado	566.3	4%
23	Connecticut	1,122.7	4%
24	Missouri	1,141.2	4%
25	Wisconsin	565.8	3%
26	Kentucky	846.7	3%
27	Michigan	2,471.0	2%
28	Oregon	330.5	2%
29	New Jersey	2,821.4	2%
30	Georgia	3,912.2	2%
31	California	4,445.9	2%
32	Rhode Island	253.4	2%
33	New York	7,108.9	1%
34	Vermont	102.1	1%
35	Kansas	255.8	1%
36	Massachusetts	4,807.5	1%
37	Oklahoma	200.2	0%
38	Maine	227.8	0%
39	Washington, D.C.	243.8	-1%
40	Ohio	2,694.9	-1%
41	MARYLAND	1,756.1	-2%
42	West Virginia	195.6	-3%
43	Arkansas	439.5	-7%
Total		\$ 61,608.1	

Source: *La Fleur's Magazine*, September/October 2013 Edition

U.S. lotteries ranked % chg. FY13 total (in US\$) Excludes VLT revenue.

Tennessee Lottery was not included.

MARYLAND LOTTERY AND GAMING CONTROL AGENCY
EXPENSES AND CONTRIBUTIONS – CUMULATIVE FOR
FISCAL YEARS 2004 THROUGH 2013





MARYLAND LOTTERY AND GAMING CONTROL AGENCY

CONTRIBUTIONS TO THE STATE OF MARYLAND – INCEPTION TO DATE

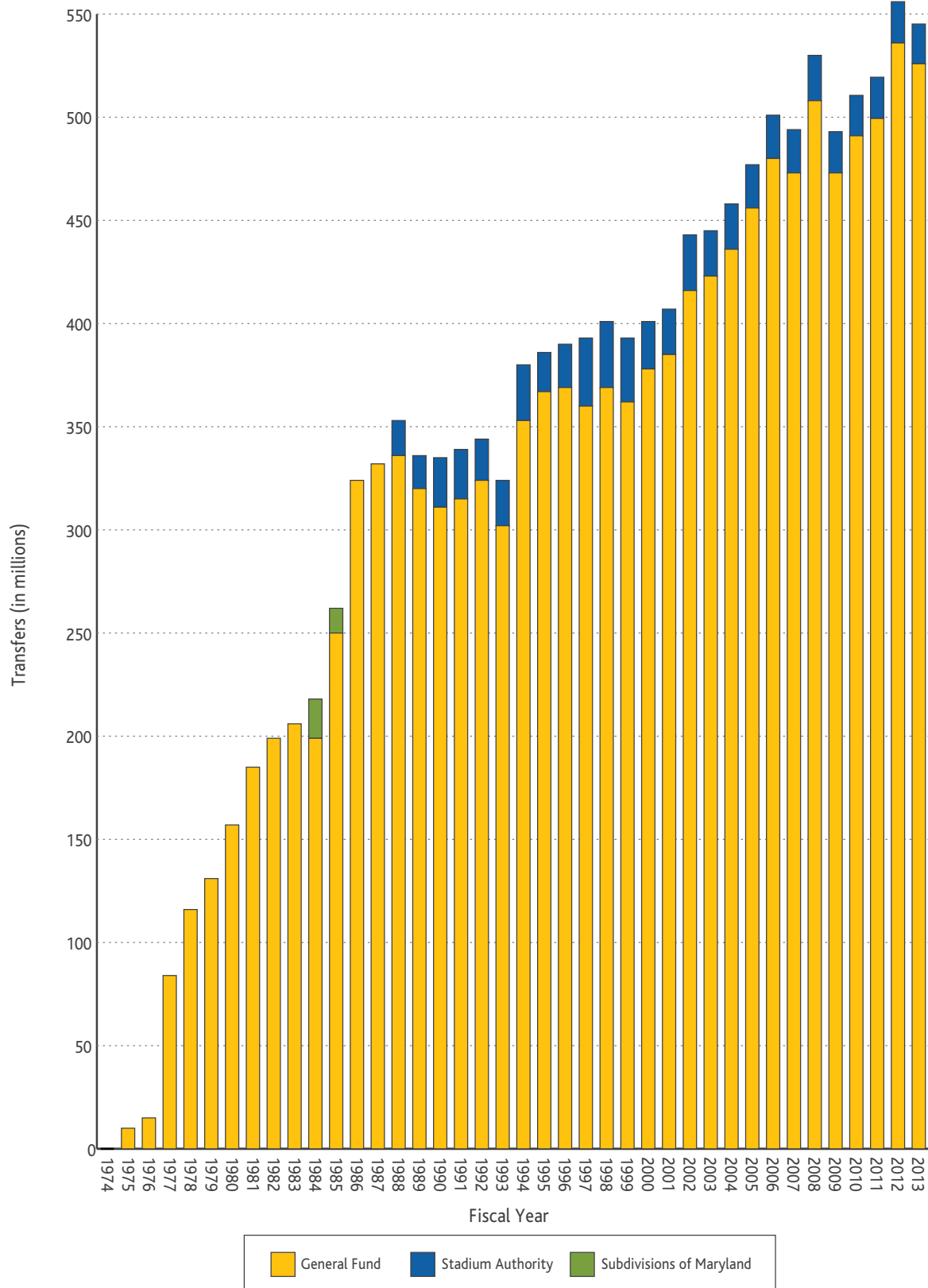
Fiscal Year	The State of Maryland General Fund	The Maryland Stadium Authority	Subdivisions of Maryland	Total Contributions
1975*	\$ 10,025,000	\$ –	\$ –	\$ 10,025,000
1976	15,374,000	–	–	15,374,000
1977	83,928,000	–	–	83,928,000
1978	116,182,000	–	–	116,182,000
1979	131,271,000	–	–	131,271,000
1980	156,768,000	–	–	156,768,000
1981	185,224,000	–	–	185,224,000
1982	199,080,000	–	–	199,080,000
1983	206,236,000	–	–	206,236,000
1984	199,194,000	–	19,095,000	218,289,000
1985	250,123,000	–	12,158,000	262,281,000
1986	323,423,000	–	–	323,423,000
1987	332,366,000	–	–	332,366,000
1988	335,928,000	16,750,000	–	352,678,000
1989	319,605,000	16,221,000	–	335,826,000
1990	311,254,000	24,040,000	–	335,294,000
1991	315,247,000	24,004,000	–	339,251,000
1992	323,814,000	19,752,000	–	343,566,000
1993	301,563,000	21,612,000	–	323,175,000
1994	353,308,000	26,743,000	–	380,051,000
1995	366,577,000	19,077,000	–	385,654,000
1996	369,161,000	20,749,000	–	389,910,000
1997	359,835,000	32,818,000	–	392,653,000
1998	368,501,000	31,625,000	–	400,126,000
1999	362,145,000	31,076,000	–	393,221,000
2000	377,763,000	23,250,000	–	401,013,000
2001	385,045,000	22,000,000	–	407,045,000
2002	416,274,000	27,230,000	–	443,504,000
2003	422,948,000	21,949,000	–	444,897,000
2004	436,373,000	22,000,000	–	458,373,000
2005	455,863,000	21,235,000	–	477,098,000
2006	480,471,000	20,500,000	–	500,971,000
2007	473,119,000	21,000,000	–	494,119,000
2008	507,904,000	21,500,000	–	529,404,000
2009	473,206,260	20,000,000	–	493,206,260
2010	491,008,632	19,600,000	–	510,608,632
2011	499,393,853	20,000,000	–	519,393,853
2012	536,264,804	20,000,000	–	556,264,804
2013	525,960,121	19,265,000	–	545,225,121
Total	\$12,777,725,670	\$ 583,996,000	\$ 31,253,000	\$ 13,392,974,670
TOTAL LIFETIME CONTRIBUTIONS				\$ 13,392,974,670

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

MARYLAND LOTTERY AND GAMING CONTROL AGENCY
**CONTRIBUTIONS TO THE STATE OF MARYLAND –
 INCEPTION TO DATE (CONTINUED)**



TOTAL LIFETIME CONTRIBUTIONS: \$13,392,974,670





MARYLAND LOTTERY AND GAMING CONTROL AGENCY

U.S. LOTTERIES TRANSFERS TO STATE – FISCAL YEAR 2012*

Rank	State	Transfer Amount (\$M)	Transfers to State as % of Sales
1	Louisiana	\$ 156.91	37%
2	Oklahoma	70.49	35%
3	New Jersey	950.08	34%
4	Michigan	786.92	33%
5	MARYLAND	556.26	31%
6	New Mexico	41.33	31%
7	Pennsylvania	1,060.89	30%
8	California	1,300.24	30%
9	Florida	1,321.60	30%
10	North Dakota	7.62	29%
11	Kansas	71.00	29%
12	North Carolina	460.47	29%
13	Connecticut	311.90	29%
14	Virginia	464.09	29%
15	Kentucky	216.44	28%
16	Texas	1,155.52	28%
17	Wisconsin	149.95	27%
18	Tennessee	323.44	27%
19	Washington, D.C.	66.40	27%
20	South Carolina	300.08	26%
21	Illinois	705.08	26%
22	New Hampshire	66.77	26%
23	Washington	138.04	26%
24	Arizona	164.72	25%
25	Iowa	78.73	25%
26	Georgia	901.33	25%
27	Missouri	273.60	25%
28	Montana	13.06	25%
29	Indiana	205.25	24%
30	Nebraska	36.08	24%
31	Minnesota	123.81	24%
32	Maine	54.33	24%
33	Idaho	41.60	24%
34	Colorado	123.25	23%
35	Vermont	22.33	22%
36	Massachusetts	983.79	21%
37	Arkansas	97.71	21%
38	Delaware	329.90	–
39	New York	2,877.99	–
40	Ohio	771.03	–
41	Oregon	525.11	–
42	Rhode Island	377.71	–
43	South Dakota	103.70	–
44	West Virginia	693.84	–
Total		**\$ 19,480.39	

Source: *La Fleur's 2013 World Lottery Almanac* (21st Edition)

* Data for fiscal year 2013 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.

**GROSS TERMINAL REVENUE DISTRIBUTIONS –
FISCAL YEARS 2011 THROUGH 2013***



Fiscal Year 2013					
	Hollywood Casino — Perryville	Casino at Ocean Downs	Maryland Live! Casino	Rocky Gap Casino Resort	Total
Education Trust Fund	\$ 37,296,321	\$ 24,718,054	\$ 211,723,265	\$ 1,176,388	\$ 274,914,028
Casino	25,087,932	16,644,463	142,367,378	1,400,462	185,500,235
Purse Dedication	5,321,683	3,530,644	30,199,141	70,023	39,121,491
Local Impact Grants	4,181,322	2,774,077	23,727,897	77,025	30,760,321
Race Tracks Facility Renewal Account	1,475,939	1,005,207	8,299,050	–	10,780,196
MLGCA	1,520,481	1,008,755	8,628,327	56,018	11,213,581
Small, Minority, Woman Business	1,140,360	756,566	6,471,246	21,007	8,389,179
Total	\$ 76,024,038	\$ 50,437,766	\$431,416,304	\$ 2,800,923	\$560,679,031

Fiscal Year 2012					
	Hollywood Casino — Perryville	Casino at Ocean Downs	Maryland Live! Casino	Rocky Gap Casino Resort	Total
Education Trust Fund	\$ 57,275,940	\$ 23,286,167	\$ 14,058,033	\$ –	\$ 94,620,140
Casino	38,971,258	15,844,197	9,565,259	–	64,380,714
Purse Dedication	8,266,631	3,360,890	2,028,994	–	13,656,515
Local Impact Grants	6,495,210	2,640,699	1,594,210	–	10,730,119
Race Tracks Facility Renewal Account	2,952,368	1,200,318	724,641	–	4,877,327
MLGCA	2,361,894	960,255	579,713	–	3,901,862
Small, Minority, Woman Business	1,771,421	720,190	434,785	–	2,926,396
Total	\$118,094,722	\$ 48,012,716	\$ 28,985,635	\$ –	\$195,093,073

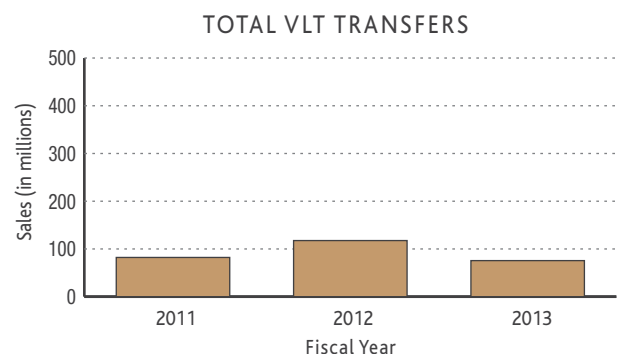
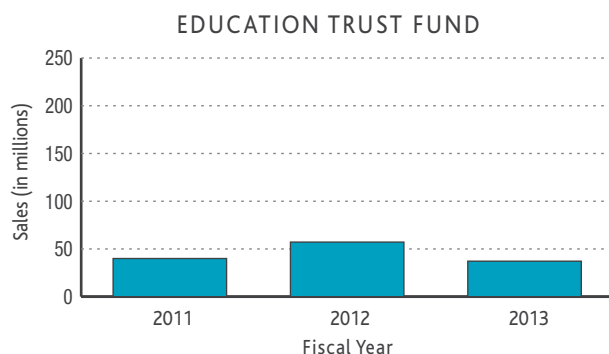
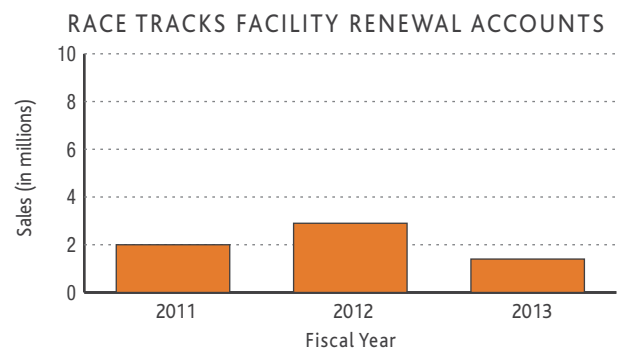
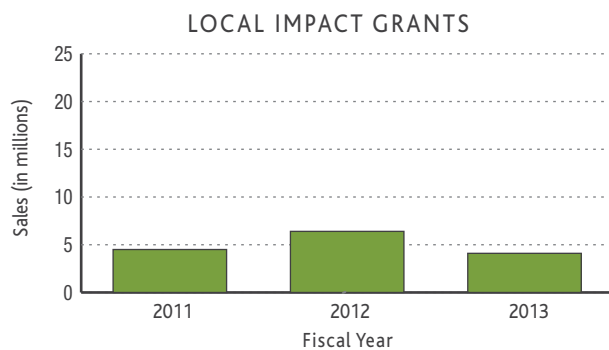
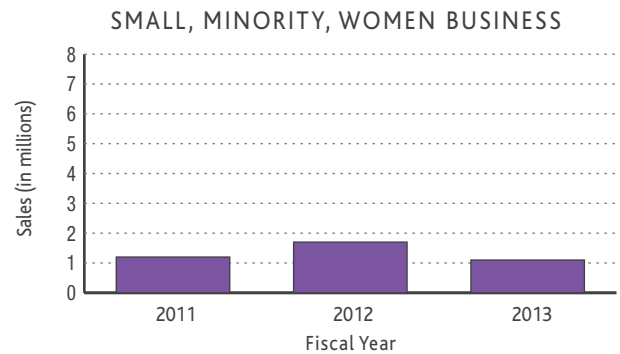
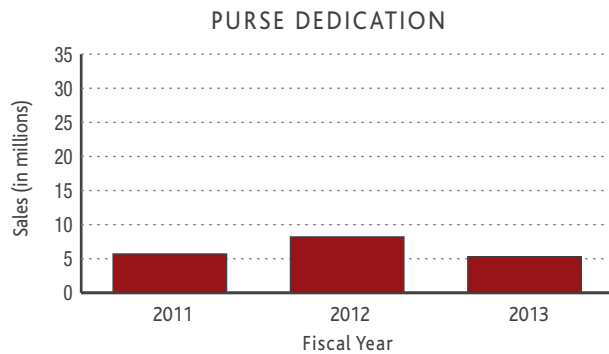
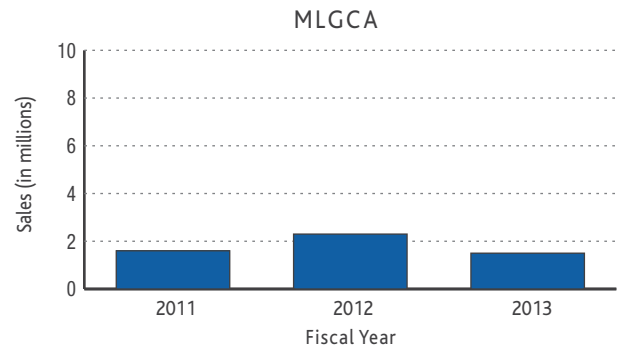
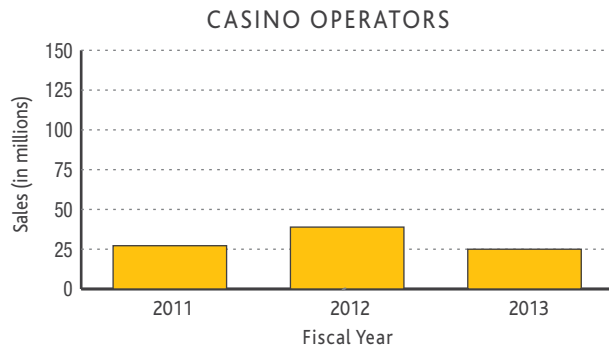
Fiscal Year 2011					
	Hollywood Casino — Perryville	Casino at Ocean Downs	Maryland Live! Casino	Rocky Gap Casino Resort	Total
Education Trust Fund	\$ 40,108,178	\$ 9,911,227	\$ –	\$ –	\$ 50,019,405
Casino	27,290,101	6,743,721	–	–	34,033,822
Purse Dedication	5,788,809	1,430,486	–	–	7,219,296
Local Impact Grants	4,548,350	1,123,954	–	–	5,672,304
Race Tracks Facility Renewal Account	2,067,432	510,888	–	–	2,578,320
MLGCA	1,653,975	408,710	–	–	2,062,686
Small, Minority, Woman Business	1,240,459	306,533	–	–	1,546,992
Total	\$ 82,697,304	\$ 20,435,520	\$ –	\$ –	\$103,132,824

* Fiscal year 2011 was the first year for gross terminal revenue.



MARYLAND LOTTERY AND GAMING CONTROL AGENCY
**GROSS TERMINAL REVENUE DISTRIBUTIONS –
 FISCAL YEARS 2011 THROUGH 2013* (CONTINUED)**

HOLLYWOOD CASINO — PERRYVILLE



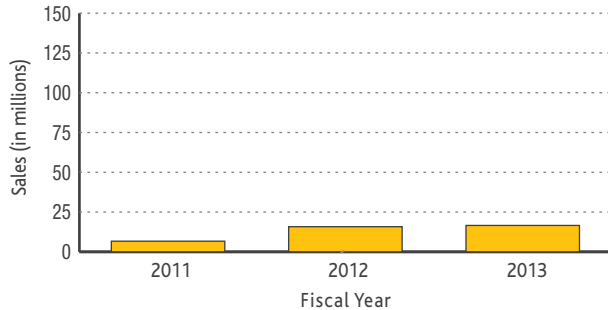
* Fiscal year 2011 was the first year for gross terminal revenue.

MARYLAND LOTTERY AND GAMING CONTROL AGENCY
**GROSS TERMINAL REVENUE DISTRIBUTIONS –
 FISCAL YEARS 2011 THROUGH 2013* (CONTINUED)**

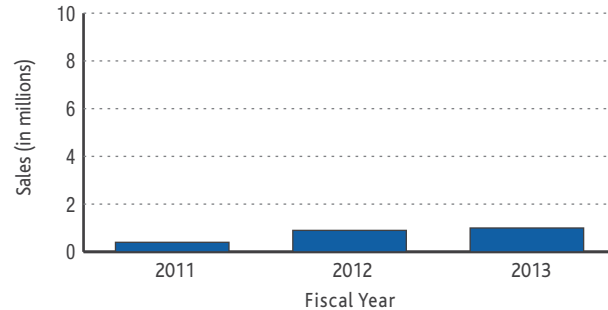


CASINO AT OCEAN DOWNS

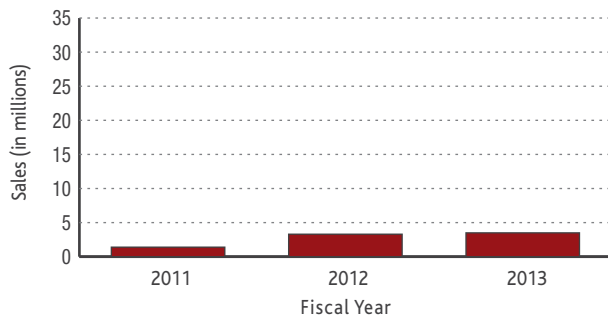
CASINO OPERATORS



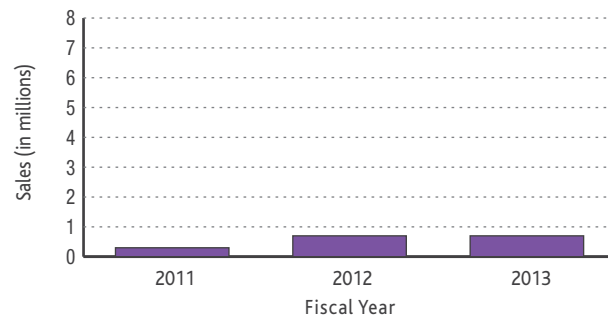
MLGCA



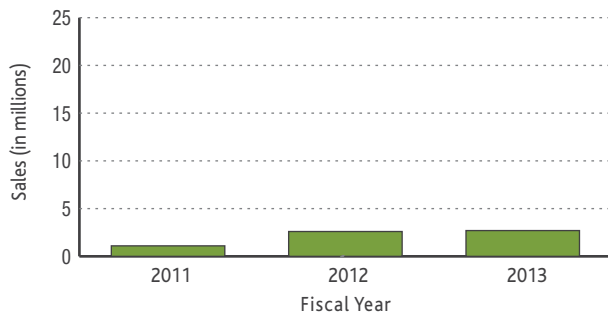
PURSE DEDICATION



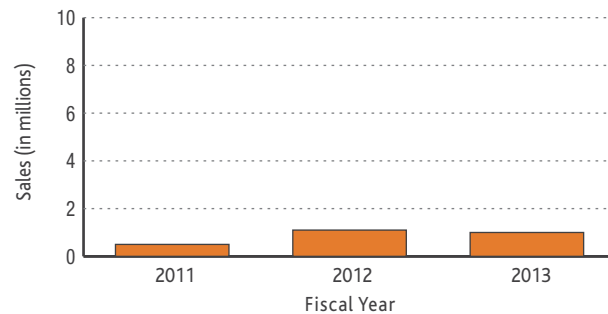
SMALL, MINORITY, WOMEN BUSINESS



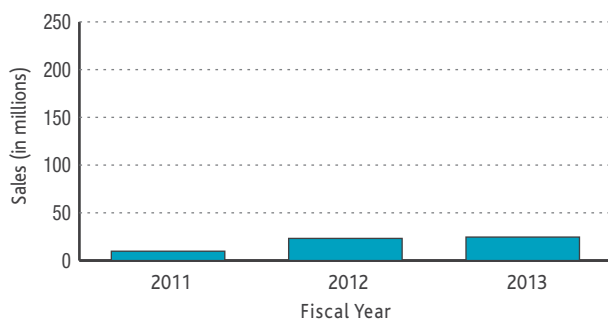
LOCAL IMPACT GRANTS



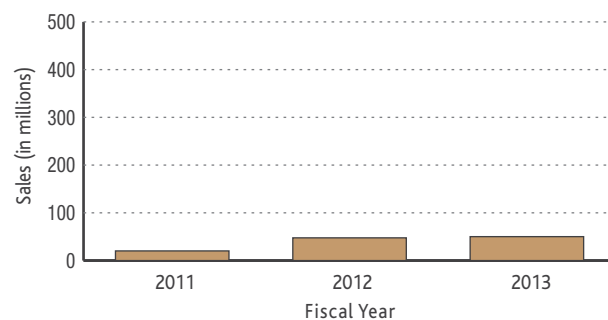
RACE TRACKS FACILITY RENEWAL ACCOUNTS



EDUCATION TRUST FUND



TOTAL VLT TRANSFERS

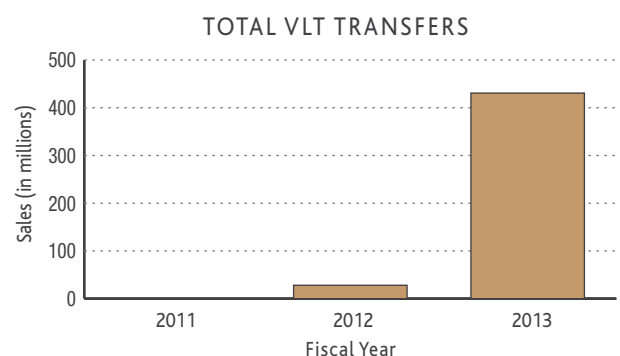
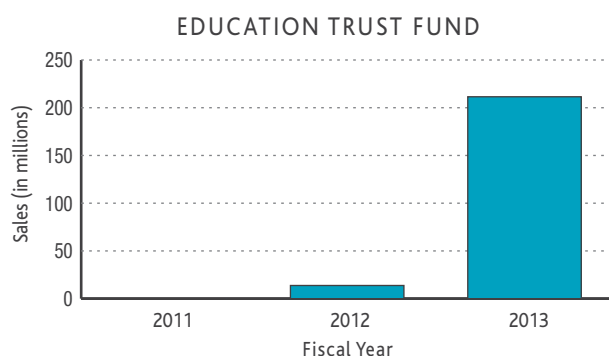
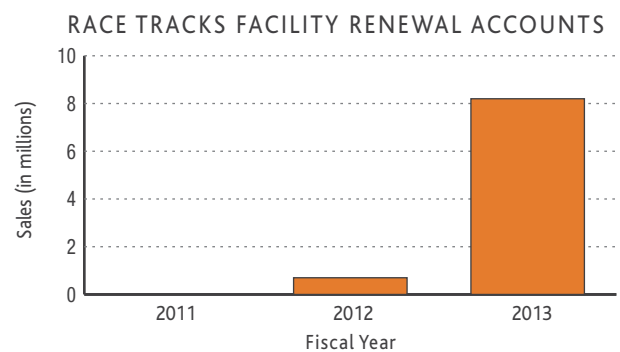
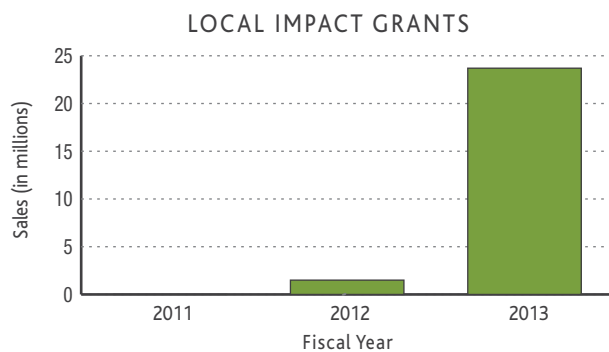
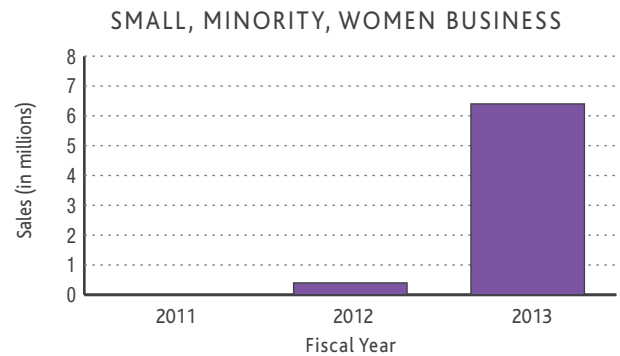
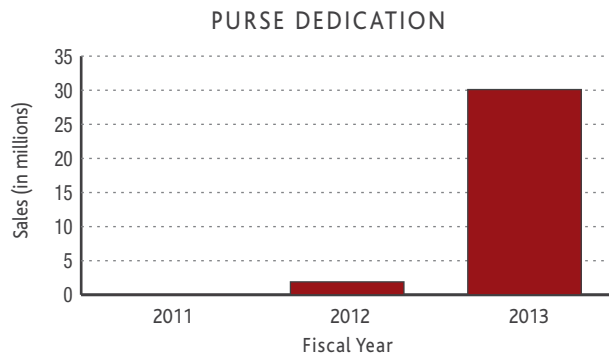
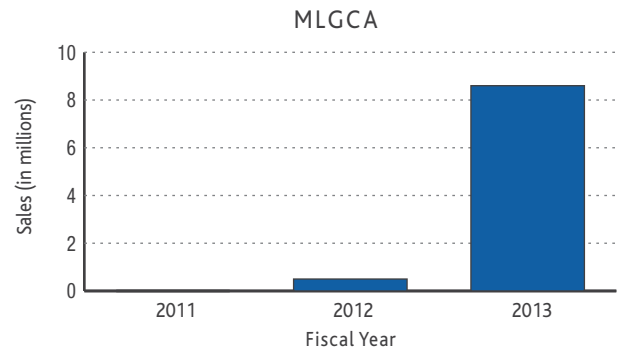
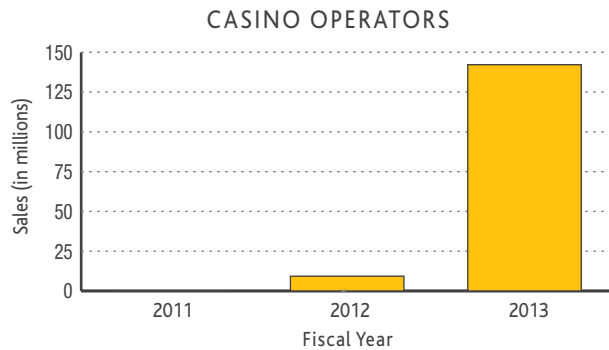


* Fiscal year 2011 was the first year for gross terminal revenue.



MARYLAND LOTTERY AND GAMING CONTROL AGENCY
**GROSS TERMINAL REVENUE DISTRIBUTIONS –
FISCAL YEARS 2011 THROUGH 2013* (CONTINUED)**

MARYLAND LIVE! CASINO



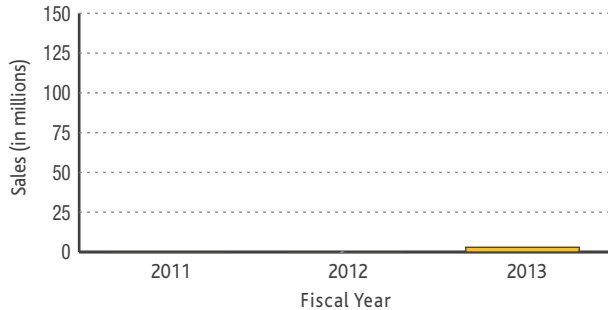
* Maryland Live! Casino began operation in June 2012.

MARYLAND LOTTERY AND GAMING CONTROL AGENCY
**GROSS TERMINAL REVENUE DISTRIBUTIONS –
 FISCAL YEARS 2011 THROUGH 2013* (CONTINUED)**

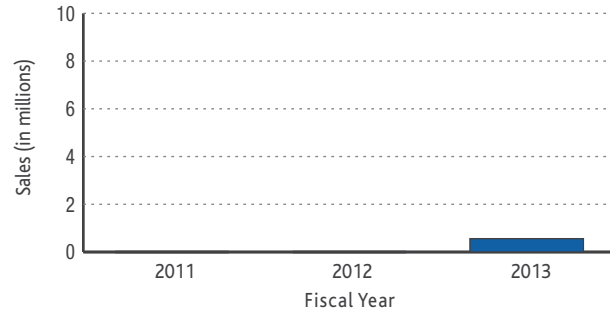


ROCKY GAP CASINO RESORT

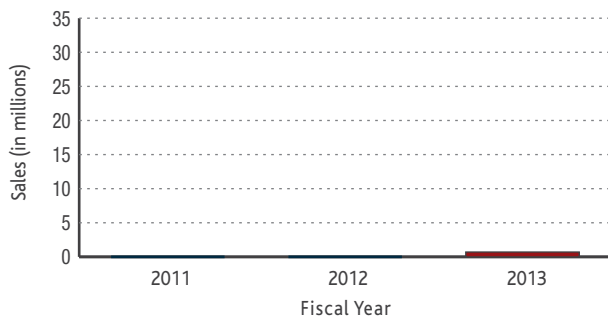
CASINO OPERATORS



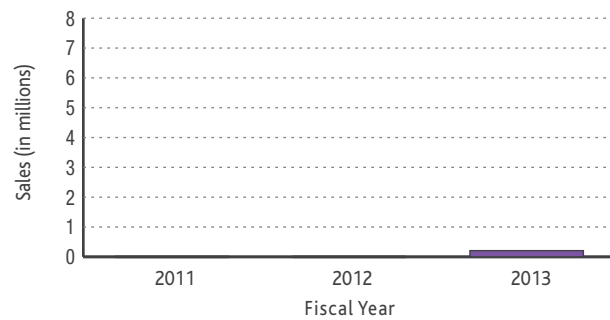
MLGCA



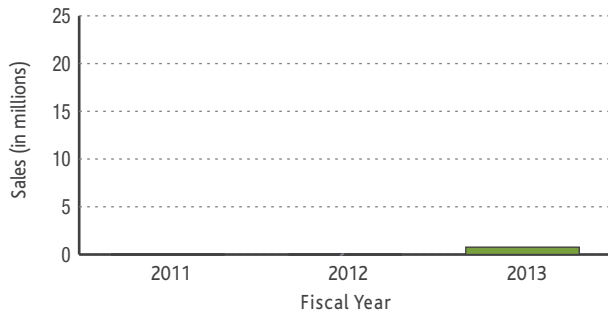
PURSE DEDICATION



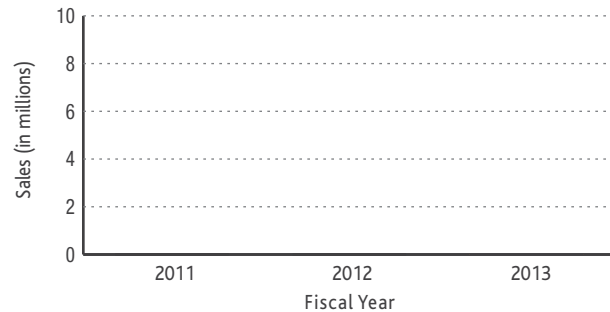
SMALL, MINORITY, WOMEN BUSINESS



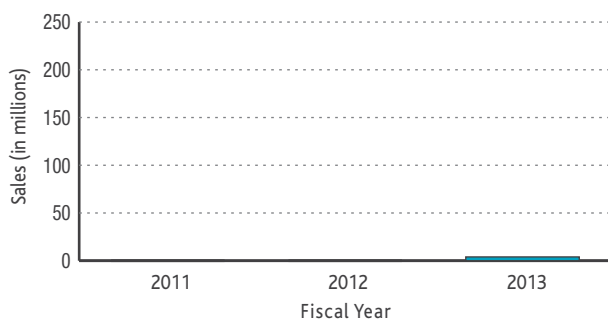
LOCAL IMPACT GRANTS



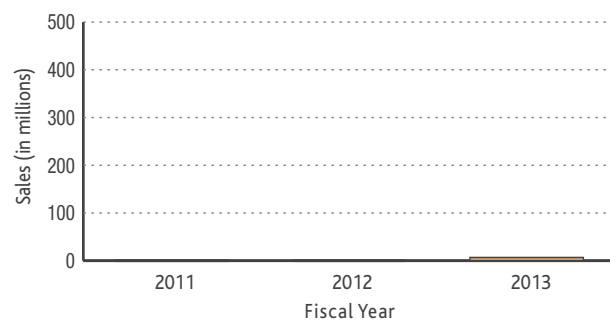
RACE TRACKS FACILITY RENEWAL ACCOUNTS



EDUCATION TRUST FUND



TOTAL VLT TRANSFERS

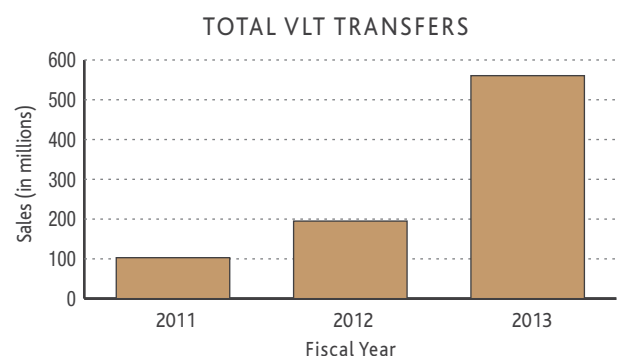
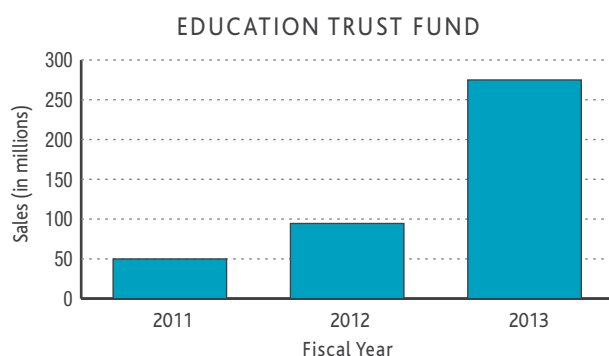
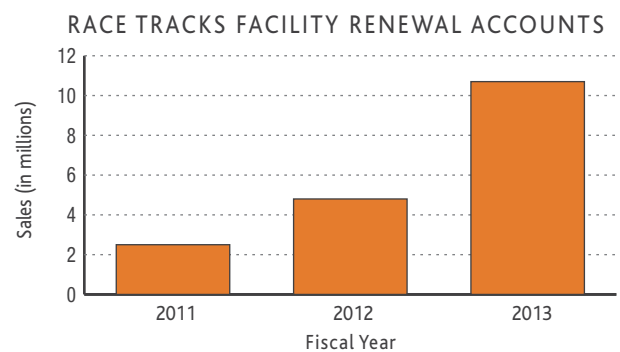
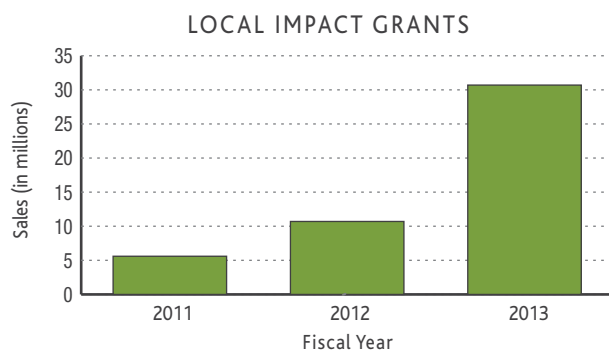
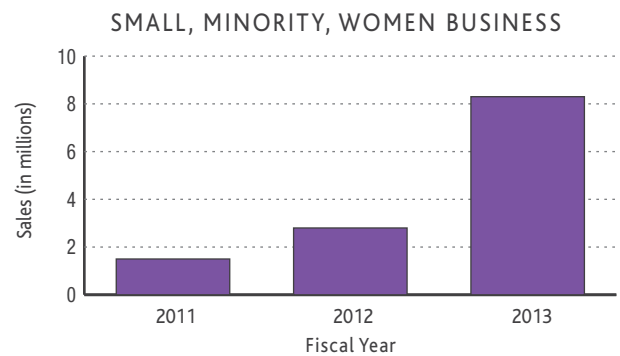
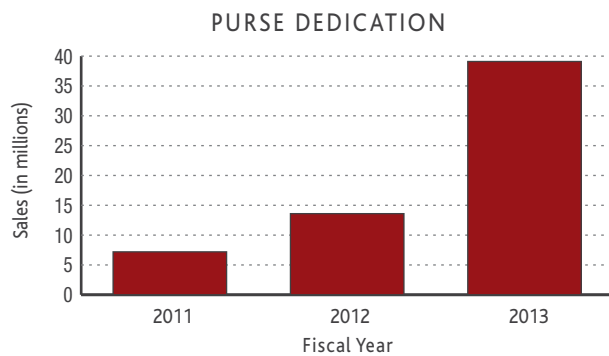
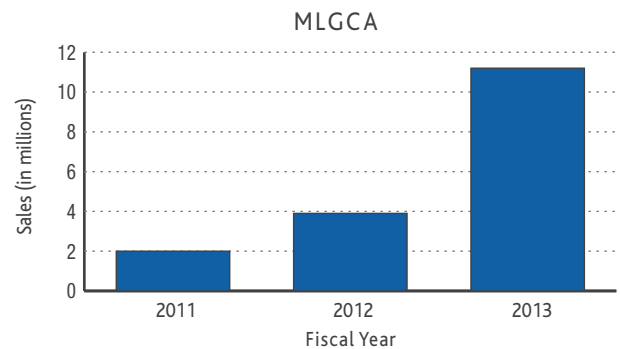
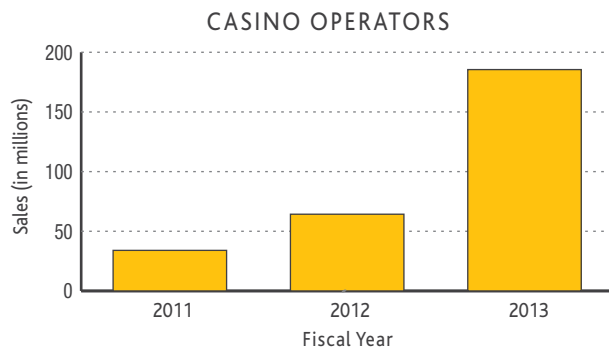


* Rocky Gap Casino Resort began operation in May 2013.



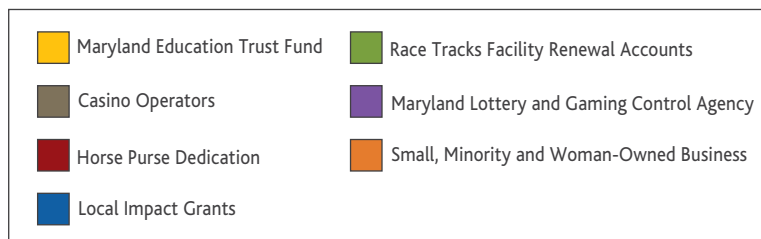
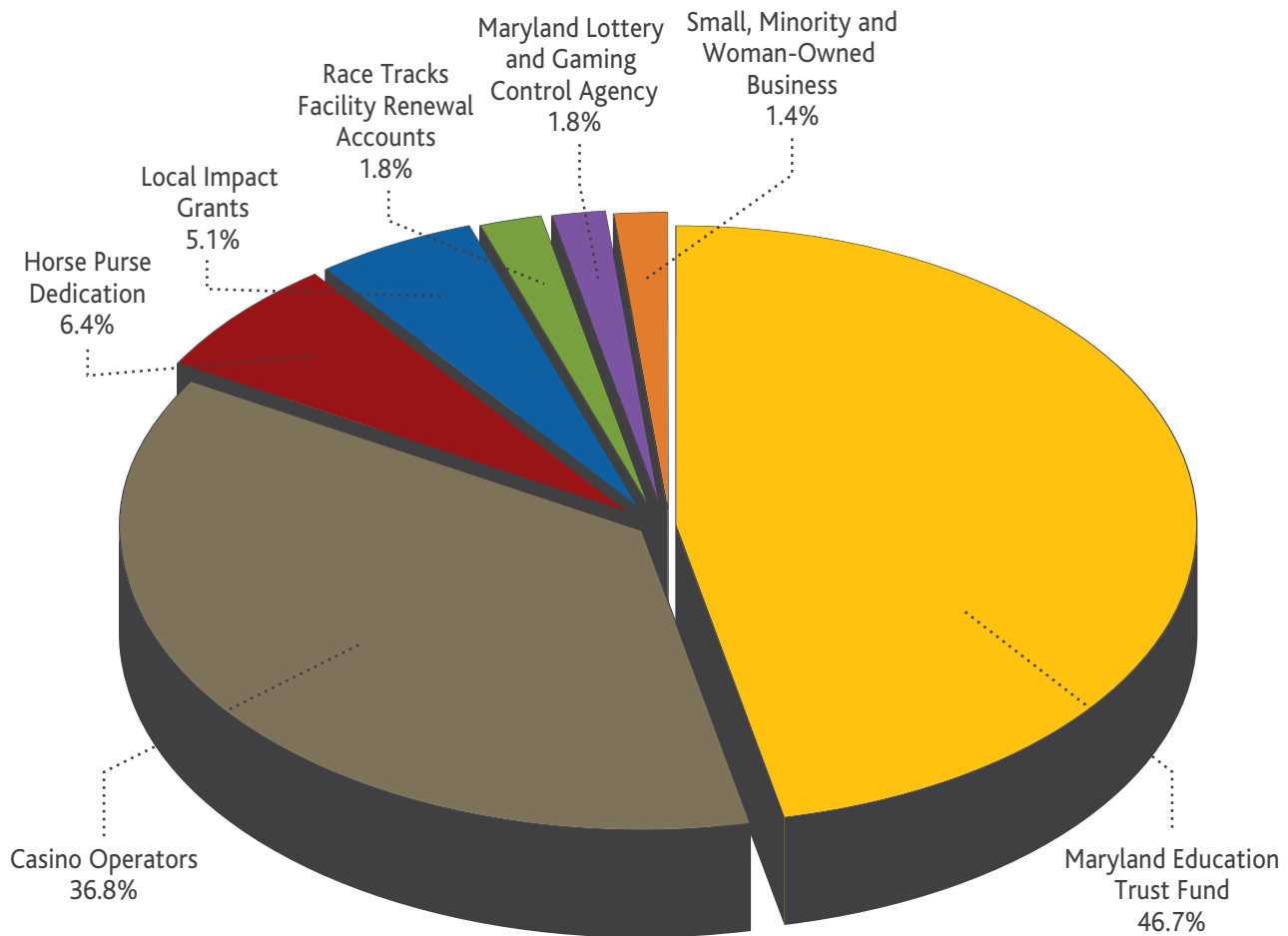
MARYLAND LOTTERY AND GAMING CONTROL AGENCY
**GROSS TERMINAL REVENUE DISTRIBUTIONS –
 FISCAL YEARS 2011 THROUGH 2013* (CONTINUED)**

ALL CASINOS COMBINED



* Fiscal year 2011 was the first year for gross terminal revenue.

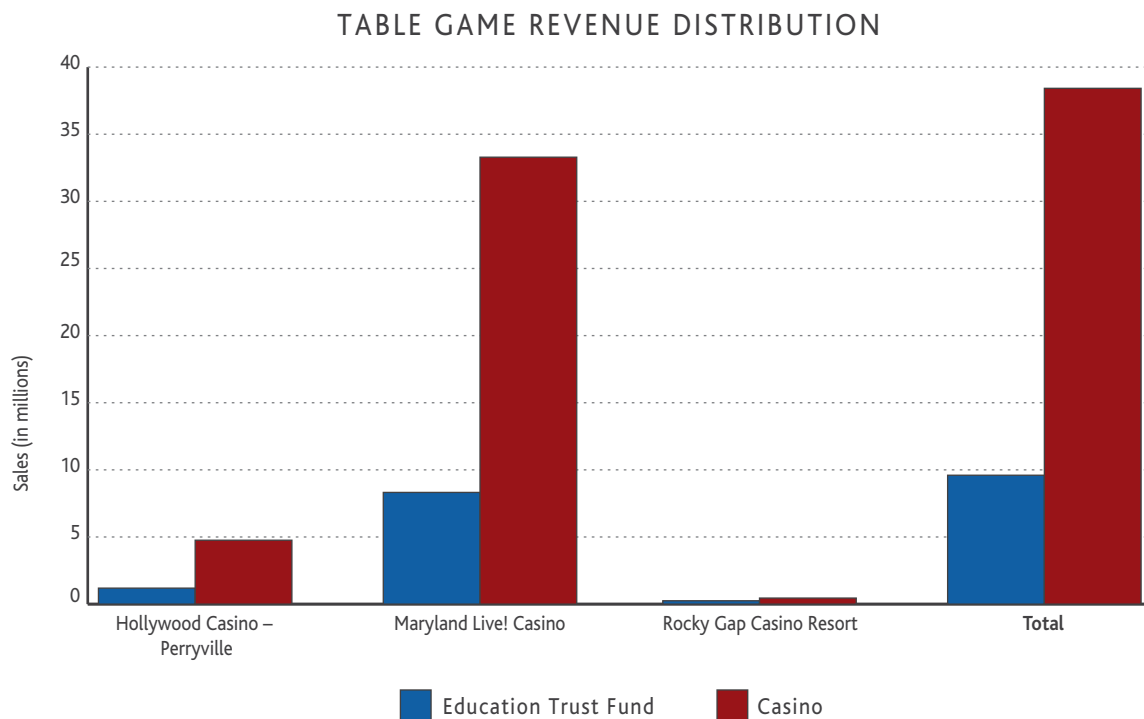
**GROSS TERMINAL REVENUE DISTRIBUTION –
FISCAL YEAR 2013 (CONTINUED)**





MARYLAND LOTTERY AND GAMING CONTROL AGENCY
TABLE GAME REVENUE DISTRIBUTION – FISCAL YEAR 2013*

Fiscal Year 2013				
	Hollywood Casino — Perryville	Maryland Live! Casino	Rocky Gap Casino Resort	Total
Education Trust Fund	\$ 1,191,443	\$ 8,323,862	\$ 92,254	\$ 9,607,559
Casino	4,765,772	33,295,447	369,016	38,430,235
Total	\$ 5,957,215	\$ 41,619,309	\$ 461,270	\$ 48,037,794



* Fiscal year 2013 was the first year for table game revenue.
 – As of June 30, 2013, the Casino at Ocean Downs had not implemented table games.

MARYLAND LOTTERY AND GAMING CONTROL AGENCY
RETAILERS, POPULATION AND SALES BY REGION



Fiscal Year 2013

	Allegany County	Anne Arundel County	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# of Retailers	59	433	706	65	29	131	88	136
% of Total Retailers	1.32%	9.67%	15.77%	1.45%	0.65%	2.93%	1.97%	3.04%
Population	74,489	544,818	812,401	89,264	32,954	167,313	101,628	149,242
% of Total Population	1.28%	9.33%	13.91%	1.53%	1.67%	8.48%	1.74%	2.56%
% of Sales	0.60%	9.74%	16.05%	1.45%	0.42%	2.03%	1.17%	3.46%

	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# of Retailers	28	155	31	175	160	16	411	580
% of Total Retailers	0.63%	3.46%	0.69%	3.91%	3.57%	0.36%	9.18%	12.96%
Population	32,703	237,309	30,097	246,651	293,879	20,265	991,645	874,045
% of Total Population	0.56%	4.06%	0.52%	4.22%	5.03%	0.35%	16.98%	14.97%
% of Sales	0.48%	2.32%	0.19%	3.48%	2.85%	0.26%	10.22%	21.07%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# of Retailers	54	97	19	34	118	79	110	763
% of Total Retailers	1.21%	2.17%	0.42%	0.76%	2.64%	1.76%	2.46%	17.04%
Population	48,400	107,681	26,370	37,974	148,817	99,965	51,446	620,216
% of Total Population	0.83%	1.84%	0.45%	0.65%	2.55%	1.71%	0.88%	10.62%
% of Sales	0.67%	2.14%	0.35%	0.49%	1.62%	1.15%	1.23%	16.58%

Note: Information is accumulated and retained in this format only for fiscal years 2006–2013. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.



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

Fiscal Year 2012

	Allegany County	Anne Arundel County	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# of Retailers	64	462	749	72	32	142	96	143
% of Total Retailers	1.36%	9.8%	15.9%	1.53%	0.68%	3.02%	2.04%	3.03%
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	0.61%	10.16%	15.99%	1.39%	0.38%	1.98%	1.14%	3.39%

	Dorchester County	Frederick County	Garrett County	Harford County	Howard County	Kent County	Montgomery County	Prince George's County
# of Retailers	34	168	30	191	178	16	429	611
% of Total Retailers	0.72%	3.57%	0.64%	4.05%	3.78%	0.34%	9.10%	12.97%
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%	2.23%	0.19%	3.52%	2.94%	0.23%	10.15%	20.86%

	Queen Anne's County	St. Mary's County	Somerset County	Talbot County	Washington County	Wicomico County	Worcester County	Baltimore City
# of Retailers	52	100	22	34	123	79	108	777
% of Total Retailers	1.10%	2.12%	0.47%	0.72%	2.61%	1.68%	2.29%	16.49%
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%	2.14%	0.35%	0.49%	1.56%	1.16%	1.22%	16.74%

Note: Information is accumulated and retained in this format only for fiscal years 2006–2013. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

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



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%

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

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%

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



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%

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

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%

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



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%

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

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%

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MARYLAND LOTTERY AND GAMING CONTROL AGENCY
MARYLAND'S LARGEST PRIVATE EMPLOYERS



2013

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
 WalMart Associates

2012 and 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 and 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
 Macy'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

Employer (listed alphabetically)

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

Source: Department of Labor, Licensing and Regulation; Division of Workforce Development and Adult Learning. Information reported on a calendar basis. The number of employees is not available.



MARYLAND LOTTERY AND GAMING CONTROL AGENCY

**RATIO OF OUTSTANDING DEBT BY TYPE –
FISCAL YEARS 2004 THROUGH 2013**

Fiscal Year	Capital Leases	Percentage of Annual Lottery Sales
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%
2012	2,933,939	0.16%
2013	1,780,253	0.10%

Fiscal Year	VLT Capital Leases	Percentage of Gross Terminal Revenue
2004	\$ –	–%
2005	–	–%
2006	–	–%
2007	–	–%
2008	–	–%
2009	–	–%
2010	–	–%
2011	40,791,831	39.60%
2012	53,278,861	27.30%
2013	29,242,927	5.22%

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

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

**DEMOGRAPHIC AND ECONOMIC STATISTICS –
FISCAL YEARS 2004 THROUGH 2013**


Fiscal Year	Statewide Population ⁽¹⁾	Statewide Personal Income ⁽²⁾ (expressed in thousands)	Statewide Per Capita Personal Income	Unemployment Rate ⁽³⁾
2004	5,508,909	\$ 205,652,120	\$ 37,331	4.30%
2005	5,558,058	218,137,769	39,248	4.20%
2006	5,600,388	235,195,668	41,996	3.80%
2007	5,615,727	247,525,909	44,077	3.90%
2008	5,618,344	262,071,799	46,646	3.70%
2009	5,633,597	270,923,822	48,091	5.90%
2010	5,699,478	275,143,448	48,275	7.40%
2011	5,773,552	283,919,505	49,070	7.00%
2012	5,828,289	295,235,516	50,656	6.80%
2013	5,884,563	316,681,620	53,816	6.80%

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. Data provided is for prior ending calendar year.
- (3) State Department of Labor, Licensing and Regulation – Average rate for 2013



MARYLAND LOTTERY AND GAMING CONTROL AGENCY
LOTTERY EMPLOYEES – FISCAL YEARS 2004 THROUGH 2013

Number of Employees (includes contractual)										
As of June 30,	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agent Administration	5	6	6	6	5	5	7	7	7	5
Commissioners	–	–	–	–	–	–	–	–	–	7*
Communications	19	17	19	21	25	24	24	22	22	25
Customer Service	13	14	13	13	12	12	12	9	9	10
Executive	7	6	5	6	6	6	8	6	6	9
Facilities	6	5	5	5	5	5	5	4	4	4
Finance, Budget & Procurement and Special Projects	14	17	16	15	15	15	14	16	16	23
Information Technology	21	23	24	24	24	24	24	27	27	18
Instant Ticket Warehouse	6	7	7	7	7	7	7	7	7	7
Legal Services	5	6	6	6	6	7	7	7	7	8
Personnel	5	4	4	4	4	4	4	3	3	4
Product Development & Creative Services	13	10	9	9	8	10	9	8	8	12
Sales	61	61	60	61	63	61	60	61	61	60
Security	5	5	5	5	5	5	5	5	5	8
Gaming	–	–	–	–	–	1	3	36	36	94
Total	180	181	179	182	185	186	189	218	218	294

*Effective with the Gaming Expansion Act, the MLGCA Commissioners became positioned employees.

MARYLAND LOTTERY AND GAMING CONTROL AGENCY
OPERATING INDICATORS – FISCAL YEARS 2004 THROUGH 2013



Percentage of Lottery Administrative Expenses to Sales

Fiscal Year	Sales	Administrative Expenses	Percentage of Administrative Expenses to Sales
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%
2012	1,794,892,455	53,856,627	3.00%
2013	1,756,119,267	54,699,834	3.10%

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



MARYLAND LOTTERY AND GAMING CONTROL AGENCY

**CAPITAL ASSETS, NET INFORMATION –
FISCAL YEARS 2004 THROUGH 2013**

	Lottery Equipment	Data Processing Equipment	Office Equipment	Leasehold Improvements	VLTs	Total Capital Assets
2004	\$ 2,735,984	\$ 77,120	\$ 179,200	\$ 516,144	\$ –	\$ 3,508,448
2005	1,378,351	117,872	157,802	454,819	–	2,108,844
2006	974,544	81,970	98,578	393,495	–	1,548,587
2007	574,116	281,518	277,504	332,171	–	1,465,309
2008	173,689	202,273	190,553	270,847	–	837,362
2009	5,310,349	132,433	125,456	209,523	–	5,777,761
2010	4,192,381	65,926	63,182	148,199	–	4,469,688
2011	3,074,412	9,418	4,860	86,875	35,258,146	38,433,711
2012	1,956,444	–	–	25,551	47,247,813	49,229,808
2013	838,476	–	–	–	22,987,684	23,826,160

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MARYLAND LOTTERY AND
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