



## Maryland State Lottery Agency

AN ENTERPRISE FUND OF THE STATE OF MARYLAND



## Comprehensive Annual Financial Report

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006



The Maryland Lottery is a major economic contributor and a driving force for the State's economy. In fiscal year 2007 alone, the Lottery contributed over \$494 million to the State of Maryland in the form of proceeds from the sale of Maryland Lottery games. These dollars help support vital State programs, such as education, public safety, transportation, public health, and the environment. Shown on the cover is one of the State's environmental jewels, Deep Creek Lake, which is located in Western Maryland.



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FOR THE YEARS ENDED JUNE 30, 2007 AND 2006



Maryland State Lottery Agency

AN ENTERPRISE FUND OF THE STATE OF MARYLAND



Prepared by the  
Accounting Department of the  
Maryland State Lottery Agency

Maryland Lottery funds help make  
Maryland a safer place for all citizens.



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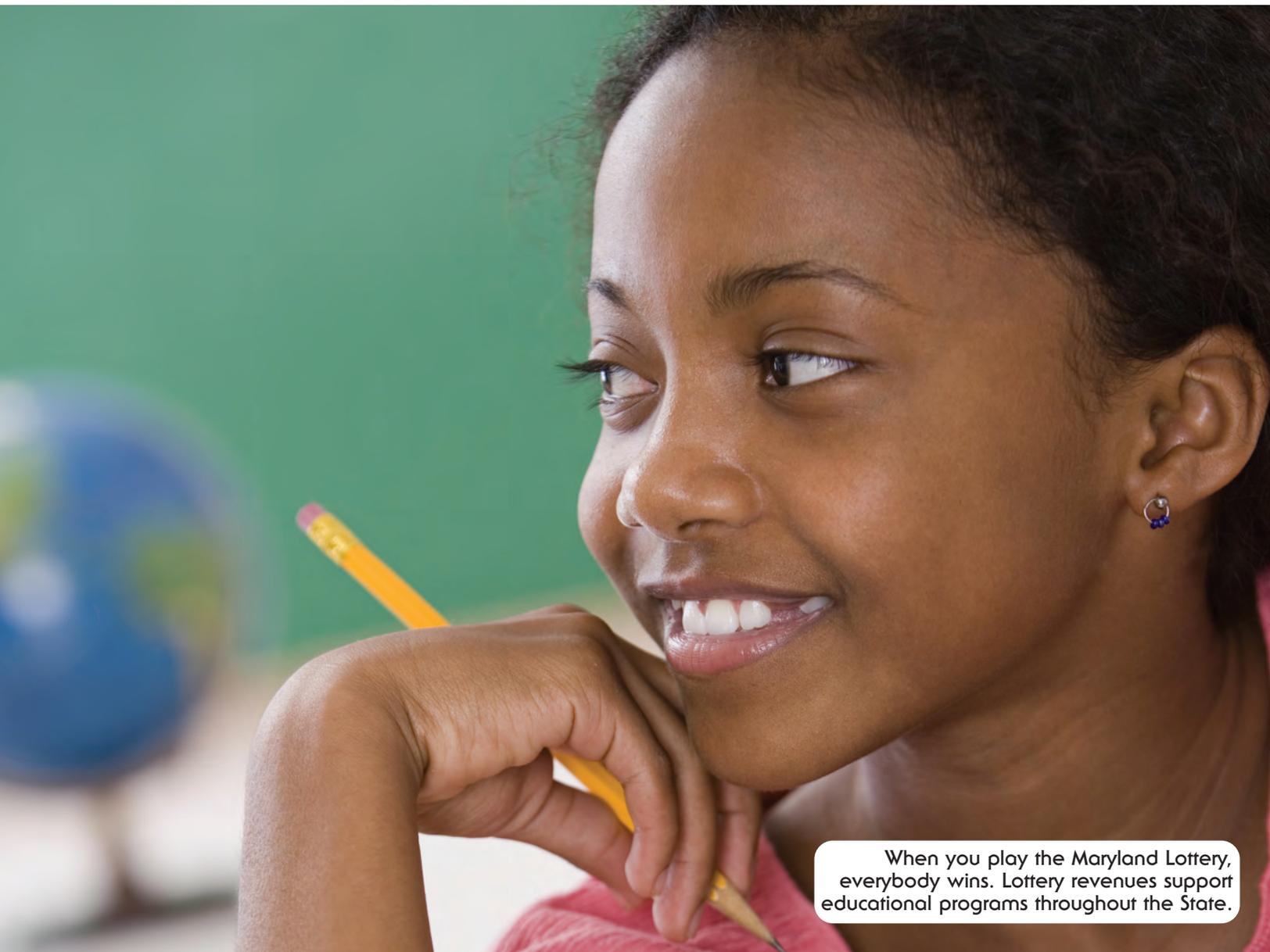
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# Introductory Section



When you play the Maryland Lottery, everybody wins. Lottery revenues support educational programs throughout the State.



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## MARYLAND LOTTERY

Montgomery Park Business Center • 1800 Washington Boulevard, Suite 330  
Baltimore, Maryland 21230  
Phone: 410-230-8800 • TTY users call Maryland Relay  
www.mdlottery.com  
Martin O'Malley, *Governor* • Buddy Roogow, *Director*



December 5, 2007

The Honorable Martin O'Malley, Governor  
Stanley S. Fine, Chairman, Maryland Lottery Commission  
Other Maryland Lottery Commission Members

### INTRODUCTION

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Maryland State Lottery Agency (the Lottery) for the fiscal year ended June 30, 2007. This report has been prepared by the Accounting Department of the Lottery. Responsibility for both the accuracy of the financial data and the completeness and fairness of presentation, including all disclosures, rests solely with the Lottery. To the best of our knowledge and belief, the enclosed data is accurate and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the Lottery. All disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities have been included.

Presented in this report is information about the Lottery, an independent agency of the State of Maryland. The Lottery was established by the General Assembly through the enactment of Chapter 365 of Laws of Maryland of 1972 and the voters' approval that same year of a constitutional amendment. The amendment was ratified on November 7, 1972, and operations commenced on January 2, 1973. The Lottery is operated as a business enterprise within the framework of State laws and regulations. The mission of the Lottery is to provide revenue to the State of Maryland through the sale of entertaining lottery products to support State programs and services benefiting the citizens of Maryland.

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

The Lottery has a five-member board of commissioners who are appointed by the Governor with the advice and consent of the Senate of Maryland. The Commission provides direction and guidance to the Director of the Lottery concerning lottery operations.

## HISTORY OF LOTTERIES

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

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

Throughout the years, lotteries have evolved and have become more diversified, offering players a variety of choices. Today, 42 states and the District of Columbia operate lotteries selling both on-line games and instant tickets. During fiscal year 2007, these lotteries generated in excess of \$52.5 billion in sales. The Maryland Lottery ranked fifth among state lotteries in per capita sales during this time period.

Lotteries continue to fund various initiatives and provide benefits to the citizens of their states. Since its inception, the Lottery has exceeded \$27.5 billion in sales and has contributed more than \$10.2 billion to the State of Maryland. Lottery income from operations is contributed to the State's General Fund and is used to support various programs and services such as education, public health and safety, human resources, and the environment. In addition, the Lottery is required by statute to contribute a defined amount each year to the Maryland Stadium Authority.

## ECONOMIC OUTLOOK

Maryland's economy, like the national economy, has grown at a lackluster pace over the past year. Employment growth was under 1.0% from the third quarter of 2006 through the second quarter of 2007, although it rebounded to 1.5% in the third quarter of this year. Personal income grew 5.8% the first half of this year, essentially the same pace as 2006, while wage and salary growth has actually accelerated about a third of a percentage point to 5.7%. Unemployment – the one measure by which Maryland clearly outperforms the nation – currently stands at a low 3.9%, supporting income growth and acting perhaps as a limiting factor on job growth.

All of the uncertainties and drags at the national level – energy prices, credit concerns, financial market volatility, declining consumer confidence, and especially the troubled housing market – are affecting the State's economy. But the economy has, to date, absorbed all of the bad news and continued to expand. Direct and indirect effects of the housing market downturn and the impact of resets of adjustable rate mortgages, which had been expected for some time and have been unfolding since late 2005, have now had a measurable impact on the State's economy and are likely to pose an increasingly formidable challenge to economic growth through the end of next year and perhaps beyond.

At present, fallout from the housing market seems likely to hold back the State's economy through 2008, directly or indirectly affecting virtually every industry. The possibility exists that these issues will develop to such an extent that the national or State economies slip into recession. The housing market in Maryland has deteriorated rapidly in recent months. Sales of existing homes in September were down 38% from September 2006, and are now nearly 60% below 2004 levels. The median sales price of existing homes sold dropped 9.3% from June to September, more than twice the seasonal decline experienced in any other year this decade.

The first effects of the deteriorating housing market on the broader economy have shown themselves in the construction industry. Employment in residential construction dropped noticeably in the first quarter of 2007 (the latest detailed data available). Employment with single-family housing contractors was down 12.9%, while multi-family contractors experienced an 8.8% decline, both dropping at faster rates than the fourth quarter of 2006, when they fell 10.2% and 0.9%. Altogether, residential construction jobs dropped 5.4% in the first quarter of 2007, after falling 0.9% in the fourth quarter of 2006. Developments in the housing market since then give no signs of recovery in the near future. Some of the jobs lost on the residential side may shift to the nonresidential side of the construction industry. The high demand in Maryland for school construction, facilities at community colleges and public institutions of higher education, new roads, and maintenance of existing transportation facilities will not be satisfied in the near future; thus, at least half of the nonresidential construction sector has, at worst, a very stable outlook.

The financial services industry will also be directly affected by the housing slowdown. Two mortgage brokerages have already reported layoffs totaling 250 employees, and more are likely to follow. In addition, resets of adjustable rate mortgages are expected to continue at very high levels through the end of 2008. These factors, along with volatility in the stock markets, the loss of spending power from those in the construction and finance industries who have lost their jobs, and high and, once again, rising energy prices (which have diverted up to 2.5% of personal income from other spending over the past two years), may keep consumer spending from strengthening appreciably in the near term. The only significant counterbalances are low interest rates and a relatively tight labor market in Maryland.

Weak consumer spending – as demonstrated by growth in State sales tax collections of just 1.9% in fiscal year 2007 – translates into low profit growth and flat employment for the trade industry, particularly retail trade. Weak consumer spending will also affect the leisure and hospitality services sector, although the weak dollar may help cushion the blow by encouraging international tourism.

Serving as a stabilizing sector over the near term – and one that will provide some growth – is the health and education services industry. Maryland receives the third highest amount of science and engineering funding from the federal government (over three-quarters of which is health and education related), behind only California and New York. The health research/services infrastructure, which has built up around Baltimore City and the Washington suburbs, will continue to have additional resources funneled to it.

Risks to the economic forecast are clearly on the downside. The largest negative risk, particularly in Maryland, is the development of a self-reinforcing downward cycle in the housing market. There is a possibility that, as the economy slows and adjustable rate mortgages continue to reset, foreclosures will increase. As the supply of homes expands, further downward pressure will be exerted on prices. In turn, more potential buyers will delay purchases, while, at the same time, it becomes more difficult for those facing resets to refinance before the higher payments (often 30% higher) come due, further expanding the supply. The impact of such a cycle on the broader economy would be substantial – even more so if mortgage-related risks are currently mispriced in the stock and bond markets. Longer-term risks for the State's economy include slowing population growth. Current Census estimates show decelerating growth each year since 2001 in Maryland, with 2006 growth of under 0.5% – the weakest since 1979. This trend may be reversed over the next several years due to the Base Realignment and Closure Commission (BRAC) activity, but growth in population seems unlikely to exceed 1.0% any time in the foreseeable future.

There are positive factors working in Maryland's favor. Of the 50 states, Maryland has the highest median household income, the fifth-highest per capita personal income, the fourth-lowest poverty rate, and the fourth-highest percentage of residents with a bachelor's degree – all of which make Maryland a desirable location for both employers and employees. The concentration of high-tech and bioscience companies around Baltimore, Washington, and Northern Virginia will act as a long-term catalyst for growth. In addition, upcoming BRAC activity will, at the very least, provide an extra boost to the State's economy as it resumes stronger growth in 2009. Maryland is well-positioned for future economic growth, once the imbalances caused by the housing market have worked through the system.

## MARYLAND LOTTERY PRODUCTS

The Lottery has introduced a number of different games since its inception and continues to provide players with the opportunity to participate in a variety of on-line and instant ticket games. On-line 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 whether they have won. Instant games are played by scratching a latex covering off a play area to reveal pre-printed combinations. If a winning combination appears, the customer is an instant winner.

Games offered during fiscal year 2007 included the following:

### PICK 3

*Fiscal Year 2007 Statistics:*

*\$291.9 million in net sales*

*18.5% of total net sales*

*\$6.2 million decrease from fiscal year 2006 Pick 3 net sales*

**PICK 3** was introduced in July 1976 and was the first on-line game offered by the Lottery. Players choose three numbers from 0 to 9 for the chance of winning prizes ranging from \$25 to \$500. Drawings are held twice daily, seven days a week.

### PICK 4

*Fiscal Year 2007 Statistics:*

*\$240.1 million in net sales*

*15.2% of total net sales*

*\$3.6 million increase over fiscal year 2006 Pick 4 net sales*

**PICK 4** was introduced in April 1983. Players choose four numbers from 0 to 9 for the chance of winning prizes ranging from \$100 to \$5,000. Drawings are held twice daily, seven days a week.

### Keno.

*Fiscal Year 2007 Statistics:*

*\$268.1 million in net sales*

*17.0% of total net sales*

*\$19.1 million decrease from fiscal year 2006 Keno net sales*

**KENO** is an on-line game that is predominantly sold in a social atmosphere as drawings are held every four minutes. Keno was introduced in January 1993. The Lottery's computer continuously generates random sets of 20 numbers. These numbers are then displayed on a Keno monitor. Players select from 1 to 10 numbers from a field of 80 numbers and win prizes ranging from \$2 to \$100,000 by matching anywhere from no numbers to 10 numbers.

# Keno. BONUS<sup>®</sup>

*Fiscal Year 2007 Statistics:*

*\$144.5 million in net sales*

*9.2% of total net sales*

*\$4.5 million decrease from fiscal year 2006 Keno Bonus net sales*

**KENO BONUS** is an on-line 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 3, 4, 5, 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.

# Racetrax<sup>®</sup>

*Fiscal Year 2007 Statistics:*

*\$49.8 million in net sales*

*3.2% of total net sales*

*\$49.6 million increase over fiscal year 2006 Racetrax<sup>®</sup> net sales*

**RACETRAX<sup>®</sup>** is an on-line game that launched statewide in August 2006. The game is predominantly sold in a social atmosphere, and drawings are held every five minutes. This game is a computer-animated monitor game that offers the thrill of horseracing with advanced 3-D graphic animation that results in the horses and races appearing realistic. Players select from 1 to 12 horses to win prizes ranging from \$1.20 to \$31,454. Additional information concerning this game can be found on page 16 under Highlights of Fiscal Year 2007.



*Fiscal Year 2007 Statistics:*

*\$27,000 in net sales*

*Less than 1.0% of total net sales*

**MARYLAND HOLD'EM<sup>™</sup>** is an on-line promotional game, which began in June 2007, and is offered in a limited number of retail locations. This game is a computer-animated, virtual poker monitor game with advanced 3-D graphic animation. Games run every seven minutes, and players select from 1 to 8 hands to win prizes ranging from \$2 to \$5,000. Additional information concerning this game can be found on page 19 under Future Projects.



*Fiscal Year 2007 Statistics:*

*\$98.2 million in net sales*

*6.2% of total net sales*

*\$18.1 million decrease from fiscal year 2006 Mega Millions net sales*

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



*Fiscal Year 2007 Statistics:*

*\$30.1 million in net sales*

*1.9% of total net sales*

*\$14.3 million increase over fiscal year 2006 Multi-Match net sales*

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



*Fiscal Year 2007 Statistics:*

*\$22.9 million in net sales*

*1.5% of total net sales*

*\$454.4 thousand increase over fiscal year 2006 Bonus Match 5 net sales*

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



*Fiscal Year 2007 Statistics:*

*\$6.5 million in net sales*

*Less than 1.0% of total net sales*

**COUNTDOWN TO MILLIONS** was an on-line raffle-style game offered for a limited time period during the fiscal year. Players purchased sequential tickets for a chance to win prizes ranging from \$500 to \$1,000,000. The drawing was held on January 1, 2007.



*\$425.1 million in net sales*

*27.0% of total net sales*

*\$9.8 million increase over fiscal year 2006 Instant Ticket net sales*

**INSTANT TICKETS**, also known as scratch offs, were first introduced in 1976. Similar to today's instant ticket games, the first instant ticket game launched in Maryland provided players with the opportunity to win by scratching a latex play area. From 1976 to 1985, the Lottery launched a limited number of instant tickets games; however, by 1986, instant games were launched on a more frequent basis. Today, instant tickets have become one of the fastest growing products in Maryland and within the lottery industry. During fiscal year 2007, the Lottery launched 52 different instant ticket games.

## HIGHLIGHTS OF FISCAL YEAR 2007

Fiscal year 2007 proved to be another highly successful year for the Lottery, not only through record-breaking sales but through the forging of several new partnerships that will help facilitate the future success of the Lottery. For the tenth consecutive year, the Lottery achieved its highest sales point in history. Although the Lottery experienced a decline in income, the decline can be attributed to a legislatively mandated 0.5% increase in the commissions paid to retailers for selling lottery tickets. As a result of the new legislation, retailers received an additional \$7.8 million in commissions during the fiscal year.

Fiscal year 2007 sales totaled an all-time high of \$1.577 billion, an increase of \$16.4 million or 1.1% over fiscal year 2006. Income from operations transferred to the State of Maryland during fiscal year 2007 totaled \$494.1 million, a decrease of \$6.9 million or 1.4% from fiscal year 2006 transfers. Additional financial information can be found in the Management's Discussion and Analysis Section of this report, which begins on page 29.

Aside from another record-breaking year in sales, the Lottery's most significant accomplishments entailed converting its on-line gaming system, instant ticket distribution system, and telecommunication system to more efficient, state-of-the-art systems. As a result of these conversions, the Lottery and its players and retailers will continue to benefit from the following major enhancements well into the future:

- A new technologically advanced on-line system that is easily upgraded to meet the evolving needs of the lottery industry;
- Upgraded lottery terminals with retailer-friendly touch screens, full-monitor video training module, and thermal printers;
- An upgraded telecommunications network that utilizes satellite technology, which allows the Lottery to easily expand its existing retailer network without the costly and time-consuming wired line technology that was previously used; and
- The latest technology for processing instant ticket orders, which includes a telemarketing staff responsible for contacting the retailer network to determine instant ticket orders, a more efficient packing process by Lottery personnel, and the ability to ship products to retailers the next day.

The Lottery also formed key partnerships during the year. A new television drawings partner that integrates local radio affiliates into the drawing process became part of the Lottery's team. This partnership continues to help the Lottery expand the scope and impact of drawings and increase marketing opportunities. A local public television provider was also incorporated into the drawing process. In addition, the Lottery began the year with a new instant ticket contract, which further enhanced the Lottery's goal of providing players with more appealing instant games. Among a variety of new instant games that were released, Instant Pick 3 was introduced. The game served a dual purpose by offering cash prizes, while promoting the Lottery's on-line Pick 3 game by giving players the chance to win Pick 3 tickets. The game quickly produced, for an extended period of time, the highest weekly sales achieved by any previously released \$1 ticket, resulting in high demand and the additional printing of tickets. The success of Instant Pick 3 was the result of Lottery research and coordination between the Lottery's on-line and instant ticket vendors, whose advanced capabilities make cross-promotions possible.

With the marked success of monitor games in Maryland and as a result of a successful pilot study, the Lottery launched Racetrax<sup>®</sup>, a horse-racing monitor game, throughout the State. Maryland served as the first lottery in the country to roll out the game. The addition of Racetrax<sup>®</sup> to the Lottery's mix of monitor games, which previously included Keno and Keno Bonus, afforded the Lottery the opportunity to attain record monitor game sales. Although Keno and Keno Bonus sales declined, combined sales for monitor games increased in excess of \$26.0 million or 6.0% over last year's monitor game sales. The success of Racetrax<sup>®</sup> has resulted in the Lottery testing a third monitor game, Maryland Hold'Em<sup>™</sup>, which is further discussed on page 19 under Future Projects.

## FINANCIAL INFORMATION

### ACCOUNTING SYSTEMS AND POLICIES

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

## BUDGETARY SYSTEMS AND CONTROLS

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

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

## DEBT ADMINISTRATION

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

## CASH MANAGEMENT

The Lottery collects cash owed for instant and on-line sales from its approximately 3,800 retailers on a weekly basis. Funds are collected electronically from the retailers' designated bank accounts. The Treasury of the State of Maryland invests cash primarily in overnight repurchase agreements, United States Government Obligations, and money market mutual funds.

## RISK MANAGEMENT

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

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

## INTERNAL CONTROL ENVIRONMENT

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

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

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

- Employing specialized security staff;
- Maintaining secure lottery facilities and limiting access to them;
- Performing background checks on retailers, vendors, and employees;
- Printing lottery tickets with special security features;
- Performing unannounced inspections at the drawing studio to ensure compliance with established operating procedures;
- Processing daily transaction data of all vendor activity by Lottery personnel using the Lottery's internal control system programs and reconciling transactions to reports generated by the on-line gaming vendor; and
- Providing a variety of access and other controls in the Lottery's computer systems.

The Lottery currently has 182 employees, most of whom are located at the Lottery's headquarters in Baltimore. As of June 30, 2007, all drawings were conducted at the broadcast facility of the television station producing the drawings, except for Saturday midday drawings, which were conducted at Lottery headquarters. All drawings were broadcast except for Saturday midday drawings.

## FUTURE PROJECTS

During fiscal year 2008, several new Lottery contracts will become effective, each yielding opportunities for sales growth. The new vendors will help facilitate key marketing functional areas, including: creative services, media services, public relations/communications, and research. Each vendor offers advanced conceptual and technical capabilities, which will be integrated to maximize product development and marketing opportunities.

The Lottery will also be expanding the Maryland Hold'Em™ pilot study that began in fiscal year 2007. The expansion will include increasing the number of retailers that offer the game from approximately 35 to 150 retailers, as well as exploring game adjustments involving the prize structure and new graphics. During fiscal year 2008, the Lottery will also introduce a variety of new instant tickets. Set for Life, an instant game with a lifetime payment theme, will offer players the chance to win \$1,000 a week for 20 years, and Big Bucks Party Pack will bundle six \$2 games for \$10. Big Bucks Party Pack is designed to encourage group play in social settings.

Additional technology-based initiatives are also underway for fiscal year 2008. Player-activated terminals with touch-screen monitors will be made available in many retail locations by the end of the fiscal year. The self-service terminals are expected to further increase the efficiency of lottery transactions for players and retailers. In addition, the terminals will serve as a recruitment tool for retail locations that, in the past, were generally difficult to provide with lottery access.

## INDEPENDENT AUDIT

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

## GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its CAFR for the fiscal year ended June 30, 2006. This marked the third consecutive year the Lottery received this prestigious national award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Lottery believes its current CAFR continues to meet Certificate of Achievement Program's 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 Deborah Sharpless, Controller, and Cecilia Lee, Accounting Manager. A special note of thanks is also given to the Lottery's Creative Services Division and current creative services partner for assisting in the layout of this report; David Roose, Director of the State's Bureau of Revenue Estimates for his assistance in providing information concerning the Maryland economy; and the Lottery's independent auditors for providing assistance in developing this report.

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

Respectfully submitted,

MARYLAND STATE LOTTERY AGENCY



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



Buddy Roogow  
Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Maryland State Lottery Agency

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2006

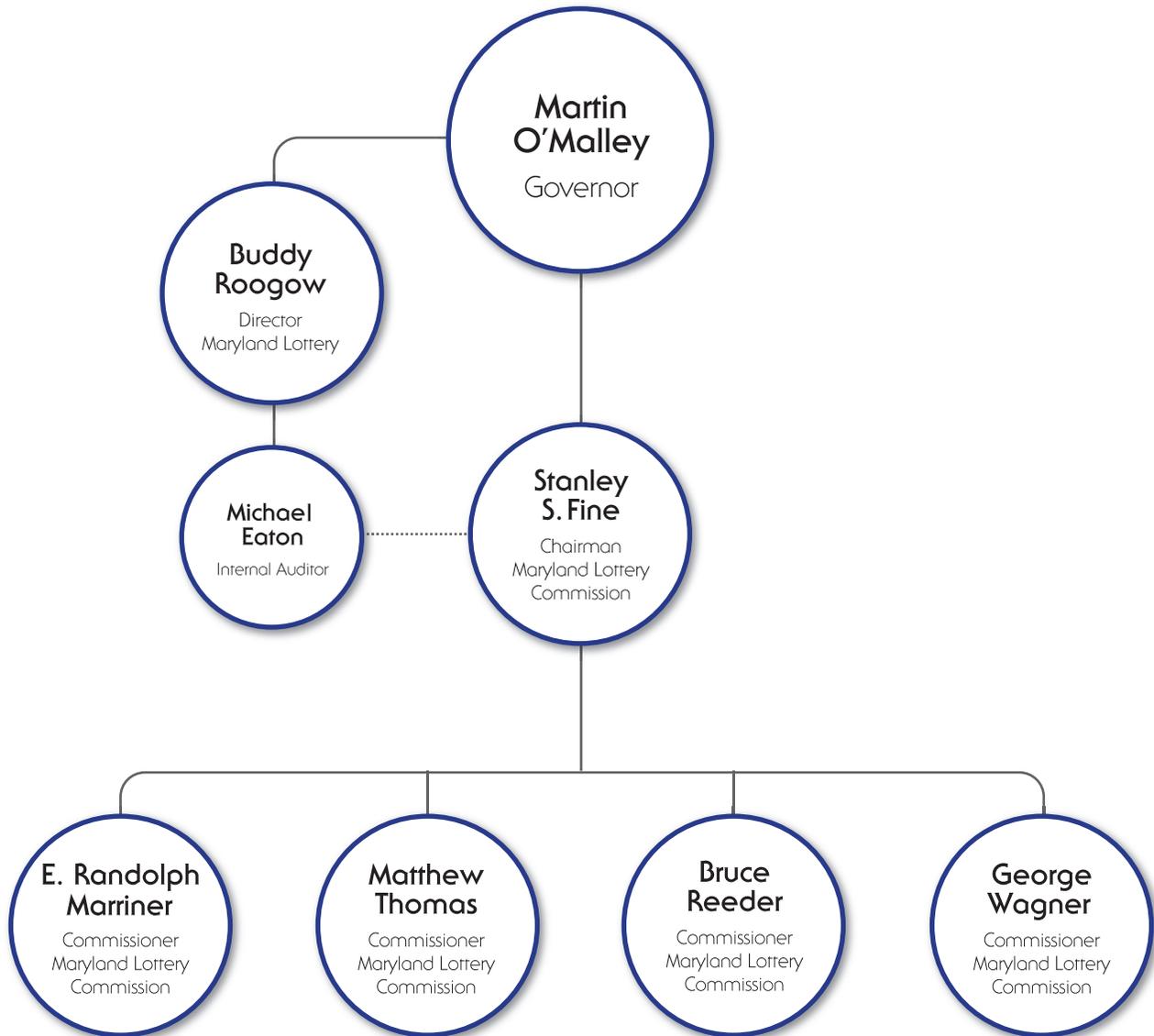
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



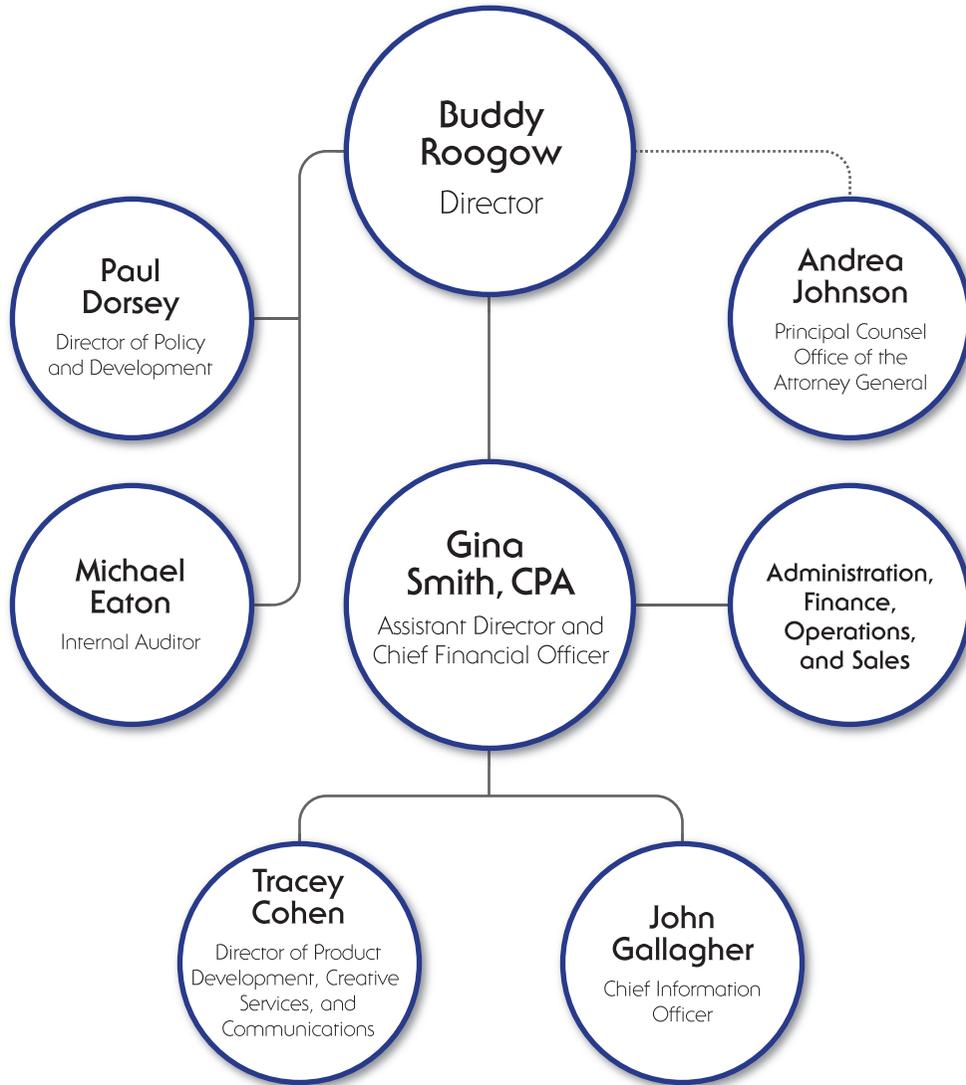
President

Executive Director

MARYLAND STATE LOTTERY AGENCY  
PRINCIPAL OFFICIALS



MARYLAND STATE LOTTERY AGENCY  
ORGANIZATIONAL CHART





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## Financial Section



Public health programs in Maryland receive funding support from Maryland Lottery proceeds.



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## INDEPENDENT AUDITORS' REPORT

To the Maryland State Lottery Agency:

We have audited the accompanying financial statements of the Maryland State Lottery Agency (an agency of the State of Maryland), as of and for the years ended June 30, 2007 and 2006, as shown on pages 42 through 45. These financial statements are the responsibility of the Maryland State Lottery Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Maryland State Lottery Agency, are intended to present the financial position, and the changes in financial position and cash flows, where applicable of the Maryland State Lottery Agency. They do not purport to, and do not, present fairly the financial position of the State of Maryland as of June 30, 2007 and 2006, 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 respective financial position of the Maryland State Lottery Agency, as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2007, on our consideration of the Maryland State Lottery Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 29 through 41 and schedule of revenues, expenses, and changes in net assets — budget and actual on pages 60 and 61 are not a required part of the basic statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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 & Hornig, P.A.*

September 25, 2007

## Maryland State Lottery Agency Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) provides an overview of the Maryland State Lottery Agency's (Lottery) performance for the fiscal years ended June 30, 2007 and 2006. As you read the MD&A, 2007 refers to the fiscal year ended June 30, 2007; 2006 refers to the fiscal year ended June 30, 2006; and 2005 refers to the fiscal year ended June 30, 2005. The information contained in the MD&A should be read in conjunction with the information contained in the financial statements and notes to the financial statements, which begins on page 42.

### FINANCIAL HIGHLIGHTS

- Net sales were a record \$1.577 billion in 2007, an increase of \$16.4 million or 1.1% as compared to 2006, which increased \$75.2 million or 5.1% as compared to 2005.
- Cost of sales increased \$30.6 million or 3.0% in 2007 as compared to 2006, which increased \$54.6 million or 5.6% as compared to 2005. The major components of these increases in cost of sales were:
  - Commissions paid to Lottery retailers in 2007 totaled \$112.2 million, an increase of \$9.5 million or 9.2% as compared to 2006, which increased \$5.1 million or 5.2% as compared to 2005.
  - Prizes paid to winners in 2007 totaled \$927.0 million, an increase of \$22.9 million or 2.5% as compared to 2006, which increased \$47.8 million or 5.6% as compared to 2005.
  - Gaming vendor and data processing fees along with instant ticket printing and delivery costs in 2007 totaled \$20.0 million, a decrease of \$1.8 million or 8.2% as compared to 2006, which increased \$1.7 million or 8.2% as compared to 2005.
- Operating expenses increased by \$2.2 million or 6.6% in 2007 as compared to 2006, which increased by \$1.5 million or 4.7% as compared to 2005.
- Transfers to the State of Maryland, in 2007, were \$494.1 million, a decrease of \$6.9 million or 1.4% as compared to 2006, which increased \$23.9 million or 5.0% as compared to 2005.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Lottery is an independent agency of the State of Maryland that was created to generate revenue for the State through the operation of a lottery. The Lottery is accounted for as a proprietary-type enterprise fund using the accrual basis of accounting, similar to a private business entity.

## Maryland State Lottery Agency Management's Discussion and Analysis

### Financial Statements

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

### Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 46 to 59 of this report.

### **FINANCIAL ANALYSIS**

Table 1 is a summarized version of the statements of net assets as of June 30, 2007, 2006, and 2005. The table reflects the Lottery's overall change in financial resources and claims on those resources. The majority of the Lottery's assets consists of cash held by the State Treasury, investments, and accounts receivable. The Lottery's investments and accounts receivable, as well as the majority of cash held by the State Treasury, are used to pay Lottery winners or are transferred as income to the State of Maryland. Most liabilities represent prize awards payables and amounts due to the State of Maryland.

Maryland State Lottery Agency  
Management's Discussion and Analysis

Table 1: Net Assets  
(in thousands)

	2007	2006	2005
Current Assets	\$ 129,711	\$ 131,697	\$ 133,798
Non-Current Assets	144,695	171,619	214,836
Capital Assets, net	1,465	1,549	2,109
<b>Total Assets</b>	<b>\$ 275,871</b>	<b>\$ 304,865</b>	<b>\$ 350,743</b>
Current Liabilities	\$ 126,970	\$ 117,947	\$ 118,495
Non-Current Liabilities	134,729	159,906	186,902
<b>Total Liabilities</b>	<b>\$ 261,699</b>	<b>\$ 277,853</b>	<b>\$ 305,397</b>
Net Assets			
Invested in Capital Assets	\$ 341	\$ 293	\$ 436
Unrestricted	13,831	26,719	44,910
<b>Total Net Assets</b>	<b>\$ 14,172</b>	<b>\$ 27,012</b>	<b>\$ 45,346</b>

Current Assets

The Lottery's current assets decreased by \$2.0 million or 1.5% in 2007 as compared to 2006, which decreased \$2.1 million or 1.6% as compared to 2005. The majority of these changes occurred in the Lottery's current portion of investments for annuity payments, accounts receivable, and instant ticket inventory.

The current portion of investments for annuity payments decreased by \$4.5 million or 10.8% in 2007 as compared to 2006, which decreased \$3.4 million or 7.6% as compared to 2005. The decreases in 2007 and 2006 resulted from fewer jackpot winners selecting to receive their prize in the form of an annuity compared to the number of annuities that expired.

Accounts receivable increased by \$5.8 million or 25.1% in 2007 as compared to 2006, which increased by \$2.1 million or 10.0% as compared to 2005. Accounts receivable represents the amount due from Lottery retailers from the sale of Lottery tickets. On a weekly basis, amounts due from retailers are collected electronically from the retailers' bank accounts. In 2007, six days of sales activity were waiting to be collected, compared to five days in 2006 and four days in 2005. The 2007 increase as compared to 2006 was amplified by an additional \$3.7 million from approximately 10,600 additional instant ticket books for sale.

## Maryland State Lottery Agency Management's Discussion and Analysis

Instant ticket inventory decreased by \$2.6 million or 82.9% in 2007 as compared to 2006, which decreased by \$85,000 or 2.6% as compared to 2005. In 2007, the Lottery entered into a new instant ticket printing contract. Under the new contract, the instant ticket inventory is owned by the vendor until the tickets are sold at which time the vendor is compensated for the tickets. The Lottery's June 30, 2007 inventory represents tickets purchased from its previous vendor and is currently for sale to the public.

### Non-Current Assets

The Lottery's investments for annuity payments, net of current portion, decreased by \$26.9 million or 15.7% in 2007 as compared to 2006, which decreased \$43.2 million or 20.1% as compared to 2005. These decreases resulted from fewer jackpot winners selecting to receive their prize in the form of an annuity compared to the number of annuities that have expired. Additionally, as of June 30, 2006, the decrease was caused by a significant decline in the fair value of the investments held to satisfy the Lottery's obligation to its annuitants. As of June 30, 2007, the decrease caused by a decline in the number of annuitants was offset by an increase in the fair value of the investments of \$14.8 million.

### Capital Assets, Net

Net capital assets decreased by \$83,000 or 5.4% in 2007 as compared to 2006, which decreased by \$560,000 or 26.6% as compared to 2005. The decreases are the result of depreciation of technology property and Lottery-specific equipment being greater than capital asset acquisitions. Details of capital assets, additions, and depreciation are included in Note 4 to the financial statements, on page 53.

## Maryland State Lottery Agency Management's Discussion and Analysis

### Current Liabilities

Current liabilities increased by \$9.0 million or 7.6% in 2007 as compared to 2006, which decreased by \$548,000 or 0.5% as compared to 2005. The majority of these changes are attributable to the current portion of annuity prizes payable, transfers due to the State of Maryland General Fund, prize awards payable, accounts payable and accrued expenses, and unearned revenue.

The current portion of annuity prizes payable decreased by \$4.4 million or 10.8% in 2007 as compared to 2006, which decreased \$3.0 million or 6.8% as compared to 2005. The transfer due to the State of Maryland General Fund increased by \$2.3 million or 5.5% in 2007 as compared to 2006, which increased \$3.4 million or 8.9% as compared to 2005. Prize awards payable increased by \$5.0 million or 18.3% in 2007 as compared to 2006, which decreased \$20,500 or 0.1% as compared to 2005. Accounts payable and accrued expenses increased by \$2.9 million or 80.5% in 2007 as compared to 2006, which decreased \$415,000 or 10.4% as compared to 2005. Unearned revenue increased by \$3.3 million or 134.3% as compared to 2006, which decreased \$763,000 or 23.6% as compared to 2005.

The decreases in 2007 and 2006 in the current portion of annuity prizes payable resulted from fewer jackpot winners selecting to receive their prize in the form of an annuity compared to the number of annuities that expired. The transfer due to the State of Maryland General Fund represents the net income generated during the month of June. The increases in 2007 and 2006 represent the additional income earned in June as compared to the prior year. The increase in 2007 in prize awards payable is the result of additional instant tickets for sale and the Mega Millions jackpot prize being substantially more as of June 30, 2007 as compared to 2006. The increase in 2007 in accounts payable and accrued expenses primarily consists of funds deposited in escrow with the Maryland State Treasury arising from a defaulted Lottery contractor. Monies deposited into the escrow account are based upon third-party invoices to that contractor. The increase in 2007 in unearned revenue is the result of sales for a raffle-style game, known as Countdown to Millions, in which the drawing occurred in fiscal year 2008.

### Non-Current Liabilities

Non-current liabilities decreased by \$25.2 million or 15.7% in 2007 as compared to 2006, which decreased \$27.0 million or 14.4% as compared to 2005. The primary reason for these decreases is fewer jackpot winners selecting to receive their prize in the form of an annuity compared to the number of annuities that expired. A similar decrease in non-current investments for annuity payments is discussed above.

Additional information on the Lottery's non-current liabilities may be found in Notes 5, 6, and 7 to the financial statements, beginning on page 54.

## Maryland State Lottery Agency Management's Discussion and Analysis

### Total Net Assets

Total net assets decreased by \$12.8 million or 47.5% in 2007 as compared to 2006, which decreased by \$18.3 million or 40.4% as compared to 2005. The majority of the fluctuations occurred as a result of changes in the fair value of investments held to fund obligations to annuitants, funds retained in the unclaimed prize account, and instant ticket inventory. Because the Lottery is required by law to transfer its entire budgetary basis net income to the State of Maryland, changes in net assets do not reflect the results of the Lottery's operating activities. Rather, changes in net assets reflect differences between budgetary basis net income and net income in accordance with accounting principles generally accepted in the United States and the unclaimed prize account. The unclaimed prize account represents prizes not claimed by players within 182 days of the drawing, or the end of an instant game. The funds in the account are given back to players in the form of prizes through promotions and supplementing jackpot prizes.

The Lottery recorded an unrealized loss on investments in the amount of \$2.0 million during 2007 as compared to \$17.0 million during 2006. The unrealized losses on investments are the result of an increase in interest rates, which has an inverse effect on the fair value of the Lottery's fixed rate investments. In 2007, the unclaimed prize account decreased by \$7.8 million or 86.7% compared to 2006 and \$1.5 million or 14.0% as compared to 2005. Additionally, in 2007, instant ticket inventory decreased in the amount of \$2.6 million or 82.9% as compared to 2006.

Maryland State Lottery Agency  
Management's Discussion and Analysis

Results of Operations

Table 2 is a summarized version of the statements of revenues, expenses, and changes in net assets for the years ended 2007, 2006, and 2005.

Table 2: Revenues, Expenses, and Changes in Net Assets  
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Sales			
On-line games	\$ 1,152,226	\$ 1,145,574	\$ 1,094,764
Instant games	425,085	415,332	390,968
<b>Total sales</b>	<b>1,577,311</b>	<b>1,560,906</b>	<b>1,485,732</b>
Cost of sales	<u>1,059,238</u>	<u>1,028,621</u>	<u>974,006</u>
<b>Gross profit</b>	<b>518,073</b>	<b>532,285</b>	<b>511,726</b>
Operating expenses	<u>34,792</u>	<u>32,630</u>	<u>31,178</u>
<b>Income from operations</b>	<b>483,281</b>	<b>499,655</b>	<b>480,548</b>
Non-operating revenues (expenses)			
Unrealized loss on investments	(1,966)	(16,974)	(2,237)
Interest expense	(36)	(44)	(90)
Payments to State of Maryland General Fund and Stadium Authority	<u>(494,119)</u>	<u>(500,971)</u>	<u>(477,098)</u>
<b>Total non-operating revenues (expenses)</b>	<b>(496,121)</b>	<b>(517,989)</b>	<b>(479,425)</b>
<b>Change in Net Assets</b>	<b>(12,840)</b>	<b>(18,334)</b>	<b>1,123</b>
Total Net Assets – beginning of year	<u>27,012</u>	<u>45,346</u>	<u>44,223</u>
<b>Total Net Assets – end of year</b>	<b><u>\$ 14,172</u></b>	<b><u>\$ 27,012</u></b>	<b><u>\$ 45,346</u></b>

## Maryland State Lottery Agency Management's Discussion and Analysis

### Sales

Net sales were a record \$1.577 billion in 2007, an increase of \$16.4 million or 1.1% as compared to 2006, which increased \$75.2 million or 5.1% as compared to 2005.

Lottery sales are categorized as on-line or instant games. On-line games are further categorized as Numbers, Monitor, Matrix, and Raffle games.

On-line games sales increased by \$6.7 million or 0.6% in 2007, as compared to 2006, which increased \$50.8 million or 4.6% as compared to 2005. In 2007, the growth in on-line games sales is attributable to the Monitor and Raffle games, which was offset by a decline in Numbers and Matrix games; whereas, in 2006 growth was achieved in all on-line games categories as shown in Table 3.

Table 3: Net Sales of On-line Games  
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Numbers	\$ 531,993	\$ 534,579	\$ 521,555
Monitor	462,551	436,528	417,459
Matrix	151,187	174,467	155,750
Raffle	6,495	-	-
<b>Total</b>	<b><u>\$1,152,226</u></b>	<b><u>\$1,145,574</u></b>	<b><u>\$1,094,764</u></b>

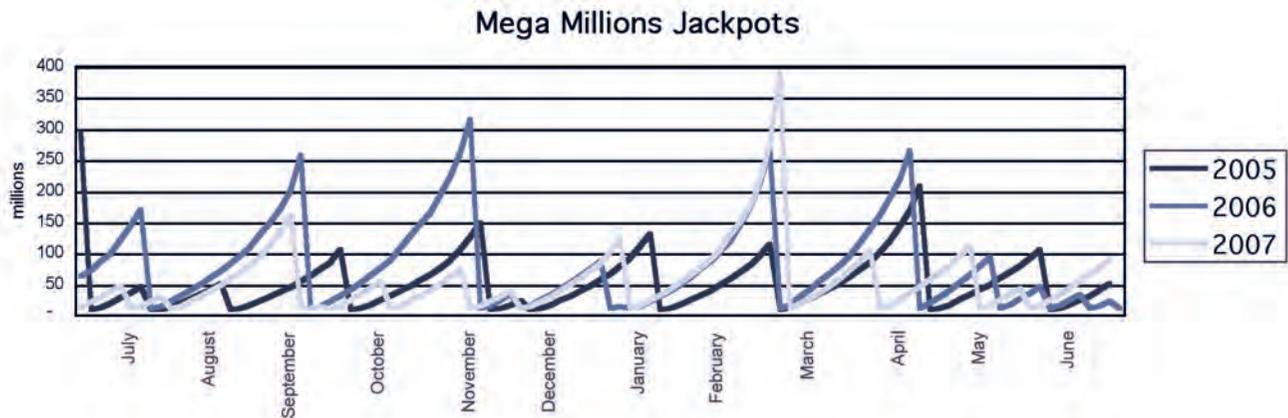
Sales for Numbers games, which include Pick 3 and Pick 4, decreased by \$2.6 million or 0.5% in 2007 as compared to 2006, which increased \$13.0 million or 2.5% as compared to 2005. Pick 4 sales increased in 2007 and 2006 by \$3.6 million and \$11.1 million, respectively, while Pick 3 sales decreased in 2007 by \$6.2 million and increased in 2006 by \$2.0 million. The increases in Pick 4 sales and overall decline in Pick 3 sales are attributable to players seeking a higher payout in a daily game. The top prize for Pick 3 is \$500 compared to a top prize of \$5,000 for Pick 4.

Sales for Monitor games, which include Keno, Keno Bonus, Racetrax<sup>®</sup>, and Maryland Hold'Em<sup>™</sup>, increased by \$26.0 million or 6.0% in 2007 as compared to 2006, which increased \$19.1 million or 4.6% as compared to 2005. In August 2006, the Lottery began offering the Racetrax<sup>®</sup> game to the public through the entire agent network. Prior to August, the game was offered on a limited basis to determine whether a second monitor game could be successful in the Maryland market. The game proved to be extremely successful and, in June 2007, the Lottery began testing a third monitor game, Maryland Hold'Em<sup>™</sup>, on a limited basis.

## Maryland State Lottery Agency Management's Discussion and Analysis

In 2007 compared to 2006, Keno and Keno Bonus sales decreased by \$23.6 million or 5.4%. The decrease in Keno and Keno Bonus can be attributed to the combination of the full implementation of the Racetrax® game as well as the implementation of a new on-line gaming system that occurred in July 2006. The implementation of the system changed the way the graphics were displayed. This change resulted in a learning curve on both the part of the retailer and player. In 2006 compared to 2005, Keno and Keno Bonus sales increased by \$19.7 million or 4.7%. The increase in monitor-style games sales is attributed to the Lottery conducting various monitor game-specific promotions. The promotions were well received by players and led to an overall increase in the popularity of monitor-style games. Monitor games are generally enjoyed in a social atmosphere and allow players to experience an enhanced game interaction and receive immediate gratification of the prizes won.

Sales for Matrix games, which include Mega Millions, Multi-Match, Bonus Match 5, and Lotto, decreased by \$23.3 million or 13.3% in 2007 as compared to 2006, which increased \$18.7 million or 12.0% as compared to 2005. Mega Millions represented approximately 65% of all Matrix games sales in 2007, 2006, and 2005. Mega Millions sales decreased by \$18.1 million or 15.6% in 2007 as compared to 2006, which increased \$16.5 million or 16.6% as compared to 2005. A direct relationship exists between higher jackpots and higher sales. In 2007, the average jackpot was \$56.1 million as compared to \$79.5 million and \$52.3 million in 2006 and 2005, respectively. The decrease is attributable to three jackpots in excess of \$200 million in 2007 as compared to eight such jackpots in 2006 and two such jackpots in 2005. Players generally prefer games with higher jackpots and longer odds. Mega Millions' starting jackpot is several million dollars higher than other matrix-style games.



Moderate growth was achieved in Bonus Match 5 in 2007 and 2006. The Lottery discontinued its Lotto game in February 2006 and replaced the game with Multi-Match. The lottery industry as a whole has experienced a decline in Lotto games, as it was the original jackpot game. Multi-Match sales decreased by \$5.7 million or 15.9% as compared to combined Lotto and Multi-Match sales for 2006, which increased \$1.7 million or 5.0% as compared to Lotto sales for 2005. The Multi-Match game offers a modest jackpot and multiple winning combinations; however, as discussed above, players generally prefer games that offer extremely large jackpots with lower odds.

## Maryland State Lottery Agency Management's Discussion and Analysis

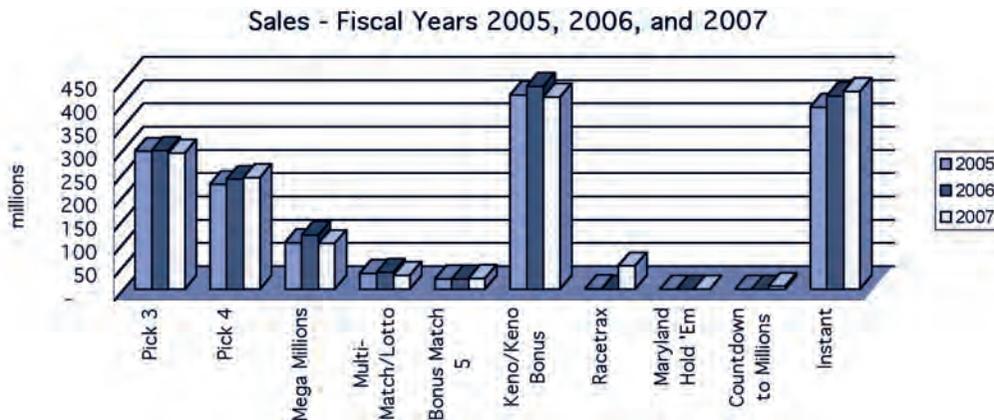
In 2007, for a limited time period, the Lottery introduced a raffle-style game, Countdown to Millions. The concept of the game was new to the lottery industry and, as such, many lotteries offered the game to players during the past fiscal year.

Instant games are the second type of Lottery game offered to the public. Instant game sales increased by \$9.8 million or 2.3% in 2007 as compared to 2006, which increased \$24.4 million or 6.2% as compared to 2005 as shown in Table 4. Instant ticket sales continue to grow due to the implementation of the results of research; monitoring the mix of play styles, colors, and payouts; and providing players with a wide variety of tickets from which to choose. In addition, in July 2006, the Lottery implemented a new instant ticket distribution system. Under this system, retailers receive their instant ticket orders through overnight delivery. Previously, it would take several days for retailers to receive their orders. The sales increases have been further fueled by players' desires for higher price-point tickets. To accommodate player preferences, the Lottery introduced its first \$20 instant ticket in 2006 and two additional \$20 games in 2007. The average price points for instant tickets in 2007, 2006, and 2005 were \$3.14, \$3.46, and \$2.83, respectively.

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

	2007	2006	2005
\$1	\$ 49,363	\$ 43,827	\$ 53,925
\$2	57,427	56,949	66,051
\$3	36,446	35,587	30,133
\$5	180,872	176,277	171,982
\$10	76,631	73,687	68,878
\$20	24,346	29,005	—
<b>Total</b>	<b>\$425,085</b>	<b>\$415,332</b>	<b>\$390,969</b>

The following graph depicts the Lottery's on-line and instant sales for 2005, 2006, and 2007. Keno and Keno Bonus sales have been combined as have Multi-Match and Lotto sales.



## Maryland State Lottery Agency Management's Discussion and Analysis

### Cost of Sales

Cost of sales consists of prize expense, retailer commissions, costs paid to vendors to operate and maintain the on-line system, and costs paid for the printing and delivery of instant games. Cost of sales increased by \$30.6 million or 3.0% in 2007 as compared to 2006, which increased \$54.6 million or 5.6% as compared to 2005. These increases are attributable to higher sales, which correspond to higher prize expense and retailer commissions. Additionally, in 2007, the commissions paid to retailers for selling tickets increased from 5% to 5.5%. Gross profit percentages have remained relatively consistent in 2006 and 2005 and decreased slightly in 2007 due to the change in commissions paid to retailers. Gross profit percentages were 32.9%, 34.1%, and 34.4% for 2007, 2006, and 2005, respectively.

The Lottery's most significant expenses (prize expense and retailer commissions) are predictable, because they have a direct correlation to sales. Prize expense increased by \$22.9 million or 2.5% in 2007 as compared to 2006, which increased \$47.8 million or 5.6% as compared to 2005. In general, as sales increase, prize expense increases at a proportional rate. Prize expense for instant games is controllable by designing and printing a predetermined number and value of winning tickets. Prize expense for on-line games is affected by the luck of the draw. Over time, such prize payouts generally reflect the design of the game and the odds of winning.

Commissions paid to Lottery retailers increased by \$9.5 million or 9.2% in 2007 as compared to 2006, which increased \$5.1 million or 5.2% as compared to 2005. In 2006 and 2005, retailers licensed by the Lottery to sell on-line and/or instant tickets were paid a commission of 5% of net sales and an additional 3% of the value of the prizes they redeem. In 2007, the commissions paid to retailers for selling on-line and/or instant tickets increased to 5.5%, and the commissions paid to retailers for prizes they redeem remained 3%. Consequently, as sales and prize expense increase, the amounts paid to Lottery retailers also increase.

### Operating Expenses

Operating expenses increased by \$2.2 million or 6.6% in 2007 as compared to 2006, which increased by \$1.5 million or 4.7% as compared to 2005. Fluctuations in operating expenses are primarily due to changes in the Lottery's budgetary appropriation or the timing of liquidating prior year encumbrances. The Lottery's operating expenses have remained relatively stable since the Lottery's budgetary appropriation, and outstanding encumbrances have remained constant for the past several years.

## Maryland State Lottery Agency Management's Discussion and Analysis

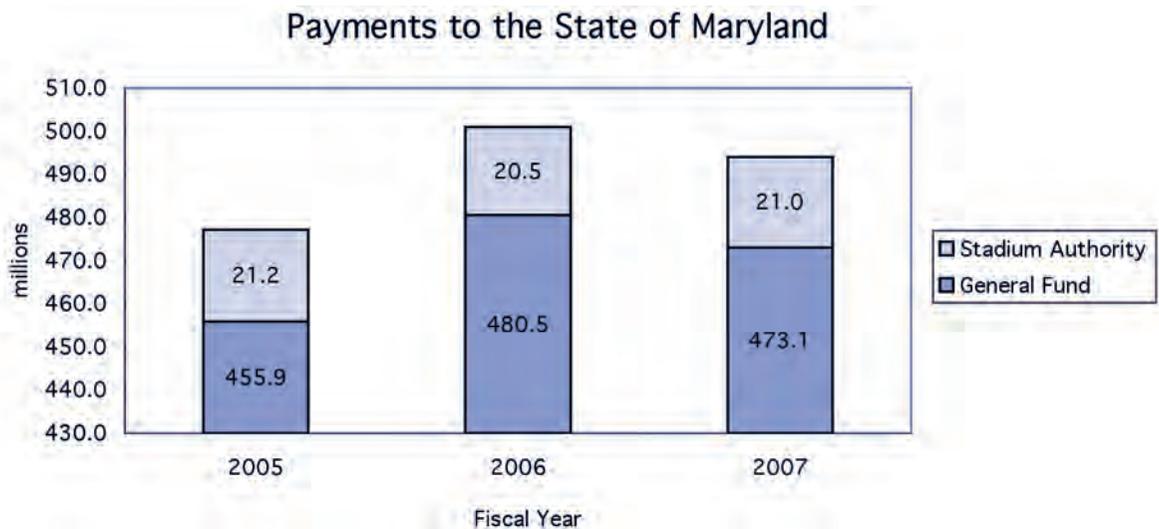
### Non-Operating Expenses

Non-operating expenses decreased by \$21.9 million or 4.2% in 2007 as compared to 2006, which increased by \$38.6 million or 8.0% as compared to 2005. Non-operating expenses primarily consist of unrealized losses on investments held to fund obligations to annuitants and payments to the State of Maryland General Fund and Maryland Stadium Authority.

The Lottery expects to realize the face value of its investments because it intends to hold these investments until maturity. Therefore, any interim unrealized losses on investments will reverse. The decrease in fair value of the investments held by the Lottery is discussed in more detail on page 34.

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

Transfers to the State of Maryland totaled \$494.1 million, a decrease of \$6.9 million or 1.4% as compared to 2006, which increased \$23.9 million or 5.0% as compared to 2005. The decrease in transfers in 2007 primarily resulted from the commission rate increase paid to retailers. The graph below depicts the payments made to the State of Maryland for 2005, 2006, and 2007.



## Maryland State Lottery Agency Management's Discussion and Analysis

### Contacting the Lottery's Financial Management

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

**Maryland State Lottery Agency  
Statements of Net Assets**

	<u>As of June 30</u>	
	<u>2007</u>	<u>2006</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,951,442	\$ 1,715,749
Cash held with State Treasury	60,842,992	61,925,092
Accounts receivable	29,022,638	23,196,063
Instant ticket inventory	546,895	3,196,849
Prepaid commissions	222,806	31,506
Current portion of investments for annuity payments	<u>37,124,468</u>	<u>41,632,037</u>
Total current assets	<u>129,711,241</u>	<u>131,697,296</u>
Non-current assets:		
Capital assets, net of accumulated depreciation	1,465,309	1,548,587
Investments for annuity payments, net of current portion	<u>144,694,285</u>	<u>171,619,401</u>
Total non-current assets	<u>146,159,594</u>	<u>173,167,988</u>
Total assets	<u><u>\$ 275,870,835</u></u>	<u><u>\$ 304,865,284</u></u>
Liabilities and Net Assets:		
Current liabilities:		
Current portion of annuity prizes payable	\$ 36,527,150	\$ 40,968,014
Current portion of employee related payables	995,043	892,398
Current portion of capital lease obligation	506,374	439,639
Transfer due to State of Maryland General Fund	44,028,240	41,717,340
Prize awards payable	32,244,208	27,265,356
Accounts payable and accrued expenses	6,447,831	3,572,336
Unearned revenue	5,797,185	2,474,640
Taxes and other liabilities	<u>423,362</u>	<u>617,565</u>
Total current liabilities	<u>126,969,393</u>	<u>117,947,288</u>
Non-current liabilities:		
Annuity prizes payable, net of current portion	133,528,227	158,553,792
Employee related payables, net of current portion	583,535	535,875
Capital lease obligation, net of current portion	<u>617,621</u>	<u>816,074</u>
Total non-current liabilities	<u>134,729,383</u>	<u>159,905,741</u>
Total liabilities	<u>261,698,776</u>	<u>277,853,029</u>
Net Assets:		
Invested in capital assets, net of related debt	341,314	292,874
Unrestricted	<u>13,830,745</u>	<u>26,719,381</u>
Total net assets	<u>14,172,059</u>	<u>27,012,255</u>
Total liabilities and net assets	<u><u>\$ 275,870,835</u></u>	<u><u>\$ 304,865,284</u></u>

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

**Maryland State Lottery Agency  
Statements of Revenues, Expenses,  
and Changes in Net Assets**

	Years ended June 30	
	2007	2006
Sales:		
On-line games	\$ 1,152,225,700	\$ 1,145,573,957
Instant games	425,085,365	415,331,827
Total sales	<u>1,577,311,065</u>	<u>1,560,905,784</u>
Cost of sales:		
Prize expense	927,009,794	904,077,713
Retailer commissions	112,187,831	102,704,705
Gaming vendor and data processing fees	14,778,613	15,638,778
Instant ticket printing and delivery	5,261,387	6,199,964
Total cost of sales	<u>1,059,237,625</u>	<u>1,028,621,160</u>
Gross profit	518,073,440	532,284,624
Operating expenses:		
Salaries, wages and benefits	12,355,212	11,402,287
Advertising and promotions	18,332,963	15,859,308
Depreciation and amortization	657,431	560,257
Other general and administrative expenses	3,447,049	4,807,627
Total operating expenses	<u>34,792,655</u>	<u>32,629,479</u>
Income from operations	483,280,785	499,655,145
Non-operating revenues (expenses):		
Investment revenue (loss)	11,328,910	(1,437,548)
Amortization of discount for annuity prize liabilities	(13,295,166)	(15,536,326)
Interest expense	(35,452)	(44,066)
Payments to State of Maryland General Fund	(473,119,273)	(480,470,617)
Payments to State of Maryland Stadium Authority	(21,000,000)	(20,500,000)
Total non-operating revenues (expenses)	<u>(496,120,981)</u>	<u>(517,988,557)</u>
Change in net assets	(12,840,196)	(18,333,412)
Total net assets - beginning of year	27,012,255	45,345,667
Total net assets - end of year	<u>\$ 14,172,059</u>	<u>\$ 27,012,255</u>

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

**Maryland State Lottery Agency**  
**Statements of Cash Flows**

	Years ended June 30	
	2007	2006
Cash flows from operating activities:		
Receipts from customers	\$ 1,574,807,035	\$ 1,558,029,375
Payments to suppliers	(36,183,971)	(42,841,732)
Payments to employees	(12,204,907)	(11,263,196)
Payments to agents	(112,489,723)	(102,687,007)
Prize payments/awards to players	(922,225,145)	(903,243,909)
Net cash provided by operating activities	491,703,289	497,993,531
Cash flows from noncapital financing activities:		
Transfers to the State of Maryland		
General Fund and Stadium Authority	(491,808,373)	(497,560,457)
Transfers from other Mega Millions states	26,569,122	-
Shared prize winner payments	(26,977,987)	-
Prize payments/awards	(42,652,068)	(45,868,438)
Net cash used in noncapital financing activities	(534,869,306)	(543,428,895)
Cash flows from capital and related financing activities:		
Payments of capital lease obligations	(423,328)	(416,902)
Interest payments	(35,452)	(44,066)
Acquisition of equipment	(282,543)	-
Net cash used in capital and related financing activities	(741,323)	(460,968)
Cash flows from investing activities:		
Coupon bonds purchased	(25,852,154)	(650,595)
Proceeds from sale of bonds	26,261,019	-
Proceeds from matured annuities and bonds	42,652,068	45,868,438
Net cash provided by investing activities	43,060,933	45,217,843
Net decrease in cash and cash equivalents	(846,407)	(678,489)
Cash and cash equivalents, beginning of year	63,640,841	64,319,330
Cash and cash equivalents, end of year	<u>\$ 62,794,434</u>	<u>\$ 63,640,841</u>
Noncash investing and financing activities:		
Acquisition of equipment through capital lease	\$ 291,610	\$ -
Change in fair value of investments	<u>\$ (1,966,256)</u>	<u>\$ (16,973,874)</u>

**Maryland State Lottery Agency**  
**Statements of Cash Flows - (continued)**

	<u>Years ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$483,280,785	\$499,655,145
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	657,431	560,257
Deferred prize payments	-	650,595
Effect of changes in operating assets and liabilities:		
Accounts receivable	(5,826,575)	(2,113,648)
Instant ticket inventory	2,649,954	85,205
Prepaid commissions	(191,300)	11,805
Accounts payable and accrued expenses	2,875,495	(415,368)
Employee related payables	150,305	139,091
Taxes and other liabilities	(194,203)	203,748
Prize awards payable	4,978,852	(20,538)
Unearned revenue	3,322,545	(762,761)
Net cash provided by operating activities	<u>\$491,703,289</u>	<u>\$497,993,531</u>

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

## Maryland State Lottery Agency Notes to the Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Legislative Enactment

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

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

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

#### Basis of Accounting and Presentation

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

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates.

## Maryland State Lottery Agency Notes to the Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

#### Lottery Game Operations – Revenue Recognition and Prize Obligations

The Lottery originates its revenue from two product lines: on-line games and instant games. The Lottery develops multiple game themes and prize structures to comply with its enabling legislation and customer demand. Independent and corporate retailers composed principally of grocery and convenience stores, package goods stores, and restaurants serve as the primary distribution channel for on-line and instant lottery sales to the general public. For the years ended June 30, 2007 and 2006, retailers received a sales commission of 5.5% and 5% of net sales, respectively, and a cashing commission of 3% of prizes redeemed.

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

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

#### Operating and Non-Operating Revenues and Expenses

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

#### Cash and Cash Equivalents

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

#### Accounts Receivable

Accounts receivable represents the amounts due from Lottery retailers from the sale of lottery tickets. The Lottery uses the allowance method to provide for doubtful accounts based on management's evaluation of the collectibility of accounts receivable. The Lottery determines accounts receivable to be delinquent when greater than 10 days past due. Receivables are written off when it is determined that amounts are uncollectible. As of June 30, 2007 and 2006, management believes all accounts receivable are collectible, and, as such, no allowance for doubtful accounts has been recorded.

## Maryland State Lottery Agency Notes to the Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

#### Inventory

Inventory consists of instant game books available for sale to licensed Lottery retailers and is carried at cost (as determined by specific identification method). The cost of tickets is charged to operations upon the recognition of revenue under the procedures described above. The Lottery analyzes inventory for impairment on a periodic basis. As of June 30, 2007 and 2006, the Lottery determined no inventory was impaired, and, as such, no allowance was recorded.

#### Capital Assets and Leasehold Improvements

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

#### Investments

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

#### Compensated Absences

The Lottery accrues compensated absences in accordance with GASB No. 16, "Accounting for Compensated Absences." All full-time Lottery employees, except contractual employees, accrue annual leave at variable rates based on the number of years employed by the State of Maryland. The maximum annual leave an employee can earn per calendar year is 25 days. At the end of each calendar year, an employee's accrued annual leave may not exceed 50 days. Accrued annual leave is included in the employee related payables in the accompanying statements of net assets. All full-time Lottery employees, except contractual employees, also accrue sick pay benefits. However, the Lottery does not record a liability for accrued sick pay benefits, as neither the State of Maryland nor the Lottery has a policy to pay unused sick leave when employees terminate from State service.

## Maryland State Lottery Agency Notes to the Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

#### Payments to the State of Maryland

The State of Maryland law requires the Lottery to transfer its revenue in excess of funds allocated to prize awards, operating expenses, and the Maryland Stadium Authority to the State of Maryland General Fund. These payments are recorded as a non-operating expense in the accompanying statements of revenues, expenses, and changes in net assets.

#### Restricted Assets

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

#### Net Assets

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

#### New Accounting Pronouncements

The Lottery has implemented GASB Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans;" GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues;" and GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," effective for the fiscal year ended June 30, 2007. Implementation of these standards had no impact on the Lottery's financial position.

In June 2004, GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions." This Statement will be effective for the Lottery for the fiscal year ended June 30, 2008. In May 2007, GASB issued Statement No. 50, "Pension Disclosures – An Amendment of GASB Statement No. 25 and No. 27." This statement will be effective for the Lottery for the fiscal year ended June 30, 2008. In June 2007, GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This statement will be effective for the Lottery for the fiscal year ended June 30, 2010. The Lottery is in the process of assessing the impact of these statements and will implement them as of the effective dates.

## Maryland State Lottery Agency Notes to the Financial Statements

### 2. CASH AND CASH EQUIVALENTS

As of June 30, 2007 and June 30, 2006, the carrying amounts of deposits with financial institutions were \$1,951,442 and \$1,715,749, respectively. The corresponding bank balances were \$1,704,426 and \$1,694,574 as of June 30, 2007 and June 30, 2006, respectively.

As of June 30, 2007 and June 30, 2006, the amount on deposit with the Maryland State Treasury was \$60,842,992 and \$61,925,092, respectively. The corresponding Maryland State Treasury balances were \$60,439,060 and \$61,830,720, respectively. The State Treasury has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards, and commissions. The deposits with the State Treasury are part of the State of Maryland's internal investment pool and are not separately identifiable as to specific types of securities. The Treasury maintains these and other Maryland State agency funds on a pooled basis in accordance with State statute. The Lottery does not obtain interest on funds deposited with the State Treasury. As of June 30, 2007 and 2006, the Lottery's deposits with the State Treasury were less than 2% of the total deposits with the State Treasury.

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

Federal depository insurance covers \$100,000 of the Lottery's deposits with a financial institution, and the remaining balance is collateralized with securities that are held by the State of Maryland's agent in the State's name. These deposits are invested in overnight repurchase agreements. As of June 30, 2007 and 2006, the collateral for the repurchase agreements were FNMA Mortgage-Backed Securities which are not rated; however, they are implicitly guaranteed by the United States government.

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.

## Maryland State Lottery Agency Notes to the Financial Statements

### 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 Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank. As of June 30, 2007, these investments are 36.5%, 23.3%, and 29.7% of the State of Maryland’s internal investment pool total investments, respectively.

### 3. INVESTMENTS

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

The Lottery has purchased long-term investments to fund jackpot and lifetime prize awards. The majority of these investments are United States Government Treasury Bonds, which carry a yield to maturity of approximately 2.6% to 9.5%. As of June 30, 2007 and June 30, 2006, the Lottery’s United States Government Treasury Bonds totaled \$181,366,469 and \$212,766,843, respectively. The investments in United States Government Treasury Bonds are carried at fair value based on quoted market prices on the accompanying statements of net assets and the related unrealized gains and interest income are recorded as investment revenue (loss) on the accompanying statements of revenues, expenses, and changes in net assets.

Certain investments are held in annuity contracts that return guaranteed interest ranging from 7.6% to 12.1%. As of June 30, 2007 and June 30, 2006, the annuity contracts totaled \$452,284 and \$484,595, respectively. The annuity contracts were purchased in 1976 to satisfy the Lottery’s obligation for certain lifetime prizes. The value of the annuity contracts and related annuity prizes payable were adjusted in fiscal year 2005 based on revised actuarial life expectancy tables.

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

For an investment, custodial risk is the risk that in the event of the failure of the counterparty, the Lottery will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Lottery is not subject to custodial risk because the United States Government Treasury Bonds are held in the Lottery’s name by its custodian and annuity contracts are not evidenced by securities that exist in physical or book entry form.

Maryland State Lottery Agency  
Notes to the Financial Statements

3. INVESTMENTS – (continued)

As of June 30, 2007, the Lottery had the following investments:

Investment Type	Fair Value	Credit Quality Rating	% of Investments	Investment Maturities (In Years)				
				Less than 1	1-5	6-10	11-20	21-30
<u>Investments in prize annuities:</u>								
United States Treasury								
Bonds	\$181,366,469	(1)	99.8%	\$37,076,488	\$95,618,941	\$36,897,557	\$11,361,512	\$411,971
Annuity Contracts	452,284	(2)	.2%	47,980	214,483	138,341	46,530	4,950
Total Investments	\$181,818,753		100.0%	\$37,124,468	\$95,833,424	\$37,035,898	\$11,408,042	\$416,921

- (1) Credit quality ratings not required for U.S. government and agency securities that are explicitly guaranteed by the U.S. government.  
(2) Annuity contracts not rated.

Maryland State Lottery Agency  
Notes to the Financial Statements

4. CAPITAL ASSETS

A summary of capital asset activity for the years ended June 30, 2007 and 2006 is as follows:

	<u>2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>2007</u>
Capital Assets-Depreciated				
Machinery and Equipment	\$ 8,798,460	\$ 574,153	\$ -	\$ 9,372,613
Leasehold Improvements	<u>613,240</u>	<u>-</u>	<u>-</u>	<u>613,240</u>
Total Capital Assets-Depreciated	9,411,700	574,153	-	9,985,853
Less Accumulated Depreciation				
Machinery and Equipment	7,643,368	596,107	-	8,239,475
Leasehold Improvements	<u>219,745</u>	<u>61,324</u>	<u>-</u>	<u>281,069</u>
Total Accumulated Depreciation	7,863,113	657,431	-	8,520,544
Net Capital Assets	<u>\$ 1,548,587</u>	<u>\$ (83,278)</u>	<u>\$ -</u>	<u>\$ 1,465,309</u>
	<u>2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>2006</u>
Capital Assets-Depreciated				
Machinery and Equipment	\$11,078,605	\$ -	\$ 2,280,145	\$ 8,798,460
Leasehold Improvements	<u>613,240</u>	<u>-</u>	<u>-</u>	<u>613,240</u>
Total Capital Assets-Depreciated	11,691,845	-	2,280,145	9,411,700
Less Accumulated Depreciation				
Machinery and Equipment	9,424,580	498,933	2,280,145	7,643,368
Leasehold Improvements	<u>158,421</u>	<u>61,324</u>	<u>-</u>	<u>219,745</u>
Total Accumulated Depreciation	9,583,001	560,257	2,280,145	7,863,113
Net Capital Assets	<u>\$ 2,108,844</u>	<u>\$ (560,257)</u>	<u>\$ -</u>	<u>\$ 1,548,587</u>

**Maryland State Lottery Agency**  
**Notes to the Financial Statements**

**5. ANNUITY PRIZE OBLIGATIONS**

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 36,527,150	\$ 1,446,847	\$ 37,973,997
2009	30,104,892	3,554,104	33,658,996
2010	24,584,427	4,915,569	29,499,996
2011	19,346,638	5,449,358	24,795,996
2012	15,447,924	5,676,072	21,123,996
2013-2017	33,200,020	18,689,956	51,889,976
2018-2022	7,415,836	8,198,532	15,614,368
2023-2027	3,034,806	4,921,174	7,955,980
2028-2031	393,684	823,100	1,216,784
Total	<u>\$ 170,055,377</u>	<u>\$ 53,674,712</u>	<u>\$ 223,730,089</u>

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

Long-term liability activity of annuity prize payments for the years ended June 30, 2007 and 2006 was as follows:

<u>Fiscal Year</u>	<u>Beginning</u>			<u>Ending</u>	<u>Due Within</u>
<u>Ending</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
June 30, 2007	\$199,521,806	\$39,147,320	\$68,613,749	\$170,055,377	\$36,527,150
June 30, 2006	\$229,203,033	\$16,187,211	\$45,868,438	\$199,521,806	\$40,968,014

**Maryland State Lottery Agency**  
**Notes to the Financial Statements**

**6. EMPLOYEE RELATED PAYABLES**

Changes in long-term employee related payables were as follows for the years ended June 30, 2007 and 2006. The employee related payables due within one year are included in the current portion of the employee related payables on the accompanying statements of net assets, which also includes salaries payable in the amount of \$371,413 and \$326,208 as of June 30, 2007 and 2006, respectively.

	2007		
	Compensated Absences	Workers' Compensation	Combined
Beginning Balance	\$ 804,065	\$ 298,000	\$ 1,102,065
Additions	627,745	108,755	736,500
Reductions	(570,645)	(60,755)	(631,400)
Ending Balance	<u>\$ 861,165</u>	<u>\$ 346,000</u>	<u>\$ 1,207,165</u>
Amount Due Within One Year	\$ 570,000	\$ 53,630	\$ 623,630
Non-Current Portion	291,165	292,370	583,535
	<u>\$ 861,165</u>	<u>\$ 346,000</u>	<u>\$ 1,207,165</u>
	2006		
	Compensated Absences	Workers' Compensation	Combined
Beginning Balance	\$ 736,433	\$ 294,000	\$ 1,030,433
Additions	593,188	28,935	622,123
Reductions	(525,556)	(24,935)	(550,491)
Ending Balance	<u>\$ 804,065</u>	<u>\$ 298,000</u>	<u>\$ 1,102,065</u>
Amount Due Within One Year	\$ 520,000	\$ 46,190	\$ 566,190
Non-Current Portion	284,065	251,810	535,875
	<u>\$ 804,065</u>	<u>\$ 298,000</u>	<u>\$ 1,102,065</u>

**7. COMMITMENTS AND CONTINGENCIES**

**Leases**

The Lottery leases office space, warehouse facilities, and on-line and instant product equipment over periods extending through November 2012. Rent expense for each of the years ended June 30, 2007 and 2006 totaled \$924,109. Certain leases contain a bargain purchase option and are accounted for as capital leases.

**Maryland State Lottery Agency  
Notes to the Financial Statements**

**7. COMMITMENTS AND CONTINGENCIES– (continued)**

**Leases – (continued)**

The assets acquired under capital leases include:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Machinery and Equipment	\$ 2,293,750	\$ 2,002,139
Accumulated amortization	<u>(1,481,485)</u>	<u>(1,027,595)</u>
	<u>\$ 812,265</u>	<u>\$ 974,544</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>
2008	\$ 924,109	\$ 506,374
2009	924,109	506,134
2010	924,109	66,881
2011	924,109	66,850
2012	924,109	33,413
2013	<u>385,045</u>	<u>-</u>
Total	\$5,005,590	1,179,652
Less amount representing interest		<u>55,657</u>
Present value of minimum lease payments		1,123,995
Less current maturities		<u>506,374</u>
<u>Long-term portion of capital lease obligations</u>		<u>\$ 617,621</u>

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

	<u>2007</u>	<u>2006</u>
Beginning Balance	\$1,255,713	\$1,672,615
Acquisitions	291,610	-
Payments	<u>(423,328)</u>	<u>(416,902)</u>
Ending Balance	<u>\$1,123,995</u>	<u>\$1,255,713</u>

**Contracts**

As of June 30, 2007, the Lottery has entered into various contracts totaling approximately \$97,061,000 for services to be rendered. These services relate principally to the operation of, and advertising for, the Lottery's games.

## Maryland State Lottery Agency Notes to the Financial Statements

### 8. PARTICIPATION IN MULTI-STATE GAME MEGA MILLIONS

The Lottery is a member of the multi-state game Mega Millions. Mega Millions is a lottery game conducted as a cooperative venture by 12 states, including; Georgia, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, Washington, California, and Maryland. The Mega Millions states have agreed to a common set of game rules and share a common prize pool. The prize pool is shared on a percent of sales basis. Game accounting is conducted after each semi-weekly drawing. Settlements between the states occur immediately for jackpot winners; annually for all other prizes, unless a state's settlement amount exceeds \$1,500,000; annually for unclaimed non-jackpot prizes; and immediately for unclaimed jackpot prizes.

### 9. RETIREMENT BENEFITS

The Lottery and its employees contribute to the State Retirement and Pension System (the System). The System is an agent multiple-employer public employee retirement system established by the State to provide retirement allowances and other benefits for State employees and employees of participating entities within the State. The Lottery accounts for the plan as a cost sharing multiple-employer public employee retirement system because a separate valuation is not performed for the Lottery. The Lottery's only obligation to the System is its required annual contribution. The System is administered by a Board of Trustees in accordance with State Personnel and the Pension Article of the Annotated Code of Maryland. The System prepares a separately audited CAFR, which can be obtained from the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202.

#### Plan Descriptions

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

The Retirement Plan provides retirement, death, and disability benefits to its members. Members of the Retirement Plan are generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of eligible service regardless of age. The annual retirement allowance equals  $1/55$  (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.

**Maryland State Lottery Agency**  
**Notes to the Financial Statements**

**9. RETIREMENT BENEFITS – (continued)**

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

**Funding Policy**

Active members and the employers of the members are required to contribute to the Employees' Retirement and Pension Systems. The Lottery's required contribution is established by annual actuarial valuations using the entry age normal cost method with projection and other actuarial assumptions adopted by the Board of Trustees. Members of the Employees' Retirement System are required to contribute 5% or 7% of earnable compensation depending upon the retirement option selected. Members of the Employee's Pension System are required to contribute 3% of earnable compensation.

The Lottery contributions, which equal 100% of the required contributions, for the three years ended June 30, 2007, 2006, and 2005 are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Lottery contribution	\$570,000	\$459,000	\$360,000
Percentage of payroll	4.61%	4.34%	3.40%

## Maryland State Lottery Agency Notes to the Financial Statements

### 9. RETIREMENT BENEFITS – (continued)

#### Postemployment Benefits

Members of the retirement systems and their dependents are provided postemployment health care benefits. The State of Maryland subsidizes approximately 50% to 85% of covered medical 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 Lottery's share of these costs for the years ended June 30, 2007, 2006, and 2005 was approximately \$515,000, \$425,000, and \$332,000, respectively. The cost of these benefits is expensed when paid.

### 10. RISK MANAGEMENT

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

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

**Maryland State Lottery Agency**  
**Schedule of Revenues, Expenses, and Changes in Net Assets - Budget and Actual**

For the Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual Amounts	Variance with Budget positive (negative)
Revenues:				
Ticket Sales	\$1,617,582,189	\$1,609,552,459	\$1,574,807,035	\$(34,745,424)
Expenses:				
Gaming vendor and information technology fees	17,051,587	17,051,587	14,778,613	(2,272,974)
Instant ticket printing and delivery	6,953,200	6,953,200	2,611,433	(4,341,767)
Salaries, wages and benefits	11,807,016	11,641,380	12,250,112	608,732
Advertising and promotions	19,633,441	19,633,441	18,332,963	(1,300,478)
Other general and administrative expenses	4,405,297	4,405,297	4,109,016	(296,281)
Reversions	-	(131,464)	-	131,464
Total Expenses and Encumbrances	<u>59,850,541</u>	<u>59,553,441</u>	<u>52,082,137</u>	<u>(7,471,304)</u>
Excess of Revenues over Expenses	1,557,731,648	1,549,999,018	1,522,724,898	(27,274,120)
Other Uses of Financial Resources:				
Transfers out				
Payments to Maryland Stadium Authority	(21,000,000)	(21,000,000)	(21,000,000)	-
Payments to the Maryland General Fund	<u>(483,700,000)</u>	<u>(483,700,000)</u>	<u>(473,119,273)</u>	<u>10,580,727</u>
Excess of Revenues over Expenses and Other Uses of Financial Resources	<u>\$1,053,031,648</u>	<u>\$1,045,299,018</u>	<u>\$1,028,605,625</u>	<u>\$(16,693,393)</u>
Reconciliation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenses				
Change in Net Assets (page 43)	\$ (12,840,196)			
Non-Budgetary Expenses:				
Prize expense	927,009,794			
Retailer commissions	112,187,831			
Depreciation and amortization	657,431			
Bad debt recoveries	110,592			
Accounting Principle Differences:				
Accounts receivable	(5,826,575)			
Unearned revenue	3,322,545			
Increase in fair value of investments	(11,328,910)			
Amortization of discount of prize liabilities	13,295,166			
Compensated absences	57,100			
Workers' compensation	48,000			
Instant ticket inventory	2,649,954			
Capital asset acquisition	(282,541)			
Capital lease payments and related interest	<u>(454,566)</u>			
Excess of Revenues over Expenses and Other Uses of Financial Resources	<u>\$1,028,605,625</u>			

## Maryland State Lottery Agency Notes to Schedule of Revenues, Expenses, and Changes in Net Assets - Budget and Actual

### 1. BUDGETING AND BUDGETARY CONTROL

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

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

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

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

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

To the Maryland State Lottery Agency:

We have audited the financial statements of the Maryland State Lottery Agency (an agency of the State of Maryland), as of and for the year ended June 30, 2007 and have issued our report thereon dated September 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Maryland State Lottery Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 State Lottery Agency, in a separate letter dated September 25, 2007.

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

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

September 25, 2007



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# Statistical Section



State transportation initiatives, such as highway improvement and mass transit, benefit from Maryland Lottery proceeds.

## Maryland State Lottery Agency Statistical Information Sections

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

FINANCIAL TRENDS .....	67
These schedules contain trend information to help readers understand how the Lottery’s financial performance and position have changed over time. The information presented includes changes in net assets, sales, and contribution/transfer data specific to the Lottery as well as the lottery industry as a whole.	
REVENUE CAPACITY .....	80
These schedules contain information to help readers assess the Lottery’s most significant revenue sources. Sales information, included in the financial trends section, provides data about the various games available to the public. The Lottery’s statewide retailer network determines the market exposure for the Lottery’s games.	
DEBT CAPACITY .....	82
This schedule presents information to help readers assess the Lottery’s debt burden and the Lottery’s ability to issue additional debt in the future.	
DEMOGRAPHIC AND ECONOMIC INFORMATION .....	83
These schedules offer demographic and economic indicators to help readers understand the environment within which the Lottery operates.	
OPERATING INFORMATION .....	84
These schedules contain information about the Lottery’s organization and efficiency.	

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

# Maryland State Lottery Agency Net Assets and Changes in Net Assets - Fiscal Years 1998 through 2007

## Net Assets by Component - Fiscal Years 1998 through 2007

Fiscal Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Invested in capital assets, net of related debt	\$ (300,099)	\$ (262,184)	\$ 46,785	\$ 415,012	\$ 608,337	\$ 758,018	\$ 376,882	\$ 436,229	\$ 292,874	\$ 341,314
Unrestricted	2,750,380	1,071,835	6,496,821	12,044,922	7,973,580	3,268,380	43,845,534	44,909,438	26,719,381	13,830,745
<b>Total net assets</b>	<b>\$ 2,450,281</b>	<b>\$ 809,651</b>	<b>\$ 6,543,606</b>	<b>\$ 12,459,934</b>	<b>\$ 8,581,917</b>	<b>\$ 4,026,398</b>	<b>\$ 44,222,416</b>	<b>\$ 45,345,667</b>	<b>\$ 27,012,255</b>	<b>\$ 14,172,059</b>

## Change in Net Assets - Fiscal Years 1998 through 2007

<b>Operating revenues:</b>										
Numbers games	\$ 513,557,081	\$ 496,006,894	\$ 502,090,774	\$ 504,013,025	\$ 508,305,575	\$ 500,378,009	\$ 499,968,605	\$ 521,555,497	\$ 534,578,721	\$ 531,992,424
Monitor games	256,127,590	280,341,804	311,045,071	319,452,467	355,711,608	377,419,953	389,796,257	417,458,505	436,527,806	462,551,365
Matrix games	142,589,100	126,688,747	137,870,599	121,595,769	141,995,257	127,783,484	147,728,145	155,750,154	174,467,430	151,186,911
Instant games	160,358,292	176,991,465	221,875,654	264,111,034	299,203,861	316,657,091	355,016,755	390,968,694	415,331,827	425,085,365
Raffle games	-	-	-	-	-	-	-	-	-	6,495,000
Other games	-	-	-	1,443,932	1,322,196	-	2,898,696	-	-	-
Total operating revenues	1,072,632,063	1,080,028,910	1,172,882,098	1,210,616,227	1,306,538,497	1,322,238,537	1,395,408,458	1,485,732,850	1,560,905,784	1,577,311,065
<b>Cost of sales:</b>										
Prize expense	571,137,201	582,192,056	656,720,362	671,196,364	733,196,055	743,416,525	786,801,576	856,231,700	904,077,713	927,009,794
Retailer commissions	60,198,072	61,761,763	68,625,960	76,943,536	85,362,915	87,118,213	91,298,325	97,592,346	102,704,705	112,187,831
Gaming vendor and data processing fees	12,887,102	13,893,980	12,489,288	14,364,972	13,892,789	14,261,693	14,576,720	15,243,781	15,638,778	14,778,613
Instant ticket printing and delivery	4,008,957	4,225,326	4,507,854	4,606,976	5,668,423	5,677,449	6,810,615	4,938,585	6,199,964	5,261,387
Total cost of sales	648,231,332	662,073,125	742,343,464	767,111,848	838,120,182	850,473,880	899,487,236	974,006,412	1,028,621,160	1,059,237,625
<b>Operating expenses:</b>										
Salaries, wages, and benefits	7,532,899	7,107,806	7,992,484	8,813,971	9,956,432	10,351,706	10,275,844	10,583,585	11,402,287	12,355,212
Advertising and promotions	15,250,988	14,234,085	11,801,239	15,634,986	14,253,805	16,907,207	14,013,399	14,889,419	15,859,308	18,332,963
Other general and administrative expenses	684,312	4,359,689	3,154,576	4,635,511	3,938,041	4,487,413	4,261,383	4,205,133	4,807,627	3,447,049
Depreciation and amortization	889,644	609,098	722,967	1,247,480	1,433,161	1,830,956	1,623,609	1,500,135	560,257	657,431
Total operating expenses	24,357,843	26,310,678	23,671,266	30,331,948	29,581,439	33,577,282	30,174,235	31,178,272	32,629,479	34,792,655
<b>Non-operating revenues (expenses):</b>										
Unrealized gains (losses) on investments	-	-	-	-	-	-	(25,411,268)	(2,236,689)	(16,973,874)	(1,966,256)
Extraordinary item: income from de-mutualization	-	-	-	-	998,032	-	-	-	-	-
Cumulative effect of change in accounting principles (1)	-	-	-	-	-	2,333,496	58,351,461	-	-	-
Interest expense	(190,232)	(64,892)	(120,393)	(211,356)	(208,577)	(179,456)	(118,156)	(89,863)	(44,066)	(35,452)
Payments to State of Maryland	(400,126,068)	(393,220,845)	(401,013,020)	(407,044,747)	(443,504,348)	(444,896,934)	(458,373,006)	(477,098,363)	(500,970,617)	(494,119,273)
Total non-operating revenues (expenses)	(400,316,300)	(393,285,737)	(401,133,413)	(407,256,103)	(442,714,893)	(442,742,894)	(425,550,969)	(479,424,915)	(517,988,557)	(496,120,981)
Changes in Net Assets	(273,412)	(1,640,630)	5,733,955	5,916,328	(3,878,017)	(4,555,519)	40,196,018	1,123,251	(18,333,412)	(12,840,196)
Total Net Assets, beginning of year	2,723,693	2,450,281	809,651	6,543,606	12,459,934	8,581,917	4,026,398	44,222,416	45,345,667	27,012,255
<b>Total Net Assets, end of year</b>	<b>\$ 2,450,281</b>	<b>\$ 809,651</b>	<b>\$ 6,543,606</b>	<b>\$ 12,459,934</b>	<b>\$ 8,581,917</b>	<b>\$ 4,026,398</b>	<b>\$ 44,222,416</b>	<b>\$ 45,345,667</b>	<b>\$ 27,012,255</b>	<b>\$ 14,172,059</b>

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

## Maryland State Lottery Agency Sales - Fiscal Years 1998 through 2007

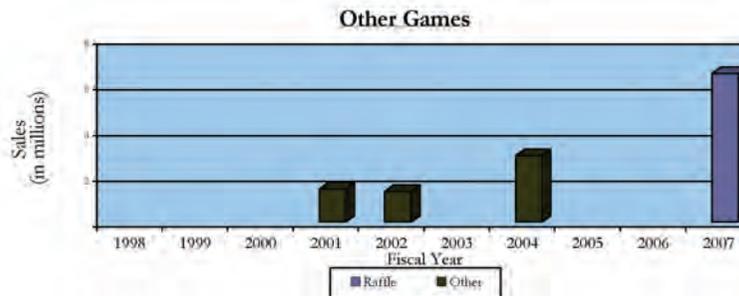
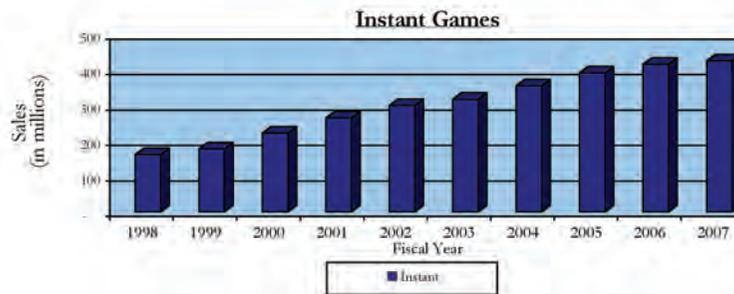
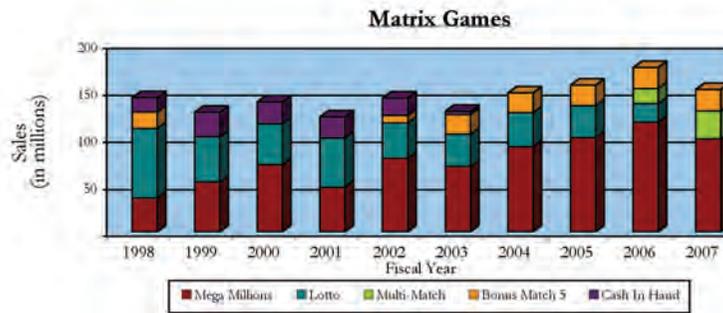
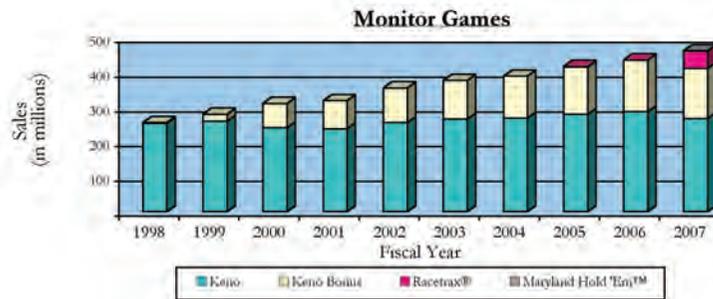
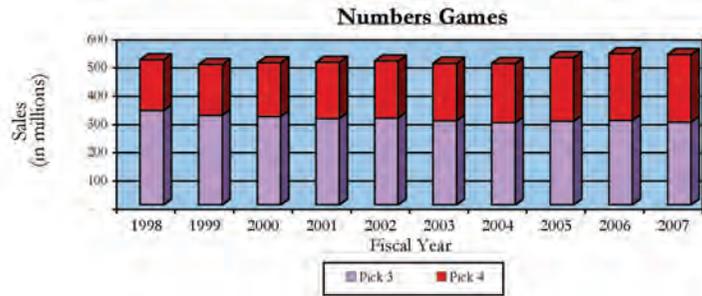
### Sales by Category and Game

Fiscal Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Numbers:</b>										
Pick 3	\$ 333,849,331	\$ 316,355,532	\$ 311,568,072	\$ 305,371,869	\$ 306,873,311	\$ 296,702,479	\$ 290,754,971	\$ 296,102,946	\$ 298,075,249	\$ 291,917,229
Pick 4	179,707,750	179,651,362	190,522,702	198,641,156	201,432,264	203,675,530	209,213,634	225,432,551	236,503,472	240,075,195
<b>Numbers Total</b>	<b>513,557,081</b>	<b>496,006,894</b>	<b>502,090,774</b>	<b>504,013,025</b>	<b>508,305,575</b>	<b>500,378,009</b>	<b>499,968,605</b>	<b>521,555,497</b>	<b>534,578,721</b>	<b>531,992,424</b>
<b>Monitor:</b>										
Keno	253,506,393	259,890,266	241,071,900	238,386,254	256,436,493	265,922,974	268,308,259	279,934,456	287,249,705	268,132,183
Keno Bonus	2,621,197	20,451,538	69,973,171	81,066,213	99,275,115	111,496,979	121,487,998	136,579,121	149,009,769	144,546,887
Racetrax®	-	-	-	-	-	-	-	944,928	268,332	49,844,937
Maryland Hold'Em™	-	-	-	-	-	-	-	-	-	27,358
<b>Monitor Total</b>	<b>256,127,590</b>	<b>280,341,804</b>	<b>311,045,071</b>	<b>319,452,467</b>	<b>355,711,608</b>	<b>377,419,953</b>	<b>389,796,257</b>	<b>417,458,505</b>	<b>436,527,806</b>	<b>462,551,365</b>
<b>Matrix:</b>										
Mega Millions	36,057,236	52,410,091	71,020,464	47,568,280	77,912,406	69,153,072	90,312,228	99,737,552	116,249,659	98,191,153
Lotto	73,384,988	48,239,861	43,270,217	51,872,278	37,660,036	34,178,932	36,179,993	34,096,337	19,975,438	-
Multi-Match	-	-	-	-	-	-	-	-	15,816,995	30,116,058
Bonus Match 5	17,855,879	-	-	-	8,266,718	21,250,620	21,235,924	21,916,265	22,425,338	22,879,700
Cash In Hand	15,290,997	26,038,795	23,579,918	22,155,211	18,156,097	3,200,860	-	-	-	-
<b>Matrix Total</b>	<b>142,589,100</b>	<b>126,688,747</b>	<b>137,870,599</b>	<b>121,595,769</b>	<b>141,995,257</b>	<b>127,783,484</b>	<b>147,728,145</b>	<b>155,750,154</b>	<b>174,467,430</b>	<b>151,186,911</b>
<b>Instant:</b>	<b>160,358,292</b>	<b>176,991,465</b>	<b>221,875,654</b>	<b>264,111,034</b>	<b>299,203,861</b>	<b>316,657,091</b>	<b>355,016,755</b>	<b>390,968,694</b>	<b>415,331,827</b>	<b>425,085,365</b>
<b>Raffle:</b>										
	-	-	-	-	-	-	-	-	-	6,495,000
<b>Other:</b>										
	-	-	-	1,443,932	1,322,196	-	2,898,696	-	-	-
<b>Total Sales</b>	<b>\$1,072,632,063</b>	<b>\$1,080,028,910</b>	<b>\$1,172,882,098</b>	<b>\$1,210,616,227</b>	<b>\$1,306,538,497</b>	<b>\$1,322,238,537</b>	<b>\$1,395,408,458</b>	<b>\$1,485,732,850</b>	<b>\$1,560,905,784</b>	<b>\$1,577,311,065</b>

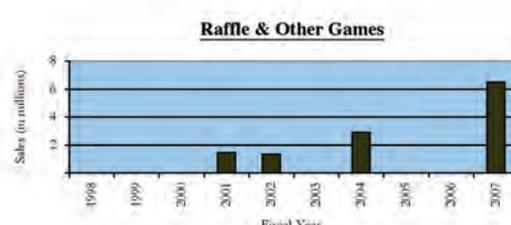
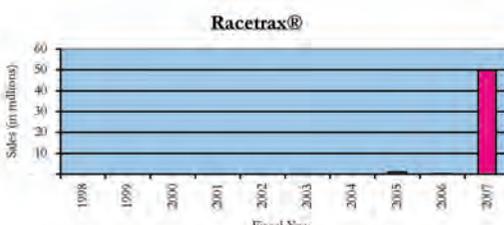
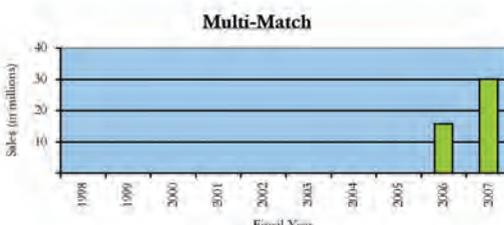
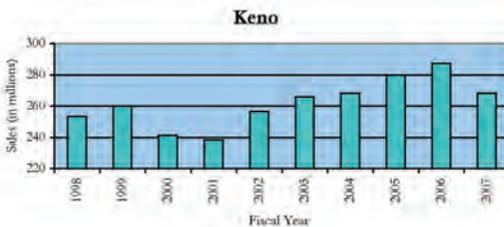
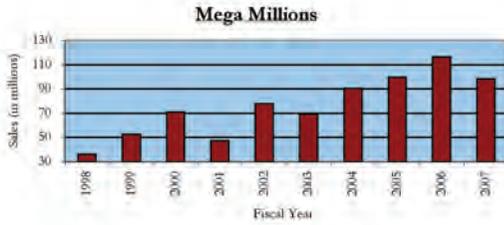
### Product Mix by Category

Fiscal Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Numbers Games	47.88%	45.92%	42.81%	41.63%	38.90%	37.84%	35.83%	35.10%	34.25%	33.73%
Monitor Games	23.88%	25.96%	26.52%	26.39%	27.23%	28.54%	27.93%	28.10%	27.96%	29.33%
Matrix Games	13.29%	11.73%	11.75%	10.04%	10.87%	9.67%	10.59%	10.48%	11.18%	9.58%
Instant Games	14.95%	16.39%	18.92%	21.82%	22.90%	23.95%	25.44%	26.32%	26.61%	26.95%
Raffle Games	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.41%
Other Games	0.00%	0.00%	0.00%	0.12%	0.10%	0.00%	0.21%	0.00%	0.00%	0.00%

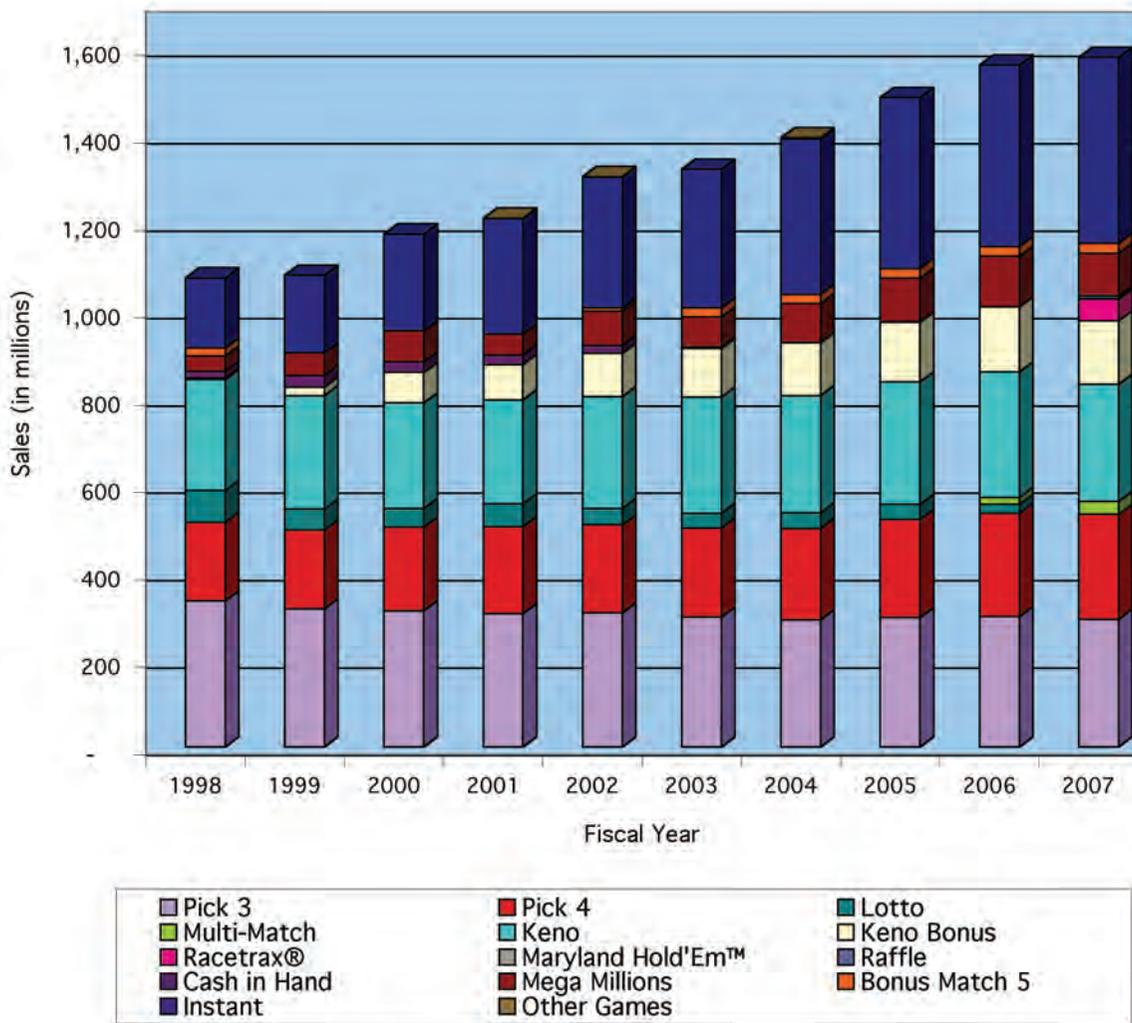
Maryland State Lottery Agency  
Sales - Fiscal Years 1998 through 2007 - (continued)



# Maryland State Lottery Agency Sales - Fiscal Years 1998 through 2007 - (continued)



Maryland State Lottery Agency  
 Sales - Fiscal Years 1998 through 2007 - (continued)



Maryland State Lottery Agency  
U.S. Lotteries Per Capita Sales - Fiscal Year 2007

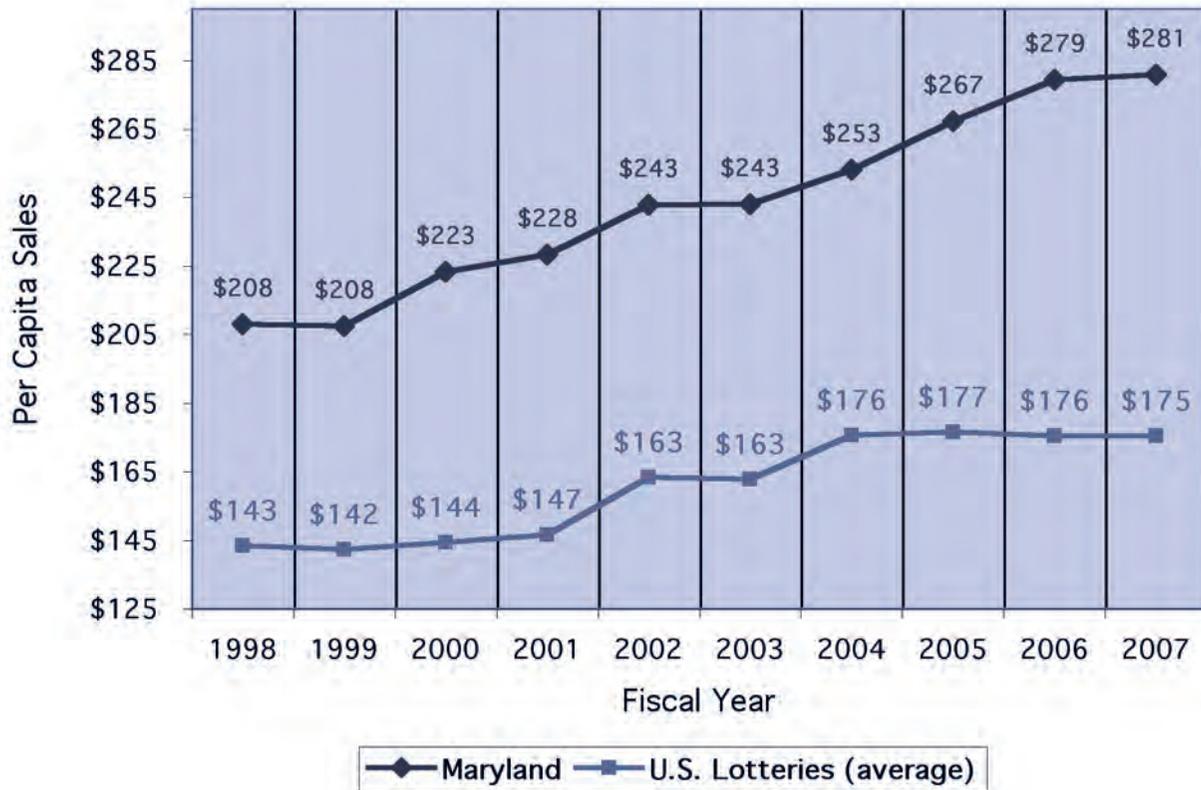
RANK	STATE	POPULATION (M)	TOTAL SALES (\$M)	PER CAPITA*
1	Massachusetts	6.4	\$4,436.5	\$689
2	D.C. (end 6/30)	0.6	255.6	440
3	Georgia	9.4	3,421.7	365
4	New York	19.3	6,652.4	345
<b>5</b>	<b>Maryland</b>	<b>5.6</b>	<b>1,577.3</b>	<b>281</b>
6	Connecticut	3.5	957.0	273
7	New Jersey	8.7	2,351.3	269
8	Pennsylvania	12.4	3,076.3	247
9	Michigan (est)	10.1	2,343.2	232
10	Florida	18.1	4,195.4	232
11	Rhode Island	1.1	244.5	229
12	South Carolina	4.3	988.2	229
13	New Hampshire	1.3	262.7	200
14	Ohio	11.5	2,260.9	197
15	Virginia	7.6	1,362.3	178
16	Kentucky	4.2	744.2	177
17	Tennessee	6.0	1,058.1	175
18	Maine	1.3	230.0	174
19	Vermont	0.6	103.0	165
20	Texas	23.5	3,774.3	161
21	Missouri	5.8	935.0	160
22	Illinois	12.8	2,021.3	158
23	Delaware	0.9	118.3	139
24	Indiana	6.3	788.0	125
25	West Virginia	1.8	192.6	106
26	North Carolina	8.9	889.3	100
27	Colorado	4.8	455.9	96
28	Oregon	3.7	354.6	96
29	Kansas	2.8	252.1	91
30	California	36.5	3,318.4	91
31	Idaho	1.5	130.5	89
32	Wisconsin	5.6	492.6	89
33	Louisiana	4.3	354.2	83
34	Minnesota	5.2	422.5	82
35	Washington	6.4	492.6	77
36	New Mexico	2.0	148.0	76
37	Arizona	6.2	462.2	75
38	Nebraska	1.8	114.5	65
39	Oklahoma	3.6	215.1	60
40	South Dakota	0.8	39.7	51
41	Montana	0.9	41.6	44
42	North Dakota	0.6	22.6	35
43	Iowa			**
<b>TOTAL</b>		<b>278.7</b>	<b>\$52,556.5</b>	<b>\$189</b>

Source: *La Fleur's Magazine*, September/October 2007 Edition

\* Subject to rounding

\*\* Information not available

Maryland State Lottery Agency  
U.S. Lotteries Per Capita Sales - Fiscal Years 1998 through 2007

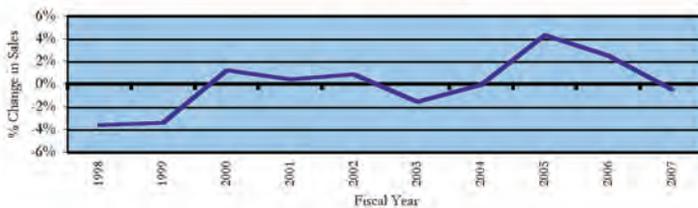


Sources: *LaFleur's 2007 Almanac*, *LaFleur's Magazine - Fiscal 2007 Report*, U.S. Census Bureau

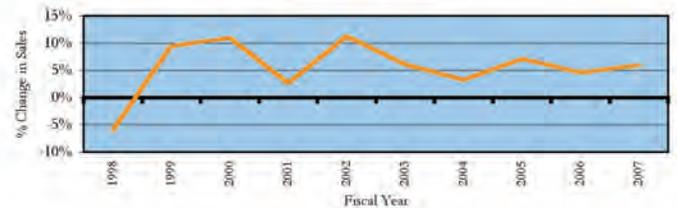
## Maryland State Lottery Agency Percentage Change in Sales - Fiscal Years 1998 through 2007

Fiscal Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Numbers Games	-3.63%	-3.42%	1.23%	0.38%	0.85%	-1.56%	-0.08%	4.32%	2.50%	-0.48%
Monitor Games	-5.98%	9.45%	10.95%	2.70%	11.35%	6.10%	3.28%	7.10%	4.57%	5.96%
Matrix Games	0.51%	-11.15%	8.83%	-11.80%	16.78%	-10.01%	15.61%	5.43%	12.02%	-13.34%
Instant Games	0.15%	10.37%	25.36%	19.04%	13.29%	5.83%	12.11%	10.13%	6.23%	2.35%
Raffle & Other Games	0.00%	0.00%	0.00%	100.00%	-8.43%	-100.00%	100.00%	-100.00%	0.00%	100.00%
<b>Total Sales</b>	<b>-3.13%</b>	<b>0.69%</b>	<b>8.60%</b>	<b>3.22%</b>	<b>7.92%</b>	<b>1.20%</b>	<b>5.53%</b>	<b>6.47%</b>	<b>5.06%</b>	<b>1.05%</b>

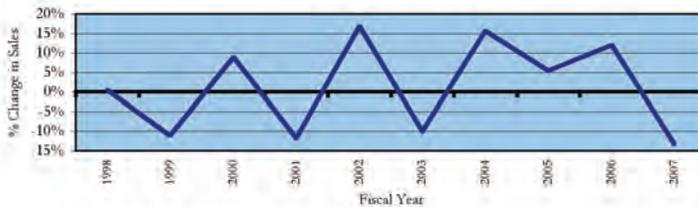
**Numbers Games**



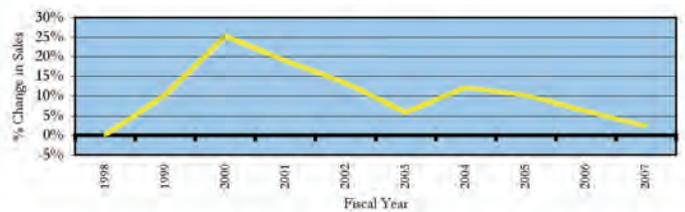
**Monitor Games**



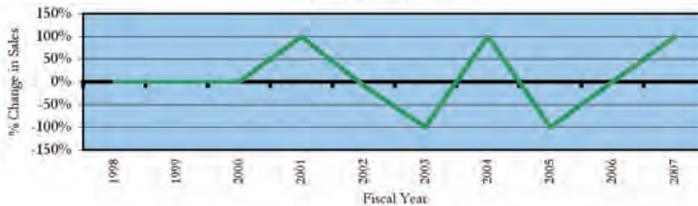
**Matrix Games**



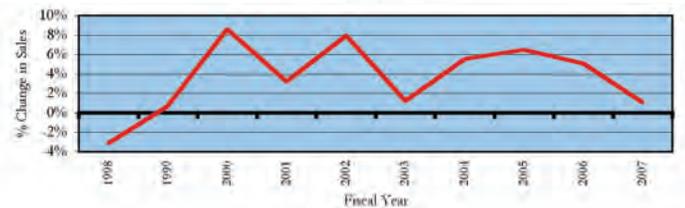
**Instant Games**



**Raffle & Other Games**



**Total**



Maryland State Lottery Agency  
 U.S. Lotteries Percentage Change in Sales - Fiscal Year 2007

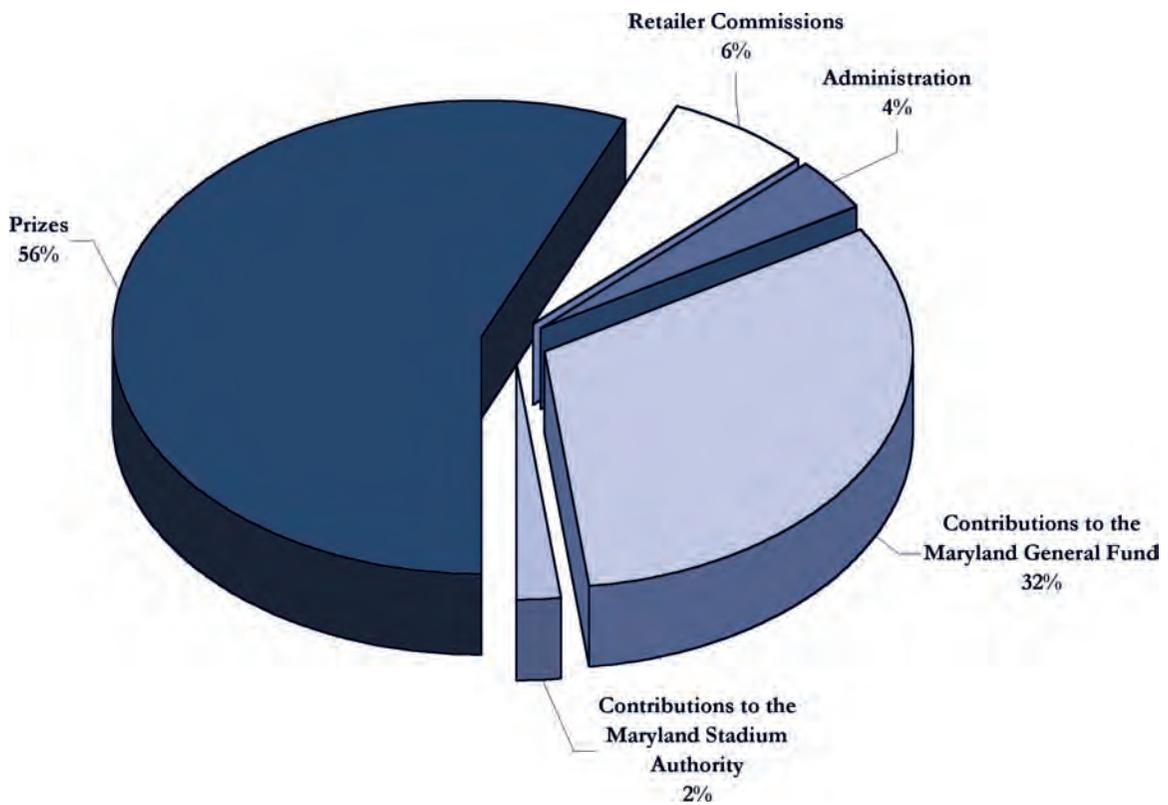
RANK	STATE	TOTAL SALES (\$M)	% CHANGE
1	North Carolina ^	\$ 889.3	287%
2	Georgia	3,421.7	8%
3	Louisiana	354.2	7%
4	Tennessee	1,058.1	6%
5	Michigan (est)	2,343.2	6%
6	Oklahoma ^	215.1	5%
7	Montana	41.6	4%
8	Florida	4,195.4	4%
9	Kansas	252.1	3%
10	Washington	492.6	3%
11	New York	6,652.4	3%
12	Missouri	935.0	2%
13	Ohio	2,260.9	2%
14	Illinois	2,021.3	2%
15	South Dakota	39.7	1%
16	Nebraska	114.5	1%
<b>17</b>	<b>Maryland</b>	<b>1,577.3</b>	<b>1%</b>
18	North Dakota	22.6	1%
19	Kentucky	744.2	0%
20	Pennsylvania	3,076.3	0%
21	New Hampshire	262.7	0%
22	Maine	230.0	0%
23	Texas	3,774.3	0%
24	Virginia	1,362.3	0%
25	Idaho	130.5	-1%
26	D.C. (end 6/30)	255.6	-1%
27	New Mexico	148.0	-1%
28	Connecticut	957.0	-1%
29	Arizona	462.2	-1%
30	Massachusetts	4,436.5	-1%
31	Vermont	103.0	-2%
32	New Jersey	2,351.3	-2%
33	Oregon	354.6	-2%
34	Colorado	455.9	-3%
35	Wisconsin	492.6	-3%
36	Indiana	788.0	-3%
37	Delaware	118.3	-5%
38	Minnesota	422.5	-6%
39	Rhode Island	244.5	-6%
40	California	3,318.4	-7%
41	West Virginia	192.6	-12%
42	South Carolina	988.2	-14%
43	Iowa		^^
<b>TOTAL</b>		<b>\$52,556.5</b>	

Source: *La Fleur's Magazine*, September/October 2007 Edition

^ North Carolina and Oklahoma began selling lottery tickets in fiscal year 2006.

^^ Information not available

Maryland State Lottery Agency  
Expenses and Contributions - Cumulative for Fiscal Years 1998 through 2007



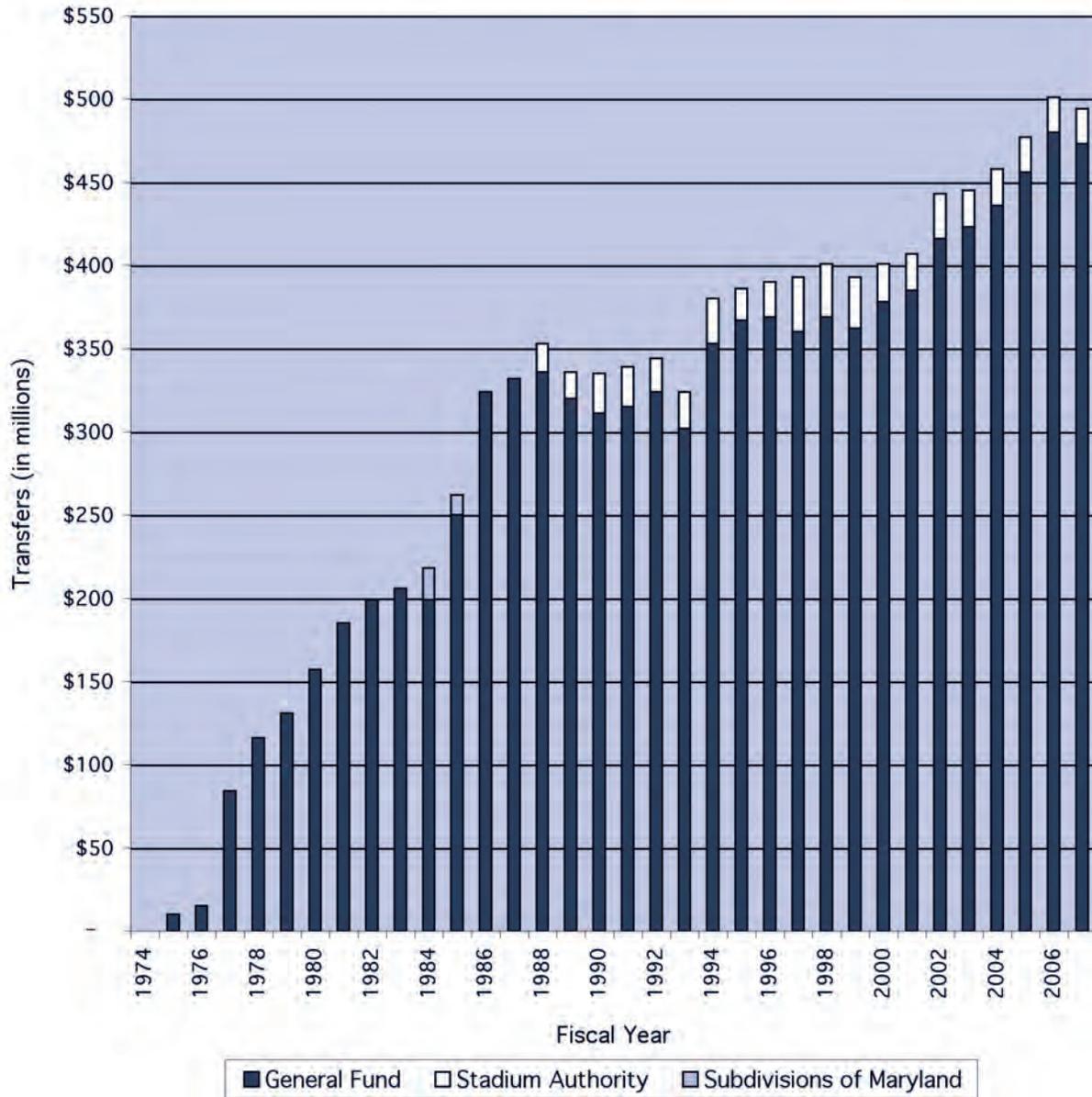
Maryland State Lottery Agency  
 Contributions to the State of Maryland - Inception to Date

FISCAL YEAR	THE STATE OF MARYLAND GENERAL FUND	THE MARYLAND STADIUM AUTHORITY	SUBDIVISIONS OF MARYLAND	TOTAL CONTRIBUTIONS
1975	\$ 10,025,000 *	\$ -	\$ -	\$ 10,025,000
1976	15,374,000	-	-	15,374,000
1977	83,928,000	-	-	83,928,000
1978	116,182,000	-	-	116,182,000
1979	131,271,000	-	-	131,271,000
1980	156,768,000	-	-	156,768,000
1981	185,224,000	-	-	185,224,000
1982	199,080,000	-	-	199,080,000
1983	206,236,000	-	-	206,236,000
1984	199,194,000	-	19,095,000	218,289,000
1985	250,123,000	-	12,158,000	262,281,000
1986	323,423,000	-	-	323,423,000
1987	332,366,000	-	-	332,366,000
1988	335,928,000	16,750,000	-	352,678,000
1989	319,605,000	16,221,000	-	335,826,000
1990	311,254,000	24,040,000	-	335,294,000
1991	315,247,000	24,004,000	-	339,251,000
1992	323,814,000	19,752,000	-	343,566,000
1993	301,563,000	21,612,000	-	323,175,000
1994	353,308,000	26,743,000	-	380,051,000
1995	366,577,000	19,077,000	-	385,654,000
1996	369,161,000	20,749,000	-	389,910,000
1997	359,835,000	32,818,000	-	392,653,000
1998	368,501,000	31,625,000	-	400,126,000
1999	362,145,000	31,076,000	-	393,221,000
2000	377,763,000	23,250,000	-	401,013,000
2001	385,045,000	22,000,000	-	407,045,000
2002	416,274,000	27,230,000	-	443,504,000
2003	422,948,000	21,949,000	-	444,897,000
2004	436,373,000	22,000,000	-	458,373,000
2005	455,863,000	21,235,000	-	477,098,000
2006	480,471,000	20,500,000	-	500,971,000
2007	473,119,000	21,000,000	-	494,119,000
<b>Total</b>	<b>\$9,743,988,000</b>	<b>\$463,631,000</b>	<b>\$31,253,000</b>	<b>\$10,238,872,000</b>
<b>TOTAL LIFETIME CONTRIBUTIONS</b>				<b>\$10,238,872,000</b>

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

Maryland State Lottery Agency  
 Contributions to the State of Maryland - Inception to Date - (continued)

Total Lifetime Contributions \$10,238,872,000



Maryland State Lottery Agency  
U.S. Lotteries Transfers to State - Fiscal Year 2006\*

RANK	STATE	TRANSFER AMOUNT (\$M)	TRANSFERS TO STATE AS % OF SALES
1	Louisiana	\$ 119.43	36.0%
2	California	1,258.51	35.1%
3	New Jersey	844.16	35.1%
4	Oklahoma	68.95	33.7%
5	Virginia	454.00	33.3%
6	Illinois	645.92	32.9%
7	Pennsylvania	992.36	32.3%
<b>8</b>	<b>Maryland</b>	<b>500.97</b>	<b>32.1%</b>
9	Florida	1,224.65	31.2%
10	Michigan (est)	688.02	31.1%
11	Tennessee	284.65	30.7%
12	New Hampshire	80.38	30.6%
13	Arizona	141.12	30.1%
14	Connecticut	284.87	29.4%
15	North Dakota	6.50	29.1%
16	Ohio	646.28	29.1%
17	Texas	1,090.33	28.9%
18	Missouri	260.67	28.5%
19	Kansas	67.09	28.4%
20	North Carolina	64.59	28.1%
21	South Carolina	320.63	28.0%
22	Georgia	822.40	27.8%
23	D.C. (end 6/30)	73.80	27.7%
24	Kentucky	204.32	27.5%
25	Colorado	125.55	26.8%
26	Indiana	216.49	26.5%
27	Minnesota	119.29	26.5%
28	Washington	125.09	26.2%
29	Wisconsin	133.30	26.2%
30	Idaho	33.00	25.1%
31	Nebraska	27.60	24.4%
32	Iowa	80.88	23.8%
33	New Mexico	36.86	23.8%
34	Montana	9.11	22.8%
35	Maine	51.56	22.4%
36	Vermont	23.01	21.9%
37	Massachusetts	951.24	21.1%
38	Delaware	315.99	^
39	New York	2,202.62	^
40	Oregon	570.66	^
41	Rhode Island	323.90	^
42	South Dakota	119.00	^
43	West Virginia	610.04	^
	<b>TOTAL</b>	<b>\$17,219.80**</b>	

Source: *La Fleur's 2007 World Lottery Almanac* (15th Edition)

\* Data for fiscal year 2007 is not available at this time.

\*\* Subject to rounding.

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

## Maryland State Lottery Agency Retailers, Population, and Sales by Region

### Fiscal Year 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	1.4%	9.6%	15.6%	1.4%	0.7%	3.0%	2.2%	3.0%
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%	3.5%	0.6%	4.1%	3.4%	0.4%	9.0%	13.7%
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%	4.9%	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%	2.3%	0.5%	0.8%	2.8%	1.9%	2.2%	16.3%
Population	46,241	98,854	25,774	36,062	143,748	91,987	48,866	631,366
% of Total Population	0.8%	1.8%	0.5%	0.6%	2.6%	1.6%	0.9%	11.2%
% of Sales	0.6%	2.4%	0.4%	0.5%	1.6%	1.3%	1.7%	18.6%

### Fiscal Year 2006

	Allegany County	Anne Arundel County	Baltimore County	Calvert County	Caroline County	Carroll County	Cecil County	Charles County
# of Retailers	50	355	571	51	25	106	77	108
% of Total Retailers	1.4%	9.6%	15.5%	1.4%	0.7%	2.9%	2.1%	2.9%
Population	73,245	509,397	783,405	87,622	31,805	168,397	97,474	138,106
% of Total Population	1.3%	9.1%	14.0%	1.6%	0.6%	3.0%	1.7%	2.5%
% of Sales	0.7%	10.4%	15.3%	1.5%	0.4%	1.9%	1.1%	3.3%
	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	0.8%	3.6%	0.6%	4.2%	3.3%	0.4%	9.3%	13.8%
Population	31,351	220,409	29,863	238,850	269,174	19,908	927,405	842,764
% of Total Population	0.6%	3.9%	0.5%	4.3%	4.8%	0.4%	16.5%	15.0%
% of Sales	0.5%	2.2%	0.2%	3.4%	2.3%	0.3%	9.3%	20.4%
	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	1.0%	2.1%	0.5%	0.8%	2.8%	1.9%	2.2%	16.3%
Population	45,469	96,868	25,666	35,630	141,563	90,252	48,599	636,377
% of Total Population	0.8%	1.7%	0.5%	0.6%	2.5%	1.6%	0.9%	11.3%
% of Sales	0.6%	2.2%	0.4%	0.5%	1.7%	1.2%	1.7%	18.6%

Information is accumulated and retained in this format only for fiscal years 2006 and 2007. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

Maryland State Lottery Agency  
 Maryland's Ten Largest Private Employers\*

2007	2006 and 2005	2004 and 2003
Employer (listed alphabetically)		
Giant of Maryland LLC	Giant of Maryland LLC	Giant of Maryland LLC
Helix Health System Inc.	Helix Health System Inc.	Helix Health System Inc.
Home Depot USA Inc.	Home Depot USA Inc.	Home Depot USA Inc.
Johns Hopkins Hospital	Johns Hopkins Hospital	Johns Hopkins Hospital
Johns Hopkins University	Johns Hopkins University	Johns Hopkins University
Macy's	Northrop Grumman Corporation	Northrop Grumman Corporation
Northrop Grumman Corporation	Safeway Inc.	Safeway Inc.
Safeway Inc.	Target	United Parcel Service
United Parcel Service	United Parcel Service	Verizon Maryland Inc.
Wal-Mart	Wal-Mart	Wal-Mart

Source: Department of Labor, Licensing and Regulation; Office of Labor Market Analysis and Information  
 Information reported on a calendar basis.

\* Information for prior years not available.

Maryland State Lottery Agency  
 Ratio of Outstanding Debt by Type - Fiscal Years 1998 through 2007

Fiscal Year	Capital Lease Obligations	Percentage of Annual Lottery Sales
1998	\$2,629,827	0.25%
1999	2,890,314	0.27%
2000	4,068,110	0.35%
2001	3,320,863	0.27%
2002	3,242,537	0.25%
2003	2,371,900	0.18%
2004	3,131,566	0.22%
2005	1,672,615	0.11%
2006	1,255,713	0.08%
2007	1,123,995	0.07%

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

Maryland State Lottery Agency  
 Demographic and Economic Statistics - Fiscal Years 1998 through 2007

Fiscal Year	Statewide Population <sup>1</sup>	Statewide Personal Income <sup>2</sup> (expressed in thousands)	Statewide Per Capita Personal Income	Unemployment Rate <sup>3</sup>
2007	5,615,727	\$247,525,909	\$44,077	3.9%
2006	5,600,388	235,195,668	41,996	3.8%
2005	5,558,058	218,137,769	39,248	4.2%
2004	5,508,909	205,652,120	37,331	4.3%
2003	5,450,525	197,868,861	36,303	4.7%
2002	5,383,377	190,331,297	35,355	4.6%
2001	5,311,531	181,957,207	34,257	3.8%
2000	5,254,509	167,074,691	31,796	3.3%
1999	5,204,464	157,783,778	30,317	4.0%
1998	5,157,328	147,842,522	28,666	4.8%

Sources:

- 1 US Department of Commerce, Bureau of Census — “Annual Population Estimates by State”
- 2 US Department of Commerce, Bureau of Economic Analysis. All ten years of income data based on April 2004 Comprehensive revisions of State Personal Income Statistics for 1969-2002. Preliminary estimates are provided for 2003-2007. Data provided is for prior ending calendar year.
- 3 State Department of Labor, Licensing and Regulation

Maryland State Lottery Agency  
 Lottery Employees - Fiscal Years 1998 through 2007

Department	As of June 30,	Number of Employees									
		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Agent Administration		5	7	7	7	6	5	5	6	6	6
Communications		14	15	18	18	19	17	19	17	19	21
Customer Service		18	15	14	14	13	13	13	14	13	13
Executive		6	7	7	6	5	6	7	6	5	6
Facilities		7	7	5	6	6	6	6	5	5	5
Finance, Budget & Procurement		15	11	14	15	16	15	14	17	16	15
Information Technology		18	18	18	18	20	21	21	23	24	24
Instant Ticket Warehouse		5	5	5	6	7	7	6	7	7	7
Legal Services		4	4	4	6	5	5	5	6	6	6
Personnel		3	3	3	5	5	4	5	4	4	4
Product Development & Creative Services		9	12	10	10	12	11	13	10	9	9
Sales		57	57	58	58	62	63	61	61	60	61
Security		5	5	5	5	4	6	5	5	5	5
<b>Total</b>		<b>166</b>	<b>166</b>	<b>168</b>	<b>174</b>	<b>180</b>	<b>179</b>	<b>180</b>	<b>181</b>	<b>179</b>	<b>182</b>

Operating Indicators - Fiscal Years 1998 through 2007

Fiscal Year	Percentage of Administrative Expenses to Sales		
	Sales	Administrative Expenses	Percentage of Administrative Expenses to Sales
1998	\$1,072,632,063	\$41,253,902	3.85%
1999	1,080,028,910	44,429,984	4.11%
2000	1,172,882,098	40,668,408	3.47%
2001	1,210,616,230	49,303,896	4.07%
2002	1,306,538,497	49,142,651	3.76%
2003	1,322,239,552	53,516,424	4.05%
2004	1,395,408,458	51,561,570	3.70%
2005	1,485,732,850	51,360,638	3.46%
2006	1,560,905,784	54,468,221	3.49%
2007	1,577,311,065	54,832,655	3.48%

Note: Administrative expenses include operating expenses, gaming vendor and data processing fees, and instant ticket printing and delivery.

Capital Assets, Net Information - Fiscal Years 2002 through 2007

	2002	2003	2004	2005	2006	2007
Lottery equipment	\$3,644,775	\$2,152,411	\$2,735,984	\$1,378,351	\$ 974,544	\$ 574,116
Data processing equipment	206,099	168,390	77,120	117,872	81,970	281,518
Office equipment	-	231,649	179,200	157,802	98,578	277,504
Leasehold improvements	-	577,468	516,144	454,819	393,495	332,171
<b>Total capital assets</b>	<b>\$3,850,874</b>	<b>\$3,129,918</b>	<b>\$3,508,448</b>	<b>\$2,108,844</b>	<b>\$1,548,587</b>	<b>\$1,465,309</b>

Information is accumulated and retained in this format only for fiscal years 2002 through 2007. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

Inside Back Cover



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