



WINNING YEARS

MARYLAND STATE LOTTERY AGENCY

AN ENTERPRISE FUND OF THE STATE OF MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007



Fiscal year 2008 marked the 35th anniversary of the Maryland Lottery and more than three decades of providing revenue and entertainment for the citizens of Maryland. Since the Maryland Lottery's debut, sales have totaled more than \$29.2 billion, returning more than \$10.7 billion to the state's coffers to support essential services in Maryland's communities.

This year also marked the Maryland Lottery's 11th straight year of record-breaking sales. In fiscal year 2008, \$529.4 million was contributed to the state to support vital state-funded programs and services, including education, public health, public safety and the environment. Additionally, \$956.9 million was paid to players in the form of prizes, while retailers earned \$117.8 million in commissions.

35 WINNING YEARS AND MANY MORE TO COME.



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

MARYLAND STATE LOTTERY AGENCY
AN ENTERPRISE FUND OF THE STATE OF MARYLAND

PREPARED BY THE ACCOUNTING DEPARTMENT
OF THE MARYLAND STATE LOTTERY AGENCY





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INTRODUCTORY SECTION

The Maryland Lottery is the fourth largest contributor to the State's general fund, generating revenue to help make Maryland a safe place for all citizens.





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MARYLAND LOTTERY

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www.mdlottery.com
Martin O'Malley, Governor • Buddy Roogow, Director



December 15, 2008

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, 2008. 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 4,800 retail outlets throughout the State. The top prize of \$50,000 was awarded to players who matched all six numbers in the exact order. The first drawing was held on May 24, 1973, at Hopkins Plaza in Baltimore. There were four top-prize winners.

Throughout the years, lotteries have evolved and have become more diversified, offering players a variety of choices. Today, 42 states and the District of Columbia operate lotteries selling both on-line games and instant tickets. During fiscal year 2008, these lotteries generated in excess of \$52.67 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 \$29.2 billion in sales and has contributed almost \$10.8 billion to the State of Maryland. Lottery revenues are contributed to the State's General Fund and are used to support various programs and services such as education, public health and safety, human resources, and the environment. In addition, the Lottery is required by statute to contribute a defined amount each year to the Maryland Stadium Authority.

ECONOMIC OUTLOOK

Economic growth in Maryland has slowed dramatically, largely as a result of the sustained downturn in the housing market. Broad national trends including the credit crunch, low consumer confidence and falling consumer spending have impacted Maryland's economy severely. Notwithstanding the past few months of turmoil in the financial markets, a recession in the State may still have occurred. Fallout from the burst housing bubble has slowed the State's economy and will continue to do so for some time.

Maryland's economy appears to have been stagnant throughout 2008 after a relatively weak 2007. While monthly survey data from the Bureau of Labor Statistics indicates job growth of around 1% every month of this year, an acceleration over 2007's growth of 0.8%, other indicators suggest

growth has been substantially slower. Data from unemployment insurance records, nearly a census of employment in the State, show growth of about 0.33% for the first quarter of the year. Initial claims for unemployment insurance have increased at 20% or more (year-over-year) every week but three weeks since the beginning of March, and nearly doubled in the last week of October. Individual income tax withholding, as timely an economic indicator as exists, has been sluggish throughout the year.

Even the stronger payroll survey data shows substantial acceleration in 2008 for only a few industries — professional and business services, leisure and hospitality services, and the federal government. But a comparison of first quarter data with the unemployment insurance records shows the survey data likely overstates growth for all industries except the local, state and federal governments. Three industries are unambiguously declining, though none is a surprise. Manufacturing, construction, finance and real estate services all declined by about 2% or more in the first quarter, according to the unemployment insurance data. Particularly given the events of late summer through early October, there is no reason to expect that performance of these particular industries has improved since the first quarter.

On a year-over-year basis, sales of existing homes have fallen every month since October of 2005 with the exception of foreclosure-related sales. Growth in the median sales price has generally decelerated since early 2005 and prices have declined every month since August 2007. The inventory-to-sales ratio currently stands at 13.9, up strongly from 1.6 just a little over three years ago. All indications are that the Maryland housing market has further to fall. Until the market bottoms out, housing-related industries, construction, finance and real estate, among others, are unlikely to see a resumption of consistent growth.

Consumer spending is also unlikely to see a resumption of growth until the housing market bottoms out. Just as the run-up in housing prices provided support for consumer spending through the wealth effect, as well as through the simple extraction of equity, falling housing prices will reverse the effect. That impact will be exacerbated by the 40% decline in stock prices. Estimates of the negative wealth effect are around 5% over two years, which means that for every dollar of wealth lost, spending falls by 5 cents over the next two years. All segments of the economy dependent on consumer spending, including retail, transportation, leisure services and, more broadly, manufacturing and government, are in store for an extended period of difficulty. While tightened lending standards and the weakening labor market are also putting pressure on consumer spending, the recovery of the housing market is crucial to a resumption of consumer spending in the State.

The recent collapse of several large financial firms and recent bank consolidations will have a direct impact on Maryland's economy. The related impact on credit will result in a slowing or stoppage of business investment as almost two-thirds of banks are tightening business lending standards. Credit has become more difficult to obtain while at the same time profits have fallen, largely as a result of the slowdown in consumer spending. Business confidence has also deteriorated. In addition, the availability of commercial paper to small and mid-sized businesses may still precipitate leaner business spending and even bankruptcy.

The lack of credit will cause the construction industry to continue to contract as commercial and industrial projects are scaled back, delayed or cancelled. Professional and business services, an integral industry in Maryland's economy, will also experience substantially slower growth. Those firms closely aligned with financial services will be the hardest hit. As businesses cut expenses, slowing business travel will likely affect Maryland more than many other areas. Leisure and hospitality services, a sector with above average growth since the last recession, will experience a sharp deceleration in growth if not an outright decline in 2009. Those located near Baltimore/Washington International Thurgood Marshall Airport and the Washington, D.C., suburbs are most at risk.

With the United States economy now not expected to recover until midway through 2009, and risks decidedly on the downside, near term prospects for the State are not bright. Maryland's housing market has yet to hit bottom. As a result of that and other factors, the State's economy is unlikely to resume growth until early 2010, at the earliest.



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 if they have won. Instant games are played by scratching a latex covering off of a play area to reveal pre-printed combinations. If a winning combination appears, the customer is an instant winner.

Games offered during fiscal year 2008 included the following:

PICK 3

Fiscal Year 2008 Statistics:

\$274.3 million in net sales

16.4% of total net sales

\$17.6 million decrease from fiscal year 2007 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 zero to nine for the chance of winning prizes ranging from \$25 to \$500. Drawings are held twice daily, seven days a week.

PICK 4

Fiscal Year 2008 Statistics:

\$234.9 million in net sales

14.0% of total net sales

\$5.2 million decrease from fiscal year 2007 Pick 4 net sales

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

Keno.

Fiscal Year 2008 Statistics:

\$248.7 million in net sales

14.9% of total net sales

\$19.4 million decrease from fiscal year 2007 Keno net sales

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



Fiscal Year 2008 Statistics:

\$137.9 million in net sales

8.2% of total net sales

\$6.7 million decrease from fiscal year 2007 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 three, four, five or ten. The multiplier is determined by a computer-generated wheel that is spun prior to each drawing. The maximum prize that can be won per game on any one Keno ticket when Keno Bonus is played is \$1 million.



Fiscal Year 2008 Statistics:

\$72.9 million in net sales

4.4% of total net sales

\$23.0 million increase over fiscal year 2007 Racetrax net sales

RACETRAX is an on-line game that launched statewide in August 2006. The game is predominantly sold in a social atmosphere and drawings are held approximately every five minutes. This game is a computer-animated monitor game that offers the thrill of horse racing with advanced 3-D graphic animation that results in the horses and races appearing realistic. Players select from one to 12 horses to win prizes ranging from \$1.20 to \$31,454.



Fiscal Year 2008 Statistics:

\$1.3 million in net sales

Less than 1.0% of total net sales

\$1.3 million increase over fiscal year 2007 Maryland Hold 'Em net sales

MARYLAND HOLD 'EM 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 six minutes and players select from one to eight hands to win prizes ranging from \$2 to \$5,000.



Fiscal Year 2008 Statistics:

\$129.4 million in net sales

7.7% of total net sales

\$31.2 million increase over fiscal year 2007 Mega Millions net sales

MEGA MILLIONS is an on-line multi-state jackpot game. The Lottery joined Mega Millions in September 1996. The Mega Millions membership consists of 12 states that include: California, Georgia, Illinois, Maryland, Massachusetts, 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 2008 Statistics:

\$31.2 million in net sales

1.9% of total net sales

\$1.1 million increase over fiscal year 2007 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 2008 Statistics:

\$23.4 million in net sales

1.4% of total net sales

\$534,800 increase over fiscal year 2007 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 2008 Statistics:

\$5.2 million in net sales

Less than 1.0% of total net sales

\$1.3 million decrease from fiscal year 2007 Countdown to Millions net sales

COUNTDOWN TO MILLIONS was an on-line, raffle-style game offered for a limited time period during fiscal years 2007 and 2008. Players purchased sequential tickets for a chance to win prizes ranging from \$500 to \$1,000,000. Sales for this game were offered from April 26, 2007, up until the date of the draw which occurred on July 7, 2007.



Fiscal Year 2008 Statistics:

\$513.9 million in net sales

30.7% of total net sales

\$88.8 million increase over fiscal year 2007 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 2008, the Lottery launched 61 different instant ticket games.

HIGHLIGHTS OF FISCAL YEAR 2008

Fiscal year 2008 witnessed the Lottery's eleventh consecutive year of record sales. Income from operations transferred to the State of Maryland during fiscal year 2008 also totaled an all-time high. Additional financial information can be found in the Management's Discussion and Analysis Section of this report, which begins on page 29.

In addition to another record-breaking year in sales and record income transferred to the State of Maryland, other significant accomplishments included:

- The Lottery continued to capitalize on its growth in instant ticket sales by launching a variety of tickets that appealed to players of all ages. In March, the Lottery kicked off sales for Dubble Bubble Doubler[®], the first ticket of its kind to be launched in the nation. The instant ticket had a scratch-and-sniff component that featured the scent of bubble gum. While there have been other scented tickets, the bubble gum scent was another first. The ticket also had a nostalgic look, featuring the well-known Dubble Bubble[®] gum character, Pud. To promote this ticket the Lottery held bubble-blowing contests at the baseball stadium, Oriole Park at Camden Yards, and also had a "Count the Dubble Bubbles" contest where players could guesstimate how many pieces of Dubble Bubble[®] were in the jar. Lucky players won a Dubble Bubble[®] Prize Pack. This ticket almost doubled the average \$2 instant ticket game sales in the first 10 weeks with a 10-week average of \$360,000 versus \$185,000.

The Lottery also brought back an old favorite, Set for Life, and capitalized on the popular game show Deal or No Deal[™]. Set for Life offered a top prize of \$1,000 a week for 20 years. This was the only \$5 game to have more than \$1 million in sales in one week for seven weeks in a row. Players loved Deal or No Deal as sales in the first 15 weeks were 87% ahead of the average \$3 game.

- The Lottery became the eleventh state lottery to integrate Cole Systems' OrderPad Enterprise[™] into its sales operation. The OrderPad Enterprise[™] software enables the sales representatives to better service the retail network providing up-to-date sales and instant ticket inventory information. As a result, sales representatives are able to work closely with retailers to increase sales and manage instant ticket inventory. In addition, this system allows for more efficient communication between the sales force and management. The Lottery also began incorporating its agent-licensing process into the system, which is further discussed on page 18 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, utilizes the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the related liabilities are incurred.

BUDGETARY SYSTEMS AND CONTROLS

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

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

DEBT ADMINISTRATION

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

CASH MANAGEMENT

The Lottery collects cash due 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 as well as personal, 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 the 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 instant tickets and controls the disbursement of prizes, the following steps have been taken to ensure the operations remain secure and meet the highest ethical standards:

- employing specialized 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 185 employees, most of whom are located at the Lottery's headquarters in Baltimore. As of June 30, 2008, all drawings were conducted at the broadcast facility of the television station producing the drawings. All drawings are broadcast except for Saturday midday drawings.

FUTURE PROJECTS

During fiscal year 2009, the Lottery will undertake several initiatives to further enhance its operations. The deployment of Player Activated Terminals (PATs) with touch-screen monitors will be strategically placed throughout the retail network. These 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.

A KENO expansion is planned to occur in various phases. In July 2008, all retailers were enabled to sell KENO even if they do not have a monitor to display the drawings. A "KENO Everywhere" marketing effort will be undertaken to alert players that they can now play KENO everywhere. To further the "KENO Everywhere" effort, Packaged Keno To Go will be introduced in the second half of the fiscal year, which will allow players to purchase packages of KENO for 20, 40, 60, 80 or 100

games at a discounted rate of 25 cents per game. Players will be able to take their packages home and watch the drawings on our web site. In the latter half of the fiscal year, Super KENO Bonus will be introduced. For \$2, players can purchase this game with a guarantee to at least double their winnings when they win on the regular KENO game. Other game initiatives for the fiscal year include the introduction of a Pick 5 game which will play similar to the Pick 3 and Pick 4 games.

The Lottery will also improve the efficiency of its agent application process by incorporating it into the OrderPad Enterprise™ software. This will allow the sales representatives to identify missing application paperwork and obtain it from the applicant in a timely manner. Point of sale inventory will also be incorporated into the OrderPad Enterprise™ software so that sales representatives can place an order from the warehouse and have it available when they come into headquarters. This will minimize the time spent at headquarters and enable representatives to spend more time with the retailers.

In addition to numerous lottery initiatives, the Lottery will begin the implementation of the Video Lottery Terminal (VLT) program. On November 4, 2008, a Maryland State constitutional amendment was passed allowing for up to 15,000 VLTs at five locations throughout the state and authorizing the Lottery to oversee the program. The anticipated date of full implementation is in 2010.

INDEPENDENT AUDIT

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

GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its CAFR for the fiscal year ended June 30, 2007. This marked the fourth consecutive year the Lottery received this prestigious national award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily-readable and efficiently-organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGEMENTS

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



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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, 2007

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.



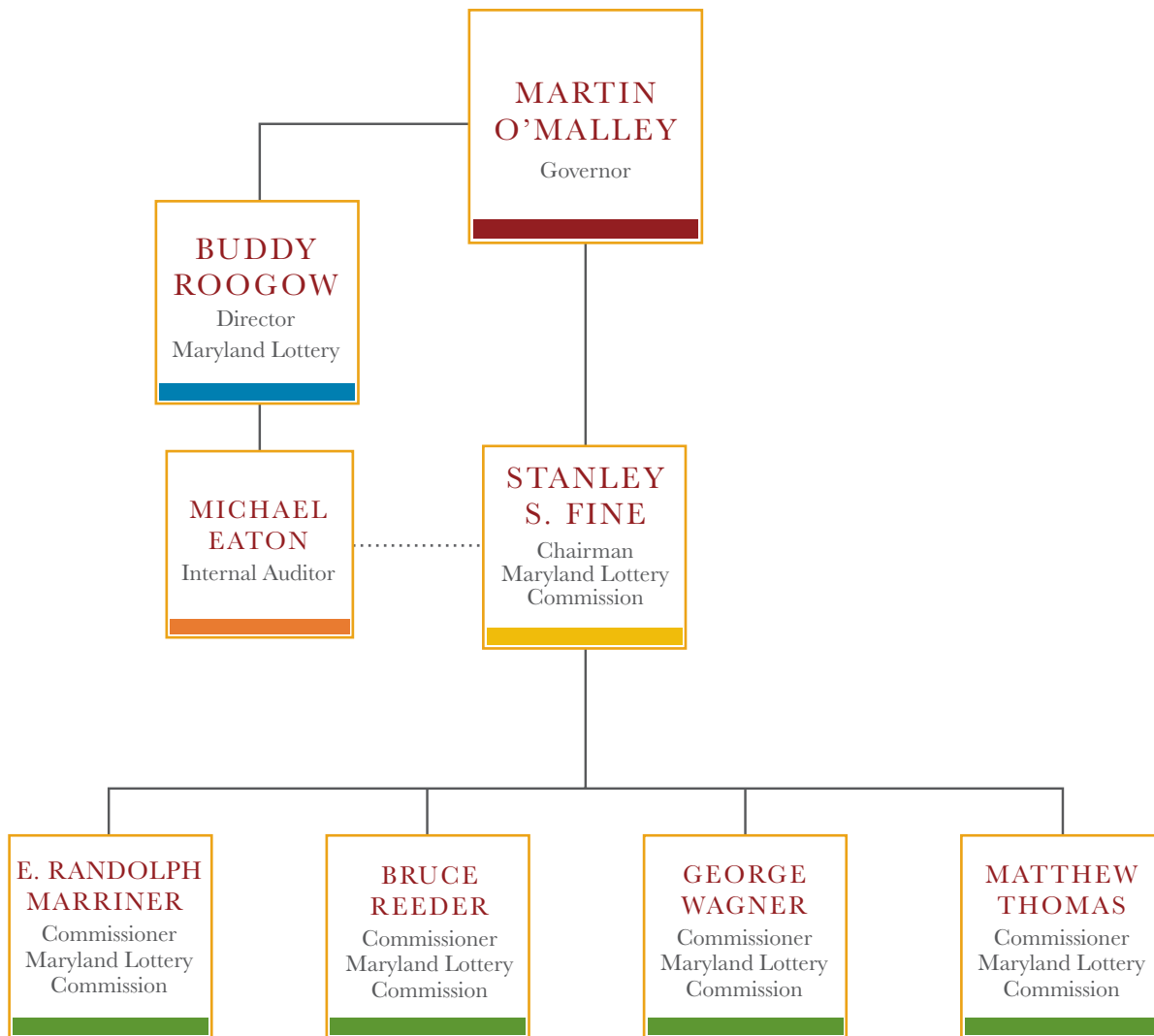
Charles S. Cox

President

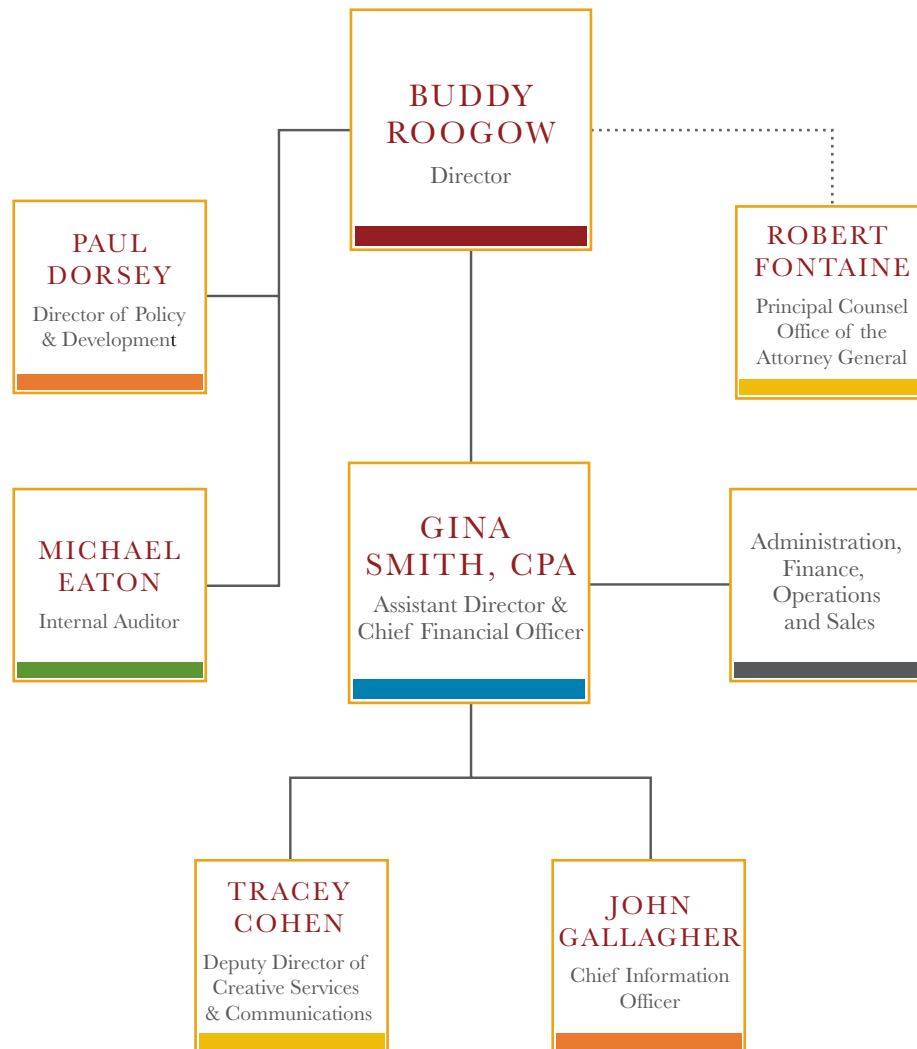
Jeffrey R. Emmer

Executive Director

Maryland State Lottery Agency Principal Officials



Maryland State Lottery Agency Organizational Chart





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FINANCIAL SECTION

In fiscal year 2008, nearly \$530 million of Lottery proceeds was contributed to state-funded programs. Additionally, \$957 million was paid to winners in the form of prizes and total commissions paid to Maryland Lottery retailers was more than \$117 million.

Everyone is a winner when they play the Maryland Lottery — all contributions help to drive economic growth and spur community development.





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910 Ridgebrook Road
Sparks, MD 21152

INDEPENDENT AUDITORS' REPORT

To the Maryland State Lottery Agency:

We have audited the accompanying financial statements of the Maryland State Lottery Agency (an agency of the State of Maryland), as of and for the years ended June 30, 2008 and 2007, as shown on pages 40 through 43. 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, 2008 and 2007, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maryland State Lottery Agency, as of June 30, 2008 and 2007, and the 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 26, 2008, 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 39 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Stout, Causey & Horning, P.A.

September 26, 2008

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, 2008 and 2007. As you read the MD&A, 2008 refers to the fiscal year ended June 30, 2008, 2007 refers to the fiscal year ended June 30, 2007 and 2006 refers to the fiscal year ended June 30, 2006. The information contained in the MD&A should be read in conjunction with the information contained in the financial statements and notes to the financial statements, which begins on page 40.

FINANCIAL HIGHLIGHTS

- Net sales were a record \$1.673 billion in 2008, an increase of \$95.7 million or 6.1% as compared to 2007, which increased \$16.4 million or 1.1% as compared to 2006.
- Cost of sales increased \$38.0 million or 3.6% in 2008 as compared to 2007, which increased \$30.6 million or 3.0% as compared to 2006. The major components of these increases in cost of sales were:
 - Commissions paid to Lottery retailers in 2008 totaled \$117.8 million, an increase of \$5.6 million or 5.0% as compared to 2007, which increased \$9.5 million or 9.2% as compared to 2006.
 - Prizes paid to winners in 2008 totaled \$956.9 million, an increase of \$29.9 million or 3.2% as compared to 2007, which increased \$22.9 million or 2.5% as compared to 2006.
 - Gaming vendor and data processing fees along with instant ticket printing and delivery costs in 2008 totaled \$22.5 million, an increase of \$2.5 million or 12.4% as compared to 2007, which decreased \$1.8 million or 8.2% as compared to 2006.
- Operating expenses increased by \$1.5 million or 4.4% in 2008 as compared to 2007, which increased by \$2.2 million or 6.6% as compared to 2006.
- Transfers to the State of Maryland in 2008 were \$529.4 million, an increase of \$35.3 million or 7.1% as compared to 2007, which decreased \$6.9 million or 1.4% as compared to 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Notes to the Financial Statements

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

FINANCIAL ANALYSIS

Table 1 is a summarized version of the statements of net assets as of June 30, 2008, 2007, and 2006. The table reflects the Lottery's overall change in financial resources and claims on those resources. The majority of the Lottery's assets consist of cash held by the State Treasury, investments 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.

Table 1
Net Assets
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current Assets	\$ 129,443	\$ 129,711	\$ 131,697
Non-Current Assets	127,438	144,695	171,619
Capital Assets, net	837	1,465	1,549
Total Assets	<u>\$ 257,718</u>	<u>\$ 275,871</u>	<u>\$ 304,865</u>
Current Liabilities	\$ 116,315	\$ 126,970	\$ 117,947
Non-Current Liabilities	112,474	134,729	159,906
Total Liabilities	<u>\$ 228,789</u>	<u>\$ 261,699</u>	<u>\$ 277,853</u>
Net Assets			
Invested in Capital Assets, net of related debt	\$ 189	\$ 341	\$ 293
Unrestricted	28,740	13,831	26,719
Total Net Assets	<u>\$ 28,929</u>	<u>\$ 14,172</u>	<u>\$ 27,012</u>

Maryland State Lottery Agency

Management's Discussion and Analysis

Current Assets

The Lottery's current assets remained relatively constant in 2008 as compared to 2007, which decreased \$2.0 million or 1.5% as compared to 2006. The majority of these changes occurred in the Lottery's current portion of investments for annuity payments, accounts receivable and cash held with the State Treasury.

The current portion of investments for annuity payments decreased by \$3.7 million or 10.0% in 2008 as compared to 2007, which decreased \$4.5 million or 10.8% as compared to 2006. The decreases in 2008 and 2007 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 \$5.9 million or 20.3% in 2008 as compared to 2007, which increased by \$5.8 million or 25.1% as compared to 2006. 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 2008, eight days of sales activity were waiting to be collected, compared to six days in 2007 and five days in 2006.

Non-Current Assets

The Lottery's investments for annuity payments, net of current portion, decreased by \$17.3 million or 11.9% in 2008 as compared to 2007, which decreased \$26.9 million or 15.7% as compared to 2006. 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.

Capital Assets, Net

Net capital assets decreased by \$628,000 or 42.9% in 2008 as compared to 2007, which decreased by \$83,000 or 5.4% as compared to 2006. 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 52.

Maryland State Lottery Agency

Management's Discussion and Analysis

Current Liabilities

Current liabilities decreased by \$10.7 million or 8.4% in 2008 as compared to 2007, which increased by \$9.0 million or 7.6% as compared to 2006. 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 \$4.0 million or 11.0% in 2008 as compared to 2007, which decreased \$4.4 million or 10.8% as compared to 2006. The transfer due to the State of Maryland General Fund decreased by \$4.6 million or 10.5% in 2008 as compared to 2007, which increased \$2.3 million or 5.5% as compared to 2006. Prize awards payable increased by \$4.4 million or 13.7% in 2008 as compared to 2007, which increased \$5.0 million or 18.3% as compared to 2006. Accounts payable and accrued expenses decreased by \$3.3 million or 51.9% in 2008 as compared to 2007, which increased \$2.9 million or 80.5% as compared to 2006. Unearned revenue decreased by \$3.2 million or 54.7% as compared to 2007, which increased \$3.3 million or 134.3% as compared to 2006.

The decreases in 2008 and 2007 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 decrease in 2008 resulted in less income earned in June as compared to the previous year. The increase in 2008 in prize awards payable is primarily the result of additional instant tickets for sale as compared to 2007 and 2006. The increase in 2008 is slightly offset by a decrease in prizes payable for Mega Millions as the jackpot prize at year end was less in 2008 as compared to 2007. Accounts payable and accrued expenses decreased in 2008 as the Lottery released funds to the court system that were previously held in escrow with the State Treasury arising from a defaulted Lottery contractor. Unearned revenue decreased in 2008 as the result of the raffle-style game, Countdown to Millions. In 2007, the game was offered to players in the latter half of 2007 with the drawing date at the beginning of 2008. Although the game was offered again in 2008, the related drawing also occurred in fiscal year 2008.

Maryland State Lottery Agency

Management's Discussion and Analysis

Non-Current Liabilities

Non-current liabilities decreased by \$22.3 million or 16.5% in 2008 as compared to 2007, which decreased \$25.2 million or 15.7% as compared to 2006. 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 53.

Net Assets

Net assets increased by \$14.8 million or 104.1% in 2008 as compared to 2007, which decreased by \$12.8 million or 47.5% as compared to 2006. The majority of the fluctuations occurred as a result of changes in the fair value of investments held to fund obligations to annuitants and funds retained in the unclaimed prize account. 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 gain on investments in the amount of \$4.7 million during 2008 as compared to an unrealized loss of \$2.0 million during 2007. The unrealized gain on investments is the result of a change in interest rates which has an inverse effect on the fair value of the Lottery's fixed rate investments. In 2008, the unclaimed prize account increased by \$10.5 million or 874.1% compared to 2007 and \$7.8 million or 86.7% 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 June 30, 2008, 2007 and 2006.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Sales			
On-line games	\$ 1,159,179	\$ 1,152,226	\$ 1,145,574
Instant games	513,860	425,085	415,332
Total sales	1,673,039	1,577,311	1,560,906
Cost of sales	<u>1,097,237</u>	<u>1,059,238</u>	<u>1,028,621</u>
Gross profit	575,802	518,073	532,285
Operating expenses	<u>36,321</u>	<u>34,792</u>	<u>32,630</u>
Income from operations	539,481	483,281	499,655
Non-operating expenses			
Unrealized gain (loss) on investments	4,710	(1,966)	(16,974)
Interest expense	(30)	(36)	(44)
Payments to State of Maryland			
General Fund and Stadium Authority	<u>(529,404)</u>	<u>(494,119)</u>	<u>(500,971)</u>
Total non-operating expenses	(524,724)	(496,121)	(517,989)
Change in Net Assets	14,757	(12,840)	(18,334)
Total Net Assets – beginning of year	<u>14,172</u>	<u>27,012</u>	<u>45,346</u>
Total Net Assets – end of year	<u>\$ 28,929</u>	<u>\$ 14,172</u>	<u>\$ 27,012</u>

Maryland State Lottery Agency

Management's Discussion and Analysis

Sales

Net sales were a record \$1.673 billion in 2008, an increase of \$95.7 million or 6.1% as compared to 2007, which increased \$16.4 million or 1.1% as compared to 2006.

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 \$7.0 million or 0.6% in 2008, as compared to 2007, which increased \$6.7 million or 0.6% as compared to 2006. In 2008, the growth in on-line games sales is attributable to the Matrix games which was offset by a decline in all other categories of on-line games; whereas, in 2007 growth was attributed to monitor and raffle games which was offset by a decline in Numbers and Matrix games as shown in Table 3.

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

	2008	2007	2006
Numbers	\$ 509,185	\$ 531,993	\$ 534,579
Monitor	460,796	462,551	436,528
Matrix	184,017	151,187	174,467
Raffle	5,181	6,495	-
Total	\$ 1,159,179	\$ 1,152,226	\$ 1,145,574

Sales for the Numbers games, which include Pick 3 and Pick 4, decreased by \$22.8 million or 4.3% in 2008 as compared to 2007, which decreased by \$2.6 million or 0.5% as compared to 2006. Pick 4 sales decreased in 2008 and increased in 2007 by \$5.2 million and \$3.6 million, respectively. Pick 3 sales decreased in 2008 and 2007 by \$17.6 million and \$6.2 million, respectively. The industry as a whole has seen a decline in the numbers games as the urban population is declining and players are seeking games that provide them with immediate gratification.

Sales for the Monitor games, which includes Keno, Keno Bonus, Racetrax, and Maryland Hold 'Em, decreased by \$1.8 million or 0.4% in 2008 as compared to 2007, which increased \$26.0 million or 6.0% as compared to 2006.

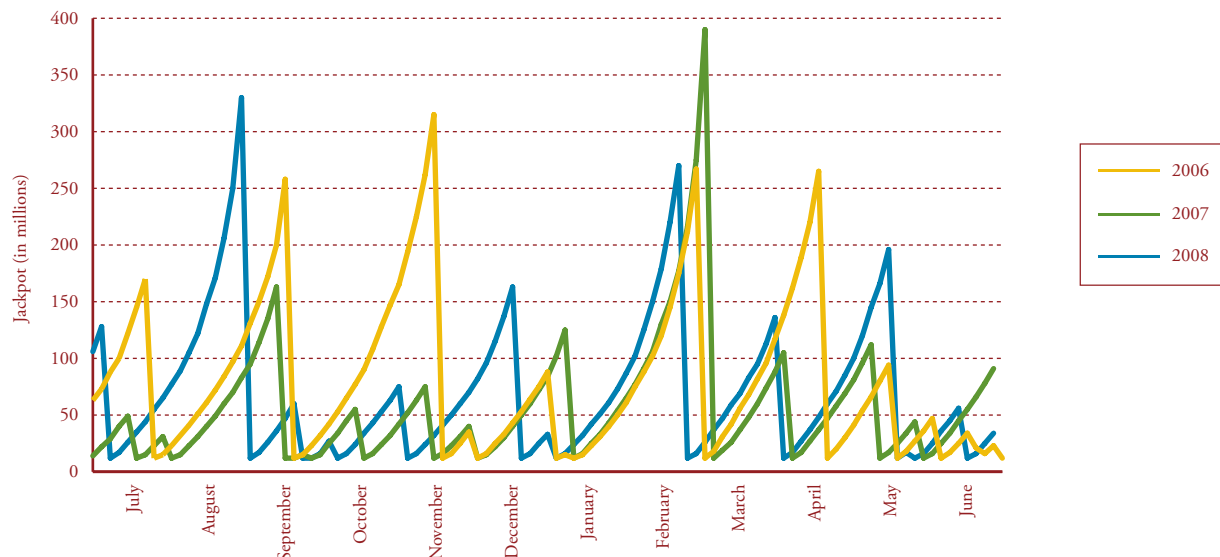
In 2008 compared to 2007, Keno and Keno Bonus sales decreased by \$26.1 million or 6.3%; whereas, sales for Racetrax increased by \$23.0 million or 46.2% in 2008 from 2007 and sales for Maryland Hold 'Em increased by \$1.3 million or 4805.7%. The decrease in Keno and Keno Bonus sales can be attributed to the further expansion of Racetrax and Maryland Hold 'Em. As of the end of 2008, 1,459 retailers offered Racetrax and 64 retailers offered Maryland Hold 'Em; an increase over the 1,326 retailers that offered Racetrax and the 3 retailers that offered Maryland Hold 'Em as of June 30, 2007.

Maryland State Lottery Agency

Management's Discussion and Analysis

Sales for Matrix games, which includes Mega Millions, Multi-Match, Bonus Match 5 and Lotto, increased by \$32.8 million or 21.7% in 2008 as compared to 2007, which decreased \$23.3 million or 13.3% as compared to 2006. Mega Millions represented approximately 70.0% of all Matrix games sales in 2008. Mega Millions sales increased by \$31.2 million or 31.8% in 2008 as compared to 2007, which decreased \$18.1 million or 15.6% as compared to 2006. A direct relationship exists between higher jackpots and higher sales. In 2008, the average jackpot was \$68.1 million as compared to \$56.1 million and \$79.5 million in 2007 and 2006, respectively. The change is attributable to five jackpots in excess of \$200 million in 2008 as compared to three such jackpots in 2007 and eight such jackpots in 2006. Players generally prefer games with higher jackpots and longer odds. The starting jackpot of Mega Millions is several million dollars higher than other Matrix-style games.

Mega Millions Jackpots



Moderate growth was achieved in Bonus Match 5 in 2008 and 2007. Multi-Match sales increased by \$1.1 million or 3.6% in 2008 as compared to sales for 2007, which decreased \$5.7 million or 15.9% as compared to combined Lotto and Multi-Match sales for 2006. 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 longer odds.

Sales for the Lottery's raffle-style game, Countdown to Millions, decreased \$1.3 million or 20.23% in 2008 as compared to 2007. This game was offered for a limited time period in 2008 and did not generate the same level of sales as it did in 2007.

Maryland State Lottery Agency

Management's Discussion and Analysis

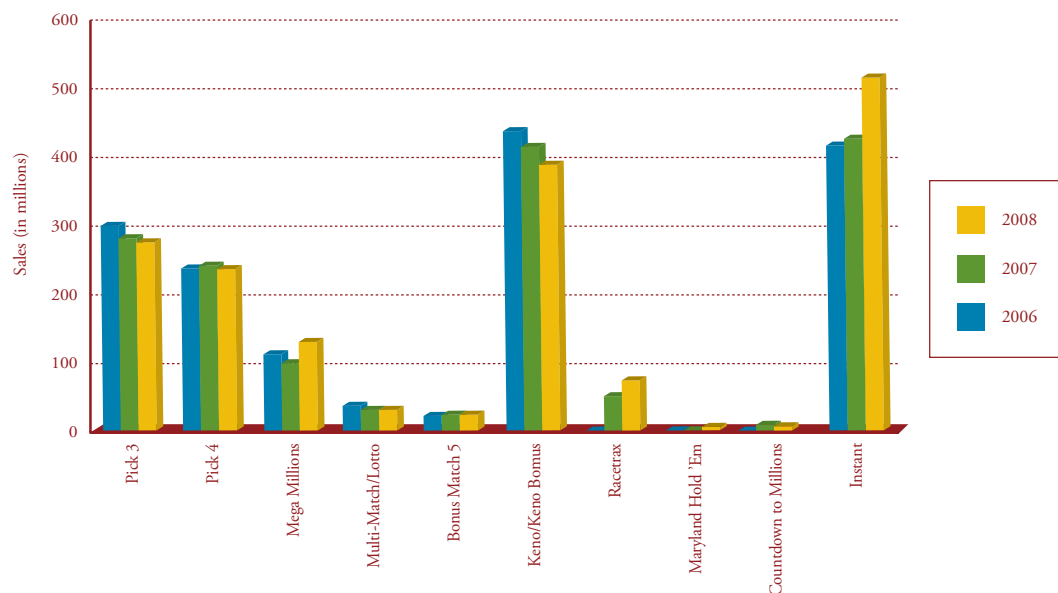
Instant games are the second type of Lottery game offered to the public. Instant game sales increased by \$88.8 million or 20.9% in 2008 as compared to 2007, which increased \$9.8 million or 2.3% as compared to 2006 as shown in Table 4. Instant ticket sales continue to grow due to the implementation of the results of research; monitoring the mix of play styles, colors, payouts and providing players with a wide variety of tickets from which to choose. In addition, the Lottery's new distribution system, which was introduced in July 2006, continues to contribute to the increase in sales as the retailers become more familiar with the ability to place their instant ticket orders through a telemarketing system and receive the orders the next day. Prior to the implementation of the new system, retailer orders were based on predetermined quotas and it took several days to receive an order. The sales increases have been further fueled by players' desires for higher price-point tickets. The average price points for instant tickets in 2008, 2007 and 2006 were \$3.34, \$3.14 and \$3.46, respectively.

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

	2008	2007	2006
	\$ 49,469	\$ 49,363	\$ 43,827
\$2	69,567	57,427	56,949
\$3	48,017	36,446	35,587
\$5	210,135	180,872	176,277
\$10	90,343	76,631	73,687
\$20	46,329	24,346	29,005
Total	\$ 513,860	\$ 425,085	\$ 415,332

The following graph depicts the Lottery's on-line and instant sales for 2008, 2007 and 2006. Keno and Keno Bonus sales have been combined as have Multi-Match and Lotto sales.

Sales – Fiscal Years 2008, 2007 and 2006



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 \$38.0 million or 3.6% in 2008 as compared to 2007, which increased \$30.6 million or 3.0% as compared to 2006. 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 5.0% to 5.5%. Gross profit percentages which were 34.4%, 32.9% and 34.1% for 2008, 2007 and 2006, respectively, have remained relatively consistent.

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 \$29.9 million or 3.2% in 2008 as compared to 2007, which increased \$22.9 million or 2.5% as compared to 2006. 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 impacted by the "luck of the draw." Over time such prize payouts generally reflect the design of the game and the odds of winning.

Commissions paid to Lottery retailers increased by \$5.6 million or 5.0% in 2008 as compared to 2007, which increased \$9.5 million or 9.2% as compared to 2006. Retailers licensed by the Lottery to sell on-line and/or instant tickets are paid a commission of 5.5% (5.0% in 2006) of net sales and an additional 3% of the value of the prizes they redeem. Consequently, as sales and prize expense increase the amounts paid to Lottery retailers also increase.

Operating Expenses

Operating expenses increased by \$1.5 million or 4.4% in 2008 as compared to 2007, which increased by \$2.2 million or 6.6% as compared to 2006. 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

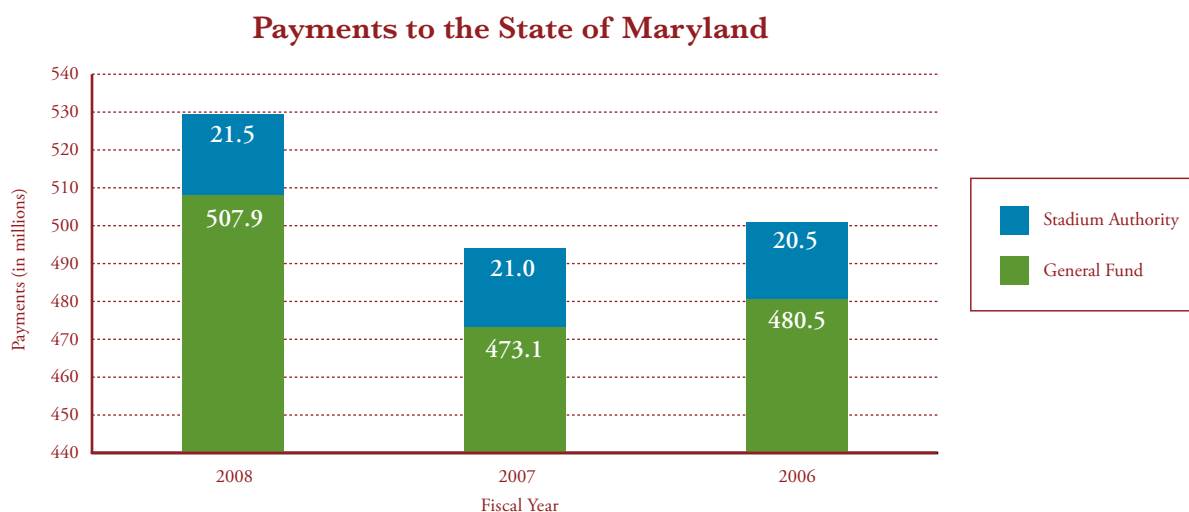
Non-operating Expenses

Non-operating expenses increased by \$28.6 million or 5.8% in 2008 as compared to 2007, which decreased by \$21.9 million or 4.2% as compared to 2006. Non-operating expenses primarily consist of unrealized gains and losses on investments held to fund obligations to annuitants and payments to the State of Maryland General Fund and Maryland Stadium Authority.

The Lottery expects to realize the face value of its investments since it intends to hold these investments until maturity. Therefore, any interim unrealized gains or losses on investments will reverse. The change in fair value of the investments held by the Lottery is discussed in more detail on page 51.

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 \$529.4 million, an increase of \$35.3 million or 7.1% as compared to 2007, which decreased \$6.9 million or 1.4% as compared to 2006. The increase in transfers in 2008 resulted from an increase in sales and revenues. The decrease 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 2008, 2007 and 2006.



Contacting the Lottery's Financial Management

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

Maryland State Lottery Agency

Statements of Net Assets

	As of June 30	
	2008	2007
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,906,504	\$ 1,951,442
Cash held with State Treasury	59,144,489	60,842,992
Accounts receivable	34,920,064	29,022,638
Instant ticket inventory	-	546,895
Prepaid commissions	47,236	222,806
Current portion of investments for annuity payments	33,424,523	37,124,468
Total current assets	129,442,816	129,711,241
Non-current assets:		
Capital assets, net of accumulated depreciation	837,362	1,465,309
Investments for annuity payments, net of current portion	127,438,153	144,694,285
Total non-current assets	128,275,515	146,159,594
Total assets	\$ 257,718,331	\$ 275,870,835
Liabilities and Net Assets:		
Current liabilities:		
Current portion of annuity prizes payable	\$ 32,501,319	\$ 36,527,150
Current portion of employee related payables	1,121,644	995,043
Current portion of capital lease obligation	489,654	506,374
Transfer due to State of Maryland General Fund	39,417,631	44,028,240
Prize awards payable	36,674,537	32,244,208
Accounts payable and accrued expenses	3,099,614	6,447,831
Unearned revenue	2,627,448	5,797,185
Taxes and other liabilities	383,487	423,362
Total current liabilities	116,315,334	126,969,393
Non-current liabilities:		
Annuity prizes payable, net of current portion	111,888,352	133,528,227
Employee related payables, net of current portion	427,226	583,535
Capital lease obligation, net of current portion	158,416	617,621
Total non-current liabilities	112,473,994	134,729,383
Total liabilities	228,789,328	261,698,776
Net Assets:		
Invested in capital assets, net of related debt	189,292	341,314
Unrestricted	28,739,711	13,830,745
Total net assets	28,929,003	14,172,059
Total liabilities and net assets	\$ 257,718,331	\$ 275,870,835

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	
	2008	2007
Sales:		
On-line games	\$ 1,159,179,145	\$ 1,152,225,700
Instant games	513,859,583	425,085,365
Total sales	1,673,038,728	1,577,311,065
Cost of sales:		
Prize expense	956,887,051	927,009,794
Retailer commissions	117,824,367	112,187,831
Gaming vendor and data processing fees	15,615,384	14,778,613
Instant ticket printing and delivery	6,910,073	5,261,387
Total cost of sales	1,097,236,875	1,059,237,625
Gross profit	575,801,853	518,073,440
Operating expenses:		
Salaries, wages and benefits	12,224,124	12,355,212
Advertising and promotions	19,805,039	18,332,963
Depreciation and amortization	627,947	657,431
Other general and administrative expenses	3,663,424	3,447,049
Total operating expenses	36,320,534	34,792,655
Income from operations	539,481,319	483,280,785
Non-operating revenues (expenses):		
Investment revenue	15,707,295	11,328,910
Amortization of discount for annuity prize liabilities	(10,997,667)	(13,295,166)
Interest expense	(30,449)	(35,452)
Payments to State of Maryland General Fund	(507,903,554)	(473,119,273)
Payments to State of Maryland Stadium Authority	(21,500,000)	(21,000,000)
Total non-operating expenses	(524,724,375)	(496,120,981)
Change in net assets	14,756,944	(12,840,196)
Total net assets — beginning of year	14,172,059	27,012,255
Total net assets — end of year	\$ 28,929,003	\$ 14,172,059

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

Maryland State Lottery Agency

Statements of Cash Flows

	Years ended June 30	
	2008	2007
Cash flows from operating activities:		
Receipts from customers	\$ 1,663,971,565	\$ 1,574,807,035
Payments to suppliers	(48,756,009)	(36,183,971)
Payments to employees	(12,253,832)	(12,204,907)
Payments to agents	(117,688,030)	(112,489,723)
Prize payments/awards to players	(951,185,972)	(922,225,145)
Net cash provided by operating activities	534,087,722	491,703,289
Cash flows from noncapital financing activities:		
Transfers to the State of Maryland		
General Fund and Stadium Authority	(534,014,163)	(491,808,373)
Transfers from other Mega Millions States	55,113,244	26,569,122
Shared prize winner payments	(55,113,245)	(26,977,987)
Prize payments/awards	(37,973,996)	(42,652,068)
Net cash used in noncapital financing activities	(571,988,160)	(534,869,306)
Cash flows from capital and related financing activities:		
Payments of capital lease obligations	(475,925)	(423,328)
Interest payments	(30,449)	(35,452)
Acquisition of equipment	-	(282,543)
Net cash used in capital and related financing activities	(506,374)	(741,323)
Cash flows from investing activities:		
Coupon bonds purchased	(1,310,625)	(25,852,154)
Proceeds from sale of bonds	-	26,261,019
Proceeds from matured annuities and bonds	37,973,996	42,652,068
Net cash provided by investing activities	36,663,371	43,060,933
Net decrease in cash and cash equivalents	(1,743,441)	(846,407)
Cash and cash equivalents, beginning of year	62,794,434	63,640,841
Cash and cash equivalents, end of year	\$ 61,050,993	\$ 62,794,434
Noncash investing and financing activities:		
Acquisition of equipment through capital lease	\$ -	\$ 291,610
Change in fair value of investments	\$ 4,709,628	\$ (1,966,256)

Maryland State Lottery Agency
Statements of Cash Flows (continued)

	Years ended June 30	
	2008	2007
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 539,481,319	\$ 483,280,785
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	627,947	657,431
Deferred prize payments	1,310,625	-
Effect of changes in operating assets and liabilities:		
Accounts receivable	(5,897,426)	(5,826,575)
Instant ticket inventory	546,895	2,649,954
Prepaid commissions	175,570	(191,300)
Prize awards payable	4,430,329	4,978,852
Accounts payable and accrued expenses	(3,348,217)	2,875,495
Employee related payables	(29,708)	150,305
Unearned revenue	(3,169,737)	3,322,545
Taxes and other liabilities	(39,875)	(194,203)
Net cash provided by operating activities	<u>\$ 534,087,722</u>	<u>\$ 491,703,289</u>

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

Maryland State Lottery Agency

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

Basis of Accounting and Presentation

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

Use of Estimates

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

Maryland State Lottery Agency

Notes to 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 comprised 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, 2008 and 2007, retailers received a sales commission of 5.5% of net sales 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, 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.

Maryland State Lottery Agency

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Accounts Receivable

Accounts receivable represents the amounts due from Lottery retailers from the sale of Lottery tickets. The Lottery utilizes the allowance method to provide for doubtful accounts based on management's evaluation of the collectibility of accounts receivable. The Lottery determines accounts receivable to be delinquent when greater than 10 days past due. Receivables are written off when it is determined that amounts are uncollectible. As of June 30, 2008 and 2007, management believes all accounts receivable are collectible and as such no allowance for doubtful accounts has been recorded.

Inventory

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. As of June 30, 2008, no inventory remains from the Lottery's previous vendor. The inventory as of June 30, 2007, was carried at cost (as determined by specific identification method). The cost of tickets was charged to operations upon the recognition of revenue under the procedures described above. The Lottery analyzed its inventory for impairment on a periodic basis. As of June 30, 2007, 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.

Maryland State Lottery Agency

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Compensated Absences

The Lottery accrues compensated absences in accordance with GASB No. 16, “Accounting for Compensated Absences.” All full-time Lottery employees except contractual employees accrue annual leave at variable rates based on the number of years employed by the State of Maryland. The maximum annual leave an employee can earn per calendar year is 25 days. At the end of each calendar year, an employee’s accrued annual leave may not exceed 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.

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 since the restriction created by State law is as broad as the Lottery operations.

Net Assets

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

Maryland State Lottery Agency

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

New Accounting Pronouncements

The Lottery has implemented GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions,” GASB Statement No. 50, “Pension Disclosures — An Amendment of GASB Statement No. 25 and No. 27,” GASB Statement No. 52, “Land and Other Real Estate Held as Investments by Endowments,” and GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments” effective for the fiscal year ended June 30, 2008. Implementation of these standards had no impact on the Lottery’s financial position.

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.

2. CASH AND CASH EQUIVALENTS

As of June 30, 2008 and June 30, 2007, the carrying amounts of deposits with financial institutions were \$1,906,504 and \$1,951,442, respectively. The corresponding bank balances were \$1,788,386 and \$1,704,426 as of June 30, 2008 and 2007, respectively.

As of June 30, 2008 and June 30, 2007, the amounts on deposit with the Maryland State Treasury were \$59,144,489 and \$60,842,992, respectively. The corresponding Maryland State Treasury balances were \$58,946,525 and \$60,439,060, 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, 2008 and 2007, 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, 2008 and 2007, the collateral for the repurchase agreements were Federal National Mortgage Association (FNMA) Mortgage-Backed Securities which are not rated; however, they are implicitly guaranteed by the United States government.

Maryland State Lottery Agency

Notes to Financial Statements

2. CASH AND CASH EQUIVALENTS – (continued)

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

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

Concentration of credit risk – The State Treasury's investment policy limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. There is no other limit on the amount that may be invested in any one issuer. More than 5% of government funds investments are in the FNMA, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank and the Federal Farm Credit Bank. As of June 30, 2008, these investments are 32.8%, 27.8%, 16.9% and 15.4% of the State of Maryland's internal investment pool total investments, respectively.

3. INVESTMENTS

United States Government Treasury Bonds

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

The Lottery has purchased long-term investments to fund jackpot and lifetime prize awards. The majority of these investments are United States Government Treasury Bonds, which carry a yield to maturity of approximately 2.3% to 9.4%. As of June 30, 2008 and 2007, the Lottery's United States Government Treasury Bonds totaled \$160,444,065 and \$181,366,469, 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.

Maryland State Lottery Agency

Notes to Financial Statements

3. INVESTMENTS – (continued)

Through the State securities lending program, authorized under section 2-603 of the State's Finance and Procurement Article of the Annotated Code of Maryland, the State Treasurer's Office lends United States Government securities to broker-dealers and other entities (borrowers). As of June 30, 2008 and 2007, Lottery United States Government Treasury Bonds totaling \$110,754,000 and \$177,940,000, respectively, were lent as part of this program. The State Treasurer's Office controls the program and authorizes all transactions. The State (and Lottery's) custodial bank manages the securities lending program by contracting with a lending agent who receives cash as collateral. The lending agent may use or invest cash collateral in accordance with the reinvestment guidelines approved by the State Treasurer's Office. Additionally, under the terms of the lending agreement, the lending agent indemnifies the State against any credit loss arising from investment of the collateral. The collateral will be returned for the same securities by the next business day if the aggregate value of the collateral falls to less than 100% of the market value of the securities lent against the collateral. Cash collateral is initially pledged at greater than the market value of the securities.

At year end, the State has no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. As of June 30, 2008 and 2007, the related collateral for the Lottery securities lent totaled \$112,654,000 and \$180,334,000, respectively, resulting in 101.7% and 101.4% collateralization of the fair value of the Lottery securities lent. The benefit of collateral received or income earned is not passed onto the Lottery and therefore not reflected in the Lottery's financial statements.

Either the State or the borrower may terminate the lending agreements on demand. Lending agreements are usually short in duration. The duration of the lending agreements is matched with the term to maturity of the investment of the cash collateral by investing only in repurchase agreements. Such matching existed at year end. The State's custodial bank is obligated to indemnify the State against liability for any suits, actions, or claim of any character arising from or relating to the performance of the bank under the contract, except for liability caused by acts or omissions of the State. The State did not experience any losses on its securities lending transactions for the years ended June 30, 2008 and 2007.

Annuity Contracts

Certain investments are held in annuity contracts that return guaranteed interest ranging from 7.6% to 12.1%. As of June 30, 2008 and 2007, the annuity contracts totaled \$418,611 and \$452,284, 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.

Maryland State Lottery Agency

Notes to Financial Statements

3. INVESTMENTS – (continued)

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

As of June 30, 2008, 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	\$160,444,065	1	99.7%	\$33,373,797	\$85,340,374	\$29,616,231	\$11,953,694	\$159,969
Annuity Contracts	418,611	2	.3%	50,726	227,196	112,309	26,354	2,026
Total Investments	\$160,862,676		100.0%	\$33,424,523	\$85,567,570	\$29,728,540	\$11,980,048	\$161,995

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

2 Annuity contracts not rated.

Maryland State Lottery Agency

Notes to Financial Statements

4. CAPITAL ASSETS

A summary of capital asset activity for the years ended June 30, 2008 and 2007 is as follows:

	2007	Increases	Decreases	2008
Capital Assets				
Machinery and Equipment	\$ 9,372,613	\$ -	\$ -	\$ 9,372,613
Leasehold Improvements	613,240	-	-	613,240
Total Capital Assets	9,985,853	-	-	9,985,853
Less Accumulated Depreciation				
Machinery and Equipment	8,239,475	566,623	-	8,806,098
Leasehold Improvements	281,069	61,324	-	342,393
Total Accumulated Depreciation	8,520,544	627,947	-	9,148,491
Net Capital Assets	<u>\$ 1,465,309</u>	<u>\$ (627,947)</u>	<u>\$ -</u>	<u>\$ 837,362</u>
	2006	Increases	Decreases	2007
Capital Assets				
Machinery and Equipment	\$ 8,798,460	\$ 574,153	\$ -	\$ 9,372,613
Leasehold Improvements	613,240	-	-	613,240
Total Capital Assets	9,411,700	574,153	-	9,985,853
Less Accumulated Depreciation:				
Machinery and Equipment	7,643,368	596,107	-	8,239,475
Leasehold Improvements	219,745	61,324	-	281,069
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>

Maryland State Lottery Agency

Notes to Financial Statements

5. ANNUITY PRIZE OBLIGATIONS

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

Fiscal Year	Principal	Interest	Total
2009	\$ 32,501,319	\$ 1,261,677	\$ 33,762,996
2010	26,530,819	3,073,177	29,603,996
2011	20,852,740	4,047,256	24,899,996
2012	16,642,582	4,585,414	21,227,996
2013	12,423,132	4,437,864	16,860,996
2014-2018	25,055,281	13,295,854	38,351,135
2019-2023	7,588,622	8,129,887	15,718,509
2024-2028	2,653,661	4,178,319	6,831,980
2029-2031	141,515	285,310	426,825
Total	<u>\$144,389,671</u>	<u>\$ 43,294,758</u>	<u>\$ 187,684,429</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, 2008 and 2007 was as follows:

Fiscal Year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
June 30, 2008	\$170,055,377	\$12,308,290	\$37,973,996	\$144,389,671	\$32,501,319
June 30, 2007	\$199,521,806	\$39,147,320	\$68,613,749	\$170,055,377	\$36,527,150

Maryland State Lottery Agency

Notes to Financial Statements

6. EMPLOYEE-RELATED PAYABLES

Changes in long-term employee-related payables were as follows for the years ended June 30, 2008 and 2007. 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 \$440,374 and \$371,413 as of June 30, 2008 and 2007, respectively.

	2008		
	Compensated Absences	Workers' Compensation	Combined
Beginning Balance	\$ 861,165	\$ 346,000	\$ 1,207,165
Additions	660,351	27,468	687,819
Reductions	(647,020)	(139,468)	(786,488)
Ending Balance	<u>\$ 874,496</u>	<u>\$ 234,000</u>	<u>\$ 1,108,496</u>
Amount Due Within One Year	\$ 645,000	\$ 36,270	\$ 681,270
Non-Current Portion	229,496	197,730	427,226
	<u>\$ 874,496</u>	<u>\$ 234,000</u>	<u>\$ 1,108,496</u>
	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>

Maryland State Lottery Agency
Notes to Financial Statements

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, 2008 and 2007 totaled \$924,109. Certain leases contain a bargain purchase option and are accounted for as capital leases.

The assets acquired under capital leases include:

	June 30, 2008	June 30, 2007
Machinery and Equipment	\$ 2,293,750	\$ 2,293,750
Accumulated amortization	(1,940,235)	(1,481,485)
	<u>\$ 353,515</u>	<u>\$ 812,265</u>

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

Year Ending June 30	Operating Leases	Capital Leases
2009	\$ 924,109	\$ 506,134
2010	924,109	66,881
2011	924,109	66,850
2012	924,109	33,413
2013	385,045	-
Total	\$ 4,081,481	\$ 673,278
Less amount representing interest		25,208
Present value of minimum lease payments		648,070
Less current maturities		489,654
Long-term portion of capital lease obligations		<u>\$ 158,416</u>

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

	2008	2007
Beginning Balance	\$ 1,123,995	\$ 1,255,713
Acquisitions	-	291,610
Payments	(475,925)	(423,328)
Ending Balance	<u>\$ 648,070</u>	<u>\$ 1,123,995</u>

Maryland State Lottery Agency

Notes to Financial Statements

7. COMMITMENTS AND CONTINGENCIES – (continued)

Contracts

As of June 30, 2008, the Lottery has entered into various contracts totaling approximately \$116,602,000 for services to be rendered. These services relate principally to the operation of and advertising for the Lottery's games.

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: California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia and Washington. States Associated with 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 a cost sharing multiple-employer public employee retirement system established by the State to provide pension benefits for State employees. The Lottery's only obligation to the System is its required annual contribution. The System is administered by a Board of Trustees in accordance with State Personnel and the Pension Article of the Annotated Code of Maryland. The System prepares a separately audited CAFR, which can be obtained from the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202.

Plan Descriptions

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

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

Maryland State Lottery Agency

Notes to Financial Statements

9. RETIREMENT BENEFITS – (continued)

Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of eligible service, whichever is less. The maximum reduction for a member is 30%. Any member who terminates employment before attaining retirement age but after accumulating five years of eligible service is eligible for a vested retirement allowance.

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

Funding Policy

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

The Lottery contributions, which equal 100% of the required contributions for the three years ended June 30, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
Lottery contribution	\$784,000	\$570,000	\$459,000
Percentage of payroll	6.35%	4.61%	4.34%

Maryland State Lottery Agency

Notes to Financial Statements

10. OTHER POST-EMPLOYMENT BENEFITS

Members of the State Retirement and Pension Systems and their dependents are provided post-employment health care benefits through the State Employee and Retiree Health and Welfare Benefits Program (Plan). The Plan is a single-employer defined benefit health care plan established by the State Personnel and Pensions Article, Section 2-501 through 2-516 of the Annotated Code of Maryland. The Plan is self-insured to provide medical, hospitalization, prescription drug and dental insurance benefits to eligible state employees, retirees and their dependents. A separate valuation is not performed for the Lottery. The Lottery's only obligation to the Plan is its required annual contribution.

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

Plan Description

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

Funding Policy

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

Maryland State Lottery Agency

Notes to Financial Statements

10. OTHER POST-EMPLOYMENT BENEFITS (continued)

Based on current practice, the State subsidizes approximately 50% to 85% of covered medical, dental, prescription and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for post-employment health care benefits, which is based on health care insurance charges for current employees. Costs for post-retirement benefits are for State of Maryland retirees. The State does not distinguish employees by employer/State agency. Instead, the State allocates the post-employment health care costs to all participating employers. The Lottery's share of these costs for the years ended June 30, 2007, and 2006 was approximately \$515,000, and \$425,000, respectively. The cost of these benefits is expensed when paid. For the year ended June 30, 2008, the State did not allocate post-employment health care costs to participating employers and as a result no contribution was made by the Lottery.

11. RISK MANAGEMENT

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

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

Maryland State Lottery Agency

Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual

For the Year ended June 30, 2008				
	Original Budget	Final Amended Budget	Actual Amounts	Variance with Budget positive (negative)
Revenues:				
Ticket Sales	\$ 1,597,925,784	\$ 1,636,963,081	\$ 1,663,971,565	\$ 27,008,484
Expenses:				
Gaming vendor and information technology fees	16,504,986	16,380,477	15,628,584	751,893
Instant ticket printing and delivery	4,885,500	6,285,307	6,363,178	(77,871)
Salaries, wages and benefits	12,185,257	12,365,770	12,322,794	42,976
Advertising and promotions	20,937,424	20,937,424	19,805,039	1,132,385
Other general and administrative expenses	4,610,087	4,610,087	4,106,312	503,775
Reversions	-	(11,431)	-	(11,431)
Total Expenses and Encumbrances	59,123,254	60,567,634	58,225,907	2,341,727
Excess of Revenues Over Expenses	1,538,802,530	1,576,395,447	1,605,745,658	29,350,211
Other Uses of Financial Resources:				
Transfers out:				
Payments to Maryland Stadium Authority	(21,500,000)	(21,500,000)	(21,500,000)	-
Payments to the Maryland General Fund	(482,500,000)	(496,500,000)	(507,903,554)	(11,403,554)
Excess of Revenues over Expenses and Other Uses of Financial Resources	<u>\$ 1,034,802,530</u>	<u>\$ 1,058,395,447</u>	<u>\$ 1,076,342,104</u>	<u>\$ 17,946,657</u>
Reconciliation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenses:				
Change in Net Assets (page 41)	\$	14,756,944		
Non-Budgetary Expenses				
Prize expense	956,887,051			
Retailer commissions	117,824,367			
Depreciation and amortization	627,947			
Bad debt recoveries	39,233			
Accounting Principle Differences				
Accounts receivable	(5,897,426)			
Unearned revenue	(3,169,737)			
Increase in fair value of investments	(15,707,295)			
Amortization of discount of prize liabilities	10,997,667			
Compensated absences	13,331			
Workers' compensation	(112,000)			
Instant ticket inventory	546,895			
Capital lease payments and related interest	(464,873)			
Excess of Revenues over Expenses and Other Uses of Financial Resources	<u>\$ 1,076,342,104</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) to the General Assembly in accordance with Constitutional requirements. The General Assembly is required to then enact a balanced budget.

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

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

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

**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, 2008 and have issued our report thereon dated September 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A 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 26, 2008.

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 26, 2008



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STATISTICAL SECTION

While sales hit a record high in fiscal year 2008, operational expenses remained low, finishing the year at an estimated 3.5% of total sales. As a result, the Maryland Lottery is one of the most efficiently run lotteries in the industry.



Maryland State Lottery Agency

Statistical Information Sections

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

CONTENTS

FINANCIAL TRENDS 67

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

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

DEBT CAPACITY 84

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..... 85

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

OPERATING INFORMATION..... 86

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 1999 through 2008

Net Assets by Component - Fiscal Years 1999 through 2008

Fiscal Year:	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	\$ (262,184)	\$ 46,785	\$ 415,012	\$ 608,337	\$ 758,018	\$ 376,882	\$ 436,229	\$ 292,874	\$ 341,314	\$ 189,292
UNRESTRICTED	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	28,739,711
TOTAL NET ASSETS	\$ 809,651	\$ 6,543,606	\$ 12,459,934	\$ 8,581,917	\$ 4,026,398	\$ 44,222,416	\$ 45,345,667	\$ 27,012,255	\$ 14,172,059	\$ 28,929,003

Change in Net Assets - Fiscal Years 1999 through 2008

OPERATING REVENUES:										
NUMBERS GAMES	\$ 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	\$ 509,185,489
MONITOR GAMES	280,341,804	311,045,071	319,452,467	355,711,608	377,419,953	389,796,257	417,438,505	436,527,806	462,551,365	460,795,521
MATRIX GAMES	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	184,017,335
INSTANT GAMES	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	513,859,583
RAFFLE GAMES	-	-	-	-	-	-	-	-	6,495,000	5,180,800
OTHER GAMES	-	-	1,443,932	1,322,196	-	2,898,696	-	-	-	-
TOTAL OPERATING REVENUES	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	1,673,038,728

COST OF SALES:

PRIZE EXPENSE	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	956,887,051
RETAILER COMMISSIONS	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	117,824,367
GAMING VENDOR AND DATA PROCESSING FEES	13,893,980	12,489,288	14,364,972	13,892,789	14,961,693	14,576,720	15,243,781	15,638,778	14,778,613	15,615,384
INSTANT TICKET PRINTING AND DELIVERY	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	6,910,073
TOTAL COST OF SALES	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	1,097,236,875

OPERATING EXPENSES:

SALARIES, WAGES, AND BENEFITS	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	12,224,124
ADVERTISING AND PROMOTIONS	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	19,805,039
OTHER GENERAL AND ADMINISTRATIVE EXPENSES	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	3,663,424
DEPRECIATION AND AMORTIZATION	609,098	722,967	1,247,480	1,433,161	1,830,956	1,623,609	1,500,135	560,257	657,431	627,947
TOTAL OPERATING EXPENSES	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	36,320,534

NON-OPERATING REVENUES (EXPENSES):

UNREALIZED GAINS (LOSSES) ON INVESTMENTS	-	-	-	-	-	(25,411,268)	(2,236,689)	(16,973,874)	(1,966,256)	4,709,628
EXTRAORDINARY ITEM: INCOME FROM DE-AUTUALIZATION	-	-	-	998,032	-	-	-	-	-	-
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES ⁽¹⁾	-	-	-	-	-	2,333,496	-	-	-	-
INTEREST EXPENSE	(64,892)	(120,393)	(211,356)	(208,577)	(179,456)	(118,156)	(89,863)	(44,066)	(35,452)	(30,449)
PAYMENTS TO STATE OF MARYLAND	(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)	(529,403,534)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(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)	(524,724,375)

CHANGES IN NET ASSETS	(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)	14,756,944
TOTAL NET ASSETS BEGINNING OF YEAR	2,450,281	809,651	6,543,606	12,459,934	8,581,917	4,026,398	44,222,416	27,012,255	14,172,059	28,929,003

TOTAL NET ASSETS END OF YEAR	\$ 809,651	\$ 6,543,606	\$ 12,459,934	\$ 8,581,917	\$ 4,026,398	\$ 44,222,416	\$ 45,345,667	\$ 27,012,255	\$ 14,172,059	\$ 28,929,003
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(1) The Lottery changed its treatment of costs associated with printing instant tickets in fiscal year 2004. Previously, these costs were expensed as incurred. In fiscal year 2005, the Lottery changed its method of accounting for investments held to fund annuity prizes payable. These investments are reported at their fair value as permitted by GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The cumulative effect of the applicable adjustments are reflected in the preceding fiscal year.

Maryland State Lottery Agency

Sales – Fiscal Years 1999 through 2008

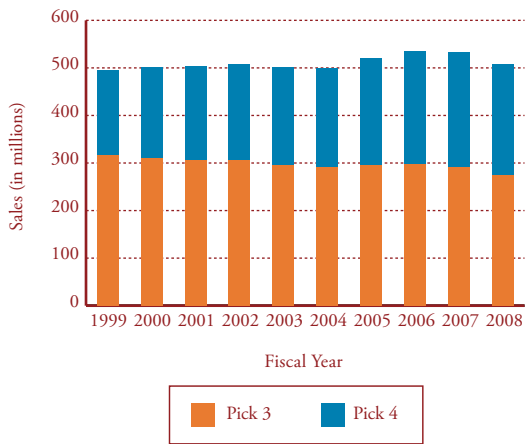
Sales by Category and Game

Fiscal Year:	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NUMBERS:										
Pick 3	\$ 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	\$ 274,291,763
Pick 4	179,651,362	190,522,702	198,641,156	201,432,264	203,675,530	209,213,634	225,452,551	236,503,472	240,075,195	234,893,726
NUMBERS TOTAL	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	509,185,489
MONITOR:										
KENO	250,890,266	241,071,900	238,386,254	256,436,493	265,922,974	268,308,259	279,934,456	287,249,705	268,132,183	248,684,056
KENO BONUS	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	137,893,276
RACETRAX	-	-	-	-	-	-	944,928	268,332	49,844,937	72,876,083
MARYLAND HOLD 'EM	-	-	-	-	-	-	-	-	27,358	1,342,106
MONITOR TOTAL	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	460,795,521
MATRIX:										
MEGA MILLIONS	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	129,402,134
LOTTO	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	31,200,692
BONUS MATCH 5	-	-	-	8,266,718	21,250,620	21,235,924	21,916,265	22,425,338	22,879,700	23,414,509
CASH IN HAND	26,038,795	23,579,918	22,155,211	18,156,097	3,300,860	-	-	-	-	-
MATRIX TOTAL	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	184,017,335
INSTANT:	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	513,859,583
RAFFLE:	-	-	-	-	-	-	-	-	6,495,000	5,180,800
OTHER:	-	-	1,443,932	1,322,196	-	2,898,696	-	-	-	-
TOTAL SALES	\$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	\$1,673,038,728
Product Mix by Category										
Fiscal Year:	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NUMBERS GAMES	45.92%	42.81%	41.63%	38.90%	37.84%	35.83%	35.10%	34.25%	33.73%	30.44%
MONITOR GAMES	25.96%	26.52%	26.39%	27.23%	28.54%	27.93%	28.10%	27.96%	29.33%	27.54%
MATRIX GAMES	11.73%	11.75%	10.04%	10.87%	9.67%	10.59%	10.48%	11.18%	9.58%	11.00%
INSTANT GAMES	16.39%	18.92%	21.82%	22.90%	23.95%	25.44%	26.32%	26.61%	26.95%	30.71%
RAFFLE GAMES	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.41%	0.31%
OTHER GAMES	0.00%	0.00%	0.12%	0.10%	0.00%	0.21%	0.00%	0.00%	0.00%	0.00%

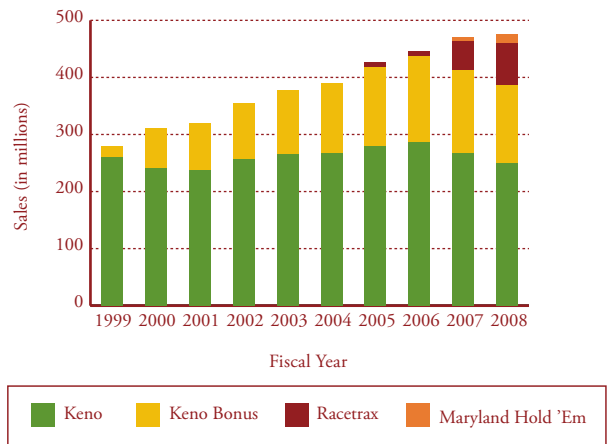
Maryland State Lottery Agency

Sales – Fiscal Years 1999 through 2008 (continued)

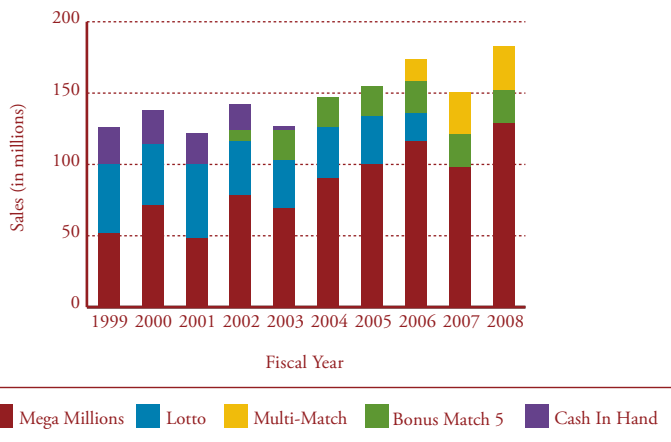
Numbers Games



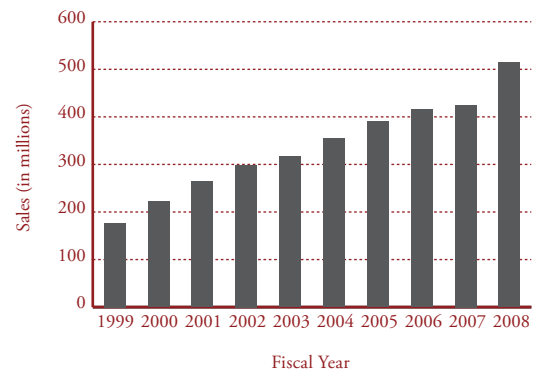
Monitor Games



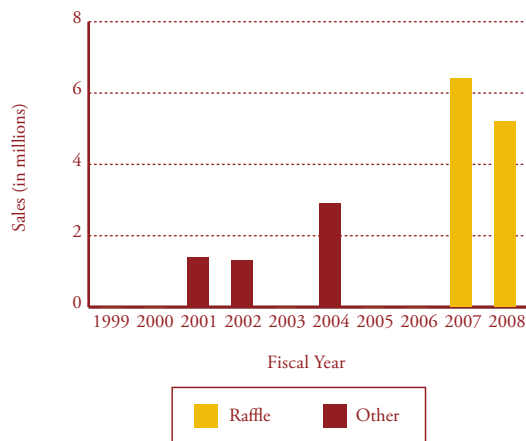
Matrix Games



Instant Games



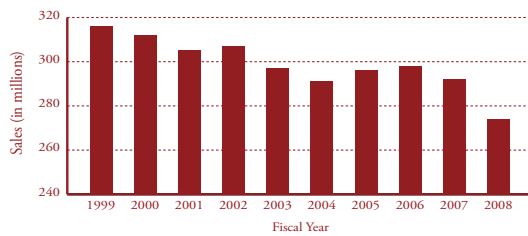
Other Games



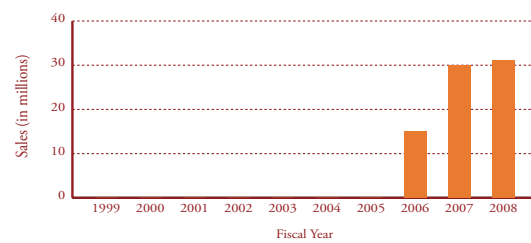
Maryland State Lottery Agency

Sales – Fiscal Years 1999 through 2008 (continued)

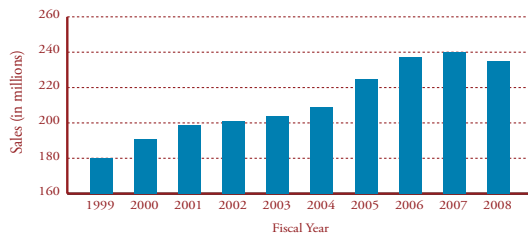
Pick 3



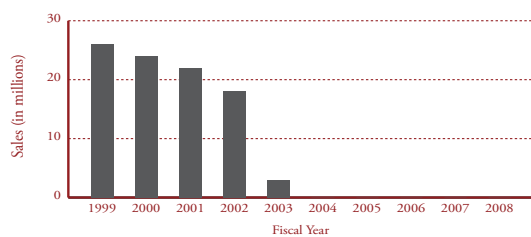
Multi-Match



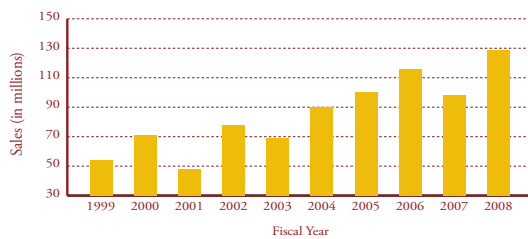
Pick 4



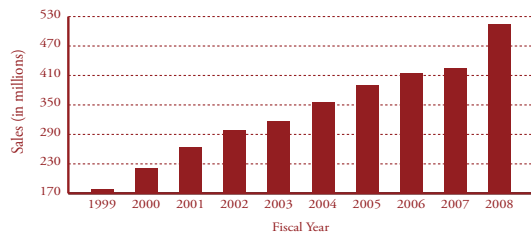
Cash in Hand



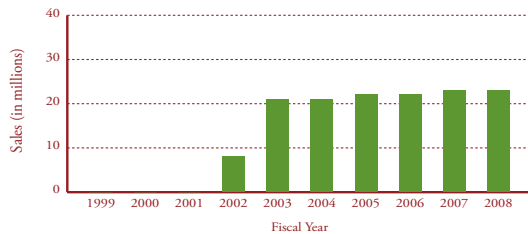
Mega Millions



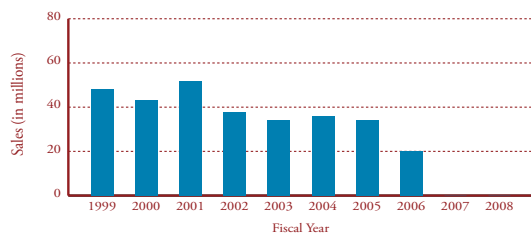
Instant



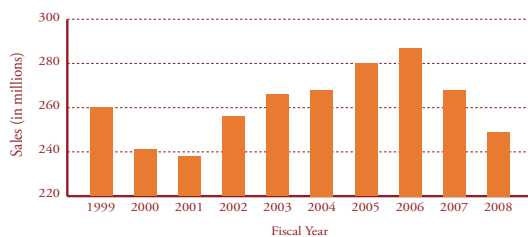
Bonus Match 5



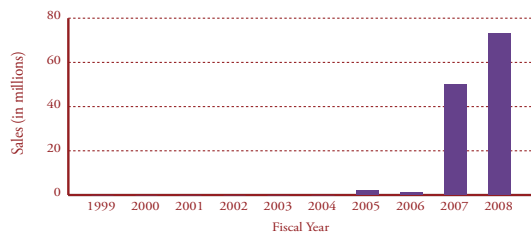
Lotto



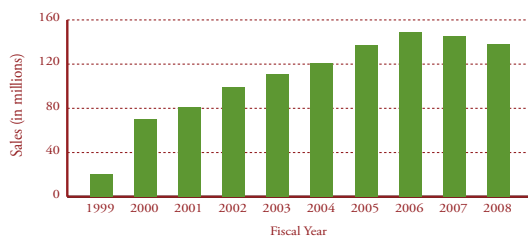
Keno



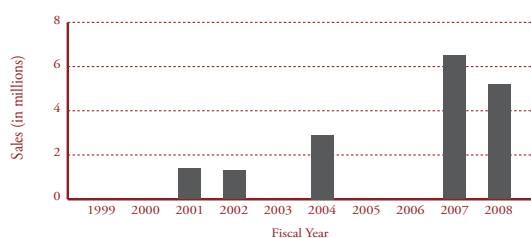
Racetrax



Keno Bonus

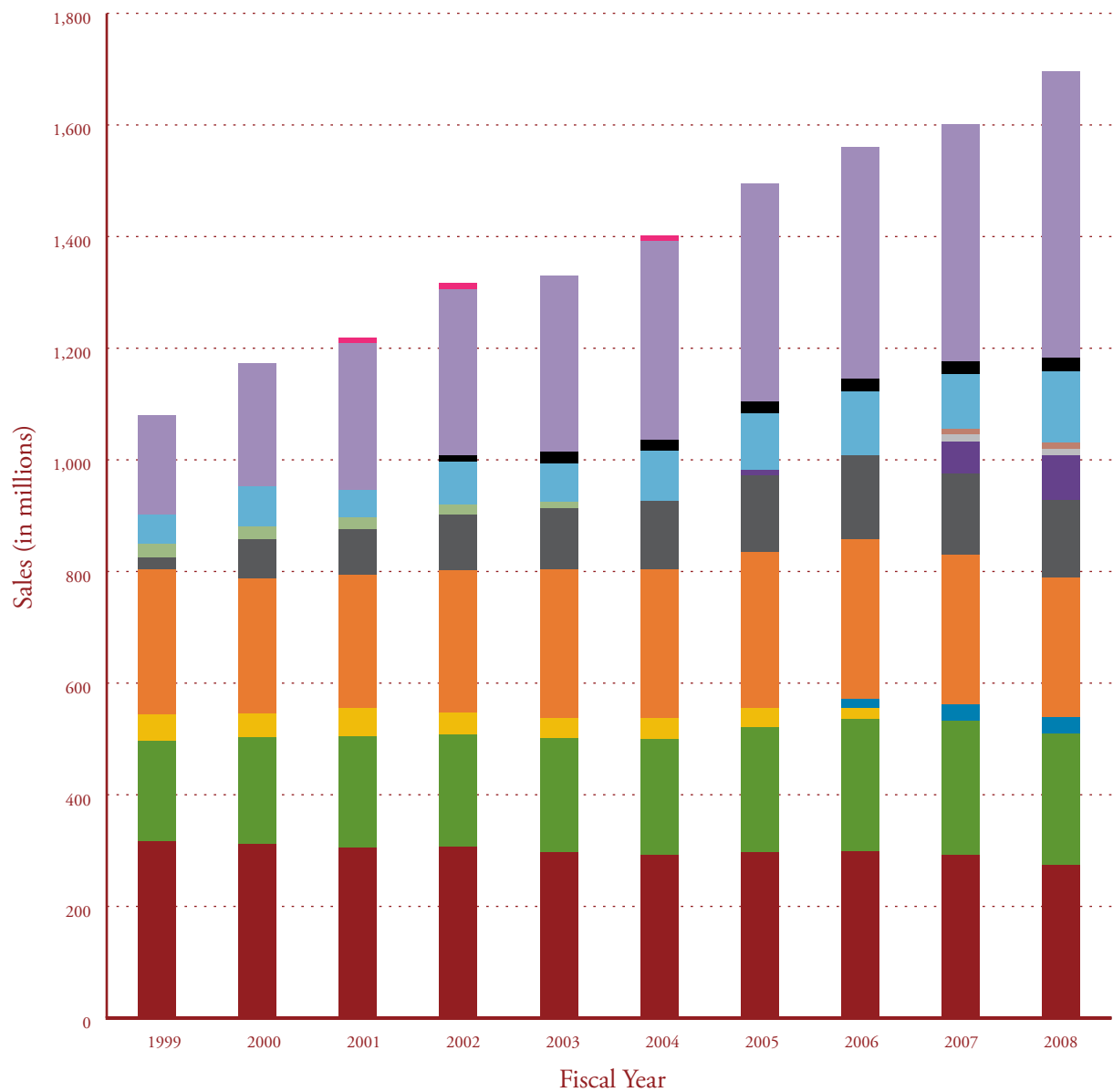


Raffle & Other Games



Maryland State Lottery Agency

Sales – Fiscal Years 1999 through 2008 (continued)



Maryland State Lottery Agency

U.S. Lotteries Per Capita Sales – Fiscal Year 2008

Rank	State	Population (M)	Total Sales (\$M)	Per Capita*
1	Massachusetts	6.4	\$ 4,689.4	\$ 727
2	D.C. (end 6/30)	0.6	254.3	432
3	Georgia	9.5	3,519.3	369
4	New York	19.3	6,673.2	346
5	MARYLAND	5.6	1,673.0	298
6	New Jersey	8.7	2,539.1	292
7	Connecticut	3.5	998.1	285
8	Pennsylvania	12.4	3,089.2	248
9	Michigan (est)	10.1	2,336.1	231
10	Florida	18.3	4,174.8	229
11	Rhode Island	1.1	241.3	228
12	South Carolina	4.4	992.5	225
13	Ohio	11.5	2,326.9	203
14	New Hampshire	1.3	259.8	197
15	Kentucky	4.2	778.2	184
16	Virginia	7.7	1,386.4	180
17	Maine	1.3	227.5	173
18	Missouri	5.9	995.5	169
19	Vermont	0.6	102.0	164
20	Illinois	12.9	2,078.2	162
21	Texas	23.9	3,671.5	154
22	Delaware	0.9	124.9	144
23	Indiana	6.3	822.8	130
24	North Carolina	9.1	1,078.2	119
25	West Virginia	1.8	198.0	109
26	Colorado	4.9	505.8	104
27	Idaho	1.5	137.1	91
28	Oregon	3.7	338.7	90
29	Kansas	2.8	247.9	89
30	Minnesota	5.2	461.5	89
31	Wisconsin	5.6	494.6	88
32	Louisiana	4.3	373.7	87
33	Iowa	3.0	250.3	84
34	California	36.6	3,049.6	83
35	Washington	6.5	521.1	81
36	New Mexico	2.0	147.1	75
37	Arizona	6.3	472.9	75
38	Nebraska	1.8	122.0	69
39	Oklahoma	3.6	214.3	59
40	South Dakota	0.8	40.5	51
41	Montana	1.0	43.9	46
42	North Dakota	0.6	22.2	35
43	Tennessee	**	**	**
TOTAL		277.5	\$ 52,673.4	\$ 190

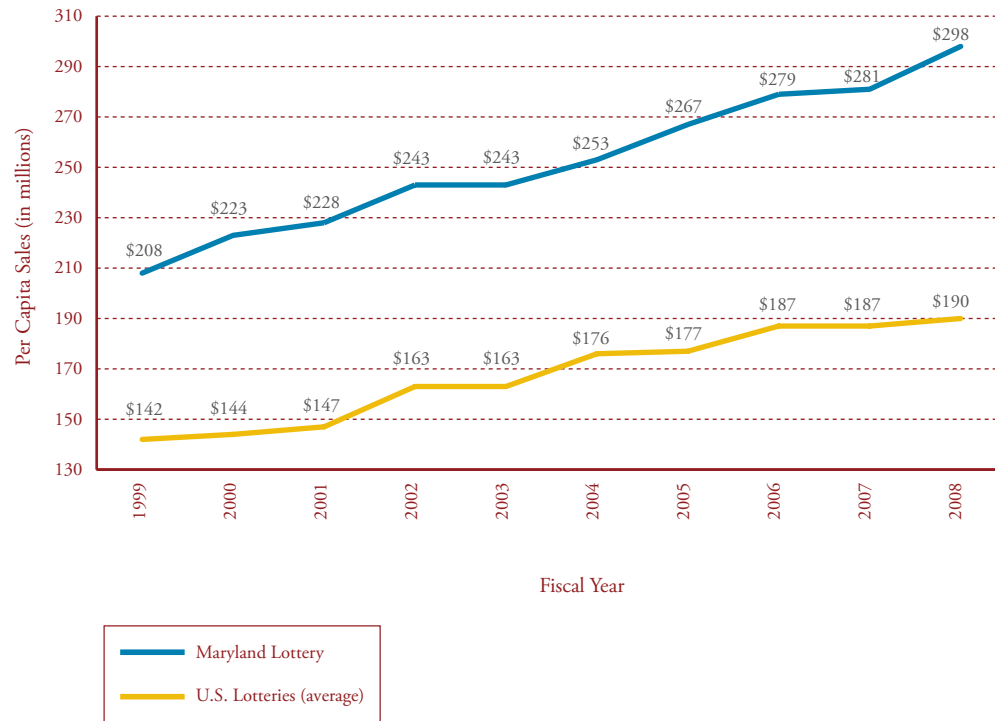
Source: *La Fleur's Magazine*, September/October 2008 Edition

*Subject to rounding

**Information not available

Maryland State Lottery Agency

U.S. Lotteries Per Capita Sales – Fiscal Years 1999 through 2008



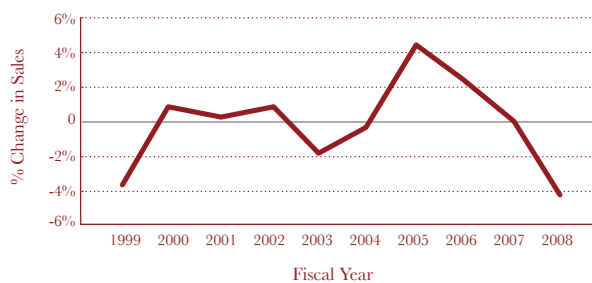
Source: *La Fleur's 2008 Almanac*, *La Fleur's Magazine* – Fiscal 2008 Report, U.S. Census Bureau

Maryland State Lottery Agency

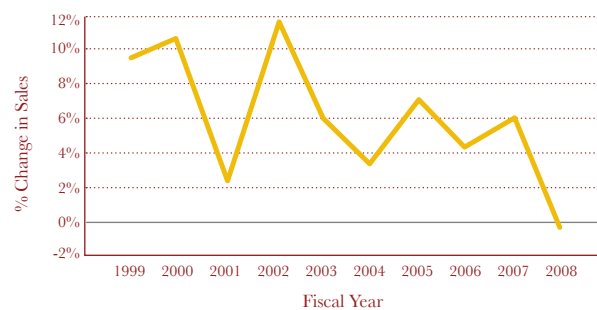
Percentage Change in Sales – Fiscal Years 1999 through 2008

Fiscal Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Numbers Games	-3.42%	1.23%	0.38%	0.85%	-1.56%	-0.08%	4.32%	2.50%	-0.48%	-4.29%
Monitor Games	9.45%	10.95%	2.70%	11.35%	6.10%	3.28%	7.10%	4.57%	5.96%	-0.38%
Matrix Games	-11.15%	8.83%	-11.80%	16.78%	-10.01%	15.61%	5.43%	12.02%	-13.34%	21.72%
Instant Games	10.37%	25.36%	19.04%	13.29%	5.83%	12.11%	10.13%	6.23%	2.35%	20.88%
Raffle and Other Games	0.00%	0.00%	100.00%	-8.43%	-100.00%	100.00%	-100.00%	0.00%	100.00%	-20.23%
Total Sales	0.69%	8.60%	3.22%	7.92%	1.20%	5.53%	6.47%	5.06%	1.05%	6.07%

Numbers Games



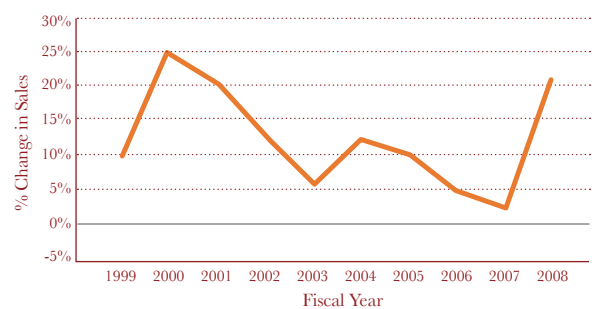
Monitor Games



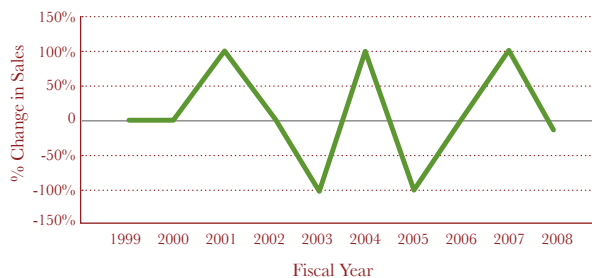
Matrix Games



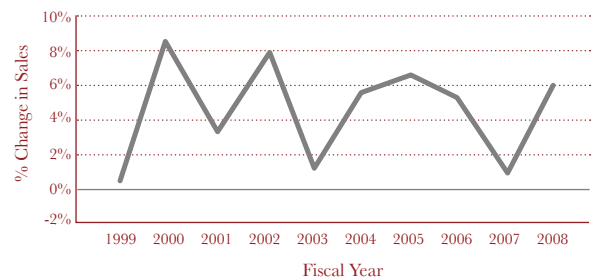
Instant Games



Raffle & Other



Total



Maryland State Lottery Agency

U.S. Lotteries Percentage Change in Sales – Fiscal Year 2008

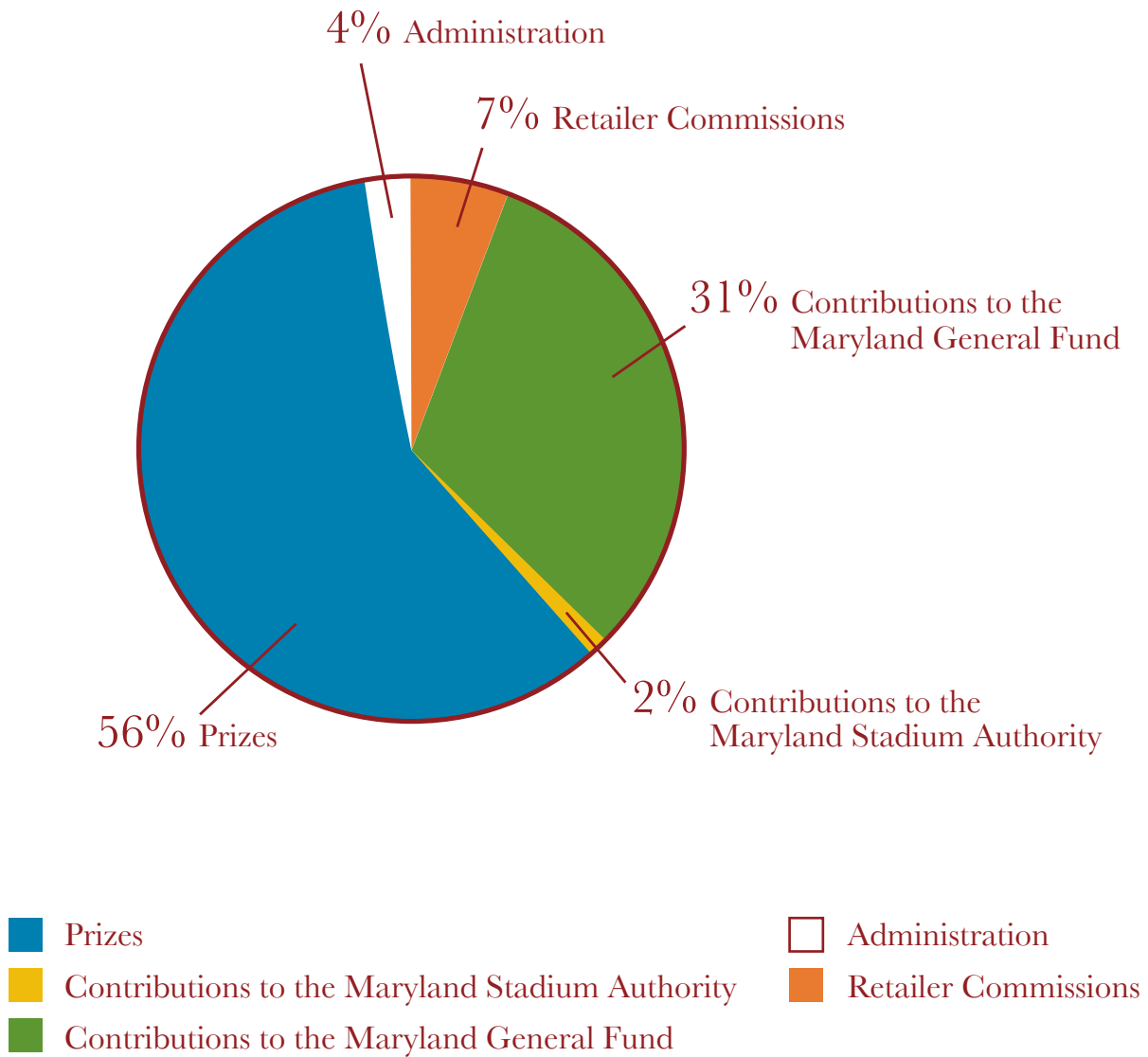
Rank	State	Total Sales (\$M)	% Change
1	North Carolina	\$ 1,078.2	21%
2	Colorado	505.8	11%
3	Minnesota	461.5	9%
4	New Jersey	2,539.1	8%
5	Nebraska	122.0	7%
6	Missouri	995.5	6%
7	Iowa	250.3	6%
8	MARYLAND	1,673.0	6%
9	Washington	521.1	6%
10	Massachusetts	4,689.4	6%
11	Delaware	124.9	6%
12	Montana	43.9	6%
13	Louisiana	373.7	5%
14	Idaho	137.1	5%
15	Kentucky	778.2	5%
16	Connecticut	998.1	4%
17	Indiana	822.8	4%
18	Ohio	2,326.9	3%
19	Georgia	3,519.3	3%
20	Illinois	2,078.2	3%
21	West Virginia	198.0	3%
22	Arizona	472.9	2%
23	Virginia	1,386.4	2%
24	South Dakota	40.5	2%
25	Florida	4,174.8	1%
26	South Carolina	992.5	0%
27	Pennsylvania	3,089.2	0%
28	Wisconsin	494.6	0%
29	New York	6,673.2	0%
30	Michigan (est)	2,336.1	0%
31	Oklahoma	214.3	0%
32	D.C. (end 6/30)	254.3	-1%
33	New Mexico	147.1	-1%
34	Vermont	102.0	-1%
35	Maine	227.5	-1%
36	New Hampshire	259.8	-1%
37	Rhode Island	241.3	-2%
38	Kansas	247.9	-2%
39	North Dakota	22.2	-2%
40	Texas	3,671.5	-3%
41	Oregon	338.7	-4%
42	California	3,049.6	-8%
43	Tennessee	*	*
TOTAL		\$ 52,673.4	

Source: *La Fleur's Magazine*, September/October 2008 Edition

*Information not available

Maryland State Lottery Agency

Expenses and Contributions – Cumulative for Fiscal Years 1999 through 2008



Maryland State Lottery Agency

Contributions to the State of Maryland – Inception to Date

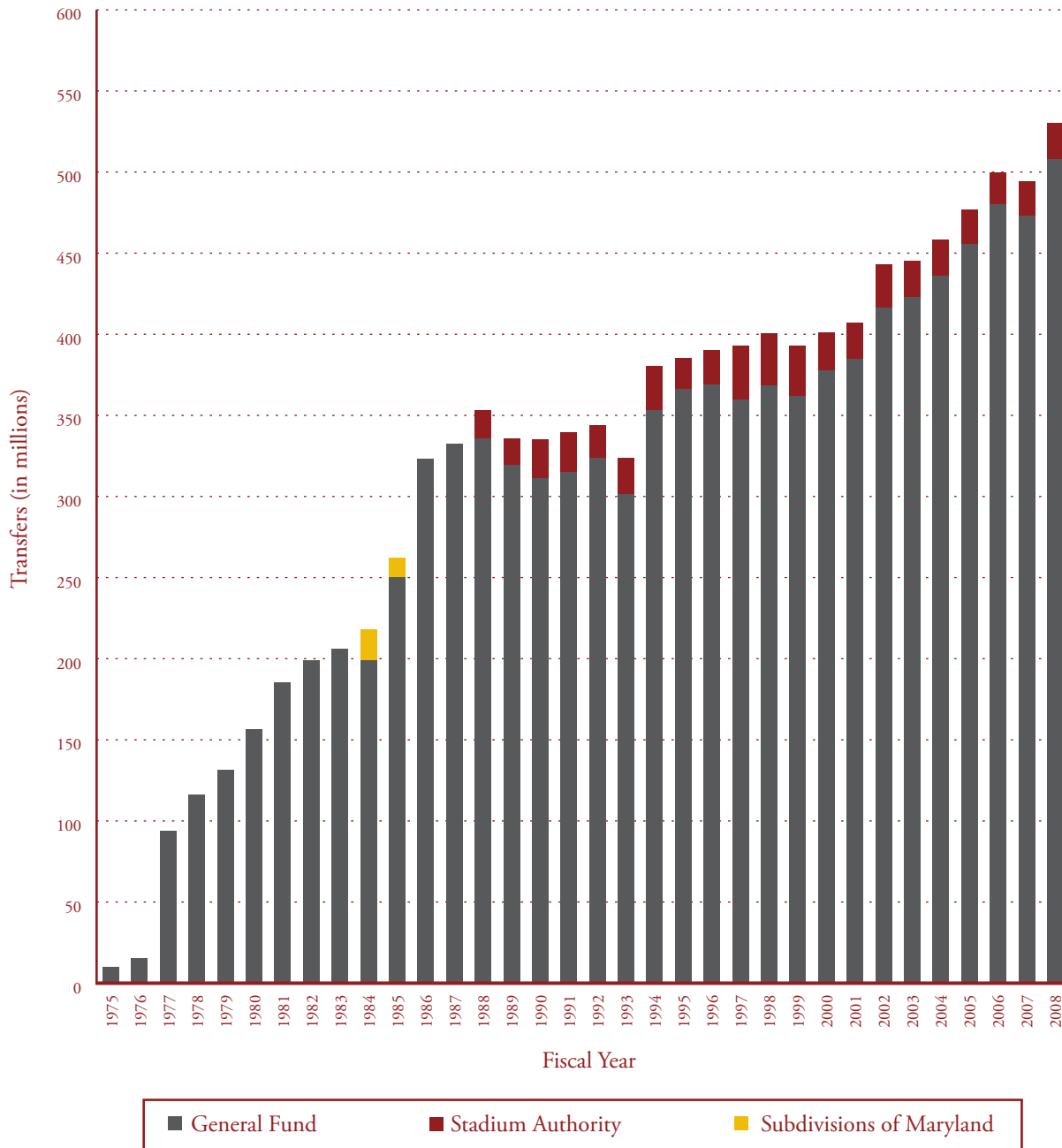
Fiscal Year	The State of Maryland General Fund	The Maryland Stadium Authority	Subdivisions of Maryland	Total Contributions
1975	\$ 10,025,000*	\$ -	\$ -	\$ 10,025,000
1976	15,374,000	-	-	15,374,000
1977	83,928,000	-	-	83,928,000
1978	116,182,000	-	-	116,182,000
1979	131,271,000	-	-	131,271,000
1980	156,768,000	-	-	156,768,000
1981	185,224,000	-	-	185,224,000
1982	199,080,000	-	-	199,080,000
1983	206,236,000	-	-	206,236,000
1984	199,194,000	-	19,095,000	218,289,000
1985	250,123,000	-	12,158,000	262,281,000
1986	323,423,000	-	-	323,423,000
1987	332,366,000	-	-	332,366,000
1988	335,928,000	16,750,000	-	352,678,000
1989	319,605,000	16,221,000	-	335,826,000
1990	311,254,000	24,040,000	-	335,294,000
1991	315,247,000	24,004,000	-	339,251,000
1992	323,814,000	19,752,000	-	343,566,000
1993	301,563,000	21,612,000	-	323,175,000
1994	353,308,000	26,743,000	-	380,051,000
1995	366,577,000	19,077,000	-	385,654,000
1996	369,161,000	20,749,000	-	389,910,000
1997	359,835,000	32,818,000	-	392,653,000
1998	368,501,000	31,625,000	-	400,126,000
1999	362,145,000	31,076,000	-	393,221,000
2000	377,763,000	23,250,000	-	401,013,000
2001	385,045,000	22,000,000	-	407,045,000
2002	416,274,000	27,230,000	-	443,504,000
2003	422,948,000	21,949,000	-	444,897,000
2004	436,373,000	22,000,000	-	458,373,000
2005	455,863,000	21,235,000	-	477,098,000
2006	480,471,000	20,500,000	-	500,971,000
2007	473,119,000	21,000,000	-	494,119,000
2008	507,904,000	21,500,000	-	529,404,000
TOTAL	\$ 10,251,892,000	\$ 485,131,000	\$ 31,253,000	\$ 10,768,276,000
TOTAL LIFETIME CONTRIBUTIONS				\$10,768,276,000

* 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

Total Lifetime Contributions \$10,768,276,000



Maryland State Lottery Agency

U.S. Lotteries Transfers to State – Fiscal Year 2007*

Rank	State	Transfer Amount (\$M)	Transfers to State as % of Sales
1	North Carolina	\$ 315.37	36.6%
2	Louisiana	128.23	36.2%
3	California	1,176.93	35.5%
4	New Jersey	828.33	35.2%
5	Wisconsin	160.65	32.6%
6	Oklahoma	69.38	32.3%
7	Virginia	437.18	32.1%
8	Michigan	748.90	32.0%
9	Illinois	631.17	31.6%
10	Maryland	494.12	31.3%
11	Pennsylvania	949.07	30.9%
12	Florida	1,263.27	30.6%
13	Arizona	139.92	30.3%
14	New Hampshire	79.04	30.0%
15	Tennessee	294.69	29.9%
16	Kansas	71.02	29.6%
17	Ohio	669.33	29.6%
18	Connecticut	278.33	29.1%
19	Texas	1,093.02	29.0%
20	North Dakota	6.50	28.7%
21	South Carolina	279.24	28.3%
22	Indiana	217.57	27.6%
23	Missouri	257.88	27.6%
24	Montana	11.42	27.5%
25	Georgia	853.55	26.9%
26	Minnesota	112.35	26.6%
27	Kentucky	196.29	26.4%
28	Colorado	119.00	26.1%
29	Idaho	34.00	26.0%
30	Nebraska	29.27	25.6%
31	D.C. (end 6/30)	65.38	25.5%
32	Iowa	58.15	24.7%
33	Washington	117.89	23.9%
34	New Mexico	34.88	23.5%
35	Vermont	23.57	22.6%
36	Maine	51.44	22.4%
37	Massachusetts	920.00	20.7%
38	Delaware	326.96	-
39	New York	2,358.35	-
40	Oregon	644.03	-
41	Rhode Island	320.99	-
42	South Dakota	121.07	-
43	West Virginia	639.15	-
TOTAL		** \$ 17,626.90	

Source: *La Fleur's 2008 World Lottery Almanac* (16th Edition)

* Data for fiscal year 2008 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 2008

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

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

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

Note: Information is accumulated and retained in this format only for fiscal years 2006, 2007 and 2008. Prospectively, the data will be accumulated and ultimately the schedule will contain information for a ten-year period.

Maryland State Lottery Agency
Retailers, Population and Sales by Region (continued)

Fiscal Year 2007

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

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

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

Note: Information is accumulated and retained in this format only for fiscal years 2006, 2007 and 2008. Prospectively, the data will be accumulated and ultimately the schedule will contain information for a ten-year period.

Maryland State Lottery Agency
Retailers, Population and Sales by Region (continued)

Fiscal Year 2006

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

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

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

Note: Information is accumulated and retained in this format only for fiscal years 2006, 2007 and 2008.
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*

2008	2007
Employer (listed alphabetically)	
Giant of Maryland LLC	Giant of Maryland LLC
Helix Health System Inc.	Helix Health System Inc.
Home Depot USA Inc.	Home Depot USA Inc.
Johns Hopkins Hospital	Johns Hopkins Hospital
Johns Hopkins University	Johns Hopkins University
Northrop Grumman Corporation	Macy's
Safeway Inc.	Northrop Grumman Corporation
Target Corporation	Safeway Inc.
University of Maryland Medical System	United Parcel Service
Walmart	Walmart

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

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 1999 through 2008

Fiscal Year	Capital Leases	Percentage of Annual Lottery Sales
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%
2008	648,070	0.04%

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 1999 through 2008

Fiscal Year	Statewide Population⁽¹⁾	Statewide Personal Income⁽²⁾ (expressed in thousands)	Statewide Per Capita Personal Income	Unemployment Rate⁽³⁾
2008	5,618,344	\$ 262,071,799	\$ 46,646	3.7%
2007	5,615,727	247,525,909	44,077	3.9%
2006	5,600,388	235,195,668	41,996	3.8%
2005	5,558,058	218,137,769	39,248	4.2%
2004	5,508,909	205,652,120	37,331	4.3%
2003	5,450,525	197,868,861	36,303	4.7%
2002	5,383,377	190,331,297	35,355	4.6%
2001	5,311,531	181,957,207	34,257	3.8%
2000	5,254,509	167,074,691	31,796	3.3%
1999	5,204,464	157,783,778	30,317	4.0%

Sources:

- (1) U.S. Department of Commerce, Bureau of Census - "Annual Population Estimates by State"
- (2) U.S. Department of Commerce, Bureau of Economic Analysis. All ten years of income data based on April 2004 Comprehensive revisions of State Personal Income Statistics for 1969 - 2002. Preliminary estimates are provided for 2003 - 2008. Data provided is for prior ending calendar year.
- (3) State Department of Labor, Licensing and Regulation

Maryland State Lottery Agency
 Lottery Employees – Fiscal Years 1999 through 2008

Number of Employees										
As of June 30,	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agent Administration	7	7	7	6	5	5	6	6	6	5
Communications	15	18	18	19	17	19	17	19	21	25
Customer Service	15	14	14	13	13	13	14	13	13	12
Executive	7	7	6	5	6	7	6	5	6	6
Facilities	7	5	6	6	6	6	5	5	5	5
Finance, Budget & Procurement	11	14	15	16	15	14	17	16	15	15
Information Technology	18	18	18	20	21	21	23	24	24	24
Instant Ticket Warehouse	5	5	6	7	7	6	7	7	7	7
Legal Services	4	4	6	5	5	5	6	6	6	6
Personnel	3	3	5	5	4	5	4	4	4	4
Product Development & Creative Services	12	10	10	12	11	13	10	9	9	8
Sales	57	58	58	62	63	61	61	60	61	63
Security	5	5	5	4	6	5	5	5	5	5
Total	166	168	174	180	179	180	181	179	182	185

Maryland State Lottery Agency

Operating Indicators – Fiscal Years 1999 through 2008

Percentage of Administrative Expenses to Sales

Fiscal Year	Sales	Administrative Expenses	Percentage of Administrative Expenses to Sales
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%
2008	1,673,038,728	58,845,991	3.52%

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 2008

	2002	2003	2004	2005	2006	2007	2008
Lottery Equipment	\$ 3,644,775	\$ 2,152,411	\$ 2,735,984	\$ 1,378,351	\$ 974,544	\$ 574,116	\$ 173,689
Data Processing Equipment	206,099	168,390	77,120	117,872	81,970	281,518	202,273
Office Equipment	0	231,649	179,200	157,802	98,578	277,504	190,553
Leasehold Improvements	0	577,468	516,144	454,819	393,495	332,171	270,847
Total Capital Assets	\$3,850,874	\$3,129,918	\$3,508,448	\$2,108,844	\$1,548,587	\$1,465,309	\$837,362

Information is accumulated and retained in this format only for fiscal years 2002 through 2008. Prospectively, the data will be accumulated and ultimately the schedule will contain information for a ten-year period.



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