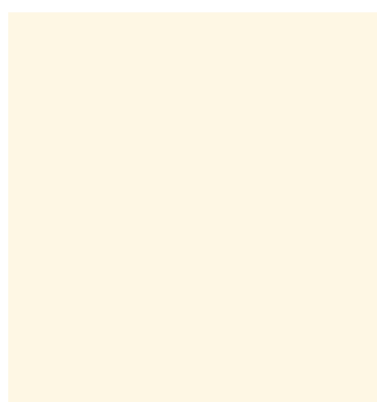
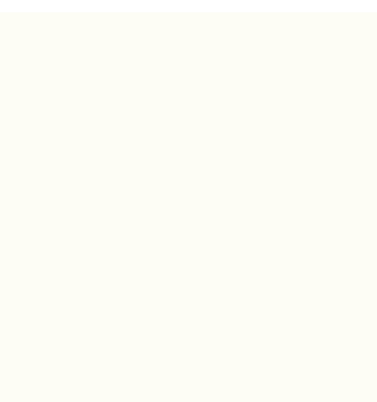
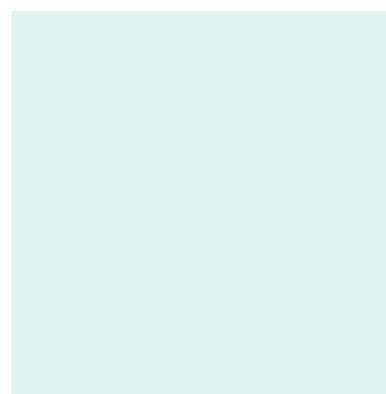
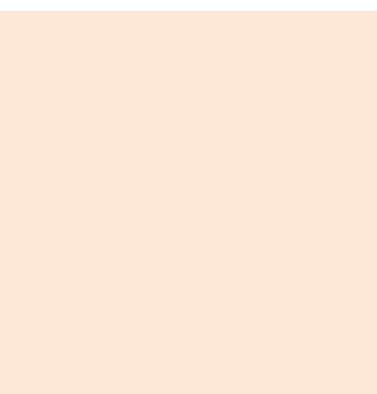
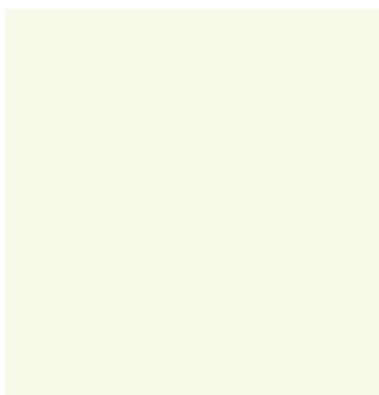
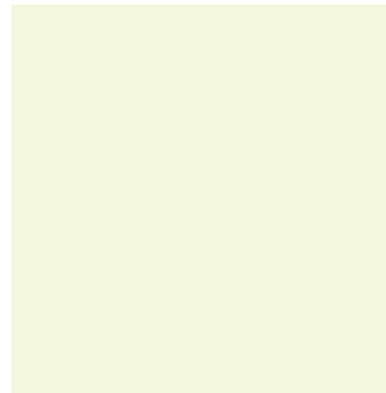
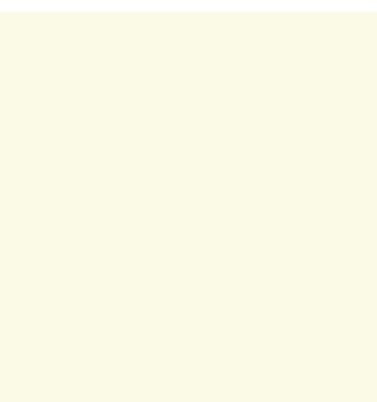
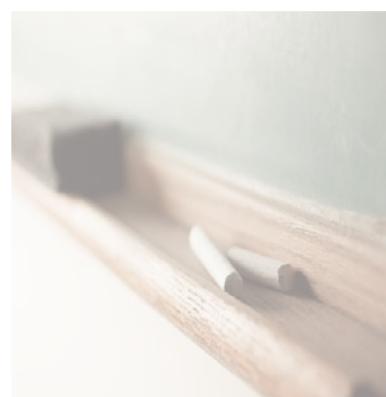
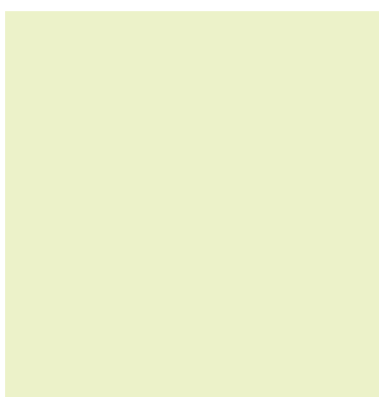
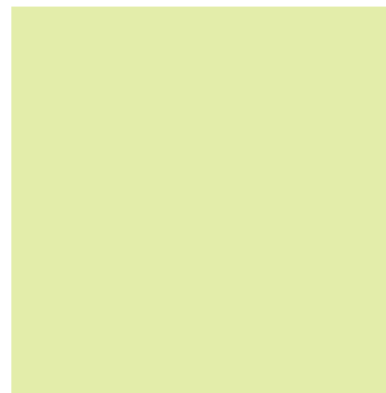
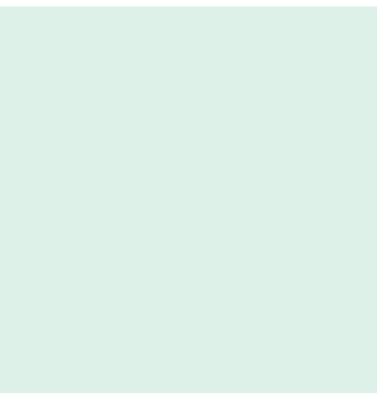
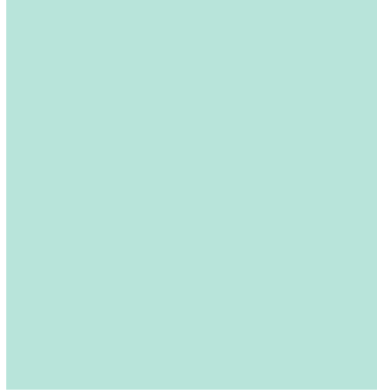


MARYLAND STATE LOTTERY AGENCY

AN ENTERPRISE FUND OF THE STATE OF MARYLAND



COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE YEARS ENDED
JUNE 30, 2009 AND 2008



MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR
THE YEARS ENDED
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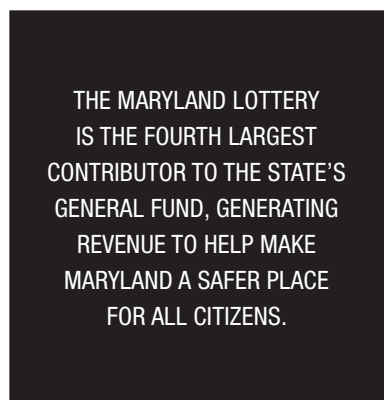
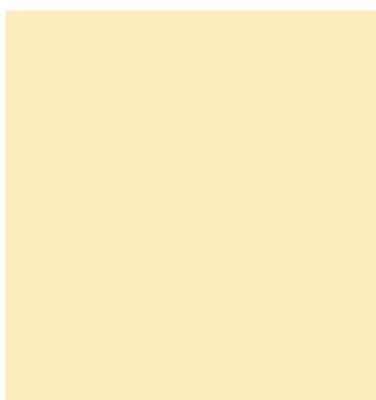
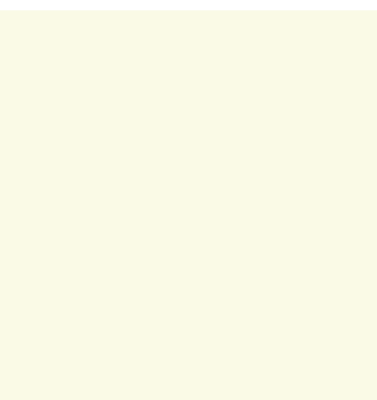
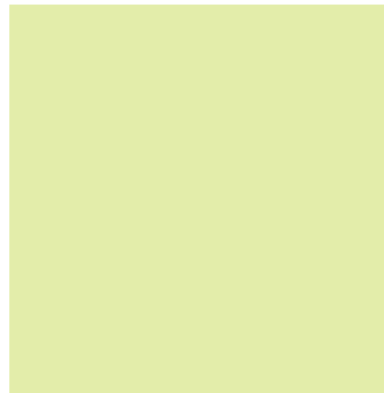
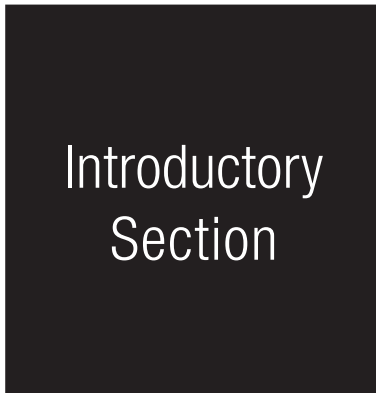
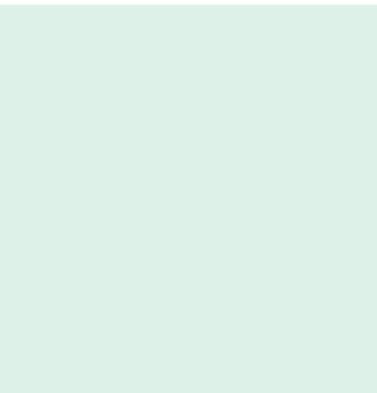
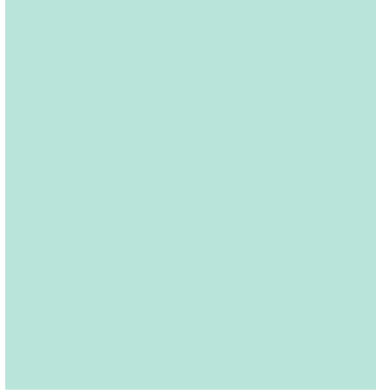
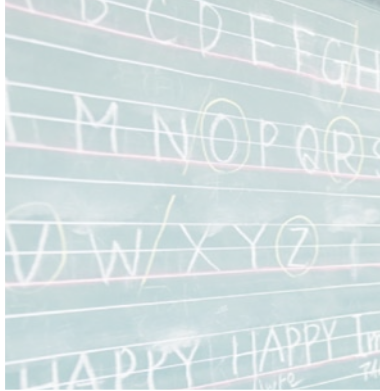
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MARYLAND LOTTERY

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Martin O'Malley, *Governor* • Gina Smith, *Interim Director*



December 16, 2009

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

INTRODUCTION

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Maryland State Lottery Agency (the Lottery) for the fiscal year ended June 30, 2009. This report has been prepared by the Accounting Department of the Lottery. Responsibility for both the accuracy of the financial data and the completeness and fairness of presentation, including all disclosures, rests solely with the Lottery. To the best of our knowledge and belief, the enclosed data is accurate and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the Lottery. All disclosures necessary to enable the reader to gain an understanding of the Lottery's financial activities have been included.

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

The Lottery is operated as a business enterprise within the framework of State laws and regulations. The mission of the Lottery is to provide revenue to the State of Maryland through the sale of entertaining lottery products to support State programs and services benefiting the citizens of Maryland. The mission of the VLT program will be to generate revenue for local jurisdictions, racetrack purses and facilities renewal, small and minority businesses and the education trust fund.

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

HISTORY OF LOTTERIES

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

The prohibition against lotteries in the United States lasted until 1964, when New Hampshire became the first state lottery created. New York and New Jersey followed shortly thereafter and the first 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, 41 states and the District of Columbia operate lotteries selling both on-line games and instant tickets. During fiscal year 2009, these lotteries generated in excess of \$52.3 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 \$31.0 billion in sales and has contributed more than \$11.2 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

The national recession is having substantial negative impacts on most, if not all aspects of Maryland's economy. Maryland's unemployment has risen to 7.2%, while over 82,000 jobs or 3.1% of total jobs have been lost. Nationally, unemployment stands at 10.2% while 5.3% of jobs have disappeared. As was the case with the last recession, Maryland has been buffered from the worst effects of this recession, due in part to its disproportionate share of government employment.

On a year-over-year basis, Maryland has lost jobs every month since June 2008. In fact, employment growth has generally been decelerating since early 2006. Aside from the perennially declining manufacturing industry, which is actually losing jobs at a slower pace than during the 2001 recession, the following industries have all shed jobs each of the last twelve months: construction; trade, transportation and utilities; information services; and finance. For the first nine months of calendar year 2009, every industry has lost jobs except government, education and health services. While recent months have shown some stabilization in the rates of decline, it is possible that the labor market has yet to bottom out for many or even all industries.

With sustained job losses, Maryland personal income has also suffered. In the second quarter of 2009, wage income in the State dropped 1.7% while total personal income grew just 0.7%, the worst performance for both since the first quarter of 1958. Adjusted for inflation, however, the early 1990s were slightly worse. One major factor that does make this a more troubling period is the substantial decline in capital gains in 2008, and probably 2009 as well. While final figures will not be available until early 2010, it appears that capital gains (which are not included in personal income statistics) fell by about 66% in 2008, exceeding the 52% drop in 2001 and well in excess of any other decline. Furthermore, since the late 1990s capital gains have averaged 4.2% of total personal income, while in the years prior they were less than half that, at 1.6% of total personal income. The record drop in capital gains had a much more substantial impact on Marylanders' income than any time in the past and has been a major factor restricting consumer spending.

More erosion of Marylanders' wealth is occurring in the housing market. The median sales price of existing homes has fallen 26 consecutive months, with 6 of the last 11 months falling by double-digits. The median sales price is now at levels last seen in early 2005. Falling prices, though bad for homeowners and particularly bad for those who want to sell their home, are necessary to bring the market back into equilibrium. That process is underway, as existing home sales have picked up, growing each of the last six months. With one exception, sales declined every month from October 2005 through April of this year. The active inventory of homes for sale, though still at relatively high levels, has fallen 15% from its peak. Though a long way from completion, and although home prices are likely to fall further, it does appear that the recovery of the housing market has begun.

Maryland's economic situation is most certainly not unique. While some factors may be more severe in Maryland than in most other states, such as falling home prices, and others may be less severe, such as the unemployment rate and job losses, the recession is affecting consumers and employers in generally the

same fashion here as elsewhere. As is the case in most other states, it appears that recovery is not right around the corner. Employment in both the State and nation is expected to continue to decline well into 2010. The continuing job losses will continue to be a drag on consumer confidence and consumer spending, and hence will delay the onset of recovery. Only when employers begin to add jobs will the economy resume stable growth.

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 a play area to reveal pre-printed combinations. If a winning combination appears, the customer is an instant winner.

Games offered during fiscal year 2009 included the following:

PICK 3

FISCAL YEAR 2009 STATISTICS:

\$276.3 million in net sales

16.3% of total net sales

\$2.0 million increase from fiscal year 2008 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 2009 STATISTICS:

\$249.2 million in net sales

14.7% of total net sales

\$14.3 million increase from fiscal year 2008 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 2009 STATISTICS:

\$247.9 million in net sales

14.6% of total net sales

\$773.6 thousand decrease from fiscal year 2008 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 win prizes ranging from \$2 to \$100,000 by matching anywhere from zero numbers to ten numbers.



FISCAL YEAR 2009 STATISTICS:

\$134.4 million in net sales

7.9% of total net sales

\$3.5 million decrease from fiscal year 2008 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 2009 STATISTICS:

\$11.9 million in net sales

0.7% of total net sales

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



FISCAL YEAR 2009 STATISTICS:

\$88.5 million in net sales

5.2% of total net sales

\$15.6 million increase over fiscal year 2008 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 horseracing with advanced 3-D graphic animation that results in the horses and races appearing realistic. Players select from one to twelve horses to win prizes ranging from \$1.20 to \$31,454.



FISCAL YEAR 2009 STATISTICS:

\$463.9 thousand in net sales

Less than 1.0% of total net sales

\$878.2 thousand decrease from fiscal year 2008 Maryland Hold 'Em® net sales

MARYLAND HOLD 'EM® was an on-line promotional game, which began in June 2007, and was offered in a limited number of retail locations. This game was a computer-animated, virtual poker monitor game with advanced 3-D graphic animation. Games ran every six minutes, and players selected from one to eight hands to win prizes ranging from \$2 to \$5,000. Due to the lack of success, the Lottery discontinued this game on March 1, 2009.



FISCAL YEAR 2009 STATISTICS:

\$126.0 million in net sales

7.4% of total net sales

\$3.4 million decrease from fiscal year 2008 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, Massachusetts, Maryland, Michigan, New York, New Jersey, Ohio, Texas, Virginia, and Washington. Players choose or request the computer to generate a total of six numbers from two different fields. Players pick five numbers from a field of 56 and one Mega Ball number from a field of 46. Players matching all numbers and the Mega Ball win the jackpot. If there are multiple winners, the jackpot prize is divided evenly among all the winners. Jackpots start at \$12 million and increase each drawing for which there is no jackpot winner(s). Players can also win prizes ranging from \$2 to \$250,000. Drawings are held every Tuesday and Friday.



FISCAL YEAR 2009 STATISTICS:

\$32.9 million in net sales

1.9% of total net sales

\$1.7 million increase over fiscal year 2008 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 2009 STATISTICS:

\$23.5 million in net sales

1.4% of total net sales

\$45.5 thousand increase over fiscal year 2008 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 2009 STATISTICS:

\$507.1 million in net sales

29.9% of total net sales

\$6.8 million decrease from fiscal year 2008 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 2009, the Lottery launched 57 different instant ticket games.

HIGHLIGHTS OF FISCAL YEAR 2009

Fiscal year 2009 proved to be another highly successful year for the Lottery, as for the twelfth consecutive year, the Lottery achieved its highest sales point in history. Additional financial information can be found in the Management's Discussion and Analysis Section of this report, which begins on page 29.

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

- The Lottery continued to capitalize on its monitor game growth by launching Keno Super Bonus on June 1, 2009. Keno Super Bonus is played in conjunction with Keno and gives players the chance to multiply their winnings up to 20 times when they win on the base Keno ticket. The cost of Keno Super Bonus is twice the amount of the Keno wager. For example, if the base Keno ticket cost is \$2, the Super Bonus wager would cost \$4, for a total purchase of \$6. The Lottery believes that this game will be very successful, as it generated more than \$11.9 million in sales during its first month.
- In response to the passage of Senate Bill 3 which established the operational and regulatory framework for the VLT program and authorized the State Lottery Commission to regulate the operation of the VLTs including the licensing of operators, the Lottery entered into a contract with two investigative services firms to begin the background investigations into the four applicants that submitted bids to operate the VLT facilities. In addition, the Lottery hired a VLT Licensing Manager to oversee these investigations.
- The Lottery procured and installed a document imaging system that will be utilized to scan and organize all of the documents received as part of the VLT licensing process as well as all related investigatory reports. In addition to housing all of the documents and related reports that were received as part of the facility application process, this system will house the documents of all other parties that will be investigated, such as VLT machine manufacturers and the employees that work in the VLT facilities.
- In order to account for all of the activity and costs associated with the implementation of the VLT program, the Lottery completed the upgrade of its accounting system in order to gain access to additional features, functions and modules.

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 4,400 retailers on a weekly basis. Funds are collected electronically from the retailers' designated bank accounts. The Treasury of the State of Maryland invests cash primarily in overnight repurchase agreements, United States Government Obligations, and money market mutual funds.

RISK MANAGEMENT

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

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

INTERNAL CONTROL ENVIRONMENT

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

To enhance controls over accounting procedures, the Lottery has segregated the following functions: personnel; payroll; purchasing; accounts payable; accounts receivable; and general ledger accounting. Data input and processing are separate from system programming with management providing approval and oversight. In addition, an internal auditor reviews all areas of the Lottery and reports jointly to the Director of the Lottery and to the Chairman and 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 186 employees, most of whom are located at the Lottery's headquarters in Baltimore. As of June 30, 2009, 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 2010, the Lottery will undertake a number of initiatives, with the most important initiative being the implementation of the VLT Program. The Lottery will continue with the background investigations for the four applicants that applied for a VLT license. It is anticipated that these investigations will be completed and recommendations for awards will be made in the fall of 2009. In addition to the background investigations, the Lottery will be developing two major requests for proposals (RFPs) relative to the VLT program. These RFPs include a central monitoring and control system and request for VLT machines. In addition, the Lottery will continue to work on the expansion of its accounting system by customizing various modules to capture VLT related data.

The major initiative on the Lottery side of the business will be the implementation of Powerball®. Similar to Mega Millions, Powerball is a multi-state jackpot game offering large jackpots. Powerball tickets cost \$1 and drawings occur every Wednesday and Saturday nights. In addition, players can purchase Power Play® for an extra \$1. Power Play is a special feature that allows a winner to multiply the original winning amount (with the exception of the jackpot) by 2, 3, 4 or 5 times. The anticipated launch date for Powerball and Power Play is January 31, 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, 2008. This marked the fifth 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



Michele L. Evans, CPA
Controller



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

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, 2008

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.



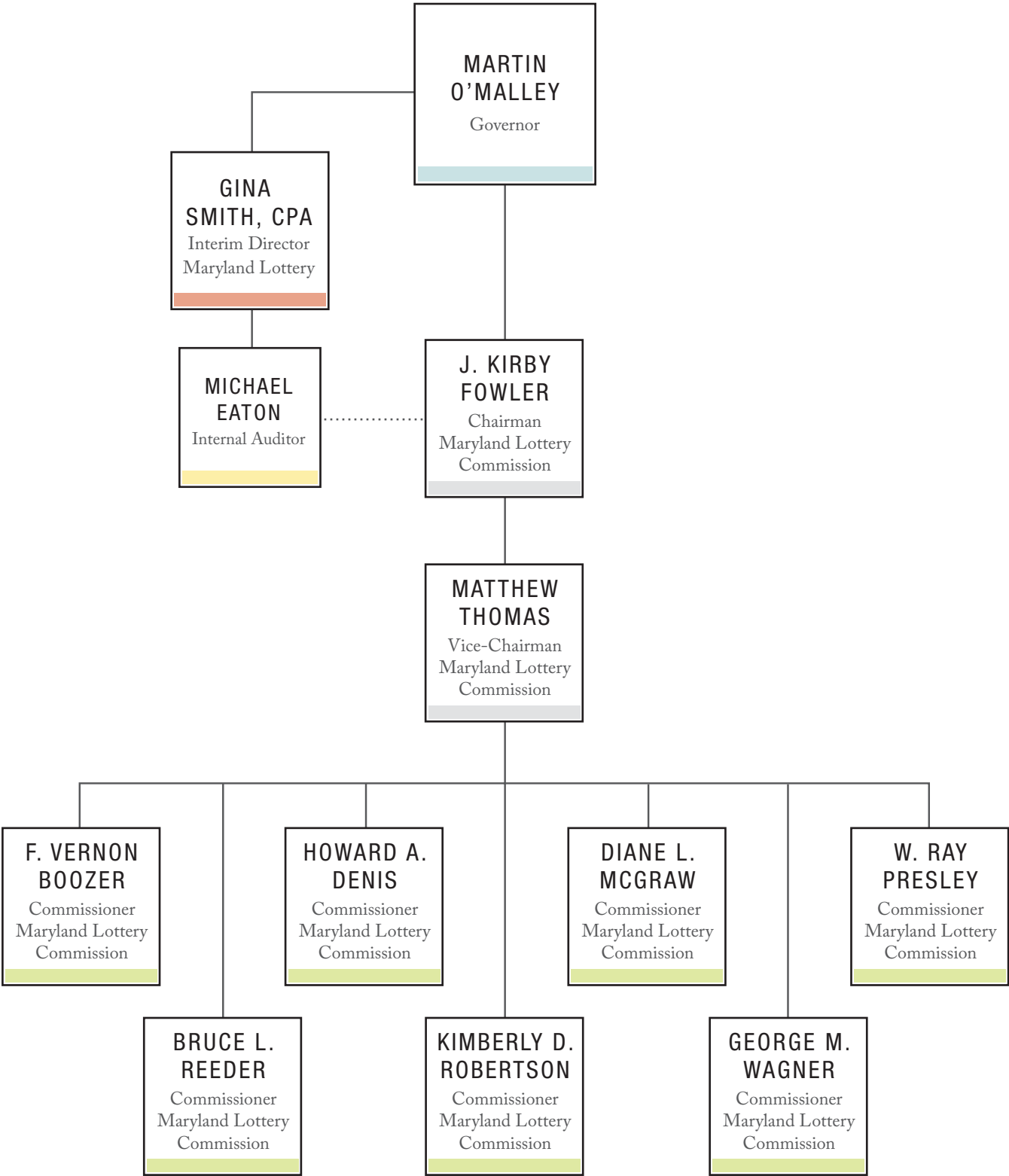
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President

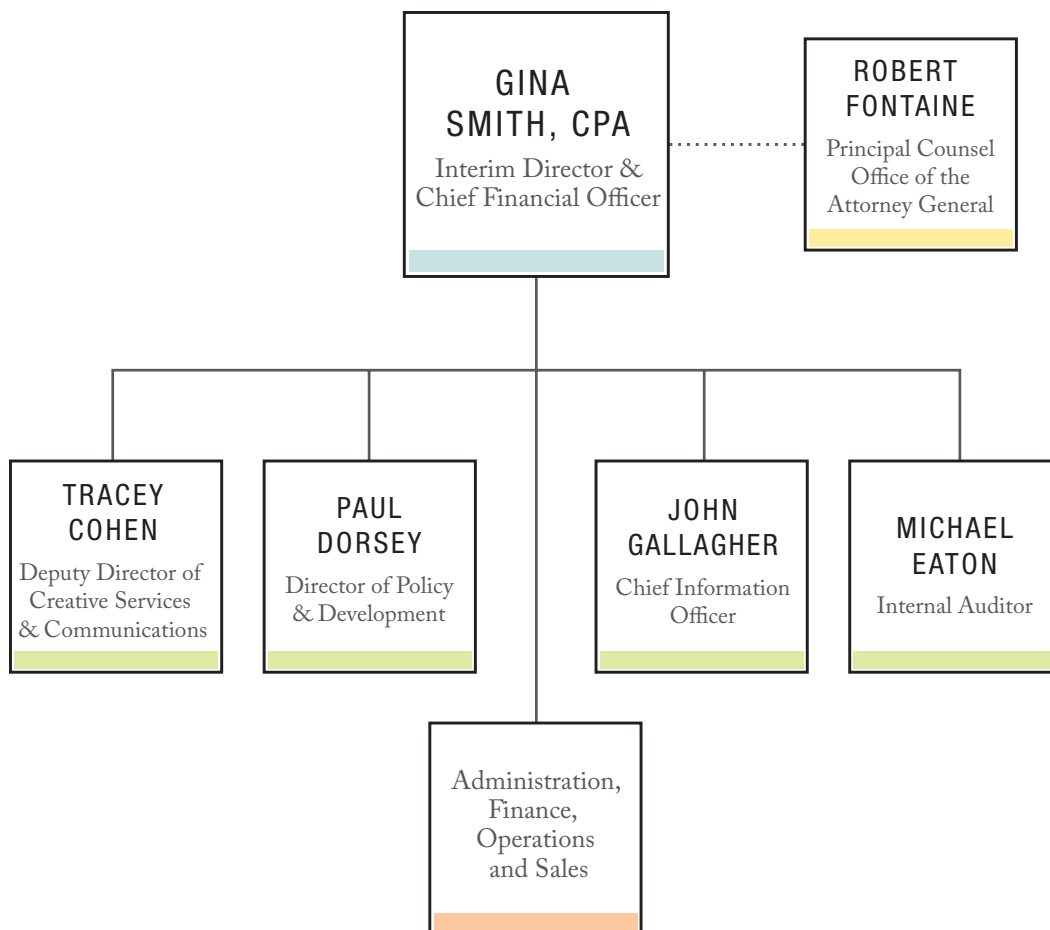
A handwritten signature in black ink that reads "Jeffrey R. Enner".

Executive Director

MARYLAND STATE LOTTERY AGENCY
PRINCIPAL OFFICIALS

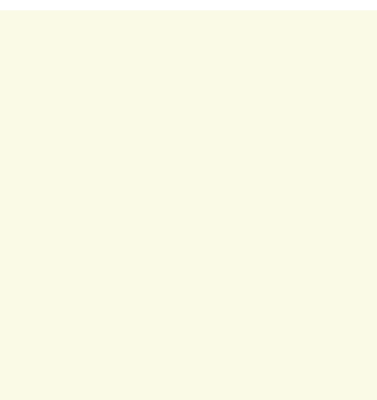
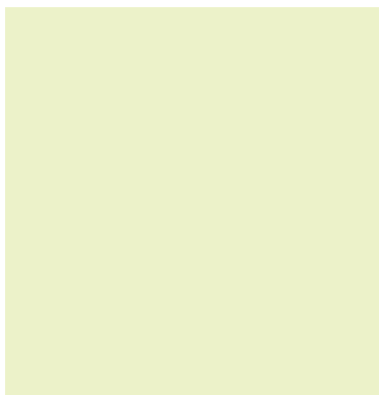
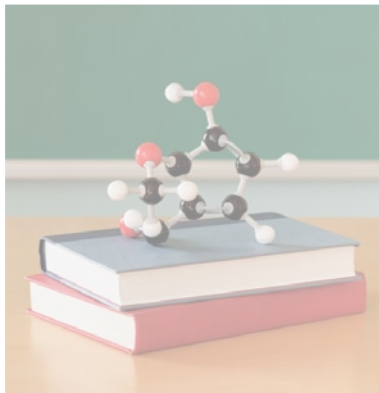
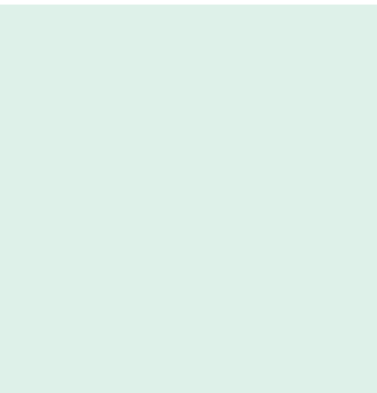
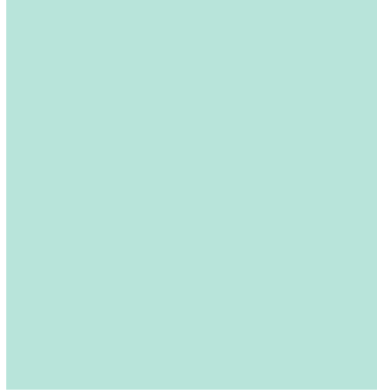


MARYLAND STATE LOTTERY AGENCY
ORGANIZATIONAL CHART



MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR
THE YEARS ENDED
JUNE 30, 2009 AND 2008



MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR
THE YEARS ENDED
JUNE 30, 2009 AND 2008



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, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Maryland Lottery Agency's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the Maryland State Lottery Agency are intended to present the financial position and the changes in financial position and cash flows, where applicable, of the Maryland State Lottery Agency. They do not purport to, and do not, present fairly the financial position of the State of Maryland as of June 30, 2009 and 2008, 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, 2009 and 2008, the changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2009, on our consideration of the Maryland State Lottery Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing, and not to

provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed with *Government Auditing Standards* and should be considered in the assessing the results of our audits.

The Management's Discussion and Analysis on pages 29 through 37 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion about it.

Our audit was conducted for the purpose of forming an opinion on the 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 58 is presented for the purpose of additional analysis and is subjected to our auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Stout, Causey & Horning, P.A.

September 22, 2009

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, 2009 and 2008. As you read the MD&A, 2009 refers to the fiscal year ended June 30, 2009, 2008 refers to the fiscal year ended June 30, 2008 and 2007 refers to the fiscal year ended June 30, 2007. 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 38.

FINANCIAL HIGHLIGHTS

- Net sales were a record \$1.698 billion in 2009, an increase of \$25.0 million or 1.5% as compared to 2008, which increased \$95.7 million or 6.1% as compared to 2007.
- Cost of sales increased \$73.1 million or 6.7% in 2009 as compared to 2008, which increased \$38.0 million or 3.6% as compared to 2007. The major components of these increases in cost of sales were:
 - Commissions paid to Lottery retailers in 2009 totaled \$121.9 million, an increase of \$4.1 million or 3.5% as compared to 2008, which increased \$5.6 million or 5.0% as compared to 2007.
 - Prizes paid to winners in 2009 totaled \$1.026 billion, an increase of \$69.0 million or 7.2% as compared to 2008, which increased \$29.9 million or 3.2% as compared to 2007.
 - Gaming vendor and data processing fees along with instant ticket printing and delivery costs in 2009 totaled \$22.6 million, an increase of \$71 thousand or .31% as compared to 2008, which increased \$2.5 million or 12.4% as compared to 2007.
- Operating expenses increased by \$448 thousand or 1.2% in 2009 as compared to 2008, which increased by \$1.5 million or 4.4% as compared to 2007.
- Transfers to the State of Maryland in 2009 were \$493.2 million, a decrease of \$36.2 million or 6.8% as compared to 2008, which increased \$35.3 million or 7.1% as compared to 2007.
- On February 2, 2009, the Lottery received \$39.3 million in license fees from applicants applying for a Video Lottery Terminal (VLT) license. During the 2007 special session of the Maryland General Assembly, legislation was enacted relating to the legalization of video lottery terminals (VLTs) in the State of Maryland (State). This legislation allows for up to five VLT facilities and a maximum of 15,000 VLTs. Applicants applying for a license were required to submit a \$3 million license fee for every 500 machines proposed at their facility.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Lottery is an independent agency of the State that was created to generate revenue through the operation of a lottery. During the 2007 special session of the Maryland General Assembly, House Bill 4 and Senate Bill 3 were enacted relating to the legalization of VLTs in the State. Under this legislation, the Lottery is responsible for the regulation of the operation of VLTs including licensing of operators and operation of a central system. 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 42 to 57 of this report.

FINANCIAL ANALYSIS

Table 1 is a summarized version of the statements of net assets as of June 30, 2009, 2008 and 2007. The table reflects the Lottery's overall change in financial resources and claims on those resources. The majority of the Lottery's assets consist of cash held by the State Treasury, investments, accounts receivable and cash and cash equivalents – VLT. The Lottery's investments and accounts receivable, as well as the majority of cash held by the State Treasury, are used to pay Lottery winners or are transferred as income to the State of Maryland. Cash and cash equivalents – VLT are the funds received from applicants bidding on a VLT facility. Most liabilities represent prize awards payables, amounts due to the State of Maryland and VLT escrow payables.

Table 1 — Net Assets (in thousands)

	2009	2008	2007
Current Assets	\$ 171,965	\$ 129,443	\$ 129,711
Non-Current Assets	106,270	127,438	144,695
Capital Assets, net	5,777	837	1,465
Total Assets	\$ 284,012	\$ 257,718	\$ 275,871
Current Liabilities	\$ 159,645	\$ 116,315	\$ 126,970
Non-Current Liabilities	96,994	112,474	134,729
Total Liabilities	\$ 256,639	\$ 228,789	\$ 261,699
Net Assets			
Invested in Capital Assets, net of related debt	\$ 29	\$ 189	\$ 341
Unrestricted	27,344	28,740	13,831
Total Net Assets	\$ 27,373	\$ 28,929	\$ 14,172

Current Assets

The Lottery's current assets increased by \$42.5 million or 32.9% in 2009, as compared to 2008, which remained relatively constant as compared to 2007. The majority of these changes occurred in Cash and Cash Equivalents – VLT and Cash held with the State Treasury. Cash and Cash Equivalents – VLT comprises the \$39.2 million in license fees that was received from applicants applying for a VLT license.

Cash held with the State Treasury increased by \$14.3 million or 24.2% in 2009 as compared to 2008 which decreased by \$1.7 million or 2.8% as compared to 2007. Cash held with the State Treasury primarily represents cash received from Lottery agents from the sale of Lottery tickets, income waiting to be transferred to the State, unpaid prizes and unclaimed prizes. Changes in these balances have a corresponding effect on the Lottery's cash position. Cash received from Lottery agents during June 2009 was higher than the cash received in June 2008 because in 2009 the funds collected from Lottery agents during the last week of June made it into the State Treasury by June 30th whereas in 2008 funds for the last week of June were not collected until July. In addition, revenue earned in the month of June 2009 was higher than in June 2008. The increase in the Cash held with the State Treasury was offset by a slight decrease in the balance in the unclaimed prize fund from 2009 as compared to 2008.

This increase in current assets was partially offset by decreases in the current portion of investments for annuity payments and accounts receivable. The current portion of investments for annuity payments decreased by \$4.0 million or 12.3% in 2009 as compared to 2008, which decreased \$3.7 million or 10.0% as compared to 2007. The decreases in 2009 and 2008 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 decreased by \$7.3 million or 20.9% in 2009 as compared to 2008, which increased by \$5.9 million or 20.3% as compared to 2007. 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 2009, two days of sales activity were waiting to be collected, compared to eight days in 2008 and six days in 2007.

Non-Current Assets

The Lottery's investments for annuity payments, net of current portion, decreased by \$21.2 million or 16.6% in 2009 as compared to 2008, which decreased \$17.3 million or 11.9% as compared to 2007. 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 increased by \$4.9 million or 590% as compared to 2008, which decreased by \$628,000 or 42.9% as compared to 2007. During 2009, the Lottery purchased 850 new Instant Ticket Vending Machines (ITVMs) to replace its existing ITVMs which had become outdated. Details of capital assets, additions and depreciation are included in Note 4 to the financial statements, on page 50.

MARYLAND STATE LOTTERY AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

Current Liabilities

Current liabilities increased by \$43.3 million or 37.3% in 2009 as compared to 2008, which decreased by \$10.7 million or 8.4% as compared to 2007. The majority of these changes are attributable to the increases in the transfers due to the State of Maryland General Fund, prize awards payable and the VLT escrow payable. These increases were slightly offset by a decrease in the current portion of annuity prizes payable.

The transfer due to the State of Maryland General Fund increased by \$4.3 million or 11.0% in 2009 as compared to 2008, which decreased \$4.6 million or 10.5% as compared to 2007. The transfer due to the State of Maryland General Fund represents the net income generated during the month of June. The increase in 2009 resulted in more income earned in June as compared to the previous year.

Prize awards payable increased by \$3.8 million or 10.3% in 2009 as compared to 2008, which increased \$4.4 million or 13.7% as compared to 2007. The increase in prize awards payable is primarily the result of higher jackpots in both Mega Millions and Multi Match at the end of 2009 as compared to 2008.

VLT escrow payable represents funds received from the applicants applying for a VLT license. As provided for under the legislation enacted in November 2007, these funds will be transferred to the State's Education Trust Fund once the awards for licenses are made.

The current portion of annuity prizes payable decreased by \$4.0 million or 12.3% in 2009 as compared to 2008, which decreased \$4.0 million or 11.0% as compared to 2007. The decreases in 2009 and 2008 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.

Non-Current Liabilities

Non-current liabilities decreased by \$15.5 million or 13.7% in 2009 as compared to 2008, which decreased \$22.3 million or 16.5% as compared to 2007. Annuity prizes payable decreased by \$20.7 million or 18.5% in 2009 as compared to 2008, which decreased by \$21.6 million or 16.2% as compared to 2007. 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.

The decrease in non-current liabilities is partially offset by an increase in capital lease obligations, net of current portion. Capital lease obligations, net of current portion, increased by \$5.1 million or 3,221.1% from 2008, which decreased by \$459 thousand or 74.4% from 2007. The increase in 2009 is the result of the purchase of 850 ITVMs. 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 51.

Net Assets

Net assets decreased by \$1.6 million or 5.4% in 2009 as compared to 2008, which increased by \$14.8 million or 104.1% as compared to 2007. The majority of the change in net assets is attributed to the change in the unclaimed prize fund at year end. Because the Lottery is required by law to transfer its entire budgetary

MARYLAND STATE LOTTERY AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

basis net income to the State of Maryland, changes in net assets do not reflect the results of the Lottery's operating activities. Rather, changes in net assets reflect differences between budgetary basis net income and net income in accordance with accounting principles generally accepted in the United States and the unclaimed prize fund. The unclaimed prize fund represents prizes not claimed by players within 182 days of the drawing or the end of an instant game. The funds in the account are given back to players in the form of prizes through promotions and supplementing jackpot prizes.

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, 2009, 2008 and 2007.

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

	2009	2008	2007
Sales			
On-line games	\$ 1,191,017	\$ 1,159,179	\$ 1,152,226
Instant games	507,057	513,860	425,085
Total sales	1,698,074	1,673,039	1,577,311
VLT Revenue – State Grant	186	—	—
VLT Revenue – Facility Applicants	896	—	—
Total Revenue	1,699,156	1,673,039	1,577,311
Cost of sales	1,170,386	1,097,237	1,059,238
Gross profit	528,770	575,802	518,073
Operating expenses	36,769	36,321	34,792
Income from operations	492,001	539,481	483,281
Non-operating expenses			
Unrealized gain (loss) on investments	(335)	4,710	(1,966)
Interest expense	(16)	(30)	(36)
Payments to State of Maryland General Fund and Stadium Authority	(493,206)	(529,404)	(494,119)
Total non-operating expenses	(493,557)	(524,724)	(496,121)
Change in Net Assets	(1,556)	14,757	(12,840)
Total Net Assets – beginning of year	28,929	14,172	27,012
Total Net Assets – end of Year	\$ 27,373	\$ 28,929	\$ 14,172

MARYLAND STATE LOTTERY AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sales

Net sales were a record \$1.698 billion in 2009, an increase of \$25.0 million or 1.5% as compared to 2008, which increased \$95.7 million or 6.1% as compared to 2007.

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 game sales increased by \$31.8 million or 2.8% in 2009, as compared to 2008, which increased \$7.0 million or 0.6% as compared to 2007. In 2009, the growth in on-line game sales is attributable to the Numbers and Monitor games which was offset by a slight decline in all other categories of on-line games; whereas, in 2008 growth was attributed to the Matrix games which was offset by a decline in all other categories of on-line games as shown in Table 3.

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

	2009	2008	2007
Numbers	\$ 525,522	\$ 509,185	\$ 531,993
Monitor	483,178	460,796	462,551
Matrix	182,317	184,017	151,187
Raffle	0	5,181	6,495
Total	\$ 1,191,017	\$ 1,159,179	\$ 1,152,226

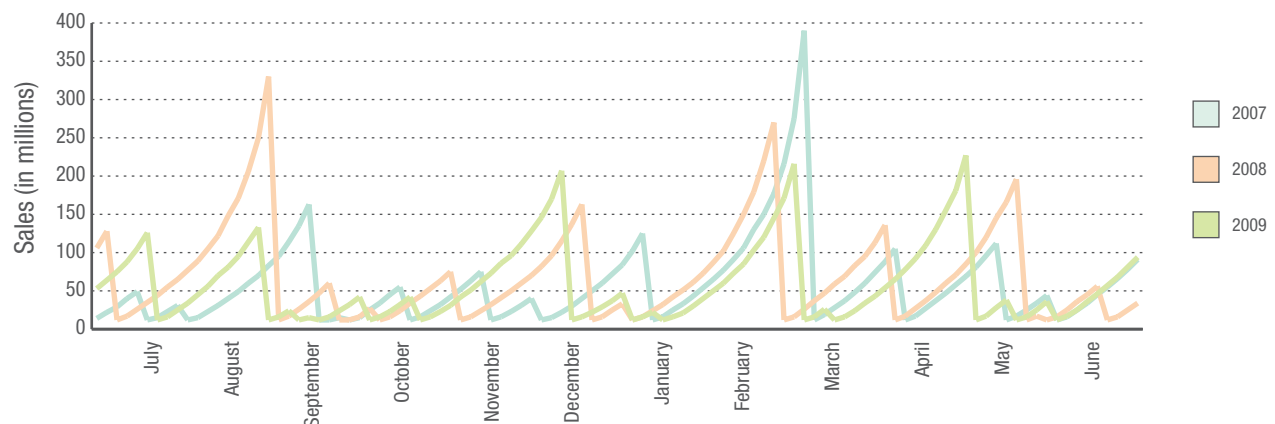
Sales for the Numbers games, which include Pick 3 and Pick 4, increased by \$16.3 million or 3.2% in 2009 as compared to 2008, which decreased by \$22.8 million or 4.3% as compared to 2007. Pick 4 sales increased in 2009 and decreased in 2008 by \$14.3 million and \$5.2 million, respectively. Pick 3 sales increased in 2009 and decreased in 2008 by \$2.1 million and \$17.6 million, respectively. The increase in sales in the Numbers games can be attributed in part to the higher than normal payouts that were experienced during 2009 as compared to 2008. As the Numbers games pay out higher than expected, players tend to purchase more tickets, thus increasing sales.

Sales for the Monitor games, which includes Keno, Keno Bonus, Keno Super Bonus, Racetrax®, and Maryland Hold 'Em, increased by \$22.4 million or 4.9% in 2009 as compared to 2008, which decreased \$1.8 million or 0.4% as compared to 2007. The increase in Monitor games during 2009 can be attributed to the launch of Keno Super Bonus on June 1, 2009 as well as the continued expansion of Racetrax®.

Sales for Matrix games, which includes Mega Millions, Multi-Match and Bonus Match 5 decreased by \$1.7 million or 0.92% in 2009 as compared to 2008, which increased by \$32.8 million or 21.7% as compared to 2007. Mega Millions represented approximately 69.1% of all Matrix game sales in 2009. Mega Millions sales decreased by \$3.4 million or 2.7% in 2009 as compared to 2008, which increased \$31.2 million or 31.8% as compared to 2007. A direct relationship exists between higher jackpots and higher sales. In 2009, the average

MARYLAND STATE LOTTERY AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

jackpot was \$57.9 million, as compared to \$68.1 million and \$56.1 million in 2008 and 2007, respectively. The change is attributable to only three jackpots in excess of \$200 million in 2009 as compared to five such jackpots in 2008 and three such jackpots in 2007. Players generally prefer games with higher jackpots and longer odds. Mega Millions' starting jackpot is several million dollars higher than other matrix-style games.



Moderate growth was achieved in Bonus Match 5 in 2009, 2008 and 2007. Multi-Match sales increased by \$1.6 million or 5.4% in 2009 as compared to sales for 2008, which increased by \$1.1 million or 3.6% as compared to 2007. 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.

The Lottery did not conduct any raffle games during 2009, as the raffle game conducted in 2008 did not generate the same level of sales as it did in 2007.

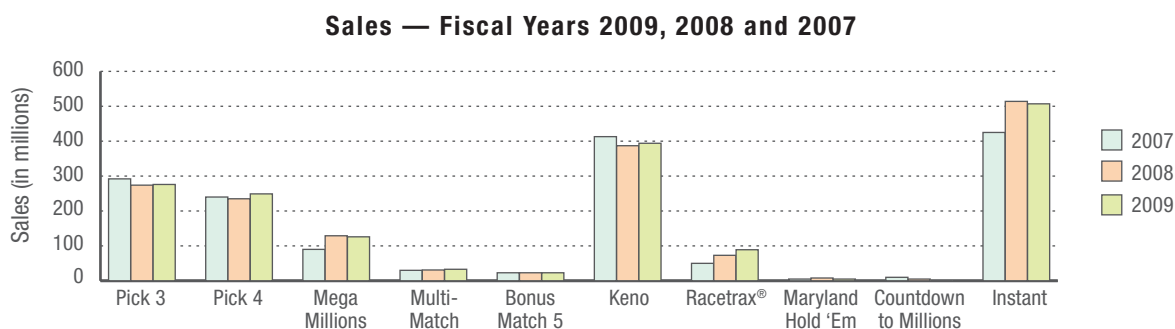
Instant games are the second type of Lottery game offered to the public. Instant game sales decreased by \$6.8 million or 1.32% in 2009 as compared to 2008, which increased \$88.8 million or 20.9% as compared to 2007, as shown in Table 4. The decrease in instant tickets in 2009 was primarily attributed to the tremendous growth experienced in 2008. In 2008, the Lottery experienced the largest growth in the country in the instant ticket product. This growth was attributed to the continuous monitoring of play styles and payouts as well as the wide variety of instant ticket games that were offered for sale.

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

	2009	2008	2007
\$1	\$ 49,319	\$ 49,469	\$ 49,363
\$2	59,733	69,567	57,427
\$3	41,678	48,017	36,446
\$5	206,158	210,135	180,872
\$10	108,126	90,343	76,631
\$20	42,043	46,329	24,346
Total	\$507,057	\$513,860	\$425,085

MARYLAND STATE LOTTERY AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

The following graph depicts the Lottery's on-line and instant sales for 2009, 2008, and 2007. Keno, Keno Bonus and Keno Super Bonus sales (labeled as Keno for the chart below) have been combined.



VLT Revenue – State Grant and Facility Applicants

VLT Revenue – State Grant and Facility Applicants represent funds received by the Lottery from the State of Maryland to pay for the costs of the VLT operations. The facility applicant portion represents costs incurred by the Lottery to perform background investigations on the applicants who have applied for a VLT license. These costs will be billed to the applicant and returned to the State once collected by the Lottery. The State grant portion represents costs incurred by the Lottery which are not reimbursable by the facilities.

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 \$73.1 million or 6.7% in 2009 as compared to 2008, which increased \$38.0 million or 3.6% as compared to 2007.

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 \$69.0 million or 7.2% in 2009 as compared to 2008, which increased \$29.9 million or 3.2% as compared to 2007. 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." Prize expense for Pick 3 and Pick 4 was higher than normal during 2009, paying out over 52% each, whereas in 2008 these games paid out 44.6% and 42.6%, respectively. Both the Pick 3 and Pick 4 games are designed to pay out at 50%. Over time, such prize payouts generally reflect the design of the game and the odds of winning.

Commissions paid to Lottery retailers increased by \$4.1 million or 3.5% in 2009 as compared to 2008, which increased \$5.6 million or 5.0% as compared to 2007. Retailers licensed by the Lottery to sell on-line and/or instant tickets are paid a commission of 5.5% 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.

MARYLAND STATE LOTTERY AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Expenses

Operating expenses increased by \$448 thousand or 1.2% in 2009 as compared to 2008, which increased by \$1.5 million or 4.4% as compared to 2007. Fluctuations in operating expenses are primarily due to changes in the Lottery's budgetary appropriation or the timing of liquidating prior year encumbrances. The Lottery's operating expenses have remained relatively stable since the Lottery's budgetary appropriation and outstanding encumbrances have remained relatively stable for the past several years.

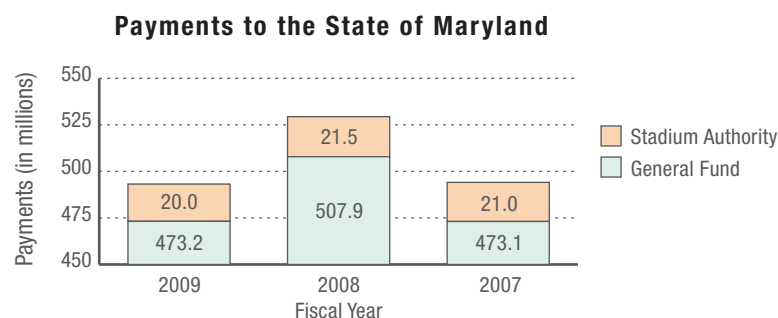
Non-operating Expenses

Non-operating expenses decreased by \$31.2 million or 5.9% in 2009 as compared to 2008, which increased by \$28.6 million or 5.8% as compared to 2007. 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 47.

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 \$493.2 million, a decrease of \$36.2 million or 6.8% as compared to 2008, which increased \$35.3 million or 7.1% as compared to 2007. The decrease in transfers in 2009 resulted from the abnormally high payout in the Pick 3 and Pick 4 games. These games alone returned \$40.0 million less to the State of Maryland in 2009 than they did in 2008. The increase in 2008 over 2007 resulted from an increase in sales and revenues. The graph below depicts the payments made to the State of Maryland for 2009, 2008, and 2007.



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, Interim Director and Chief Financial Officer, Maryland Lottery, 1800 Washington Boulevard, Suite 330, Baltimore, Maryland 21230.

MARYLAND STATE LOTTERY AGENCY
STATEMENTS OF NET ASSETS

	As of June 30	
	2009	2008
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,649,885	\$ 1,906,504
Cash and cash equivalents — VLT	39,512,031	—
Cash and cash equivalents — Agent	153,012	—
Cash held with State Treasury	73,434,214	59,144,489
Accounts receivable	27,292,248	34,920,064
Accounts receivable — VLT	314,895	—
Prepaid commissions	36,412	47,236
Current portion of investments for annuity payments	29,571,946	33,424,523
Total current assets	171,964,643	129,442,816
Non-current assets:		
Capital assets, net of accumulated depreciation	5,777,761	837,362
Investments for annuity payments, net of current portion	106,269,880	127,438,153
Total non-current assets	112,047,641	128,275,515
Total assets	\$ 284,012,284	\$ 257,718,331
Liabilities and Net Assets:		
Current liabilities:		
Current portion of annuity prizes payable	\$ 28,521,310	\$ 32,501,319
Current portion of employee related payables	1,130,695	1,121,644
Current portion of capital lease obligation	487,134	489,654
Transfer due to State of Maryland General Fund	43,748,041	39,417,631
Prize awards payable	40,441,704	36,674,537
Accounts payable and accrued expenses	2,657,075	3,099,614
Accounts payable and accrued expenses — VLT	314,895	—
VLT Escrow Payable	39,512,031	—
Agent Escrow Payable	153,012	—
Unearned revenue	2,412,944	2,627,448
Taxes and other liabilities	266,589	383,487
Total current liabilities	159,645,430	116,315,334
Non-current liabilities:		
Annuity prizes payable, net of current portion	91,181,551	111,888,352
Employee related payables, net of current portion	550,860	427,226
Capital lease obligation, net of current portion	5,261,123	158,416
Total non-current liabilities	96,993,534	112,473,994
Total liabilities	256,638,964	228,789,328
Net Assets:		
Invested in capital assets, net of related debt	29,504	189,292
Unrestricted	27,343,816	28,739,711
Total net assets	27,373,320	28,929,003
Total liabilities and net assets	\$ 284,012,284	\$ 257,718,331

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	
	2009	2008
Sales:		
On-line games	\$ 1,191,017,032	\$ 1,159,179,145
Instant games	507,057,024	513,859,583
Total sales	1,698,074,056	1,673,038,728
VLT Revenue — State Grant	185,724	—
VLT Revenue — Facility Applicants	896,234	—
Total Revenue	1,699,156,014	1,673,038,728
Cost of sales:		
Prize expense	1,025,901,163	956,887,051
Retailer commissions	121,888,107	117,824,367
Gaming vendor and data processing fees	15,975,142	15,615,384
Instant ticket printing and delivery	6,621,144	6,910,073
Total cost of sales	1,170,385,556	1,097,236,875
Gross profit	528,770,458	575,801,853
Operating expenses:		
Salaries, wages and benefits	12,981,499	12,224,124
Advertising and promotions	19,036,583	19,805,039
Depreciation and amortization	649,441	627,947
Other general and administrative expenses	3,019,878	3,663,424
Administrative Expense — VLT	1,081,958	—
Total operating expenses	36,769,359	36,320,534
Income from operations	492,001,099	539,481,319
Non-operating revenues (expenses):		
Investment revenue (loss)	8,742,144	15,707,295
Amortization of discount for annuity prize liabilities	(9,076,186)	(10,997,667)
Interest expense	(16,480)	(30,449)
Payments to State of Maryland General Fund	(473,206,260)	(507,903,554)
Payments to State of Maryland Stadium Authority	(20,000,000)	(21,500,000)
Total non-operating revenues (expenses)	(493,556,782)	(524,724,375)
Change in net assets	(1,555,683)	14,756,944
Total net assets — beginning of year	28,929,003	14,172,059
Total net assets — end of year	\$ 27,373,320	\$ 28,929,003

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

MARYLAND STATE LOTTERY AGENCY
STATEMENTS OF CASH FLOWS

	Years ended June 30	
	2009	2008
Cash flows from operating activities:		
Receipts from customers	\$ 1,744,837,516	\$ 1,663,971,565
Payments to suppliers	(44,676,444)	(48,756,009)
Payments to employees	(12,848,814)	(12,253,832)
Payments to agents	(121,981,230)	(117,688,030)
Prize payments/awards to players	(1,022,250,895)	(951,185,972)
Net cash provided by operating activities	543,080,133	534,087,722
Cash flows from noncapital financing activities:		
Transfers to the State of Maryland General Fund and Stadium Authority	(488,875,851)	(534,014,163)
Transfers from other Mega Millions states	14,227,278	55,113,244
Shared prize winner payments	(14,227,277)	(55,113,245)
Prize payments/awards	(33,762,996)	(37,973,996)
Net cash used in noncapital financing activities	(522,638,846)	(571,988,160)
Cash flows from capital and related financing activities:		
Payments of capital lease obligations	(489,654)	(475,925)
Interest payments	(16,480)	(30,449)
Net cash used in capital and related financing activities	(506,134)	(506,374)
Cash flows from investing activities:		
Coupon bonds purchased	—	(1,310,625)
Proceeds from matured annuities and bonds	33,762,996	37,973,996
Net cash provided by investing activities	33,762,996	36,663,371
Net increase in cash and cash equivalents	53,698,149	(1,743,441)
Cash and cash equivalents, beginning of year	61,050,993	62,794,434
Cash and cash equivalents, end of year	\$ 114,749,142	\$ 61,050,993
Noncash investing and financing activities:		
Acquisition of equipment through capital lease	\$ 5,589,841	\$ —
Change in fair value of investments	\$ (334,041)	\$ 4,709,628

MARYLAND STATE LOTTERY AGENCY
STATEMENTS OF CASH FLOWS (CONTINUED)

	Years ended June 30	
	2009	2008
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 492,001,099	\$ 539,481,319
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	649,441	627,947
Deferred prize payments	—	1,310,625
Effect of changes in operating assets and liabilities:		
Accounts receivable	7,312,921	(5,897,426)
Instant ticket inventory	—	546,895
Prepaid commissions	10,824	175,570
Accounts payable and accrued expenses	39,537,398	(3,348,217)
Employee related payables	132,685	(29,708)
Taxes and other liabilities	(116,898)	(39,875)
Prize awards payable	3,767,167	4,430,329
Unearned revenue	(214,504)	(3,169,737)
Net cash provided by operating activities	<u>\$ 543,080,133</u>	<u>\$ 534,087,722</u>

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LEGISLATIVE ENACTMENT

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

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

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

BASIS OF ACCOUNTING AND PRESENTATION

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

USE OF ESTIMATES

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

LOTTERY GAME OPERATIONS – REVENUE RECOGNITION AND PRIZE OBLIGATIONS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

demand. Independent and corporate retailers comprised principally of grocery and convenience stores, package goods stores, and restaurants serve as the primary distribution channel for on-line and instant lottery sales to the general public. For the years ended June 30, 2009 and 2008, 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, Keno Super 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.

CASH AND CASH EQUIVALENTS – VLT

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS – AGENT

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

ACCOUNTS RECEIVABLE

Accounts receivable represents the amounts due from Lottery retailers from the sale of Lottery tickets. The Lottery utilizes the allowance method to provide for doubtful accounts based on management's evaluation of the collectibility of accounts receivable. The Lottery determines accounts receivable to be delinquent when greater than 10 days past due. Receivables are written off when it is determined that amounts are uncollectible. As of June 30, 2009 and 2008, management believes all accounts receivable are collectible, and, as such, no allowance for doubtful accounts has been recorded.

ACCOUNTS RECEIVABLE – VLT

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

CAPITAL ASSETS AND LEASEHOLD IMPROVEMENTS

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

INVESTMENTS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES

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

PAYMENTS TO THE STATE OF MARYLAND

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

RESTRICTED ASSETS

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

NET ASSETS

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

NEW ACCOUNTING PRONOUNCEMENTS

The Lottery has implemented GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," and GASB Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards" effective for the fiscal year ended June 30, 2009. Implementation of these standards had no impact on the Lottery's financial position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. In March, 2009, GASB issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement will be effective for the Lottery for the fiscal year ended June 30, 2011. The Lottery 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, 2009 and June 30, 2008, the carrying amounts of deposits with financial institutions were \$41,314,928 and \$1,906,504, respectively. The corresponding bank balances were \$40,855,698 and \$1,788,386 as of June 30, 2009 and June 30, 2008, respectively.

As of June 30, 2009 and June 30, 2008, the amount on deposit with the Maryland State Treasury was \$73,434,214 and \$59,144,489, respectively. The corresponding Maryland State Treasury balances were \$73,404,904 and \$58,946,525, 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, 2009 and 2008, 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 a portion of the Lottery's deposits with a financial institution, and the remaining balance is collateralized with securities that are held by the State of Maryland's agent in the State's name. These deposits are invested in overnight repurchase agreements. As of June 30, 2009 and 2008, the collateral for the repurchase agreements were Federal National Mortgage Association (FNMA) Mortgage-Backed Securities which are not rated; however, the amount of collateral meets or exceeds the deposit insurance.

Interest rate risk – The State Treasury investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash

2. CASH AND CASH EQUIVALENTS (CONTINUED)

flow, the State Treasury will not directly invest in securities maturing more than five years from the date of purchase.

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

Concentration of credit risk – The State Treasury's investment policy limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. There is no other limit on the amount that may be invested in any one issuer. More than 5% of government funds investments are in the FNMA, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, the Federal Farm Credit Bank, and the Federal Agricultural Mortgage Corporation. As of June 30, 2009, these investments are 12.6%, 27.2%, 21.2%, 13.1%, and 19.0% 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 2.6% to 9.4%. As of June 30, 2009 and June 30, 2008, the Lottery's United States Government Treasury Bonds totaled \$135,458,305 and \$160,444,065, respectively. The investments in United States Government Treasury Bonds are carried at fair value based on quoted market prices on the accompanying statements of net assets and the related unrealized gains (losses) and interest income are recorded as investment revenue (loss) on the accompanying statements of revenues, expenses, and changes in net assets.

Through the State securities lending program, authorized under section 2-603 of the State's Finance and Procurement Article of the Annotated Code of Maryland, the State Treasurer's Office lends United States Government securities to broker-dealers and other entities (borrowers). As of June 30, 2009 and June 30, 2008, Lottery United States Government Treasury Bonds totaling \$100,169,000 and \$110,754,000, 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

3. INVESTMENTS (CONTINUED)

may use or invest cash collateral in accordance with the reinvestment guidelines approved by the State Treasurer's Office. Additionally, under the terms of the lending agreement, the lending agent indemnifies the State against any credit loss arising from investment of the collateral. The collateral will be returned for the same securities by the next business day if the aggregate value of the collateral falls to less than 100 percent of the market value of the securities lent against the collateral. Cash collateral is initially pledged at greater than the market value of the securities.

At year-end, the State has no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. As of June 30, 2009 and 2008, the related collateral for the Lottery securities lent totaled \$100,747,000 and \$112,654,000, respectively, resulting in 100.6% and 101.7% collateralization of the fair value of the Lottery securities lent. The benefit of collateral received or income earned is not passed onto the Lottery and therefore not reflected in the Lottery's financial statements.

Either the State or the borrower may terminate the lending agreements on demand. Lending agreements are usually short in duration. The duration of the lending agreements is matched with the term to maturity of the investment of the cash collateral by investing only in repurchase agreements. Such matching existed at year-end. The State's custodial bank is obligated to indemnify the State against liability for any suits, actions, or claim of any character arising from or relating to the performance of the bank under the contract, except for liability caused by acts or omissions of the State. The State did not experience any losses on their securities lending transactions for the years ended June 30, 2009 and 2008.

ANNUITY CONTRACTS

Certain investments are held in annuity contracts that return guaranteed interest ranging from 7.6% to 12.1%. As of June 30, 2009 and June 30, 2008, the annuity contracts totaled \$383,519 and \$418,611, respectively. The annuity contracts were purchased in 1976 to satisfy the Lottery's obligation for certain lifetime prizes. The value of the annuity contracts and related annuity prizes payable were adjusted in fiscal year 2005 based on revised actuarial life expectancy tables.

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

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

MARYLAND STATE LOTTERY AGENCY
NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS (CONTINUED)

As of June 30, 2009, 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	\$135,458,307	1	99.7%	\$29,520,088	\$72,787,133	\$21,949,101	\$11,201,985	\$ 0
Annuity Contracts	383,519	2	.3%	51,858	226,261	80,098	25,146	156
Total Investments	\$135,841,826		100.0%	\$29,571,946	\$73,013,394	\$22,029,199	\$11,227,131	\$156

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, 2009 and 2008 is as follows:

	2008	Increases	Decreases	2009
Capital Assets				
Machinery and Equipment	\$ 9,372,613	\$ 5,589,840	\$ 7,669,660	\$ 7,292,793
Leasehold Improvements	613,240	—	—	613,240
Total Capital Assets	9,985,853	5,589,840	7,669,660	7,906,033
Less Accumulated Depreciation and Amortization				
Machinery and Equipment	8,806,098	588,117	7,669,660	1,724,555
Leasehold Improvements	342,393	61,324	—	403,717
Total Accumulated Depreciation and Amortization	9,148,491	649,441	7,669,660	2,128,272
Net Capital Assets	<u>\$ 837,362</u>	<u>\$ 4,940,399</u>	<u>\$ —</u>	<u>\$ 5,777,761</u>

	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 and Amortization				
Machinery and Equipment	8,239,475	566,623	—	8,806,098
Leasehold Improvements	281,069	61,324	—	342,393
Total Accumulated Depreciation and Amortization	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>

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
2010	\$ 28,521,310	\$ 1,082,686	\$ 29,603,996
2011	22,368,356	2,531,640	24,899,996
2012	17,823,855	3,404,141	21,227,996
2013	13,284,616	3,576,380	16,860,996
2014	10,072,877	3,519,119	13,591,996
2015–2019	18,264,289	9,320,842	27,585,131
2020–2024	7,116,613	7,353,100	14,469,713
2025–2028	2,248,820	3,427,160	5,675,980
2029–2031	2,125	3,504	5,629
Total	<u>\$ 119,702,861</u>	<u>\$ 34,218,572</u>	<u>\$ 153,921,433</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, 2009 and 2008 was as follows:

Fiscal Year Ending	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
June 30, 2009	\$ 144,389,671	\$ 9,076,186	\$ 33,762,996	\$ 119,702,861	\$ 28,521,310
June 30, 2008	\$ 170,055,377	\$ 12,308,290	\$ 37,973,996	\$ 144,389,671	\$ 32,501,319

6. EMPLOYEE RELATED PAYABLES

Changes in long-term employee related payables were as follows for the years ended June 30, 2009 and 2008. 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 \$499,695 and \$440,374 as of June 30, 2009 and 2008, respectively.

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

	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	<u>229,496</u>	<u>197,730</u>	<u>427,226</u>
	<u>\$ 874,496</u>	<u>\$ 234,000</u>	<u>\$ 1,108,496</u>

7. COMMITMENTS AND CONTINGENCIES

LEASES

The Lottery leases office space, warehouse facilities, and on-line and instant product equipment over periods extending through February 2014. Rent expense for each of the years ended June 30, 2009 and 2008 totaled \$924,108. Certain leases contain a bargain purchase option and are accounted for as capital leases.

The assets acquired under capital leases include:

	June 30, 2009	June 30, 2008
Machinery and Equipment	\$ 5,881,452	\$ 2,293,750
Accumulated amortization	(449,599)	(1,940,235)
	<u>\$ 5,431,853</u>	<u>\$ 353,515</u>

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

Year Ending June 30:	Operating Leases	Capital Leases
2010	\$ 924,108	\$ 543,156
2011	924,108	1,286,294
2012	924,108	1,251,615
2013	385,045	1,216,932
2014	—	1,215,632
2015	—	607,320
Total	\$ 3,157,369	\$ 6,120,949
Less amount representing interest		372,692
Present value of minimum lease payments		5,748,257
Less current maturities		487,134
Long-term portion of capital lease obligations		<u>\$ 5,261,123</u>

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

	2009	2008
Beginning Balance	\$ 648,070	\$ 1,123,995
Acquisitions	5,589,841	—
Payments	(489,654)	(475,925)
Ending Balance	<u>\$ 5,748,257</u>	<u>\$ 648,070</u>

CONTRACTS

As of June 30, 2009, the Lottery has entered into various contracts totaling approximately \$94,338,000 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: Georgia, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia, Washington, California, and Maryland. The Mega Millions states have agreed to a common set of game rules and share a common prize pool. The prize pool is shared on a percent of sales basis. Game accounting is conducted after each semi-weekly drawing. Settlements between the states occur immediately for jackpot winners; annually for all other prizes, unless a state's settlement amount exceeds \$1,500,000; annually for unclaimed non-jackpot prizes; and immediately for unclaimed jackpot prizes.

9. RETIREMENT BENEFITS

The Lottery and its employees contribute to the State Retirement and Pension System (the System). The System is 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. 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.

9. RETIREMENT BENEFITS – (CONTINUED)

The Pension Plan provides retirement, death and disability benefits to its members. Members of the Pension Plan are generally eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. Generally, the annual pension allowance for a member equals 1.2% of the member's AFS, multiplied by the number of years 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, 2009, 2008, and 2007 are as follows:

	2009	2008	2007
Lottery contribution	\$ 781,000	\$ 784,000	\$ 570,000
Percentage of payroll	6.05%	6.35%	4.61%

10. OTHER POSTEMPLOYMENT BENEFITS

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

10. OTHER POSTEMPLOYMENT BENEFITS – (CONTINUED)

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

PLAN DESCRIPTION

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

FUNDING POLICY

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

Based on current practice, the State subsidizes approximately 50% to 85% of covered medical, dental, prescription, and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for postemployment health care benefits, which is based on health care insurance charges for current employees. Costs for post retirement benefits are for State of Maryland retirees. The State does not distinguish employees by employer/State agency. Instead, the State allocates the postemployment health care costs to all participating employers. The cost of these benefits is expensed when paid. For the years ended June 30, 2009 and 2008, the State did not allocate postemployment 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.

12. VIDEO LOTTERY TERMINAL (VLT) FACILITIES

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

As of June 30, 2009, the State provided a grant in the amount of \$185,724 to the Lottery to begin the implementation of the VLT program. Additionally, the Lottery spent \$896,234 under authority from the State to implement the program. This amount will be billed to facility applicants and repaid to the State.

MARYLAND STATE LOTTERY AGENCY

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

	For the Year ended June 30, 2009			
	Original Budget	Final Amended Budget	Actual Amounts	Variance with Budget positive (negative)
Revenues:				
Ticket Sales	\$ 1,652,282,351	\$ 1,630,800,027	\$ 1,744,837,516	\$ 114,037,489
Expenses:				
Gaming vendor and information technology fees	17,154,362	16,795,369	15,975,142	(820,227)
Instant ticket printing and delivery	4,675,780	4,660,496	6,621,144	1,960,648
Salaries, wages and benefits	12,987,021	12,663,228	12,908,135	244,907
Advertising and promotions	21,639,343	21,639,343	19,036,583	(2,602,760)
Other general and administrative expenses	4,677,941	4,677,941	3,411,256	(1,266,685)
Reversions	—	(96,776)	—	96,776
Total Expenses and Encumbrances	61,134,447	60,339,601	57,952,260	(2,387,341)
Excess of Revenues Over Expenses	1,591,147,904	1,570,460,426	1,686,885,256	116,424,830
Other Uses of Financial Resources:				
Transfers out:				
Payments to Maryland Stadium Authority	(20,000,000)	(20,000,000)	(20,000,000)	—
Payments to the Maryland General Fund	(507,269,000)	(475,843,000)	(473,206,260)	2,636,740
Excess of Revenues Over Expenses and Other Uses of Financial Resources	\$ 1,063,878,904	\$ 1,074,617,426	\$ 1,193,678,996	\$ 119,061,570
Reconciliation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenses:				
Change in Net Assets (page 39)	\$ (1,555,683)			
Non-Budgetary Expenses				
Prize expense	1,025,901,163			
Retailer commissions	121,888,107			
Depreciation and amortization	649,441			
Bad debt recoveries	103,946			
Accounting Principle Differences				
Accounts receivable	7,312,921			
Unearned revenue	(214,504)			
Increase in fair value of investments	(8,742,144)			
Amortization of discount of prize liabilities	9,076,186			
Compensated absences	107,364			
Workers' compensation	(34,000)			
Capital asset acquisition	—			
Capital lease payments and related interest	(478,844)			
Cash received for VLT/Agents	39,665,043			
Excess of Revenues over Expenses and Other Uses of Financial Resources	\$ 1,193,678,996			

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.



910 Ridgebrook Road
Sparks, MD 21152

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

To the Maryland State Lottery Agency:

We have audited the financial statements of the Maryland State Lottery Agency (an agency of the State of Maryland), as of and for the year ended June 30, 2009 and have issued our report thereon dated September 22, 2009. 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 accounting principles generally accepted in the United States of America 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 material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Maryland State Lottery Agency, in a separate letter dated September 22, 2009.

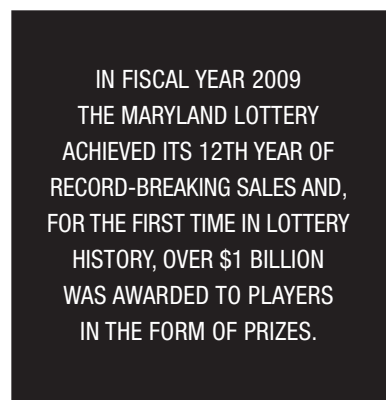
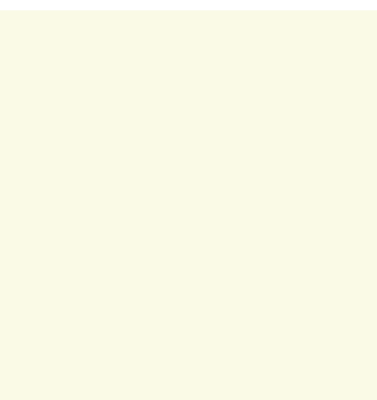
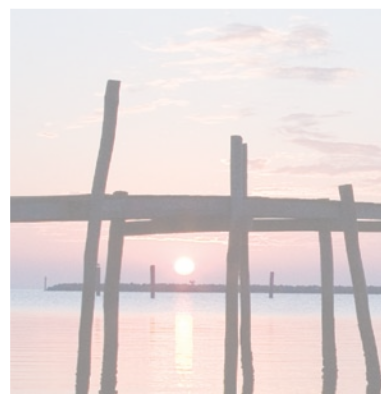
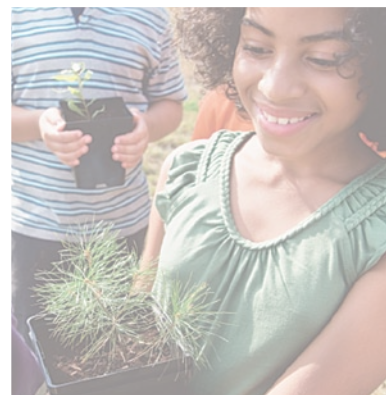
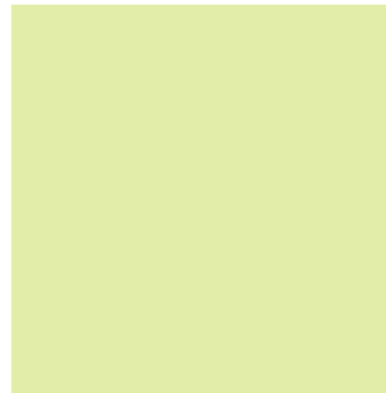
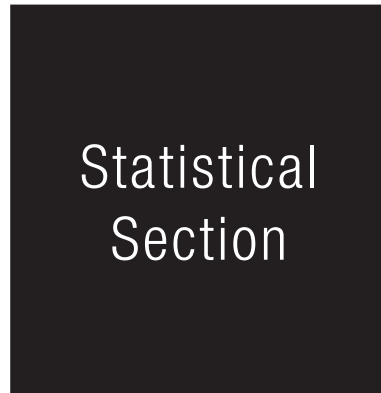
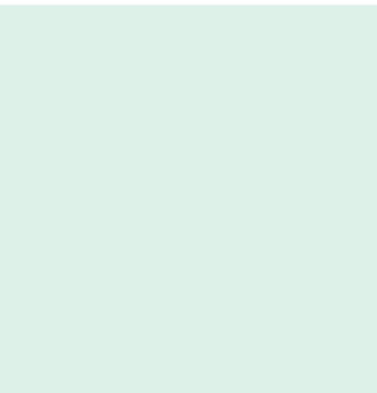
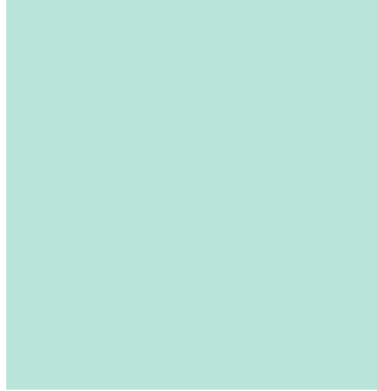
This report is intended solely for the information and use of the management of the Maryland State Lottery Agency and the State of Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Stout, Causey & Horning, P.A.

September 22, 2009

MARYLAND STATE LOTTERY AGENCY

COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR
THE YEARS ENDED
JUNE 30, 2009 AND 2008



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 65

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 78

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 83

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 84

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

OPERATING INFORMATION 85

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 2000 THROUGH 2009

NET ASSETS BY COMPONENT — FISCAL YEARS 2000 THROUGH 2009

FISCAL YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Invested in capital assets, net of related debt	\$ 46,785	\$ 415,012	\$ 608,337	\$ 758,018	\$ 376,882	\$ 436,229	\$ 292,874	\$ 341,314	\$ 189,292	\$ 29,504
Unrestricted	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	27,343,816
Total net assets	\$ 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	\$ 27,373,320

CHANGE IN NET ASSETS — FISCAL YEARS 2000 THROUGH 2009

OPERATING REVENUES:										
Numbers games	\$ 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	\$ 525,522,017
Monitor games	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	483,177,817
Matrix games	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	182,317,198
Instant games	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	507,057,024
Raffle games	—	—	—	—	—	—	—	6,495,000	5,180,800	—
Other games	—	1,443,932	1,322,196	—	2,898,696	—	—	—	—	—
Total sales	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	1,698,074,056
VLT Revenue - State Grant	—	—	—	—	—	—	—	—	—	185,724
VLT Revenue - Facility Applicants	—	—	—	—	—	—	—	—	—	896,234
Total operating revenues	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	1,699,156,014

COST OF SALES:

Prize expense	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	1,025,901,163
Retailer commissions	68,625,960	76,943,536	85,362,915	87,118,213	91,299,325	97,592,346	102,704,705	112,187,831	117,824,367	121,888,107
Gaming vendor and data processing fees	12,489,288	14,364,972	13,892,789	14,261,693	14,576,720	15,243,781	15,638,778	14,778,613	15,615,384	15,975,142
Instant ticket printing and delivery	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	6,621,144
Total cost of sales	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	1,170,385,556

OPERATING EXPENSES:

Salaries, wages, and benefits	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	12,981,499
Advertising and promotions	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	19,036,583
Other general and administrative expenses	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	3,019,878
Administrative expense — VLT	—	—	—	—	—	—	—	—	—	1,081,958
Depreciation and amortization	722,967	1,247,480	1,433,161	1,830,956	1,623,609	1,500,135	560,257	657,431	627,947	649,441
Total operating expenses	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	36,769,359

NON-OPERATING REVENUES (EXPENSES):

Unrealized gains (losses) on investments	—	—	—	—	(25,411,268)	(2,236,689)	(16,973,874)	(1,966,256)	4,709,628	(334,042)
Extraordinary item: Income from de-mutualization	—	—	998,032	—	—	—	—	—	—	—
Cumulative effect of change in accounting principles (1)	—	—	—	2,333,496	58,351,461	—	—	—	—	—
Interest expense	(120,393)	(211,356)	(208,577)	(179,456)	(118,156)	(89,863)	(44,066)	(35,452)	(30,449)	(16,480)
Payments to State of Maryland	(401,013,020)	(407,044,747)	(443,504,348)	(444,896,934)	(458,373,006)	(477,098,363)	(500,970,617)	(494,119,273)	(529,403,554)	(493,206,260)
Total non-operating revenues (expenses)	(401,133,413)	(407,256,103)	(442,714,893)	(442,742,894)	(425,550,969)	(479,424,915)	(517,988,557)	(496,120,961)	(524,724,375)	(493,556,782)

CHANGES IN NET ASSETS	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	(1,555,683)
TOTAL NET ASSETS, BEGINNING OF YEAR	809,651	6,543,606	12,459,934	8,581,917	44,222,416	45,345,667	27,012,255	14,172,059	28,929,003	27,373,320
TOTAL NET ASSETS, END OF YEAR	\$ 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	\$ 27,373,320

(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 2000 THROUGH 2009

SALES BY CATEGORY AND GAME

FISCAL YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
NUMBERS:										
Pick 3	\$ 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	\$ 276,347,705
Pick 4	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	249,174,312
Numbers Total	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	525,522,017
MONITOR:										
Keno	241,071,900	238,386,254	256,436,493	265,922,974	268,308,259	279,934,456	287,249,705	288,132,183	248,684,056	247,910,424
Keno Bonus	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	134,381,213
Keno Super Bonus	-	-	-	-	-	-	-	-	-	11,910,933
Racetrax®	-	-	-	-	-	944,928	268,332	49,844,937	72,876,083	88,511,360
Maryland Hold 'Em	-	-	-	-	-	-	-	27,358	1,342,106	463,887
Monitor Total	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	483,177,817
MATRIX:										
Mega Millions	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	125,960,400
Lotto	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	32,896,776
Bonus Match 5	-	-	8,266,718	21,250,620	21,235,924	21,916,265	22,425,338	22,879,700	23,414,509	23,460,022
Cash In Hand	23,579,918	22,155,211	18,156,097	3,200,860	-	-	-	-	-	-
Matrix Total	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	182,317,198
INSTANT:	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	507,057,024
RAFFLE:	-	-	-	-	-	-	-	6,495,000	5,180,800	-
OTHER:	-	1,443,932	1,322,196	-	2,898,696	-	-	-	-	-
TOTAL SALES	\$ 1,172,882,098	\$ 1,210,616,227	\$ 1,306,538,497	\$ 1,322,238,537	\$ 1,395,408,468	\$ 1,485,732,850	\$ 1,560,905,784	\$ 1,577,311,065	\$ 1,673,038,728	\$ 1,698,074,056

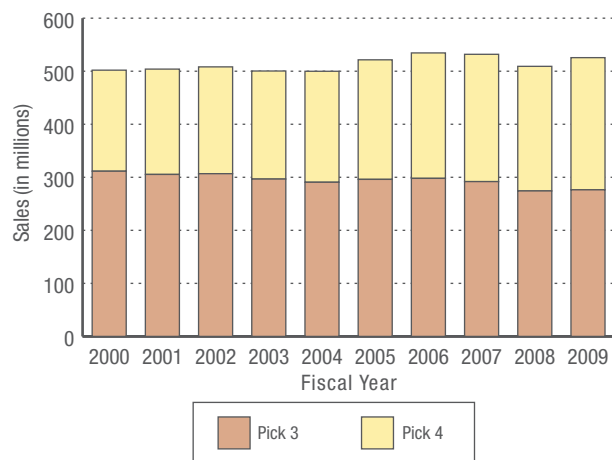
PRODUCT MIX BY CATEGORY

FISCAL YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Numbers Games	42.81%	41.63%	38.90%	37.84%	35.83%	35.10%	34.25%	33.73%	30.44%	30.95%
Monitor Games	26.52%	26.39%	27.23%	28.54%	27.93%	28.10%	27.96%	29.33%	27.54%	28.45%
Matrix Games	11.75%	10.04%	10.87%	9.67%	10.59%	10.48%	11.18%	9.58%	11.00%	10.74%
Instant Games	18.92%	21.82%	22.90%	23.95%	25.44%	26.32%	26.61%	26.95%	30.71%	29.86%
Raffle Games	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.41%	0.31%	0.00%
Other Games	0.00%	0.12%	0.10%	0.00%	0.21%	0.00%	0.00%	0.00%	0.00%	0.00%

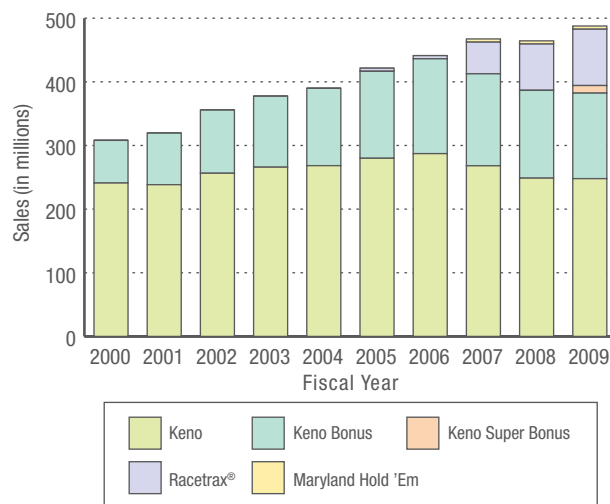
MARYLAND STATE LOTTERY AGENCY

SALES — FISCAL YEARS 2000 THROUGH 2009 (CONTINUED)

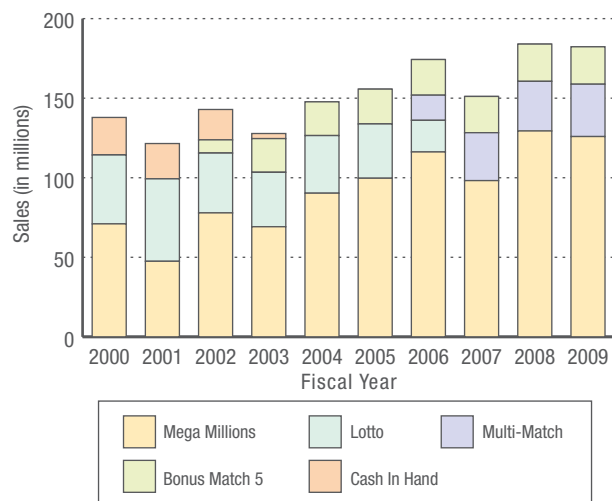
NUMBERS GAMES



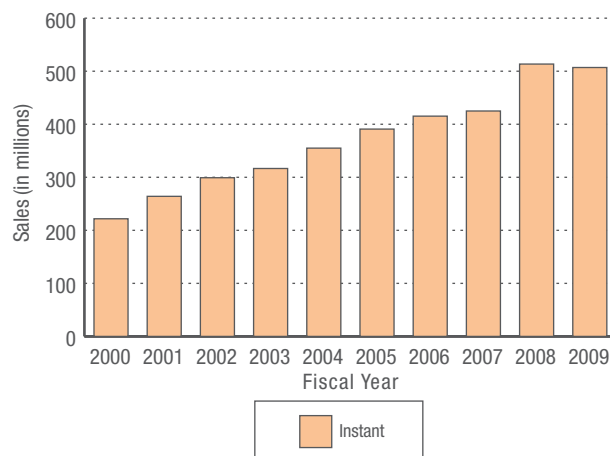
MONITOR GAMES



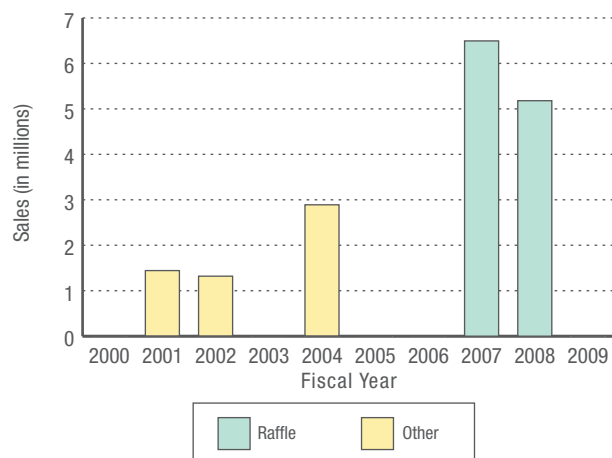
MATRIX GAMES



INSTANT GAMES



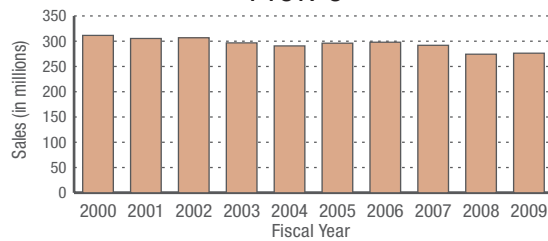
OTHER GAMES



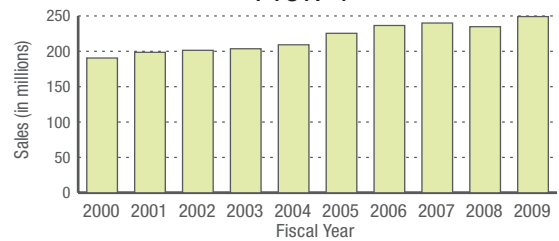
MARYLAND STATE LOTTERY AGENCY

SALES — FISCAL YEARS 2000 THROUGH 2009 (CONTINUED)

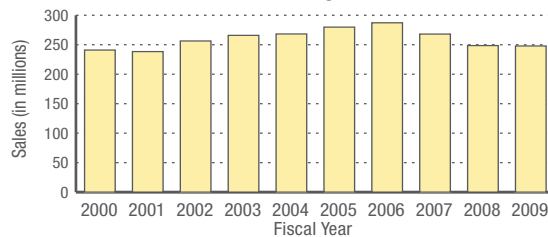
PICK 3



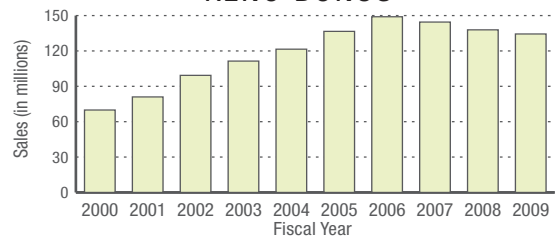
PICK 4



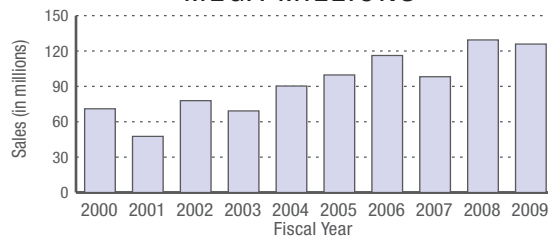
KENO



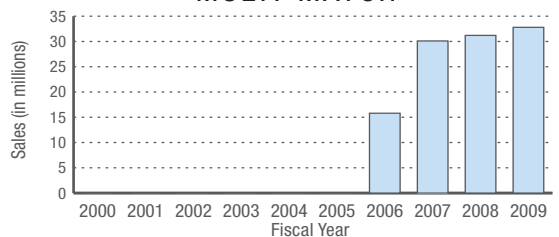
KENO BONUS



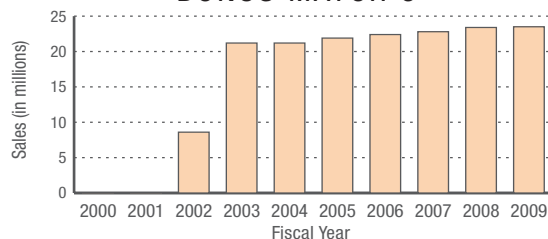
MEGA MILLIONS



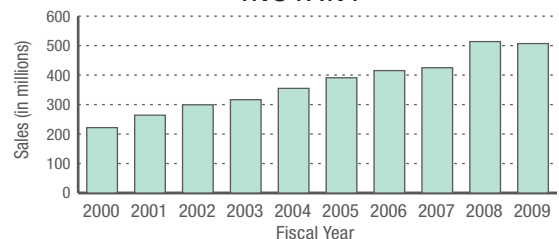
MULTI-MATCH



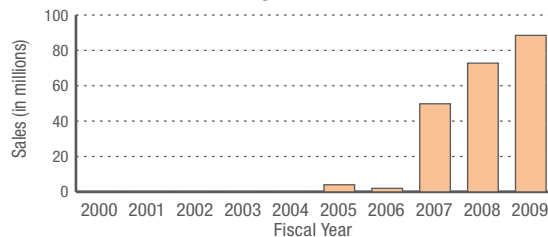
BONUS MATCH 5



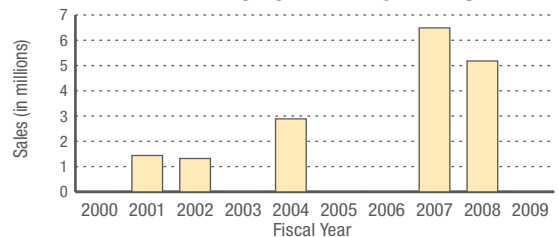
INSTANT



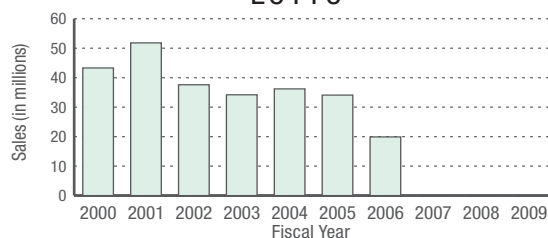
RACETRAX®



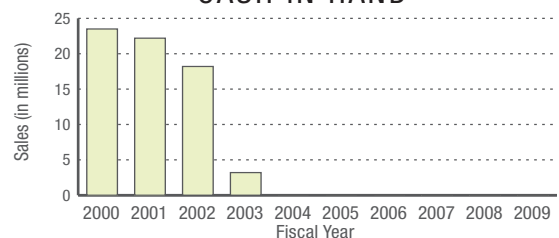
RAFFLE & OTHER GAMES



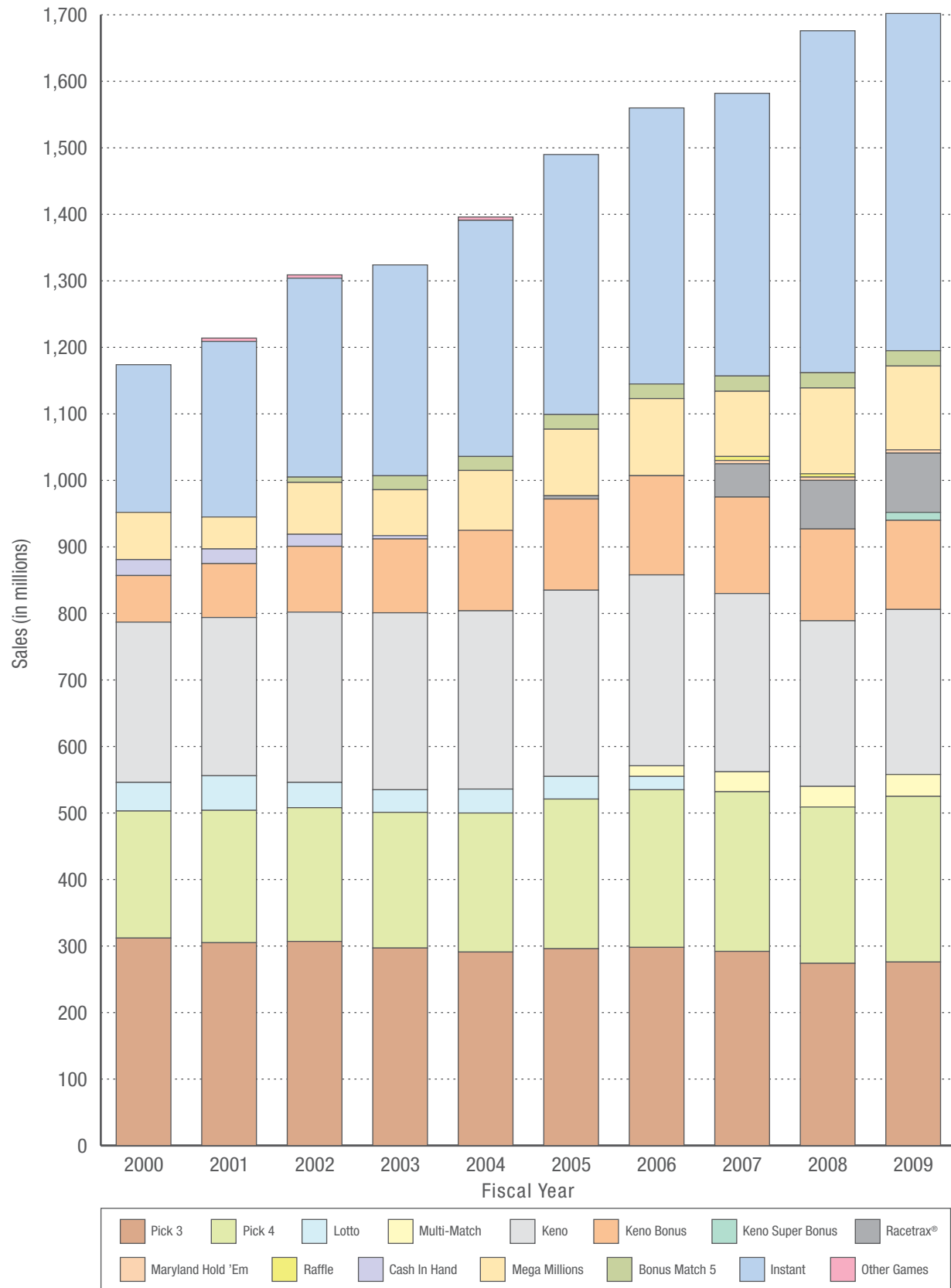
LOTTO



CASH IN HAND



MARYLAND STATE LOTTERY AGENCY
SALES — FISCAL YEARS 2000 THROUGH 2009 (CONTINUED)



MARYLAND STATE LOTTERY AGENCY

U.S. LOTTERIES PER CAPITA SALES — FISCAL YEAR 2009

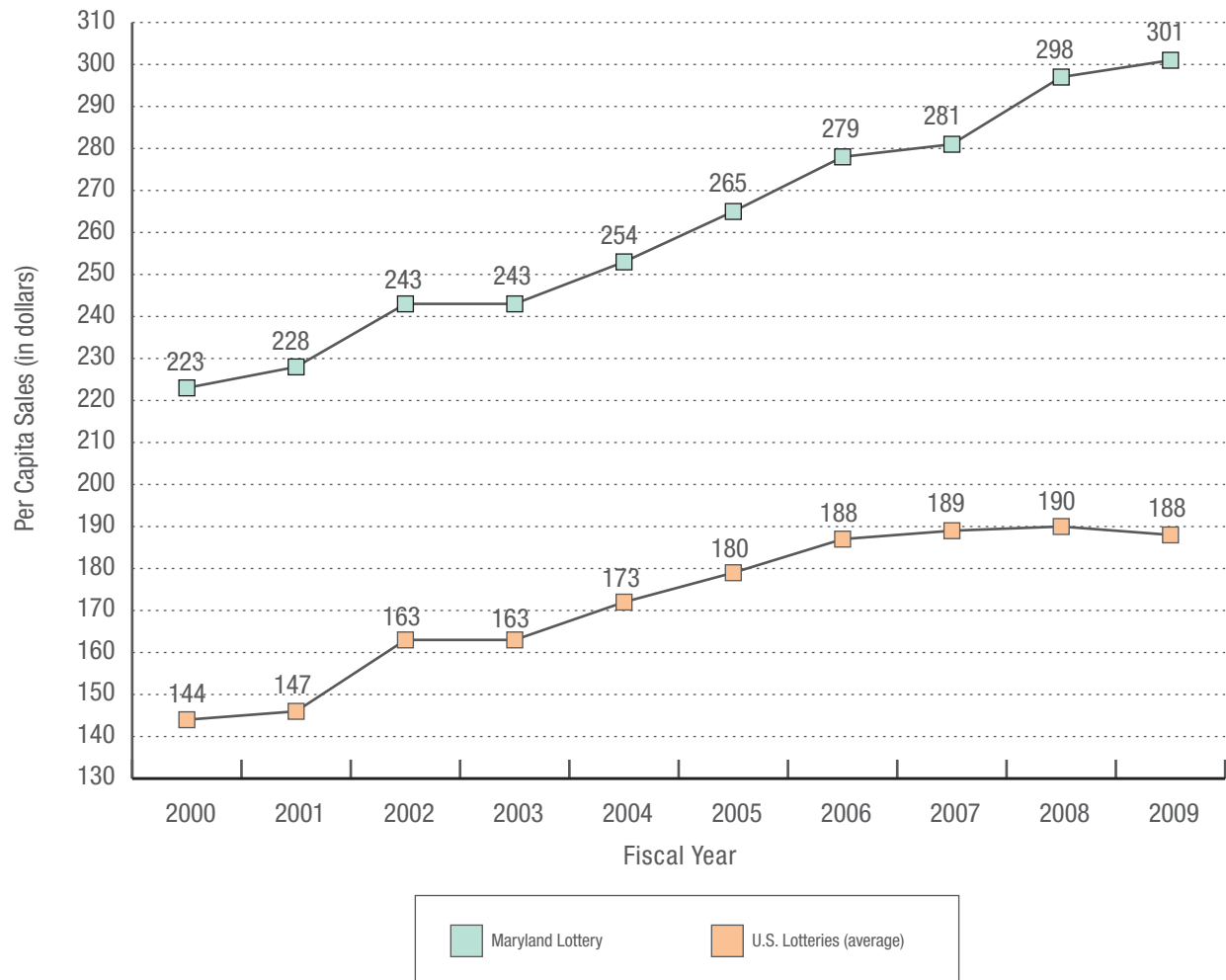
Rank	State	Population (M)	Total Sales (\$M)	Per Capita*
1	Massachusetts	6.5	\$ 4,425.5	\$ 681
2	D.C. (end 6/30)	0.6	246.2	416
3	Georgia	9.7	3,663.1	378
4	New York	19.5	6,695.1	344
5	MARYLAND	5.6	1,698.1	301
6	New Jersey	8.7	2,503.3	288
7	Connecticut	3.5	991.3	283
8	Pennsylvania	12.4	3,088.2	248
9	Michigan (est.)	10.0	2,379.0	238
10	Rhode Island	1.1	238.6	227
11	South Carolina	4.5	1,003.9	224
12	Florida	18.3	3,938.1	215
13	Ohio	11.5	2,416.3	210
14	Kentucky	4.3	810.5	190
15	New Hampshire	1.3	239.0	182
16	Virginia	7.8	1,365.6	176
17	Missouri	5.9	967.2	164
18	Illinois	12.9	2,095.5	162
19	Maine	1.3	210.9	160
20	Vermont	0.6	96.0	155
21	Texas	24.3	3,720.1	153
22	Delaware	0.9	123.2	141
23	North Carolina	9.2	1,293.1	140
24	Indiana	6.4	732.7	115
25	West Virginia	1.8	198.1	109
26	Colorado	4.9	493.4	100
27	Minnesota	5.2	481.3	92
28	Idaho	1.5	139.8	92
29	Kansas	2.8	241.8	86
30	Louisiana	4.4	378.5	86
31	Wisconsin	5.6	473.3	84
32	Oregon	3.8	313.8	83
33	Iowa	3.0	243.3	81
34	California	36.8	2,954.8	80
35	Arizona	6.5	484.5	75
36	Washington	6.5	487.7	74
37	New Mexico	2.0	142.3	72
38	Nebraska	1.8	123.1	69
39	Oklahoma	3.6	193.2	53
40	South Dakota	0.8	41.3	51
41	Montana	1.0	44.0	45
42	North Dakota	0.6	21.8	34
Total		279.4	\$ 52,396.5	\$ 188

Source: *La Fleur's Magazine*, September/October 2009 Edition

* Subject to rounding.

MARYLAND STATE LOTTERY AGENCY

U.S. LOTTERIES PER CAPITA SALES — FISCAL YEARS 2000 THROUGH 2009



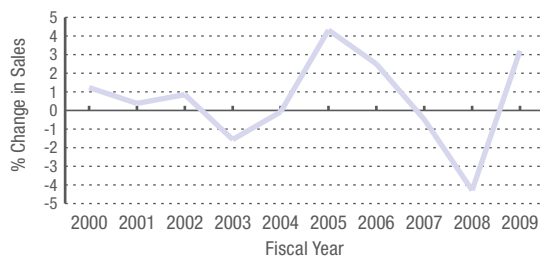
Sources: *LaFleur's 2009 Almanac*, *LaFleur's Magazine* — Fiscal 2009 Report, U.S. Census Bureau

MARYLAND STATE LOTTERY AGENCY

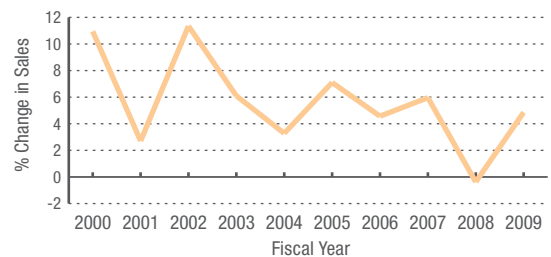
PERCENTAGE CHANGE IN SALES — FISCAL YEARS 2000 THROUGH 2009

Fiscal Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Numbers Games	1.23%	0.38%	0.85%	-1.56%	-0.08%	4.32%	2.50%	-0.48%	-4.29%	3.21%
Monitor Games	10.95%	2.70%	11.35%	6.10%	3.28%	7.10%	4.57%	5.96%	-0.38%	4.86%
Matrix Games	8.83%	-11.80%	16.78%	-10.01%	15.61%	5.43%	12.02%	-13.34%	21.72%	-0.92%
Instant Games	25.36%	19.04%	13.29%	5.83%	12.11%	10.13%	6.23%	2.35%	20.88%	-1.32%
Raffle & Other Games	0.00%	100.00%	-8.43%	-100.00%	100.00%	-100.00%	0.00%	100.00%	-20.23%	-100.00%
Total Sales	8.60%	3.22%	7.92%	1.20%	5.53%	6.47%	5.06%	1.05%	6.07%	1.50%

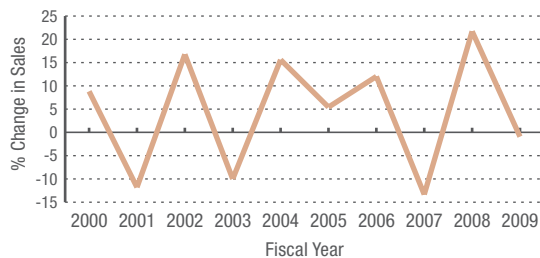
NUMBERS GAMES



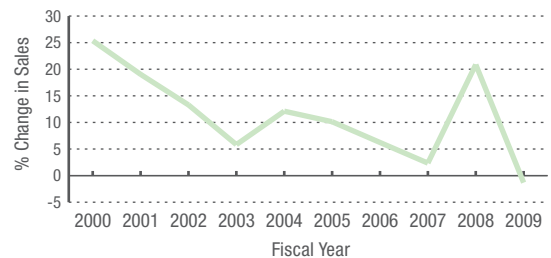
MONITOR GAMES



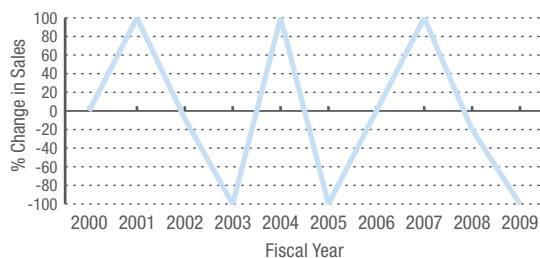
MATRIX GAMES



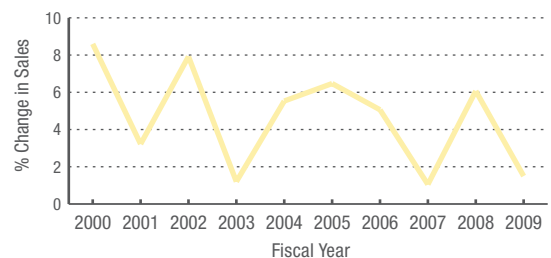
INSTANT GAMES



RAFFLE & OTHER GAMES



TOTAL SALES



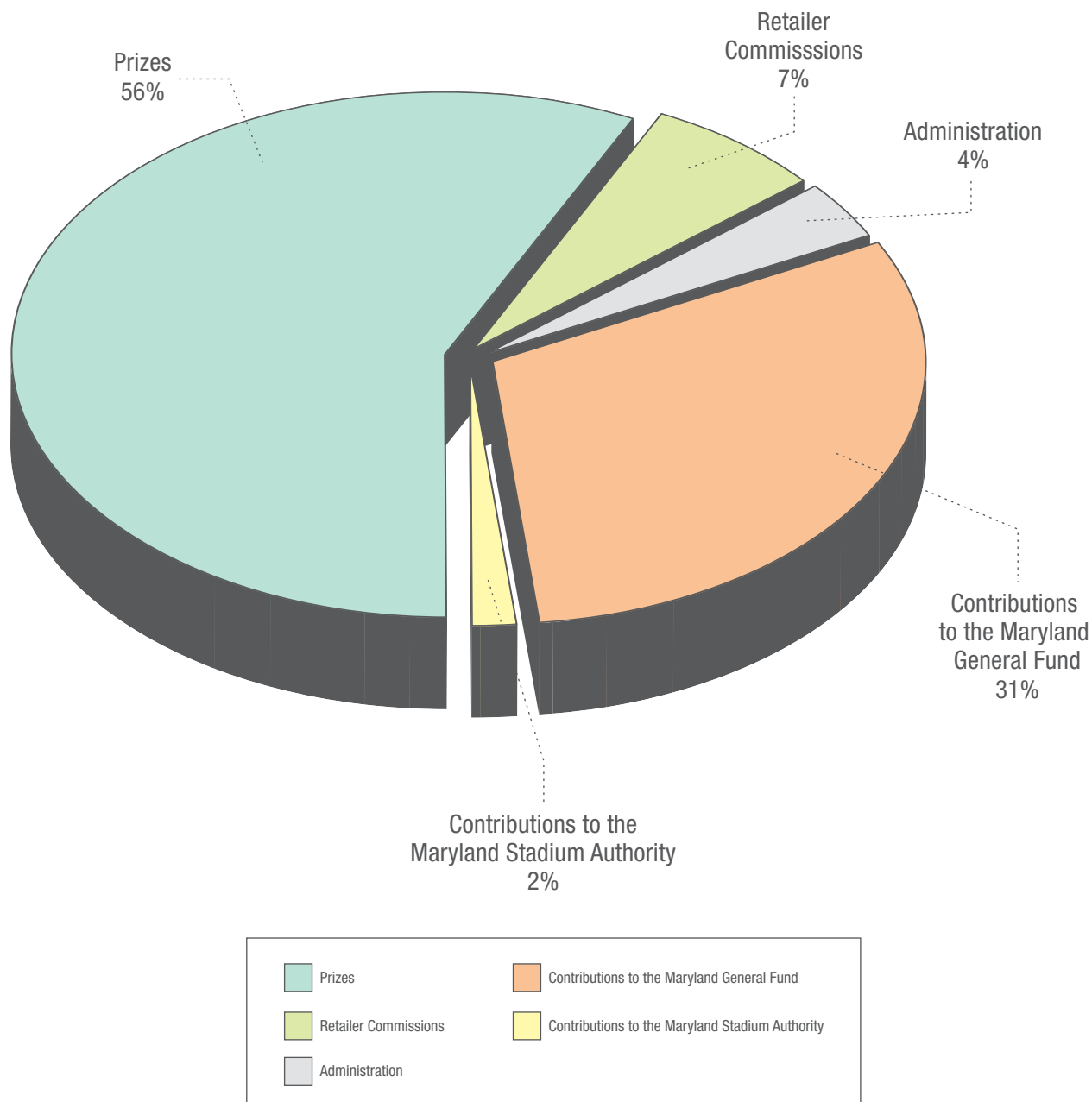
MARYLAND STATE LOTTERY AGENCY

U.S. LOTTERIES PERCENTAGE CHANGE IN SALES — FISCAL YEAR 2009

Rank	State	Total Sales (\$M)	% Change
1	North Carolina	\$ 1,293.1	20%
2	Minnesota	481.3	4%
3	Kentucky	810.5	4%
4	Georgia	3,663.1	4%
5	Ohio	2,416.3	4%
6	Arizona	484.5	2%
7	Michigan (est.)	2,379.0	2%
8	Idaho	139.8	2%
9	MARYLAND	1,698.1	1%
10	Texas	3,720.1	1%
11	Louisiana	378.5	1%
12	South Carolina	1,003.9	1%
13	Nebraska	123.1	1%
14	Illinois	2,095.5	1%
15	Montana	44.0	0%
16	New York	6,695.1	0%
17	West Virginia	198.1	0%
18	Pennsylvania	3,088.2	0%
19	Connecticut	991.3	-1%
20	Rhode Island	238.6	-1%
21	New Jersey	2,503.3	-1%
22	Virginia	1,365.6	-2%
23	Delaware	123.2	-2%
24	South Dakota	41.3	-2%
25	North Dakota	21.8	-2%
26	Iowa	243.3	-2%
27	Colorado	493.4	-2%
28	Kansas	241.8	-2%
29	Missouri	967.2	-3%
30	California	2,954.8	-3%
31	D.C. (end 6/30)	246.2	-3%
32	New Mexico	142.3	-3%
33	Wisconsin	473.3	-4%
34	Oklahoma	193.2	-6%
35	Massachusetts	4,425.5	-6%
36	Florida	3,938.1	-6%
37	Vermont	96.0	-6%
38	Washington	487.7	-6%
39	Maine	210.9	-7%
40	Oregon	313.8	-7%
41	New Hampshire	239.0	-8%
42	Indiana	732.7	-11%
Total		\$52,396.5	

Source: *La Fleur's Magazine*, September/October 2009 Edition

MARYLAND STATE LOTTERY AGENCY
EXPENSES AND CONTRIBUTIONS — CUMULATIVE FOR FISCAL YEARS 2000 THROUGH 2009



MARYLAND STATE LOTTERY AGENCY

CONTRIBUTIONS TO THE STATE OF MARYLAND — INCEPTION TO DATE

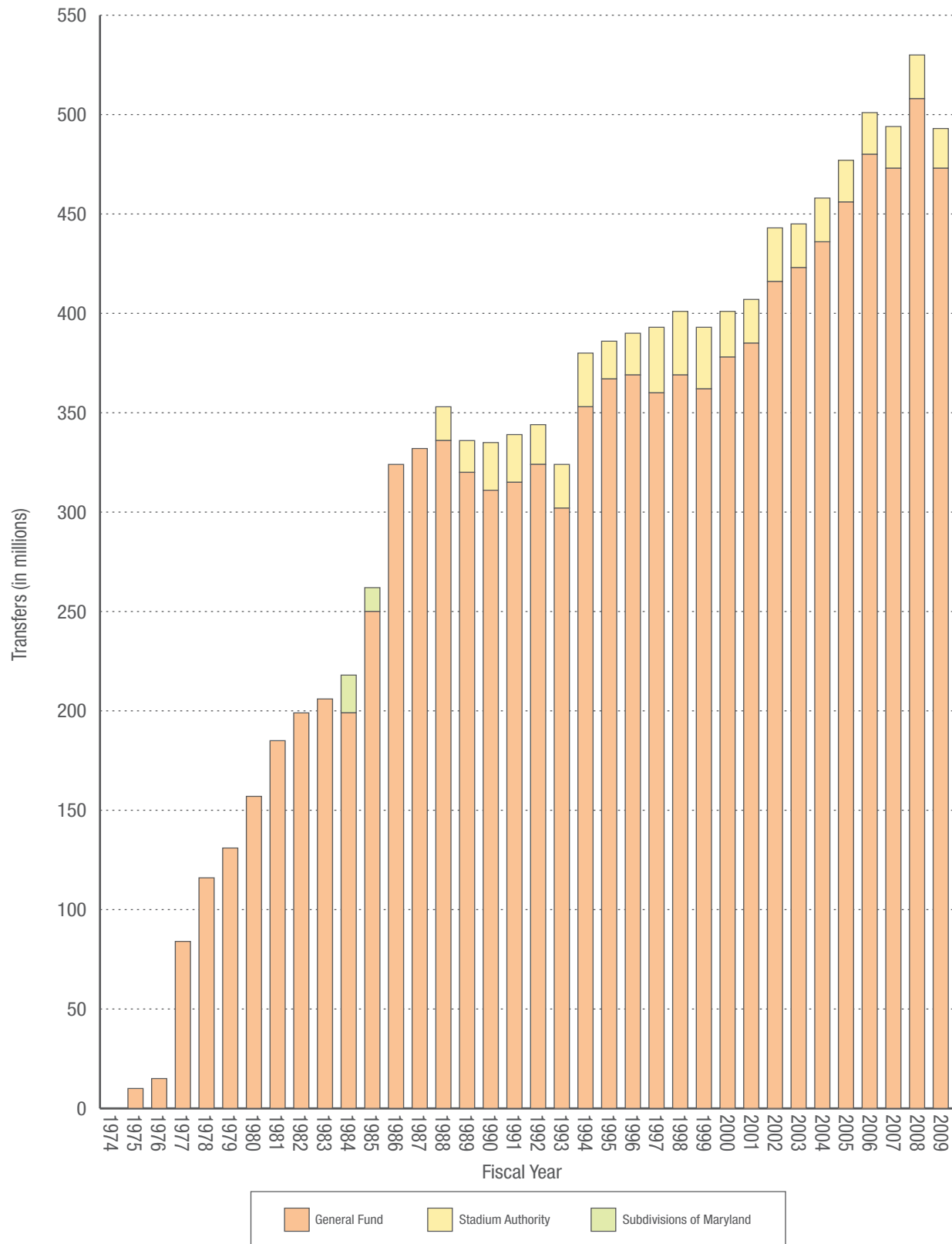
Fiscal Year	The State of Maryland General Fund	The Maryland Stadium Authority	Subdivisions of Maryland	Total Contributions
1975	\$ 10,025,000*	\$ —	\$ —	\$ 10,025,000
1976	15,374,000	—	—	15,374,000
1977	83,928,000	—	—	83,928,000
1978	116,182,000	—	—	116,182,000
1979	131,271,000	—	—	131,271,000
1980	156,768,000	—	—	156,768,000
1981	185,224,000	—	—	185,224,000
1982	199,080,000	—	—	199,080,000
1983	206,236,000	—	—	206,236,000
1984	199,194,000	—	19,095,000	218,289,000
1985	250,123,000	—	12,158,000	262,281,000
1986	323,423,000	—	—	323,423,000
1987	332,366,000	—	—	332,366,000
1988	335,928,000	16,750,000	—	352,678,000
1989	319,605,000	16,221,000	—	335,826,000
1990	311,254,000	24,040,000	—	335,294,000
1991	315,247,000	24,004,000	—	339,251,000
1992	323,814,000	19,752,000	—	343,566,000
1993	301,563,000	21,612,000	—	323,175,000
1994	353,308,000	26,743,000	—	380,051,000
1995	366,577,000	19,077,000	—	385,654,000
1996	369,161,000	20,749,000	—	389,910,000
1997	359,835,000	32,818,000	—	392,653,000
1998	368,501,000	31,625,000	—	400,126,000
1999	362,145,000	31,076,000	—	393,221,000
2000	377,763,000	23,250,000	—	401,013,000
2001	385,045,000	22,000,000	—	407,045,000
2002	416,274,000	27,230,000	—	443,504,000
2003	422,948,000	21,949,000	—	444,897,000
2004	436,373,000	22,000,000	—	458,373,000
2005	455,863,000	21,235,000	—	477,098,000
2006	480,471,000	20,500,000	—	500,971,000
2007	473,119,000	21,000,000	—	494,119,000
2008	507,904,000	21,500,000	—	529,404,000
2009	473,206,260	20,000,000	—	493,206,260
Total	\$ 10,725,098,260	\$ 505,131,000	\$ 31,253,000	\$ 11,261,482,260
TOTAL LIFETIME CONTRIBUTIONS				\$ 11,261,482,260

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

MARYLAND STATE LOTTERY AGENCY

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

TOTAL LIFETIME CONTRIBUTIONS: \$11,261,482,260



MARYLAND STATE LOTTERY AGENCY

U.S. LOTTERIES TRANSFERS TO STATE — FISCAL YEAR 2008*

Rank	State	Transfer Amount (\$M)	Transfers to State as % of Sales
1	Louisiana	\$ 131.86	35.3%
2	California	1,069.33	35.1%
3	New Jersey	882.06	34.7%
4	Oklahoma	71.61	33.4%
5	North Carolina	349.31	33.3%
6	Virginia	455.26	32.8%
7	Michigan	740.74	31.8%
8	MARYLAND	529.40	31.6%
9	Illinois	648.46	31.5%
10	Florida	1,283.41	30.7%
11	Arizona	144.50	30.6%
12	Pennsylvania	928.05	30.0%
13	Wisconsin	147.31	29.8%
14	Kansas	70.05	29.6%
15	New Hampshire	75.55	29.0%
16	Ohio	672.18	28.9%
17	Tennessee	286.14	28.9%
18	Connecticut	283.56	28.4%
19	Texas	1,034.88	28.2%
20	D.C.	70.30	27.8%
21	New Mexico	40.81	27.7%
22	Georgia	867.69	26.8%
23	Missouri	266.66	26.8%
24	North Dakota	5.92	26.8%
25	South Carolina	265.29	26.7%
26	Indiana	217.07	26.4%
27	Idaho	35.34	25.8%
28	Nebraska	31.01	25.4%
29	Minnesota	116.27	25.2%
30	Montana	11.30	25.2%
31	Washington	130.29	25.0%
32	Kentucky	192.08	24.7%
33	Colorado	122.30	24.2%
34	Maine	52.35	22.9%
35	Iowa	56.55	22.7%
36	Vermont	22.72	22.3%
37	Massachusetts	953.03	19.9%
38	Delaware	319.84	—
39	New York	2,556.14	—
40	Oregon	648.47	—
41	Rhode Island	355.57	—
42	South Dakota	123.31	—
43	West Virginia	631.46	—
Total		**\$ 17,877.13	

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

* Data for fiscal year 2009 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 2009

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

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

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

Note: Information is accumulated and retained in this format only for fiscal years 2006–2009. Prospectively, the data will be accumulated and, ultimately, the schedule will contain information for a ten-year period.

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

Fiscal Year 2008

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

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

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

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MARYLAND 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%

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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%

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

2009

Employer (listed alphabetically)

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

2008

Employer (listed alphabetically)

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

2007

Employer (listed alphabetically)

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

2006 and 2005

Employer (listed alphabetically)

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

2004 and 2003

Employer (listed alphabetically)

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

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

* Information for prior years not available.

MARYLAND STATE LOTTERY AGENCY

RATIO OF OUTSTANDING DEBT BY TYPE — FISCAL YEARS 2000 THROUGH 2009

Fiscal Year	Capital Leases	Percentage of Annual Lottery Sales
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%
2009	5,748,257	0.34%

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 2000 THROUGH 2009

Fiscal Year	Statewide Population⁽¹⁾	Statewide Personal Income⁽²⁾ (expressed in thousands)	Statewide Per Capita Personal Income	Unemployment Rate⁽³⁾
2009	5,633,597	\$ 270,923,822	\$ 48,091	5.9%
2008	5,618,344	262,071,799	46,646	3.7%
2007	5,615,727	247,525,909	44,077	3.9%
2006	5,600,388	235,195,668	41,996	3.8%
2005	5,558,058	218,137,769	39,248	4.2%
2004	5,508,909	205,652,120	37,331	4.3%
2003	5,450,525	197,868,861	36,303	4.7%
2002	5,383,377	190,331,297	35,355	4.6%
2001	5,311,531	181,957,207	34,257	3.8%
2000	5,254,509	167,074,691	31,796	3.3%

Sources:

(1) U.S. Department of Commerce, Bureau of Census — “Annual Population Estimates by State”

(2) U.S. Department of Commerce, Bureau of Economic Analysis. All ten years of income data based on April 2004 Comprehensive revisions of State Personal Income Statistics for 1969–2002. Preliminary estimates are provided for 2003–2009. Data provided is for prior ending calendar year.

(3) State Department of Labor, Licensing and Regulation

MARYLAND STATE LOTTERY AGENCY
 LOTTERY EMPLOYEES — FISCAL YEARS 2000 THROUGH 2009

	Number of Employees									
As of June 30,	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Agent Administration	7	7	6	5	5	6	6	6	5	5
Communications	18	18	19	17	19	17	19	21	25	24
Customer Service	14	14	13	13	13	14	13	13	12	12
Executive	7	6	5	6	7	6	5	6	6	6
Facilities	5	6	6	6	6	5	5	5	5	5
Finance, Budget & Procurement	14	15	16	15	14	17	16	15	15	15
Information Technology	18	18	20	21	21	23	24	24	24	24
Instant Ticket Warehouse	5	6	7	7	6	7	7	7	7	7
Legal Services	4	6	5	5	5	6	6	6	6	7
Personnel	3	5	5	4	5	4	4	4	4	4
Product Development & Creative Services	10	10	12	11	13	10	9	9	8	10
Sales	58	58	62	63	61	61	60	61	63	61
Security	5	5	4	6	5	5	5	5	5	5
Video Lottery	—	—	—	—	—	—	—	—	—	1
Total	168	174	180	179	180	181	179	182	185	186

MARYLAND STATE LOTTERY AGENCY
OPERATING INDICATORS — FISCAL YEARS 2000 THROUGH 2009

Percentage of Administrative Expenses to Sales

Fiscal Year	Sales	Administrative Expenses	Percentage of Administrative Expenses to Sales
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%
2009	1,698,074,056	59,365,645	3.50%

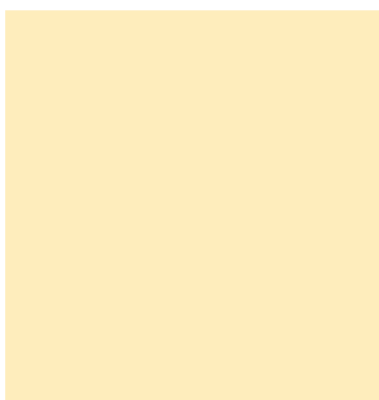
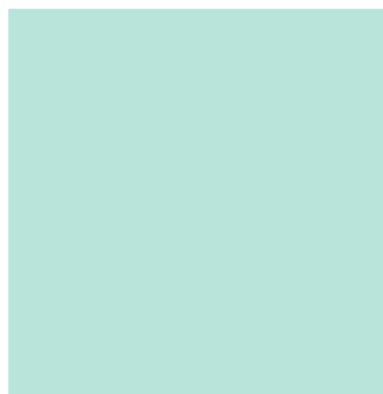
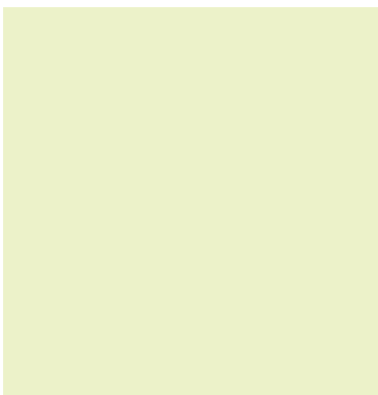
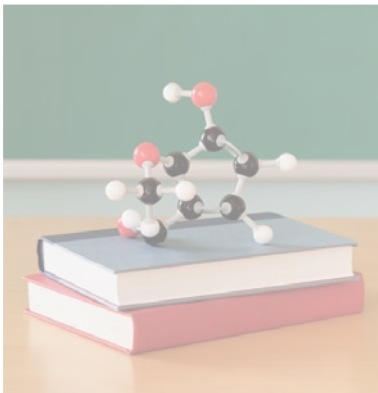
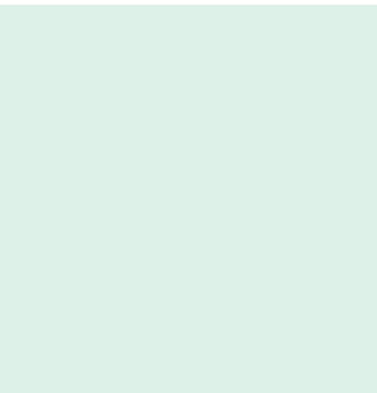
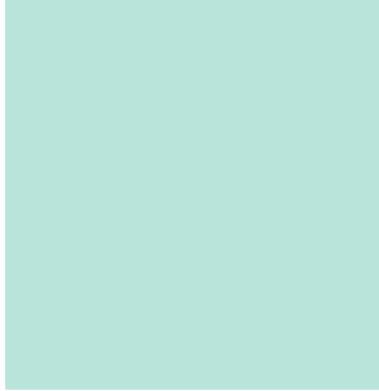
Administrative expenses includes operating expenses, gaming vendor and data processing fees, and instant ticket printing and delivery.

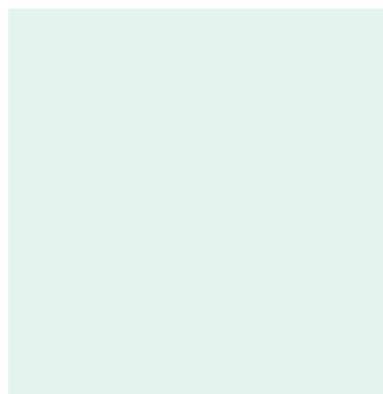
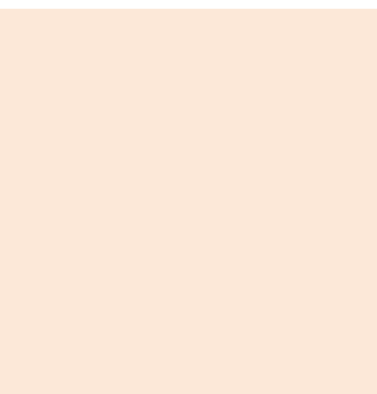
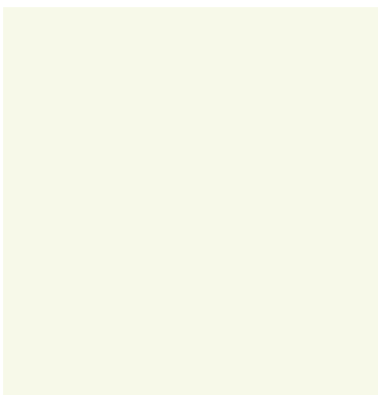
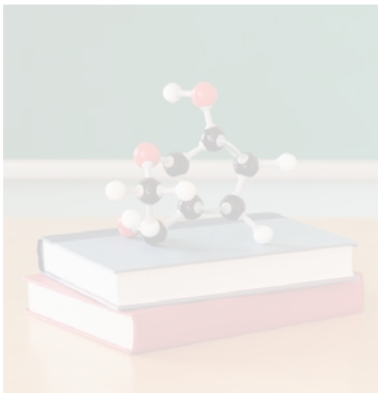
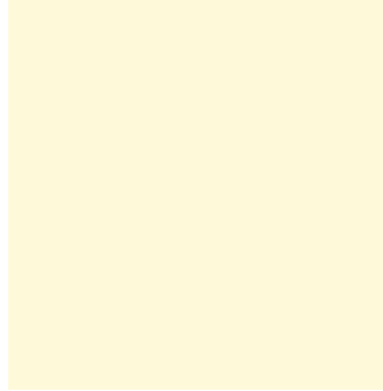
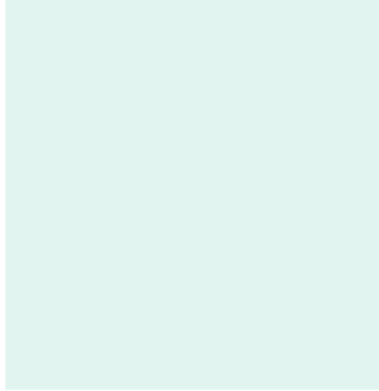
MARYLAND STATE LOTTERY AGENCY

CAPITAL ASSETS, NET INFORMATION — FISCAL YEARS 2002 THROUGH 2009

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

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